

cPa DIXON, WALLER & CO., INC.

SOUTH CENTRAL

COUNCIL OF GOVERNMENTS

TRINIDAD, COLORADO

FINANCIAL STATEMENTS

DECEMBER 31, 2017

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Office of the State Auditor

July 18, 2018

DIXON, WALLER & CO., INC.

TABLE OF CONTENTS

SOUTH CENTRAL

COUNCIL OF GOVERNMENTS

DECEMBER 31, 2017

	<u>Page</u>
 <u>FINANCIAL SECTION</u>	
Independent Auditor's Report.....	1-2
Management's Discussion and Analysis	i-v
 <u>BASIC FINANCIAL STATEMENTS:</u>	
Government Wide Financial Statements:	
Statement of Net Position.....	3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet – Governmental Funds	5
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position.....	6
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Notes to Basic Financial Statements	9-20

REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISONS:

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual --
Major Governmental Funds

General Fund 21

SINGLE AUDIT SECTION

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed In Accordance
with *Government Auditing Standards*..... 22-23

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control
Over Compliance Required by Uniform Guidance..... 24-25

Schedule of Findings and Questioned Costs..... 26-27

Schedule of Prior Audit Findings..... 28

Schedule of Expenditures of Federal Awards..... 29

Notes to the Schedule of Expenditures of Federal Awards 30

FINANCIAL SECTION

164 E. MAIN
TRINIDAD, COLORADO 81082
(719) 846-9241 FAX (719) 846-3352

Independent Auditor's Report

Board of Directors
South Central Council of Governments
Trinidad, CO 81082

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund, of the South Central Council of Governments, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the South Central Council of Governments as of December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i through v and 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Central Council of Governments' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 5, 2018 on our consideration of the South Central Council of Governments' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Central Council of Governments' internal control over financial reporting and compliance.

Dixon, Waller & Co., Inc.

July 5, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of South Central Council of Governments (SCCOG), we offer readers of SCCOG's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2017. We encourage readers to consider the information presented here.

Financial Highlights

The assets of SC COG exceeded liabilities at the close of the most recent year by \$5,345,607 (net position). Of this amount \$3,561,729 (unrestricted net position) may be used to meet SCCOG's ongoing obligation to creditors.

At the close of the current fiscal year, SCCOG's governmental fund reported an ending fund balance of \$1,831,323. Of this total amount, \$52,420 is Non-spendable and associated with Inventories and Prepaid Expenses, \$577,468 is Restricted and can only be spent on specific purposes such as Debt Service and Programs for Senior Services and Housing, \$239,296 is committed to Capital Improvements and \$10,092 is assigned to specific programs.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the SCCOG's Basic Financial Statements which comprise of three components: 1) Government Wide Financial Statements, 2) Fund Financial Statements, and 3) notes to the Basic Financial Statements. This report also contains other supplementary information in addition to the Basic Financial Statements themselves.

Government Wide Financial Statements

The Government Wide Financial Statements are designed to present the financial activities of South Central Council of Governments (SCCOG).

The Statement of Net Position presents information on all of SCCOG's assets and liabilities, with the difference between the two reported as net position. This statement reports all of the governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of SCCOG is improving or deteriorating.

The Statement of Activities presents information showing how SCCOG's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The governmental activities of the SCCOG include general administration, early learning services, housing rehabilitation, senior nutrition services, transit, and personal care services. Some transit services and the majority of personal care services are billed to Medicaid. SCCOG had no business type activities.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. SCCOG, like other state and local government

agencies, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government wide financial statements. However, unlike the government wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating SCCOG’s near term financing requirements.

Due to the focus of governmental funds being narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, readers may better understand the long term impact of the agency’s near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning SCCOG’s budgetary comparison schedule for the General Fund, which demonstrates compliance with the annual appropriated budget.

Government Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of an agency’s financial position. In the case of South Central Council of Governments, assets exceeded liabilities by \$5,345,607 at the close of the most recent fiscal year.

South Central Council of Governments’ Net Position

	Governmental Activities	
	<u>2016</u>	<u>2017</u>
Current and other assets	4,076,593	4,279,820
Capital Assets	<u>3,224,427</u>	<u>3,125,051</u>
Total Assets	<u>7,301,020</u>	<u>7,404,871</u>
Long-term Liabilities	1,918,639	1,884,525
Other Liabilities	<u>354,197</u>	<u>174,739</u>
Total Liabilities	<u>2,272,836</u>	<u>2,059,264</u>

Net Position			
Invested in capital assets net of related debt		1,273,031	1,206,410
Invested in rehabilitation loans		0	0
Restricted		420,501	577,468
Unrestricted		<u>3,334,652</u>	<u>3,561,729</u>
	Total net position	<u>5,028,184</u>	<u>5,345,607</u>

Governmental Activities

Governmental activities increased South Central Council of Governments' net position by \$317,423. There were no business-type activities in 2017.

