

***Northeastern Colorado Association  
of Local Governments  
Fort Morgan, Colorado***

**Financial Statements**

**For the Year Ended December 31, 2018**

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# LAUER, SZABO & ASSOCIATES, PC

Certified Public Accountants

205 Main St. • P.O. Box 1886 • Sterling, CO 80751-7886  
Phone 970-522-2218 • FAX 970-522-2220

## Independent Auditors' Report

Board of Directors  
Northeastern Colorado Association of Local Governments  
Fort Morgan, Colorado

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Northeastern Colorado Association of Local Governments (the Association) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Association'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.

### Auditors' 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 auditors' 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 the major fund of the Association as of December 31, 2018, 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.

## **Change in Accounting Principle**

As discussed in Note K to the financial statements, in 2018 the Association adopted new accounting guidance, GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and historical pension and other post-employment benefit plan information listed in the table of contents 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 Association's basic financial statements. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 other supplementary information and the schedule of expenditures of federal awards are 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 June 13, 2019 on our consideration of the Association's 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 solely 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 the effectiveness of the Association's 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 the Association's internal control over financial reporting and compliance.

*Lauer, Szabo & Associates, P.C.*

Sterling, Colorado  
June 13, 2019

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**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

This section of the Northeastern Colorado Association of Local Governments' annual financial report presents our discussion and analysis of the Northeastern Colorado Association of Local Governments' financial performance during the year ended December 31, 2018.

**FINANCIAL HIGHLIGHTS**

- The total net position of the Northeastern Colorado Association of Local Governments decreased by \$148,272.
- Actual revenues received were more than what had been anticipated in the budget by \$46,853.
- The actual expenditures made were less than what had been budgeted by \$666,315.

**USING THIS ANNUAL REPORT**

This discussion and analysis is intended to serve as an introduction to the Northeastern Colorado Association of Local Governments' basic financial statements. A comparison to the prior year's activity is provided in the document.

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 12 and 13) provide information about the activities of the Northeastern Colorado Association of Local Governments as a whole and present a longer-term view of the Northeastern Colorado Association of Local Governments' finances. Fund financial statements start on page 14. These statements tell how these services were financed in the short term as well as what remains for future spending. The Northeastern Colorado Association of Local Governments' basic financial statements are comprised of three components:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

**THE ASSOCIATION AS A WHOLE**

The government-wide financial statements are designed to provide interested readers with information about the Northeastern Colorado Association of Local Governments as a whole using accounting methods similar to those used by private-sector businesses.

The statement of net position includes all of the Northeastern Colorado Association of Local Governments' assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Northeastern Colorado Association of Local Governments is improving or deteriorating.

The statement of activities presents information showing how the Northeastern Colorado Association of Local Governments' 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 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 years (e.g. earned but unused annual leave).

As noted earlier, net position may serve over time as a useful indicator of the Northeastern Colorado Association of Local Governments' financial position. In the case of the Northeastern Colorado Association of Local Governments, liabilities exceed assets by \$2,151,324 at the close of 2018, due primarily to the implementation of GASBS 68 and 75.

**NET POSITION**

	<u>Year 2018</u>	<u>Year 2017</u>
Current assets	\$ 3,809,005	\$ 3,086,973
Capital assets	743,843	899,487
Total assets	<u>4,552,848</u>	<u>3,986,460</u>
Pension and OPEB deferrals	942,431	1,381,497
Total assets and deferred outflows of resources	<u>\$ 5,495,279</u>	<u>\$ 5,367,957</u>
Current liabilities	\$ 1,897,225	\$ 1,546,429
Long-term liabilities	4,303,226	5,372,853
Total liabilities	<u>6,200,451</u>	<u>6,919,282</u>
Pension and OPEB deferrals	1,446,152	75,281
Net investment in capital assets	743,843	899,487
Unrestricted net position	<u>(2,895,167)</u>	<u>(2,526,093)</u>
Total net position	<u>(2,151,324)</u>	<u>(1,626,606)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 5,495,279</u>	<u>\$ 5,367,957</u>

**CHANGE IN NET POSITION**

Program revenues		
Charges for services	\$ 999,436	\$ 924,695
Operating grants and contributions	3,346,521	3,694,863
Capital grants and contributions	35,730	279,671
General revenues		
Investment earnings	256	178
Miscellaneous	206,088	214,762
Gain on disposal of assets	1,401	3,370
Total revenues	<u>4,589,432</u>	<u>5,117,539</u>
Program expenses		
Salaries and related costs	2,919,154	3,541,184
Materials and services	1,627,176	1,865,349
Depreciation	191,374	211,481
Total expenses	<u>4,737,704</u>	<u>5,618,014</u>
Change in net position	(148,272)	(500,475)
Net position at beginning of year, as originally reported	(1,626,606)	(1,126,131)
Prior period adjustment	(376,446)	-
Net position at beginning of year, as restated	<u>(2,003,052)</u>	<u>(1,126,131)</u>
Net position at end of year	<u>\$ (2,151,324)</u>	<u>\$ (1,626,606)</u>

**THE ASSOCIATION'S FUND**

The Association's only fund is the General Fund, which is used to account for all financial resources since there are no activities required to be separately accounted for. As the Association completed the year, its General Fund reported a fund balance of \$1,911,780, which is \$371,236 more than reported last year.

**NOTES TO THE FINANCIAL STATEMENTS**

The notes provide additional information this is essential to a full understanding of the data provided in the basic financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

In addition to the basic financial statements and notes, this report also presents other supplementary information concerning the Northeastern Colorado Association of Local Governments' annual budget and comparison to actual revenues and expenditures, along with schedules regarding its defined benefit pension plan.

**FINANCIAL HIGHLIGHTS**

In 2018, the actual revenue for all programs was \$4,589,432. The actual expenses for all programs were \$4,737,704. The excess expenses over revenues totaled \$148,272.

As noted in the audit report liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$2,151,324 by the end of 2018 due primarily to the implementation of GASBS 68 and 75. Net position has decreased by \$148,272 from the end of 2017 to the end of 2018.

Employees are allowed to accumulate a maximum of 576 hours of sick leave, provided that a maximum of 480 hours may be carried forward each calendar year.