	Governmental Activities	
	<u>2016</u>	<u>2017</u>
Revenues:		
Program revenues		
Charges for Service	3,994,752	3,824,265
Operating Grants & Contributions	1,538,111	1,644,989
Capital Grants & Contributions	0	0
General Revenue		
Program Income	79,211	0
In-Kind Contributions	38,711	34,874
Interest Income	20,584	20,301
Local Revenues	<u>11,941</u>	<u>33,352</u>
Total Revenues and Transfers	5,683,310	5,557,781
Expenses:		
Governmental Activities	<u>5,485,011</u>	<u>5,240,358</u>
Changes in Net Position	291,969	317,423
Net Position – Beginning	<u>4,736,215</u>	<u>5,028,184</u>
Net Position – Ending	<u>5,028,184</u>	<u>5,345,607</u>

South Central Council of Governments' Activities by Major Function

	<u>2016</u>		<u>2017</u>	
	<u>Total Cost of Service</u>	<u>Net Cost of Service</u>	<u>Total Cost of Service</u>	<u>Net Cost of Service</u>
Grants, Contracts, and Services	\$5,485,011	\$141,522	\$5,240,358	\$228,896

Financial Analysis of SCCOG's Funds

As noted earlier, SCCOG uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of SCCOG's governmental funds is to provide information on current year revenue, expenditures, and balances of spendable resources. Such information is useful in assessing SC COG's financing requirements. In particular, Unrestricted Fund Balance may serve as a useful measure of SCCOG's net resources available for spending at the end of the fiscal year. SCCOG had a beginning Fund Balance of \$1,357,571, revenues exceeded expenses by \$473,752 during the year which increased the fund balance to \$1,831,323. The ending Unrestricted Fund Balance of \$1,253,855 is available for spending at SCCOG's discretion.

General Fund Budgetary Highlights

SCCOG originally budgeted \$6,326,262 in revenues for the year. Budgeted revenues were amended and increased by \$1,431,096 during the year to end with final budgeted revenues of \$7,757,358. Actual revenues for the year totaled \$5,767,550 and had a favorable actual budget variance of \$10,192.

SCCOG originally budgeted \$6,269,869 in expenditures for the year. Budgeted expenditures were amended and reduced by \$786,931 during the year to end with final budgeted expenditures of \$5,482,938. Actual expenditures for the year totaled \$5,293,798 and had a favorable actual to budget variance of \$189,140.

SCCOG originally budgeted an ending Fund Balance of \$1,592,145 for the year. Budgeted Fund Balance was amended and increased by \$12,681 during the year to end with a final budgeted Fund Balance of \$1,604,826. Actual ending Fund Balance for the year totaled \$1,831,323 and had a favorable actual to budget variance of \$226,497.

Capital Asset and Debt Administration

Capital Assets

SCCOG's investment in capital assets for governmental activities as of December 31, 2017 amounts to \$3,125,051 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles, furniture and fixtures, equipment and improvements.

South Central Council of Governments' Capital Assets (net of depreciation)

	Governmental Activities	
	2016	2017
Land	\$ 109,084	109,084
Buildings	2,823,436	2,763,553
Vehicles	107,141	94,393
Equipment	88,868	79,444
Furniture, Fixtures	<u>95,898</u>	<u>78,577</u>
Total investment in capital assets, net	<u>\$ 3,224,427</u>	<u>3,125,051</u>

SCCOG's governing board has authorized long-term financing, through the United States Department of Agriculture – Rural Development (USDA-RD), for the Early Learning Center (ELC) Facility in the amount of \$1,200,000 and for the Administration Building in the amount of \$1,000,000. The long-term debt balance for the ELC Facility at December 31, 2017 totaled \$1,023,028. The long-term debt balance for the Administration Building at December 31, 2017 totaled \$895,613.

Requests for Information

This financial report is designed to provide a general overview of SCCOG's financials for all those with an interest in the agencies finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

South Central Council of Governments
Finance Manager
300 S. Bonaventure Ave.
Trinidad, CO 81082

BASIC FINANCIAL STATEMENTS

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
STATEMENT OF NET POSITION
December 31, 2017

	Governmental Activities
<u>ASSETS</u>	
Cash	1,195,488
Receivables (Net, where Applicable, of Allowance for Uncollectibles):	
Grants and Accounts	724,038
Rehabilitation Loans (Net of Allowance)	2,307,874
Prepaid Assets	42,371
Inventory at Cost	10,049
Fixed Assets	5,232,566
Accumulated Depreciation	<u>(2,107,515)</u>
<u>Total Assets</u>	<u>7,404,871</u>
 <u>DEFERRED OUTFLOW OF RESOURCES</u>	
	-
 <u>LIABILITIES</u>	
Unearned Grant Revenue	58,288
Accounts Payable	15,655
Accrued Wages & Benefits Payable	66,680
Payroll Withholding	-
Operating Advances	-
Loans:	
Due Within One Year	34,116
Due in More Than One Year	<u>1,884,525</u>
<u>Total Liabilities</u>	<u>2,059,264</u>
 <u>DEFERRED INFLOW OF RESOURCES</u>	
	-
 <u>NET POSITION</u>	
Net Investment in Capital Assets	1,206,410
Restricted for:	
Labor Reserve	-
Debt Service	62,383
Housing Programs	461,106
Program Specified Expenditures	53,979
Unrestricted	<u>3,561,729</u>
<u>Total Net Position</u>	<u>5,345,607</u>

The accompanying notes are an integral part of these financial statements.

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017

<u>Functions/Programs</u>	Program Revenues				Net (Expense) Revenue & Changes in Net Position	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	<u>Capital Grants & Contributions</u>	<u>Governmental Activities</u>	<u>Total</u>
<u>Governmental Activities</u>						
Grants, Contracts & Services	5,240,358	3,824,265	1,644,989	-	228,896	228,896
<u>Total Governmental Activities</u>	<u>5,240,358</u>	<u>3,824,265</u>	<u>1,644,989</u>	<u>-</u>	<u>228,896</u>	<u>228,896</u>
<u>Business Type Activities</u>	-	-	-	-	-	-
<u>Total Business Type Activities</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total Primary Government</u>	<u>5,240,358</u>	<u>3,824,265</u>	<u>1,644,989</u>	<u>-</u>	<u>228,896</u>	<u>228,896</u>
			<u>General Revenues:</u>			
			In-Kind Contributions		34,874	34,874
			Interest		20,301	20,301
			Local Revenues		33,352	33,352
			<u>Total General Revenues</u>		<u>88,527</u>	<u>88,527</u>
			Change in Net Position		317,423	317,423
			Net Position – Beginning		5,028,184	5,028,184
			Net Position – Ending		<u>5,345,607</u>	<u>5,345,607</u>

The accompanying notes are an integral part of these financial statements.

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2017

	<u>General</u>
<u>ASSETS</u>	
Cash	1,195,488
Receivables (Net, of Allowance Where Applicable):	
Accounts & Grants	724,038
Prepaid Insurance, Deposits	42,371
Inventory	10,049
<u>Total Assets</u>	<u>1,971,946</u>
 <u>LIABILITIES AND FUND BALANCES</u>	
<u>Liabilities</u>	
Accounts Payable	15,655
Accrued Wages & Benefits	66,680
Payroll Withholding	-
Unearned Grant Revenue	58,288
<u>Total Liabilities</u>	<u>140,623</u>
 <u>Fund Balances</u>	
Nonspendable:	
Inventories	10,049
Prepaid Expense	42,371
Restricted:	
Debt Service	62,383
Housing Programs	461,106
Program Specified Expenditures	53,979
TABOR Reserve	-
Committed:	
Capital Improvements	239,293
Specific Programs	10,092
Unassigned:	952,050
<u>Total Fund Balances</u>	<u>1,831,323</u>
 <u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>1,971,946</u>

The accompanying notes are an integral part of these financial statements.

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
December 31, 2017

Amounts reported for governmental activities in the statement of the net position are different because:

<u>Total Fund Balance – Governmental Funds</u>		1,831,323
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$5,232,566 and the accumulated depreciation is \$2,107,515.		3,125,051
Loans for the rehabilitation of housing were made through a revolving loan program to provide future funds for housing rehabilitation. The receipt of loan proceeds is recognized as revenue in the fund financial statements as received. No loans receivable are recorded in the fund financial statements.		
	Rehabilitation Loans	3,284,204
	Allowance	<u>(976,330)</u>
		2,307,874
Long-term liabilities, including loans and general obligation bonds are not due and payable in the current period and therefore are not reported in funds.		<u>(1,918,641)</u>
<u>Total Net Position – Governmental Activities</u>		<u>5,345,607</u>

The accompanying notes are an integral part of these financial statements.

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2017

	<u>General</u>
<u>REVENUE</u>	
Federal Sources	918,081
State Sources	3,502,400
Local Sources	625,110
Program Income	666,783
In-Kind Contributions	34,874
Interest	<u>20,302</u>
<u>Total Revenues</u>	<u>5,767,550</u>
 <u>EXPENDITURES</u>	
General Government	
Grants, Contracts & Services	<u>5,293,798</u>
<u>Total Expenditures</u>	<u>5,293,798</u>
 <u>REVENUES OVER (UNDER) EXPENDITURES</u>	 473,752
 <u>FUND BALANCES - Beginning</u>	 <u>1,357,571</u>
 <u>FUND BALANCES - Ending</u>	 <u>1,831,323</u>

The accompanying notes are an integral part of these financial statements.