The personnel rules also provide that all employees who work twenty hours or more per week are eligible to accumulate annual leave. Based on the hours worked, the employee accumulates annual leave at a rate of 5% to 7.5% of the hours worked per pay period. NECALG has established a separate bank account in an attempt to fund the future liability for accrued compensated absences relating to employees hired prior to December 31, 1997. The balance in the account at year-end was \$100,708.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

At the end of the year, the Association had \$743,843 invested in capital assets, ranging from transportation vehicles to large passenger buses. The following table reports the Association's capital asset activity for the year. Major asset purchases during the year included updating the county express vehicle fleet.

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balances</u>
Equipment	\$ 4,164,270	\$ 35,730	\$ (100,335)	\$ 4,099,665
Less accumulated depreciation	<u>(3,264,783)</u>	<u>(191,374)</u>	<u>100,335</u>	<u>(3,355,822)</u>
Net capital assets	<u>\$ 899,487</u>	<u>\$ (155,644)</u>	<u>\$ -</u>	<u>\$ 743,843</u>

## LONG-TERM DEBT

The following is a summary of the changes in long-term debt for the year:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due within one year</u>
Compensated Absences	\$ 265,323	\$ 5,392	\$ -	\$ 270,715	\$ -
Net pension Liability	4,279,458	-	(582,272)	3,697,186	
Net pension Liability	<u>376,446</u>	<u>-</u>	<u>(41,121)</u>	<u>335,325</u>	<u>-</u>
Totals	<u>\$ 4,921,227</u>	<u>\$ 5,392</u>	<u>\$ (623,393)</u>	<u>\$ 4,303,226</u>	<u>\$ -</u>

## ECONOMIC FACTORS

As noted previously NECALG Net Position decreased by \$148,272 attributed primarily to *GASBS 68 and 75* requirements. Readers of this Audit need to be aware and have an understanding of this requirement and not to falsely believe that the Organization is deeply in debt. In turn, the reader should refer to the ending NECALG Fund Balance which grew in this audit year to \$1,911,780. These funds that reside in the General Fund have provided the Organization with cash flow and security against liabilities such as time accruals and any costs which may be deemed disallowed by any grant source that could include but not restricted to payout of accrued leave balances at termination.

The Community Services Block Grant (CSBG) started a new three-year Contract in 2018. Funds awarded for CSBG through Colorado Department of Local Affairs came in the form of "Option" letters describing the amount of grant funds made available at that time. These fund allocations are not a set or consistent value. The difficulty in processing and operating such dissemination of funds to NECALG is not having a consistent flow of funds or specific amounts guaranteed as it relates to allocating direct service funds to Program applicants. Delays in client processing to follow inconsistent fund distribution in turn has made it difficult to fully spend funds in expected timeframes.

The AAA was again very excited in receiving all 100% of carry over back for the start of the 2018 FY. This was due to in part of the late funding for the federal funds, and limited amount of time to spend it all. However, this trend will come to an end in the future as the funding has been set for the FY 19-20 and will return to the 10% allowance as previous years have been. The AAA increased its voucher programs to over 200 vouchers for clients needing assistance, mostly due to the additional funds, and the additional funding received through the State. The AAA also had resources of funding through a Grant from the NEXT50 organization to allow for conferences for assisting us in Age well Conferences, Dementia friendly communities, and the Alzheimer's issues we face in N.E. Colorado. The additional \$50,000 was utilized and helped us increase staff and infrastructure for the future. The funding was part of a one-time lump sum payment to the AAA, that will be utilized as seed money to continue the programs and increase the capacity of the ADRC. The AAA was also given a clean compliance award for the FY and as we move into the future, we only anticipate this to continue. The AAA also was complimented with many accolades for multiple best practices and innovative ideas of programs that the AAA continues to create and develop for the Seniors of the Region. The Funding formula has been weighted to allow more funds to pour in to the Metro areas, and larger AAA's, the Region 1 AAA continues to advocate for additional funding for its seniors, since we travel farther than most AAA's do per client and that we may not have as many 60 year old's, but most of our clients are 75 plus in age and need more assistance and wrap around services, that do cost more to provide. We did have wait list for part of the FY but have remedied most of the list and anticipate a clear waitlist for the next FY if funding stays stable.

Single Entry Point (SEP) has seen its fair share of changes in the past FY. Funding for the SEP has remained constant and plentiful and is expected to increase. However, with the changing demographics and recent changes to Medicaid that allows more people to access LTSS (Long Term Support Services), we found the need to increase case management staff by one FTE and add a Quality Assurance position that helps assure consistency and quality of services delivered and help institute and maintain the multitude of changes being dictated by the State. SEP received direction to return over one million dollars in unspent funds that has accumulated since 2012 to HCPF (Health Care Policy and Financing) and will be required to return all unspent funds going forward. SEP was required to establish a Business Continuity Plan, Communication Plan, Closeout Plan, Staff Training Document and a Quality Insurance CAP (Corrective Action Plan). A process has been started to address building additional infrastructure, staff and systems to accommodate SEP and utilize available funds more efficiently, resulting in less deferred revenue next year.

County Express, the Associations' Public Transportation arm has seen a steady increase of Medicaid ridership throughout the year of 2018. In 2018 County Express had taken major steps in grouping rides together when possible to lower operating costs which resulted in lower operating costs and increased Medicaid funding. New vehicles are being added to the fleet in 2019 to allow us to provide more out of town trips per day.

Smaller, yet on-going projects undertaken by the NECALG include: The Eastern Transportation Planning Region (ETPR), where the Association coordinates regionally based transportation plans and projects of CDOTs Engineering Region 4 and the South Platte Valley Regional Transportation Association (SPVRTA). This project is an RTA in Sterling that NECALG continues to contract as the direct service provider for this fixed route system. Both projects pay direct for associated expenses.

The NECALG also serves as the administrator of the Regional Enterprise Zone. The project collects an administrative fee of 5% on "contribution" projects to help defray administrative costs. However, NECALG shares part of that fee (2%) back to the local county Economic Development offices helping to support local efforts. The 3% fee (up to \$1,000) is retained by NECALG to help meet the grant required 100% match.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview to customers, taxpayers, citizens, residents, funders and any others interested in the Northeastern Colorado Association of Local Governments' finances. Accountability for the funds received and expended by the Northeastern Colorado Association of Local Governments is taken very seriously. Questions or concerns regarding any of the information provided in this report or requests for additional financial information should be addressed to the Northeastern Colorado Association of Local Governments, 231 Main St., Suite 211, Fort Morgan, CO 80701.

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## **Basic Financial Statements**

The basic financial statements of the Association include the following:

*Government-wide financial statements.* The government-wide statements display information about the reporting government as a whole, except for its fiduciary activities.