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES OF GOVERNMENT FUNDS TO THE STATEMENT OF ACTIVITIES
 Year Ended December 31, 2017

Amounts reported for governmental activities in the statement of activities are different because:

Net Change in Fund Balances – Total Governmental Funds 473,752

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$3,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. In the funds, the entire proceeds on sales of depreciable assets are shown as revenue. Only the gain or loss on the sale would be reported in the statement of activities.

Capital outlays more than \$3,000	91,968	
Depreciation expense	(191,344)	(99,376)

Loans for the rehabilitation of housing were made through a revolving loan program to provide future funds for housing rehabilitation. The receipt of loan proceeds is recognized as revenue in the fund financial statements as received. No loans receivable are recorded in the fund financial statements, costs for rehabilitation are expended in the period incurred.

Rehabilitation Cost	254,227	
Loan Payments	(209,769)	
Bad Debt Expense	(134,166)	(89,708)

The governmental funds report debt proceeds as an other financing source, while repayment of debt principal is reported as an expenditure. Interest expense is recognized as it accrues in the statement of activities regardless of when it is due. The net effect of these differences follows:

Loan Payments - Principal	32,755	
Loan Proceeds	-	<u>32,755</u>

Change in Net Position of Governmental Activities 317,423

The accompanying notes are an integral part of these financial statements.

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A Reporting Entity

The reporting entity, for financial purposes, is defined as the primary government (the South Central Council of Government) and its component units. The COG has no component units; the financial statements are comprised of the funds and account groups more fully described in subsequent information contained in the footnotes.

The accounting policies of the South Central Council of Government conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

B. Government – Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from the South Central Council of Government's legally separate *component units* for which the South Central Council of Government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or identifiable activity. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The COG reports the following major governmental fund:

The *general fund* is the COG's primary operating fund. It accounts for all financial resources of general government.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

D. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the South Central Council of Government as assets with an initial, individual cost of more than \$3,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Interest costs incurred on the construction of capital assets in governmental funds is not capitalized.

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Capital Assets (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Vehicles	3-10
Equipment	5-15
Furniture	7-20

E. Budgets and Budgetary Accounting

The South Central Council of Government has set procedures to be followed in establishing the budgetary data reflected in the financial statements:

1. Prior to October 1, the Executive Director submits to the Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain comments.
3. Prior to December 31, the budget is legally enacted through passage of a resolution.
4. Any revisions that alter the total expenditures of any fund must be approved by the Board.
5. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP).

F. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. All encumbrances lapse at the end of the year.

G. Inventory

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the General Fund consists of expendable supplies held for consumption. The costs of inventories are recorded as expenditures when they are used.

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Accumulated Unpaid Vacation, Sick Pay, and Other Employee Benefits Amounts

Accumulated unpaid vacation, sick pay, and other employee benefits amounts should be accrued when incurred in proprietary funds and entity-wide financial statements (using the accrual basis of accounting). Such amounts would not be accrued in governmental funds (using the modified accrual basis of accounting). Accrued vacation and sick leave payable has not been reflected in the statement of net position for governmental fund types as it is not material and does not exceed a normal years accumulation.

I. Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position and the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expense during the reporting period. Actual results could differ from those estimates.

K. Deposits and Investments

The South Central Council of Government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the South Central Council of Government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as period costs when incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

M. GASB Statement No. 54

The Government Accounting Standards Board (GASB) has issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below.

1. Nonspendable such as fund balances associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).
2. Restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
3. Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Directors (the COG's highest level of decision-making authority).
4. Assigned fund balance classification is intended to be used by the government for specific purposes that do not meet the criteria to be classified as restricted or committed.
5. Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

Fund Balance Classification Policies and Procedures

Committed Fund Balance Policy:

The COG's Committed Fund Balance is fund balance reporting required by the Board, either because of a Board Policy in the Policy Manual, or because of motions that passed at Board meetings.

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

M. GASB Statement No. 54 (Continued)

Assigned Fund Balance Policy:

The COG's Assigned Fund Balance is fund balance reporting occurring by Board authority, under the direction of the Chief Financial Officer.

Order of Fund Balance Spending Policy

The COG's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting journal entries.

First, non-spendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including non-spendable amounts). Then unrestricted fund balances are determined following the order of committed, assigned, and unassigned.