*Fund financial statements.* The fund financial statements display information about major funds individually and nonmajor funds in the aggregate for governmental and enterprise funds, as applicable.

*Notes to the financial statements.* The notes communicate information essential for fair presentation of the financial statements that is not displayed on the face of the financial statements. As such, the notes are an integral part of the basic financial statements.

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Statement of Net Position**  
**December 31, 2018**

<b>Assets</b>	
Cash	\$ 3,297,164
Receivables	450,810
Prepaid items	25,255
Inventories	35,776
Capital assets, net of accumulated depreciation	<u>743,843</u>
<b>Total assets</b>	<b>4,552,848</b>
<b>Deferred outflows of resources</b>	
Pension and other post-employment benefit deferrals	<u>942,431</u>
<b>Total assets and deferred outflows of resources</b>	<b><u>\$ 5,495,279</u></b>
<b>Liabilities</b>	
Accounts payable	\$ 217,813
Accrued salaries and benefits	100,962
Funds held for others	13,712
Unearned grant revenue	1,564,738
Noncurrent liabilities	
Due in more than one year	<u>4,303,226</u>
<b>Total liabilities</b>	<b>6,200,451</b>
<b>Deferred inflows of resources</b>	
Pension and other post-employment benefit deferrals	1,446,152
<b>Net position (deficit)</b>	
Net investment in capital assets	743,843
Unrestricted	<u>(2,895,167)</u>
<b>Total net position (deficit)</b>	<b><u>(2,151,324)</u></b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b><u>\$ 5,495,279</u></b>

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

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Statement of Activities**  
**For the Year Ended December 31, 2018**

Expenses	
Health and welfare	
Salaries and related costs	\$ 2,919,154
Materials and services	1,627,176
Depreciation	191,374
	<hr/>
Total expenses	4,737,704
Revenues	
Program revenues	
Charges for services	999,436
Operating grants and contributions	3,346,521
Capital grants and contributions	35,730
	<hr/>
Total program revenues	4,381,687
General revenues	
Investment earnings	256
Gain on disposal of assets	1,401
Miscellaneous	206,088
	<hr/>
Total general revenues	207,745
Total revenues	<hr/> 4,589,432
Change in net position	(148,272)
Net position (deficit) at beginning of year, as originally reported	(1,626,606)
Prior period adjustment	(376,446)
	<hr/>
Net position (deficit) at beginning of year, as restated	(2,003,052)
Net position (deficit) at end of year	<hr/> <hr/> \$ (2,151,324)

The accompanying notes are an integral part of these financial statements

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Balance Sheet**  
**Governmental Funds**  
**December 31, 2018**

	<u>General Fund</u>
Assets	
Cash	\$ 3,297,164
Grants receivable	264,089
Other receivables	186,721
Prepaid items	25,255
Inventories	<u>35,776</u>
Total assets	<u>\$ 3,809,005</u>
Liabilities and fund balance	
Liabilities	
Accounts payable	\$ 217,813
Accrued salaries and benefits	100,962
Unearned grant revenue	1,564,738
Funds held for others	<u>13,712</u>
Total liabilities	1,897,225
Fund balance	
Nonspendable prepaid items	25,255
Nonspendable inventory	35,776
Unassigned	<u>1,850,749</u>
Total fund balance	<u>1,911,780</u>
Total liabilities and fund balance	<u>\$ 3,809,005</u>

The accompanying notes are an integral part of these financial statements

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position**  
**December 31, 2018**

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

Total fund balance	\$ 1,911,780
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	743,843
Net pension deferrals used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	(503,721)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	<u>(4,303,226)</u>
Net position of the governmental activities	<u>\$ (2,151,324)</u>

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

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended December 31, 2018**

	<u>General Fund</u>
Revenues	
Intergovernmental	\$ 2,539,560
Charges for services	999,436
Miscellaneous	<u>1,050,436</u>
Total revenues	4,589,432
Expenditures	
Current	
Health and welfare	4,125,646
Capital outlay	<u>92,550</u>
Total expenditures	<u>4,218,196</u>
Net change in fund balance	371,236
Fund balance at beginning of year	<u>1,540,544</u>
Fund balance at end of year	<u><u>\$ 1,911,780</u></u>

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

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended December 31, 2018**

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

Net change in fund balance	\$ 371,236
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation exceeded capital outlays in the current period.	(155,644)
In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts incurred or earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	(5,392)
Pension expense at the fund level represents cash contributions to the defined benefit plan. For the activity level presentation, the amount represents the actuarial costs of the benefits for the year.	<u>(358,472)</u>
Change in net position of governmental activities	<u>\$ (148,272)</u>

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

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

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**Note A – Summary of significant accounting policies**

This summary of the Northeastern Colorado Association of Local Governments' significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. The policies are considered essential and should be read in conjunction with the accompanying financial statements.

The financial statements of the Association have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The more significant of the Association's accounting policies are described below.

**A.1 – Reporting entity**

The financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The reporting entity's financial statements should present the funds of the primary government (including its blended component units, which are, in substance, part of the primary government) and provide an overview of the discretely presented component units.

The Association has examined other entities that could be included as defined in numbers 2 and 3 above. Based on these criteria, the Association has no component units.

**A.2 – Fund accounting**

The Association uses funds to report its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types." The Association does not have any proprietary or fiduciary funds.

Governmental funds are used to account for all or most of a government's general activities. The Association's only fund is the General Fund, which is used to account for all financial resources since there are no activities required to be separately accounted for.

**A.3 – Basis of presentation**

Government-wide financial statements – The statement of net position and the statement of activities display information about the Association as a whole. These statements include the financial activities of the primary government except for fiduciary funds, if applicable.

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

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**Note A – Summary of significant accounting policies (continued)**

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements (where applicable) but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with a brief explanation to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each program of the Association's governmental activities (the health and welfare program is the only program maintained by the Association). Direct expenses are those that are specifically associated with the program and therefore are clearly identifiable to the particular program. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of the program. Revenues, which are not classified as program revenues, are presented as general revenues of the Association, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which the program is self-financing or draws from the general revenues of the Association.

Fund financial statements – Fund financial statements report detailed information about the Association. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. The Association has only one fund, the General Fund.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources management focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balance, which reports the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

**A.4 – Basis of accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

Revenues – exchange and nonexchange transactions – Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and become

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

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**Note A – Summary of significant accounting policies (continued)**

available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Association, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the Association receives value without directly giving equal value in return, include county contributions, grants and other miscellaneous sources. Revenues from grants are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Association must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Association on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Deferred outflows/inflows of resources – In addition to assets, the statement of financial position 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 (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.