Fund Balance Classification by Fund:

	<u>General Fund</u>	<u>Total Governmental Funds</u>
<u>Nonspendable:</u>		
Inventories	10,049	10,049
Prepaid Expense	42,371	42,371
<u>Restricted:</u>		
TABOR Reserve	-	-
Debt Service	62,383	62,383
Housing Programs	461,106	461,106
Program Specified Expenditures	53,979	53,979
<u>Committed:</u>		
Capital Improvements	239,293	239,293
Specific Programs	10,092	10,092
<u>Unassigned</u>	<u>952,050</u>	<u>952,050</u>
<u>Total Fund Balances</u>	<u>1,831,323</u>	<u>1,831,323</u>

N. In-Kind Contributions

South Central Council of Governments received contributions from the community of personal services, space and material items. In order to determine the total cost of a particular program, it becomes necessary to assign an estimated fair market value to these donations and include them in the financial records of the program. The amount of in-kind contributions is included by program in the supplemental information. In-kind contributions were of a nature to satisfy matching requirements.

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 2 CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	109,084	-	-	109,084
Construction in Progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Capital Assets Not Being Depreciated	<u>109,084</u>	<u>-</u>	<u>-</u>	<u>109,084</u>
Capital Assets Being Depreciated:				
Buildings	3,818,909	45,401	-	3,864,310
Vehicles	936,517	20,000	184,462	772,055
Equipment	282,506	26,567	-	309,073
Furniture, Fixtures	<u>178,044</u>	<u>-</u>	<u>-</u>	<u>178,044</u>
Total Capital Assets Being Depreciated	<u>5,215,976</u>	<u>91,968</u>	<u>184,462</u>	<u>5,123,482</u>
Less Accumulated Depreciation for:				
Buildings	995,473	105,284	-	1,100,757
Vehicles	829,376	32,748	184,462	677,662
Equipment	193,638	35,991	-	229,629
Furniture, Fixtures	<u>82,146</u>	<u>17,321</u>	<u>-</u>	<u>99,467</u>
Total Accumulated Depreciation	<u>2,100,633</u>	<u>191,344</u>	<u>184,462</u>	<u>2,107,515</u>
<u>Total Capital Assets Being Depreciated, Net</u>	<u>3,115,343</u>	<u>(99,376)</u>	<u>-</u>	<u>3,015,967</u>
<u>Governmental Activities Capital Assets, Net</u>	<u>3,224,427</u>	<u>(99,376)</u>	<u>-</u>	<u>3,125,051</u>

NOTE 3 CASH

The Council's deposits at year end were covered by federal depository insurance or secured under the Public Deposit Protection Act of the State of Colorado, whereby the custodial bank pledges collateral for amounts on deposit in excess of the amount guaranteed by the FDIC for governmental entities.

	<u>Carrying Value</u>	<u>Bank Balance</u>
Insured (FDIC)	505,788	504,528
Uninsured, collateralized under the Public Deposit Protection Act of the State of Colorado	689,592	814,808
Cash on Hand	<u>108</u>	<u>-</u>
<u>Total Cash</u>	<u>1,195,488</u>	<u>1,319,336</u>

As presented above, deposits with a bank balance of \$814,808 and a carrying balance of \$689,592 as of December 31, 2017 are uninsured, are exposed to custodial risk, and are collateralized with securities held by the pledging financial institution.

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 4 ACCOUNTS/GRANTS RECEIVABLE

Amounts shown as receivable represent requests for reimbursement on expenditures made in 2017 that have not been received at December 31, 2017.

NOTE 5 CONTINGENCIES - TAX, SPENDING AND DEBT LIMITATIONS

In November 1992, the voters of Colorado approved Amendment 1, commonly known as the Taxpayer's Bill of Rights (TABOR), which adds a new Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. (The COG's management believes none of its operations qualifies for this exclusion.)

The initial base for local government spending and revenue limits is 1992 Fiscal Year Spending. Future spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 1% of Fiscal Year Spending (excluding bonded debt service) in 1993, 2% in 1994 and 3% thereafter. Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

TABOR requires, with certain exceptions, voters approval prior to imposing new taxes, increasing a tax rate, increasing a mill levy above that for the prior year, extending an expiring tax, or implementing a tax policy change directly causing a net tax revenue gain to any local government.

Except for bond refinancing at lower interest rates or adding employees to existing pension plans, TABOR specifically prohibits the creation of multiple-fiscal year debt or other financial obligations without voter approval or without irrevocably pledging present cash reserves for all future payments.

The COG is a statutorily created entity that exists for the purpose of administering programs to benefit the Huerfano and Las Animas County areas. They have no taxing authority and no bonded debt. They are primarily funded by federal grants, state grants and local contributions. In the general fund, resources are those allocated and paid by other governments to the COG.

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 5 CONTINGENCIES - TAX, SPENDING AND DEBT LIMITATIONS (Continued)

The COG's management believes it is in compliance with the provisions of TABOR which are applicable to this entity. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits (and qualification as an Enterprise) will require judicial interpretation.

NOTE 6 RISK MANAGEMENT

The Council is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

The Council maintains commercial insurance for all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 7 PENSION DISCLOSURE-DEFINED CONTRIBUTION PLAN

The COG provides pension benefits for all full time employees through a defined contribution plan of the Colorado County Officials and Employees Retirement Association. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. One year of service is required previous to participation in the Colorado County Officials and Employees Retirement Association Plan.

- Colorado County Officials and Employees Retirement Association

Employees contribute 5% (3% previous to July 1, 2000) of their salary to the plan with an equal amount contributed by the COG. Vesting occurs at the rate of 20% per year. COG contributions for, and earnings forfeited by, employees who leave employment before fully vesting are returned to the COG. The COG's total payroll for fiscal year 2017 was \$3,289,752. The salary for which contributions were calculated was \$1,043,254. The COG and employees each made the required contributions of \$52,163 or \$104,326 in total. COG recognized \$51,371 in pension expense in 2017, which is net of forfeitures of \$792. COG has no outstanding pension liability at year end.

NOTE 8 DEFERRED COMPENSATION PLAN

Employees are eligible to participate in a deferred compensation plan established and administered pursuant to Section 457 of the Internal Revenue Code by the Colorado County Officials and Employees Retirement Association (CCOERA). The amount deferred by employees is transferred to CCOERA for the exclusive benefit of the deferring employee. CCOERA acts as trustee for plan assets.

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

NOTE 9 HOUSING LOANS

The housing rehabilitation programs administered by the COG create receivables from the property owners in the amount of assistance extended. The amount of assistance made and unrepaid at December 31, 2017 was \$3,284,204. Of this amount, \$527,811 is in agreements allowing the deferral of repayment until the rehabilitated home is resold. The remaining \$2,756,353 is in agreements requiring monthly payments. The amount of interest charged is determined using income guidelines prescribed in grant agreements. Currently, the range is between 0% and 3%. Collected amounts are recognized as current revenue and are put into a revolving fund the purpose of which it is to do additional housing rehabilitation. Receivable amounts are secured by liens on the properties. Expenditures for rehabilitation are recorded in the fund financial statements when made. Repayments are recognized as revenue when received in the fund financial statements. In the government-wide financial statements, loans are recorded for amounts spent. Loans are reduced when payments are made. An allowance for uncollectible loans has been recorded in the government-wide financial statements for \$976,330.

NOTE 10 LOANS

USDA – Day Care Center

COG obtained a United States Department of Agriculture Rural Development Loan in 2006. The purpose of the loan was permanent financing for the constructed Day Care Center. The loan was made for \$1,200,000 at an interest rate of 4.125%. Monthly payments of \$5,112 are required for 480 periods (40 Years). Following are debt service requirements:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2018	19,509	41,835
2019	20,329	41,014
2020	21,184	40,160
2021	22,075	39,269
2022	23,003	38,341
2023 – 2027	130,357	176,362
2028 – 2032	160,161	146,559
2033 – 2037	196,777	109,943
2038 – 2042	241,766	64,954
2043 – 2046	<u>187,867</u>	<u>13,318</u>
	<u>1,023,028</u>	<u>711,755</u>

The loan agreement requires certain amounts to be held in an account restricted for debt service on this loan. The amount held at December 31, 2017 is \$46,819.

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

NOTE 10 LOANS (continued)

USDA – Building Purchase

In 2010, COG entered into a United States Department of Agriculture Rural Development Loan to acquire the building adjacent to the COG office for additional operating area. The loan was for 875,000 at an interest rate of 4.0%. An additional \$54,235 was borrowed in 2011. The monthly payment of \$4,180 is required for 360 periods which began in August of 2011. Following are the debt service requirements:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2018	14,607	35,553
2019	15,202	34,958
2020	15,821	34,339
2021	16,466	33,694
2022	17,137	33,024
2023 – 2027	96,740	154,060
2028 – 2032	118,116	132,683
2033 – 2037	144,217	106,583
2038 – 2042	176,085	74,715
2043 – 2047	214,546	36,264
2048 – 2049	<u>66,676</u>	<u>2,014</u>
	<u>895,613</u>	<u>677,887</u>

The loan agreement requires certain amounts to be held in an account restricted for debt service on this loan. The amount held at December 31, 2017 is \$15,564.

NOTE 11 CHANGES IN LONG-TERM DEBT

	<u>Balance</u>		<u>Balance</u>		<u>Due Within</u>
	<u>1-1-2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>12-31-2017</u>	<u>One Year</u>
USDA Loan (2010)	909,644	-	14,031	895,613	14,607
USDA Loan (2006)	<u>1,041,752</u>	<u>-</u>	<u>18,714</u>	<u>1,023,038</u>	19,509
	<u>1,951,396</u>	<u>-</u>	<u>32,745</u>	<u>1,918,651</u>	

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 12 RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental funds balance sheet includes a reconciliation between *fund balances – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net assets. Additionally, the governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net change in fund balances – total government funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities.