Unearned revenue – Unearned revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned revenues also arise when resources are received by the Association before it has a legal claim to them, as when grant monies are received prior to meeting eligibility requirements. In subsequent periods, when both revenue recognition criteria are met, or when the Association has a legal claim to the resources, the liability for unearned revenue is removed and the revenue is recognized.

Expenses/expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

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**Note A – Summary of significant accounting policies (continued)**

**A.5 - Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded, is not formally employed by the Association.

**A.6 – Receivables**

Monthly billings for services rendered through the County Express bus program are included in accounts receivable. No allowance for doubtful accounts has been provided in the accompanying financial statements since substantially all accounts are deemed by management to be collectible.

**A.7 – Inventories**

Inventories consist of food and supplies to be used in the various grant programs. Food held for consumption is recorded at cost if purchased, or fair value if donated. Supplies used for the weatherization program are recorded at the lower of cost or market using the first-in, first-out method. Inventories are offset by a fund balance reserve which indicates that it does not constitute “available spendable resources” even though it is a component of net current assets.

**A.8 – Capital assets**

Capital assets are reported in the government-wide statement of net position, but are not reported in the fund financial statements. All capital assets with a unit cost greater than \$5,000 are capitalized at cost (or estimated historical cost, if actual cost is not available) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair value on the date received. Improvements to assets are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not. Infrastructure assets, consisting of certain improvements other than buildings (such as parking facilities, sidewalks, landscaping and lighting systems) will be capitalized on a prospective basis, from 2004. Infrastructure prior to 2004 will not be capitalized.

All reported capital assets are depreciated with the exception of land costs. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Lives</u>
Equipment	7-10 years

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

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**Note A – Summary of significant accounting policies (continued)**

**A.9 – Compensated absences**

The Association reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." All full-time employees are entitled to all fringe benefits offered by the Association subject to the policy limitations established by the insurance providers. Regularly scheduled part-time employees are entitled to fringe benefits on a pro-rata basis within the policy limitations established by the insurance providers or as specified in the Association's personnel rules and regulations.

**Sick Leave**

All employees that work twenty hours a week or more are eligible to accumulate sick leave benefits at a rate of 5% of the hours worked per pay period with a maximum of eight hours per month. Temporary employees and employees working less than twenty hours per week are not entitled to sick leave benefits.

Employees can accumulate a maximum of 576 hours of sick leave, provided that a maximum of 496 hours may be carried forward each calendar year.

Each November, the Association will pay employees who have unused sick leave in excess of 480 hours, 100% of the difference between hours accumulated and the hours that are allowed to be carried forward to the next calendar year, at their current hourly rate.

Upon resignation, retirement or termination of the employee, the Association will pay the accumulated balance for accumulated sick leave in accordance with its personnel rules and regulations, with employees being entitled to 100% of the vested amount after working for the Association a minimum of five years.

**Annual Leave**

All employees who work twenty hours a week or more are eligible to accumulate annual leave.

Eligible employees with seven or less years of employment will earn annual leave at the rate of 5% of the hours worked per pay period with a maximum accumulation of eight hours of leave per month.

Eligible employees between seven and fifteen years of employment will earn annual leave at the rate of 6.25% of the hours worked per pay period with a maximum accumulation of ten hours per month.

Eligible employees with fifteen or more years of employment will earn annual leave at the rate of 7.5% of the hours worked per pay period with a maximum accumulation of twelve hours per month.

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

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**Note A – Summary of significant accounting policies (continued)**

Temporary employees and part-time employees working less than 20 hours per week are not entitled to annual leave.

Upon resignation, retirement or termination of the employee, the Association will pay the accumulated balance for accumulated sick leave in accordance with its personnel rules and regulations, with employees being entitled to 100% of the vested amount after working for the Association a minimum of five years.

The Association has established a separate bank account in an attempt to fund the future liability for accrued compensated absences. The balance in the account at year-end was \$100,708, for employees hired prior to December 31, 1997.

**A.10 – Accrued liabilities and long-term obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the noncurrent portion of compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources.

**A.11 – Net position**

Net position represents the difference between assets and liabilities. Net investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are liabilities imposed on their use either through the enabling legislation adopted by the Association or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Association does not have any restricted net position at year-end.

**A.12 – Extraordinary and special items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Directors and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the year.

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

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**Note A – Summary of significant accounting policies (continued)**

**A.13 – Fund Balance**

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different type 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 listed below.

*Nonspendable*, such as fund balance associated with inventories, prepaid expenditures, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned),

*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,

*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 Association's highest level of decision-making authority),

*Assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed, and

*Unassigned* fund balance is the residual classification for the Association's general fund and includes all spendable amounts not contained in the other classifications.

Committed fund balance is established by a formal passage of a resolution. This is typically done through the adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the board of directors through adoption or amendment of the budget as intended for specific purpose (such as purchase of fixed assets, construction, debt service or for other purposes).

When both restricted and unrestricted resources are available in governmental funds, the Association applies expenditures against restricted fund balance first, and followed by committed fund balance, assigned fund balance and unassigned fund balance.

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

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**Note B – Cash and investments**

**Cash and deposits**

Colorado State statutes govern the Association's deposit of cash. The Public Deposit Protection Acts (PDPA) for banks and savings and loans require state regulators to certify eligible depositories for public deposits. The PDPA require eligible depositories with public deposits in excess of federal insurance levels to create a single institution collateral pool of defined eligible assets. Eligible collateral includes obligations of the United States, obligations of the State of Colorado or Colorado local governments and obligations secured by first lien mortgages on real property located in the state. The pool is to be maintained by another institution or held in trust for all uninsured public deposits as a group and not held in any individual government's name. The fair value of the assets in the pool must be at least equal to 102% of the aggregate uninsured deposits.

Custodial credit risk – deposits – Custodial credit risk is the risk that in the event of a bank failure, the Association's deposits may not be returned to it. The Association does not have a deposit policy for custodial credit risk. At year-end, the Association had total deposits of \$3,475,347, of which \$1,100,708 were insured and \$2,374,639 was collateralized with securities held by the pledging institution's trust department or agent in the Association's name.

**Investments**

Authorized investments – Investment policies are governed by Colorado State Statutes and the Association's own investment policies and procedures. Investments of the Association may include:

- Obligations of the United States Government such as treasury bills, notes and bonds
- Certain international agency securities
- General obligation and revenue bonds of United States local government entities
- Bankers acceptances of certain banks
- Commercial paper
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

At year-end, the Association did not have any investments.