These reconciliations detail items that require adjustment to convert from the current resources measurement and modified accrual basis for governmental fund statements to the economic resources measurement and full accrual basis used for government-wide statements.

REQUIRED SUPPLEMENTARY INFORMATION

General Fund – Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance- Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Federal & State Sources	4,826,564	4,350,371	4,420,481	70,110
Local Sources	840,425	705,355	625,110	(80,245)
Program Income	578,151	626,484	666,783	40,299
In-Kind Contributions	64,887	55,874	34,874	(21,000)
Interest	<u>16,235</u>	<u>19,274</u>	<u>20,302</u>	<u>1,028</u>
<u>Total Revenues</u>	<u>6,326,262</u>	<u>5,757,358</u>	<u>5,767,550</u>	<u>10,192</u>
<u>EXPENDITURES</u>				
<u>Grants, Contracts & Services</u>				
Salaries and Wages	3,799,718	3,385,260	3,275,827	109,433
Fringe Benefits	675,471	528,394	532,602	(4,208)
Consultant and Professional Services	239,546	216,323	212,845	3,478
Travel, Vehicle	105,379	83,553	82,764	789
Debt Service	111,159	111,602	111,504	98
Consumable Supplies	288,434	238,048	237,925	123
Utilities Assistance	25,000	36,000	35,670	330
Rehabilitation (Homes)	411,750	309,823	254,227	55,596
Other Direct Cost	421,967	415,275	422,402	(7,127)
In-Kind Usage	64,887	55,870	34,874	20,996
Capital Outlay	<u>126,558</u>	<u>102,790</u>	<u>93,158</u>	<u>9,632</u>
<u>Total Expenditures</u>	<u>6,269,869</u>	<u>5,482,938</u>	<u>5,293,798</u>	<u>189,140</u>
<u>REVENUES OVER (UNDER) EXPENDITURES</u>	56,393	274,420	473,752	
<u>OTHER FINANCING SOURCES (USES)</u>				
Loan Proceeds	-	-	-	-
<u>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</u>	56,393	274,420	473,752	
<u>FUND BALANCE, January 1</u>	<u>1,535,752</u>	<u>1,330,406</u>	<u>1,357,571</u>	
<u>FUND BALANCE, December 31</u>	<u>1,592,145</u>	<u>1,604,826</u>	<u>1,831,323</u>	

The accompanying notes are an integral part of these financial statements.

SINGLE AUDIT SECTION

164 E. MAIN
TRINIDAD, COLORADO 81082
(719) 846-9241 FAX (719) 846-3352

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
South Central
Council of Governments
Trinidad, Colorado 81082

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of South Central Council of Governments as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise South Central Council of Governments' basic financial statements, and have issued our report thereon dated July 5, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered South Central Council of Governments' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the South Central Council of Governments' internal control. Accordingly, we do not express an opinion on the effectiveness of the South Central Council of Governments' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Central Council of Governments' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Stinson, Waller & Co., Inc.

July 5, 2018

164 E. MAIN
TRINIDAD, COLORADO 81082
(719) 846-9241 FAX (719) 846-3352

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE**

Board of Directors
South Central
Council of Governments
Trinidad, Colorado 81082

Report on Compliance for Each Major Federal Program

We have audited South Central Council of Governments' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of South Central Council of Governments' major federal programs for the year ended December 31, 2017. South Central Council of Governments' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of South Central Council of Governments' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about South Central Council of Governments' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of South Central Council of Governments' compliance.

Opinion on Each Major Federal Program

In our opinion, South Central Council of Governments complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of South Central Council of Governments is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered South Central Council of Governments' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of South Central Council of Governments' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be significant deficiencies.

South Central Council of Governments' response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. South Central Council of Governments' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Deifon, Waller & Co., Inc.

July 5, 2018

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2017

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS:

FINANCIAL STATEMENTS

Auditor's Report

An unmodified opinion has been issued on the financial statements of South Central Council of Governments.

Internal Control Over Financial Reporting

There were no significant deficiencies or material weaknesses identified.

Noncompliance Material to Financial Statements

No instances of noncompliance in amounts material to the financial statements of South Central Council of Governments were disclosed by the audit.

FEDERAL AWARDS

Internal Control Over Major Programs

A significant deficiency was identified but no material weaknesses were identified.

Auditor's Report on Compliance for Major Programs

An unmodified opinion has been issued on South Central Council of Governments compliance for major programs.

Audit Findings

A significant deficiency in internal control over major programs requiring disclosure in accordance with 2 CFR Section 200.516(a) was disclosed by the audit.

Major Programs

Community Development Block Grant/State's Program 14.228

Dollar Threshold to Distinguish Type A and Type B Programs

\$750,000.

Qualification as low-risk auditee

South Central Council of Governments qualified as a low-risk auditee for the fiscal year ended December 31, 2017.

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

US Department of Housing and Urban Development
Passed through Huerfano County, Colorado
Community Development Block Grants/State's Program
CFDA # 14.228
Award Date ending March 31, 2018

Finding 2017-001

SIGNIFICANT DEFICIENCY

Activities Allowed or Unallowed, Cash Management.

Criteria: Requests for reimbursement should be prepared accurately and include eligible cost

Condition: During our testing of reimbursement requests, we noted two instances where eligible costs were not included in submitted reimbursement request and one instance where a cost was submitted for reimbursement that had previously been included on a prior reimbursement request.

Effect: Incorrect amounts were submitted for reimbursement, eligible costs were not recovered and a reimbursement request included ineligible cost.

Cause: Program costs per the general ledger were not matched with the amounts included on reimbursement request and requests were not made on a timely basis contributing to the lack of oversight and tracking of eligible costs incurred.

Questioned Costs: \$2,444 - This amount for a single cost was submitted on two separate reimbursement requests.

Context: Ten requests for reimbursement were submitted during the audit period. Support for all the construction/loan payments made and included on all the requests was examined.

Recommendation: Procedures to insure timely filing of requests and comprehensive tracking of eligible costs included on reimbursement requests should be implemented.

Views of Responsible Officials and planned corrective actions: Management agrees with the finding. The finance director acknowledges that reimbursement requests were no submitted in a timely manner and this contributed to declining oversight of eligible costs for reimbursement and failing to identify a submission for reimbursement that had been previously requested.

The finance director recognizes that maintaining regular reimbursement requests and using the general ledger as a check and balance is a requirement and must be corrected. Corrective action will be implemented immediately. Internal procedures will be drafted, reviewed and implemented to create timely filings of reimbursement requests during the current grant cycle. A tracking tool (spreadsheet) of all expenses to each loan will be implemented to back-up the reimbursement requests and the general ledger.

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended December 31, 2017

NONE

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year ended December 31, 2017

<u>Federal Grantor/Pass through Grantor/Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>		
(Passed through Huerfano County, Colorado)		
Community Development Block Grant/ States Program	14.228	328,422
<u>Total U.S. Department of Housing and Urban Development</u>		<u>328,422</u>
 <u>U.S. Department of Health and Human Services</u>		
(Passed through the Colorado Department of Human Services)		
Aging Cluster		
Title III-C-Nutrition C-1	93.045	54,585
C-2	93.045	189
<u>Total Program</u>		<u>54,774</u>
Title III-A & B – Supportive Services	93.044	55,105
NSIP Food Program	93.053	25,464
<u>Total Aging Cluster</u>		<u>135,343</u>
(Passed through the Colorado Department of Human Services)		
OMBUDSMAN Title VII	93.042	3,328
Disease Prevention	93.043	9,723
National Family Caregiver	93.052	6,923
Elder Abuse Prevention	93.041	528
(Passed through the Colorado Department of Local Affairs)		
Community Services Block Grant	93.569	39,395
<u>Total Department of Health and Human Services</u>		<u>195,240</u>
 <u>U.S. Department of Agriculture</u>		
Rural Housing Preservation Grant	10.433	4,250
(Passed through the Colorado Department of Health and Environment)		
Child and Adult Care Food Program	10.558	54,624
<u>Total U.S. Department of Agriculture</u>		<u>58,874</u>
 <u>Federal Transit Administration</u>		
(Passed through the Colorado Department of Transportation)		
Formula Grants for Rural Areas	20.509	324,252
Rural Transportation Planning	20.205	11,293
<u>Total Federal Transit Administration</u>		<u>335,545</u>
 <u>TOTAL EXPENDITURES</u>		 <u>918,081</u>

The accompanying notes are an integral part of this financial statement.

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2017

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the South Central Council of Governments and is presented on the modified accrual basis of accounting. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.

NOTE 2 NON-CASH ASSISTANCE

Expenditures shown in the accompanying schedule under Department of Agriculture Program 10.558 are cash. The value of commodities received in 2017 was \$0.

NOTE 3 PAYMENTS TO SUBRECIPIENTS

The Council of Governments made no awards of federal financial assistance to any subrecipients in the year ended December 31, 2017.

NOTE 4 INDIRECT COSTS

The Council of Governments elected not to use the 10 percent de minimus indirect cost rate allowed by Uniform Guidance.