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

**Note C – Receivables**

Receivables at year-end consist of the following:

Grant contracts	\$ 264,089
Other	<u>186,721</u>
Total	<u>\$ 450,810</u>

**Note D – Capital assets**

Capital asset activity for the year was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Ending Balances</u>
Equipment	\$ 4,164,270	\$ 35,730	\$ (100,335)	\$ 4,099,665
Less accumulated depreciation	<u>(3,264,783)</u>	<u>(191,374)</u>	<u>100,335</u>	<u>(3,355,822)</u>
Capital assets, net	<u>\$ 899,487</u>	<u>\$ (155,644)</u>	<u>\$ -</u>	<u>\$ 743,843</u>

**Note E – Long-term debt**

The following is a summary of the changes in long-term debt for the year:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due within one year</u>
Compensated absences	\$ 265,323	\$ 5,392	\$ -	\$ 270,715	\$ -
Net pension liability	4,279,458	-	(582,272)	3,697,186	-
Net OPEB liability	<u>376,446</u>	<u>-</u>	<u>(41,121)</u>	<u>335,325</u>	<u>-</u>
Totals	<u>\$ 4,921,227</u>	<u>\$ 5,392</u>	<u>\$ (623,393)</u>	<u>\$ 4,303,226</u>	<u>\$ -</u>

The compensated absences and net pension and OPEB liabilities attributable to the governmental activities will be liquidated by the General Fund. The Association believes that the current portion of the compensated absences is negligible and is therefore not reported.

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

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**Note F – Risk management**

The Association is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Association carries commercial insurance for all risks of loss, including workers' compensation insurance. The Association contracts with a commercial insurance carrier for business personal property, computer, general liability, employee benefit liability, inland marine and automobile coverage with deductibles up to \$1,000 per claim. Settled claims resulting from these risks have not exceeded commercial insurance coverage or the deductible in any of the past three fiscal years. There has been no significant reduction in insurance coverage from the prior year in any of the major categories of risk.

**Note G – Defined benefit pension plan**

**Summary of significant accounting policies**

*Pensions.* The Association participates in the Local Government Division Trust Fund (LGDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado (PERA). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the LGDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. Governmental accounting standards require the net pension liability and related amounts of the LGDTF for financial reporting purposes be measured using the plan provisions in effect as of the LGDTF's measurement date of December 31, 2017. As such, the following disclosures do not include the changes to plan provisions required by SB 18-200 with the exception of the section titled Changes between the measurement date of the net pension liability and December 31, 2018.

**General information about the pension plan**

*Plan description.* Eligible employees of the Association are provided with pensions through the Local Government Division Trust Fund (LGDTF) – a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

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**Note G – Defined benefit pension plan (Continued)**

*Benefits provided as of December 31, 2017.* PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. Section 24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the PERA Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit.
- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

The lifetime retirement benefit for all eligible retiring employees under the Denver Public Schools (DPS) Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit.
- \$15 times the first 10 years of service credit plus \$20 times service credit over 10 years plus a monthly amount equal to the annuitized member contribution account balance based on life expectancy and other actuarial factors.

In all cases the service retirement benefit is limited to 100 percent of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

**Note G – Defined benefit pension plan (Continued)**

As of December 31, 2017, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA’s Annual Increase Reserve (AIR) for the LGDTF.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

*Contributions as of December 31, 2018.* Eligible employees and the Association are required to contribute to the LGDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. Section 24-51-401, *et seq.* Eligible employees are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements are summarized in the table below:

	<u>Rate</u>
Employer contribution rate <sup>1</sup>	10.00%
Amount of employer contribution apportioned to the health care trust fund as specified in C.R.S. Section 24-51-208(1)(f) <sup>1</sup>	<u>(1.02)%</u>
Amount apportioned to the LGDTF <sup>1</sup>	8.98%
Amortization equalization disbursement (AED) as specified in C.R.S. Section 24-51-411 <sup>1</sup>	2.20%
Supplemental amortization equalization disbursement (SAED) as specified in C.R.S. Section 24-51-411 <sup>1</sup>	<u>1.50%</u>
Total employer contribution to the LGDTF <sup>1</sup>	<u><u>12.68%</u></u>

<sup>1</sup> Rates are expressed as a percentage of salary as defined in C.R.S. Section 24-51-101(42).

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

**Note G – Defined benefit pension plan (Continued)**

Employer contributions are recognized by the LGDTF in the period in which the compensation becomes payable to the member and the Association is statutorily committed to pay the contributions to the LGDTF. Employer contributions recognized by the LGDTF from the Association were \$240,721 for the year ended.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

At year-end, the Association reported a liability of \$3,697,186 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll forward the total pension liability to December 31, 2017. The Association's proportion of the net pension liability was based on the Association's contributions to the LGDTF for the calendar year 2017 relative to the total contributions of participating employers to the LGDTF.

At December 31, 2017, the Association's proportion was 0.3321 percent, which was a decrease of 0.0461 percent from its proportion measured as of December 31, 2016.

For the year, the Association recognized pension expense of \$599,294. At year-end, the Association reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 232,564	\$ -
Changes of assumptions or other inputs	44,491	-
Net difference between projected and actual earnings on pension plan investments	403,705	1,065,893
Changes in proportion and differences between contributions recognized and proportionate share of contributions	-	339,619
Contributions subsequent to the measurement date	<u>240,721</u>	<u>-</u>
Total	<u>\$ 921,481</u>	<u>\$ 1,405,512</u>

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

**Note G - Defined benefit pension plan (Continued)**

\$240,721 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Amount</u>
2019	\$ (94,016)
2020	(103,616)
2021	(260,647)
2022	<u>(266,473)</u>
Totals	<u>\$ (724,752)</u>

*Actuarial assumptions.* The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 - 10.45 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	7.25 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07; and DPS benefit structure (automatic)	2.00 percent
PERA benefit structure hired after 12/31/06; (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

Healthy mortality assumptions for active members reflect the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

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**Note G – Defined benefit pension plan (Continued)**

Healthy, post-retirement assumptions reflect the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The actuarial assumptions used in the December 31, 2016, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012 through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016.

Several factors were considered in evaluating the long-term rate of return assumption for the LGDTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the most recent adoption of the long-term expected rate of return by the PERA Board, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

**Note G – Defined benefit pension plan (Continued)**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
U.S. equity – large cap	21.20%	4.30%
U.S. equity – small cap	7.42%	4.80%
Non U.S. equity – developed	18.55%	5.20%
Non U.S. equity – emerging	5.83%	5.40%
Core fixed income	19.32%	1.20%
High yield	1.38%	4.30%
Non U.S. fixed income - developed	1.84%	0.60%
Emerging market debt	0.46%	3.90%
Core real estate	8.50%	4.90%
Opportunity fund	6.00%	3.80%
Private equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	<u>100.00%</u>	

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%.

*Discount rate.* The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
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**Note G – Defined benefit pension plan (Continued)**

- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date, including current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment. AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the LGDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent. There was no change in the discount rate from the prior measurement date.

*Sensitivity of the Association's proportionate share of the net pension liability to changes in the discount rate.* The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

**Note G – Defined benefit pension plan (Continued)**

	1% Decrease <u>(6.25%)</u>	Current Discount <u>(7.25%)</u>	1% Increase <u>(8.25%)</u>
Proportionate share of the net pension liability	\$ <u>5,888,419</u>	\$ <u>3,697,186</u>	\$ <u>1,870,479</u>

*Pension plan fiduciary net position.* Detailed information about the LGDTF’s fiduciary net position is available in PERA’s comprehensive annual financial report which can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

**Payables to the pension plan**

The Association did not report any payables to the pension plan at year-end.

**Changes between the measurement date of the net pension liability and December 31, 2018.**

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through SB 18-200: *Concerning Modifications To the Public Employees’ Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. The bill was signed into law by Governor Hickenlooper on June 4, 2018. SB 18-200 makes changes to the plans administered by PERA with the goal of eliminating the unfunded actuarial accrued liability of the Division Trust Funds and thereby reach a 100 percent funded ratio for each division within the next 30 years.

A brief description of some of the major changes to plan provisions required by SB 18-200 are listed below. A full copy of the bill can be found online at [www.leg.colorado.gov](http://www.leg.colorado.gov).

- Increases employee contribution rates by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).
- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, modifying the highest average salary for employees with less than five years of service credit on December 31, 2019 and raises the retirement age for new employees.
- Member contributions, employer contributions, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020, and then each year thereafter, to help keep PERA on path to full funding in 30 years.

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

**Note G – Defined benefit pension plan (Continued)**

- Expands eligibility to participate in the PERA DC Plan to new members hired on or after January 1, 2019, in the Local Government Division. Beginning January 1, 2021, and every year thereafter, employer contribution rates for the LGDTF will be adjusted to include a defined contribution supplement based on the employer contribution amount paid to defined contribution plan participant accounts that would have otherwise gone to the defined benefit trusts to pay down the unfunded liability plus any defined benefit investment earnings thereon.

At year end, the Association reported a liability of \$3,697,186 for its proportionate share of the net pension liability which was measured using the plan provisions in effect as of the pension plan’s year-end based on a discount rate of 7.25%. For comparative purposes, the following schedule presents an estimate of what the Association’s proportionate share of the net pension liability and associated discount rate would have been had the provisions of SB 18-200, applicable to the LGDTF, become law on December 31, 2017. This pro forma information was prepared using the fiduciary net position of the LGDTF as of December 31, 2017. Future net pension liabilities reported could be materially different based on changes in investment markets, actuarial assumptions, plan experience and other factors.

Estimated Discount Rate Calculated Using Plan Provisions Required by SB 18-200 (pro forma)	Proportionate Share of the Estimated Net Pension Liability Calculated Using Plan Provisions Required by SB 18-200 (pro forma)
7.25%	\$2,615,083

**Note H – Defined contribution pension plan**

**Voluntary Investment Program**

*Plan description.* Employees of the Association that are also members of the LGDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available comprehensive annual financial report for the Program. That report can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

*Funding policy.* The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. The Association does not offer matching contributions to its employees. Employees are immediately vested in their own contributions and investment earnings. For the year, program members contributed \$4,947 for the Voluntary Investment Program.

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

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**Note I – Defined benefit other post-employment benefit (OPEB) plan**

Summary of significant accounting policies

*OPEB.* The Association participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the HCTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefits paid on behalf of health care participants are recognized when due and/or payable in accordance with the benefit terms. Investments are reported at fair value.

General information about the OPEB plan

*Plan description.* Eligible employees of the Association are provided with OPEB through the HCTF – a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. Title 24, Article 51, Part 12 of the C.R.S., as amended, sets forth a framework that grants authority to the PERA Board to contract, self-insure, and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of the premium subsidies. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

*Benefits provided.* The HCTF provides a health care premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA health care plans, however, the subsidy is not available if only enrolled in the dental and/or vision plan(s). The health care premium subsidy is based upon the benefit structure under which the member retires and member's years of service credit. For members who retire having service credit with employers in the Denver Public Schools (DPS) Division and one or more of the other four Divisions (State, School, Local Government and Judicial), the premium subsidy is allocated between the HCTF and the Denver Public Schools Health Care Trust Fund (DPS HCTF). The basis for the amount of the premium subsidy funded by each trust fund is the percentage of the member contribution account balance from each division as it relates to the total member contribution account balance from which the retirement benefit is paid.

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

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**Note I – Defined benefit other post-employment benefit (OPEB) plan (Continued)**

C.R.S. Section 24-51-1202 et seq. specifies the eligibility for enrollment in the health care plans offered by PERA and the amount of the premium subsidy. The law governing a benefit recipient's eligibility for the subsidy and the amount of the subsidy differs slightly depending under which benefit structure the benefits are calculated. All benefit recipients under the PERA benefit structure and all retirees under the DPS benefit structure are eligible for a premium subsidy, if enrolled in a health care plan under PERACare. Upon the death of a DPS benefit structure retiree, no further subsidy is paid.

Enrollment in the PERACare is voluntary and is available to benefit recipients and their eligible dependents, certain surviving spouses, and divorced spouses and guardians, among others. Eligible benefit recipients may enroll into the program upon retirement, upon the occurrence of certain life events, or on an annual basis during an open enrollment period.

*PERA Benefit Structure*

The maximum service-based premium subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is \$115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The basis for the maximum service-based subsidy, in each case, is for benefit recipients with retirement benefits based on 20 or more years of service credit. There is a 5 percent reduction in the subsidy for each year less than 20. The benefit recipient pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

For the benefit recipients who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, C.R.S. Section 24-51-1206(4) provides an additional subsidy. According to the statute, PERA cannot charge premiums to benefit recipients without Medicare Part A that are greater than premiums charges to benefit recipients with Part A for the same plan option, coverage level, and service credit. Currently, for each individual PERACare enrollee, the total premium for Medicare coverage is determined assuming plan participants have both Medicare Part A and Part B and the difference in premium cost is paid by the HCTF or the DPS HCTF on behalf of the benefit recipients not covered by Medicare Part A.

*DPS Benefit Structure*

The maximum service-based premium subsidy is \$230 per month for retirees who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is \$115 per month for retirees who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The basis for the maximum subsidy, in each case, is for retirees with retirement benefits based on 20 or more years of service credit. There is a 5 percent reduction in the subsidy for each year less than 20. The retiree pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

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**Note I – Defined benefit other post-employment benefit (OPEB) plan (Continued)**

For retirees who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, the HCTF or the DPS HCTF pays an alternate service-based premium subsidy. Each individual retiree meeting these conditions receives the maximum \$230 per month subsidy reduced appropriately for service less than 20 years, as described above. Retirees who do not have Medicare Part A pay the difference between the total premium and the monthly subsidy.

*Contributions.* Pursuant to Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers of the State, School, Local Government, and Judicial Divisions are required to contribute at a rate of 1.02 percent of PERA-includable salary into the HCTF.

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the Association is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the Association were \$19,364 for the year ended.

**OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB**

At year-end, the Association reported a liability of \$335,325 for its proportionate share of the net OPEB liability. The net pension OPEB liability for the HCTF was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2017. The Association's proportion of the net OPEB liability was based on the Association's contributions to the HCTF for the calendar year 2017 relative to the total contributions of participating employers to the HCTF.

At December 31, 2017, the Association's proportion was 0.0258 percent, which was a decrease of 0.0032 percent from its proportion measured as of December 31, 2016.

For the year ended December 31, 2018, the Association recognized OPEB expense of \$19,263. At year-end, the Association reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

**Note I – Defined benefit other post-employment benefit (OPEB) plan (Continued)**

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 1,586	\$ -
Changes of assumptions or other inputs	-	-
Net difference between projected and actual earnings on pension plan investments	-	5,610
Changes in proportion and differences between contributions recognized and proportionate share of contributions	-	35,030
Contributions subsequent to the measurement date	<u>19,364</u>	<u>-</u>
Total	<u>\$ 20,950</u>	<u>\$ 40,640</u>

\$19,364 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2019	\$ (7,973)
2020	(7,973)
2021	(7,973)
2022	(7,973)
2023	(6,571)
2024	<u>(591)</u>
Totals	<u>\$ (39,054)</u>

*Actuarial assumptions.* The total OPEB liability in the December 31, 2016 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

**Note I – Defined benefit other post-employment benefit (OPEB) plan (Continued)**

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 percent in aggregate
Long-term investment rate of return, net of OPEB plan investment expenses, including price inflation	7.25 percent
Discount rate	7.25 percent
Health care cost trend rates	
PERA benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	5.00 percent
Medicare Part A premiums	3.00 percent for 2017, gradually rising to 4.25 percent in 2023
DPS benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	N/A
Medicare Part A premiums	N/A

Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each actuarial valuation and on the pattern of sharing costs between employers of each fund to that point.

Health care cost trend rates reflect the change in per capita health costs over time due to factors such as medical inflation, utilization, plan design, and technology improvements. For the PERA benefit structure, health care cost trend rates are needed to project the future costs associated with providing benefits to those PERACare enrollees not eligible for premium-free Medicare Part A.

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and heuristics developed by health plan actuaries and administrators, and projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services. Effective December 31, 2016, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

**Note I – Defined benefit other post-employment benefit (OPEB) plan (Continued)**

The PERA benefit structure health care cost trend rates that were used to measure the total OPEB liability are summarized in the table below:

Year	PERACare Medicare Plans	Medicare Part A Premiums
2017	5.00%	3.00%
2018	5.00%	3.25%
2019	5.00%	3.50%
2020	5.00%	3.75%
2021	5.00%	4.00%
2022	5.00%	4.00%
2023	5.00%	4.25%
2024+	5.00%	4.25%

Mortality assumptions for the determination of the total pension liability for each of the Division Trust Funds as show below are applied, as applicable, in the determination of the total OPEB liability for the HCTF. Affiliated employers of the State, School, Local Government, and Judicial Divisions participate in the HCTF.

Healthy mortality assumptions for active members were based on the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Healthy, post-retirement mortality assumptions for the State and Local Government Divisions were based on the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

Healthy, post-retirement mortality assumptions for the School and Judicial Divisions were based on the RP-2014 White Collar Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 93 percent factor applied to rates for ages less than 80, a 113 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

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**Note 1 – Defined benefit other post-employment benefit (OPEB) plan (Continued)**

- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 68 percent factor applied to rates for ages less than 80, a 106 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The following economic and demographic assumptions were specifically developed for, and used in, the measurement of the obligations for the HCTF.

- The assumed rates of PERACare participation were revised to reflect more closely actual experience.
- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2017 plan year.
- The percentages of PERACare enrollees who will attain age 65 and older ages and are assumed to not qualify for premium-free Medicare Part A coverage were revised to more closely reflect actual experience.
- The percentage of disabled PERACare enrollees who are assumed to not qualify for premium-free Medicare Part A coverage were revised to reflect more closely actual experience.
- Assumed election rates for the PERACare coverage options that would be available to future PERACare enrollees who will qualify for the “No Part A Subsidy” when they retire were revised to more closely reflect actual experience.
- Assumed election rates for the PERACare coverage options that will be available to those current PERACare enrollees, who qualify for the “No Part A Subsidy” but have not reached age 65, were revised to more closely reflect actual experience.
- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.
- The rates of PERACare coverage election for spouses of eligible inactive members and future retirees were revised to more closely reflect actual experience.
- The assumed age differences between future retirees and their participating spouses were revised to reflect more closely actual experience.

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

**Note I – Defined benefit other post-employment benefit (OPEB) plan (Continued)**

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016 Board meeting. In addition, certain actuarial assumptions pertaining to per capita health care costs and their related trends are analyzed and reviewed by PERA’s actuary, as needed.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA’s Board on October 28, 2016.

Several factors were considered in evaluating the long-term rate of return assumption for the HCTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the most recent adoption of the long-term expected rate of return by the PERA Board, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
U.S. equity – large cap	21.20%	4.30%
U.S. equity – small cap	7.42%	4.80%
Non U.S. equity – developed	18.55%	5.20%
Non U.S. equity – emerging	5.83%	5.40%
Core fixed income	19.32%	1.20%
High yield	1.38%	4.30%
Non U.S. fixed income - developed	1.84%	0.60%
Emerging market debt	0.46%	3.90%
Core real estate	8.50%	4.90%
Opportunity fund	6.00%	3.80%
Private equity	8.50%	6.60%
Cash	<u>1.00%</u>	0.20%
Total	<u>100.00%</u>	

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

**Note I – Defined benefit other post-employment benefit (OPEB) plan (Continued)**

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%.

*Sensitivity of the Association's proportionate share of the net OPEB liability to changes in the Health Care Cost Trend Rates.* The following presents the net OPEB liability using the current health care cost trend rates applicable to the PERA benefit structure, as well as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates:

	<u>1% Decrease in Trend Rates</u>	<u>Current Trend Rates</u>	<u>1% Increase in Trend Rates</u>
PERACare Medicare trend rate	4.00%	5.00%	6.00%
Initial Medicare Part A trend rate	2.00%	3.00%	4.00%
Ultimate Medicare Part A trend rate	<u>3.25%</u>	<u>4.25%</u>	<u>5.25%</u>
Net OPEB Liability	\$ 326,099	\$ 335,325	\$ 346,437

*Discount rate.* The discount rate used to measure the total OPEB liability was 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 2017 measurement date.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date. For future plan members, employer contributions were reduced by the estimated amount of total service costs for future plan members.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

**Note I – Defined benefit other post-employment benefit (OPEB) plan (Continued)**

Based on the above assumptions and methods, the projection test indicates the HCTF's fiduciary net position was projected to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent.

*Sensitivity of the Association's proportionate share of the net OPEB liability to changes in the discount rate.* The following presents the proportionate share of the net OPEB liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	\$ 377,010	\$ 335,325	\$ 299,745

*OPEB plan fiduciary net position.* Detailed information about the HCTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

Payables to the OPEB plan

The Association did not report any payables to the OPEB plan at year-end.

**Note J – Commitments and contingencies**

**Federal and state funding**

The Association receives revenues from various federal and state grant programs which are subject to final review and approval by the grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Association expects such amounts, if any, to be immaterial.

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Financial Statements**

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**Note J – Commitments and contingencies (Continued)**

**TABOR Amendment**

In November 1992, Colorado voters passed an amendment, commonly known as the Taxpayer's Bill of Rights (TABOR), to the State Constitution (Article X, Section 20) which limits the revenue raising and spending abilities of state and local governments. The Association may be subject to the TABOR Amendment. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation local growth. The Association feels it is exempt from the provisions of the Amendment because it receives no direct taxes and does not have the power to impose a tax levy.

**Note K – Prior period restatement**

The Association adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement requires the Association to recognize a liability for its proportionate share of the net OPEB liability of PERA's Health Care Trust Fund (see Note I), as well as OPEB expense, and to report deferred outflows of resources and deferred inflows of resources related to OPEB for its proportionate shares of collective OPEB expense and collective deferred outflows of resources and deferred inflows of resources related to OPEB. The Association has reduced the beginning net position by \$376,446 due to the adoption of this statement.

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### **Required Supplementary Information**

Required supplementary information includes financial information and disclosures that are required by the Governmental Accounting Standards Board but are not considered a part of the basic financial statements. Such information includes:

- Schedule of the Association's Proportionate Share of the Net Pension Liability – PERA's Local Government Division Trust Fund
- Schedule of Association Contributions – PERA's Local Government Division Trust Fund
- Schedule of the Association's Proportionate Share of the Net OPEB Liability – PERA's Health Care Trust Fund
- Schedule of Association Contributions – PERA's Health Care Trust Fund
- Budgetary Comparison Schedule – General Fund

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Schedule of the Association's Proportionate Share of the Net Pension Liability <sup>1</sup>**  
**PERA's Local Government Division Trust Fund**  
**December 31, 2018**

	2018	2017	2016	2015
Association's proportion of the net pension liability	0.3321%	0.3782%	0.3885%	0.3713%
Association's proportionate share of the net pension liability	\$ 3,697,186	\$ 5,107,531	\$ 4,279,458	\$ 3,328,248
Association's covered payroll	\$ 2,094,739	\$ 2,292,606	\$ 2,206,282	\$ 2,034,709
Association's proportionate share of the net pension liability as a percentage of its covered payroll	176.50%	222.78%	193.97%	163.57%
Plan fiduciary net position as a percentage of the total pension liability	79.37%	73.60%	76.90%	80.70%

\* The amounts presented for each fiscal year were determined as of December 31 of the prior year.

<sup>1</sup> Until a full 10-year trend is compiled, the Association will present information for those years for which information is available.

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2014

0.4068%

\$ 3,347,306

\$ 2,170,095

154.25%

77.66%

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Schedule of Association Contributions <sup>1</sup>**  
**PERA's Local Government Division Trust Fund**  
**December 31, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 240,721	\$ 265,613	\$ 290,703	\$ 279,757
Contributions in relation to the contractually required contribution	<u>(240,721)</u>	<u>(265,613)</u>	<u>(290,703)</u>	<u>(279,757)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Association's covered payroll	\$ 1,898,434	\$ 2,094,739	\$ 2,292,606	\$ 2,206,282
Contributions as a percentage of covered payroll	12.68%	12.68%	12.68%	12.68%

<sup>1</sup> Until a full 10-year trend is compiled, the Association will present information for those years for which information is available.

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<u>2014</u>	<u>2013</u>
\$ 258,002	\$ 275,168
<u>(258,002)</u>	<u>(275,168)</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 2,034,709	\$ 2,170,095
12.68%	12.68%

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Schedule of the Association's Proportionate Share of the Net OPEB Liability <sup>1</sup>**  
**PERA's Health Care Trust Fund**  
**December 31, 2018**

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	<u>2018</u>	<u>2017</u>
Association's proportion of the net OPEB liability	0.0258%	0.0290%
Association's proportionate share of the net OPEB liability	\$ 335,325	\$ 376,446
Association's covered payroll	\$ 2,094,739	\$ 2,292,606
Association's proportionate share of the net OPEB liability as a percentage of its covered pay	16.01%	16.42%
Plan fiduciary net position as a percentage of the total OPEB liability	17.53%	16.72%

\* The amounts presented for each fiscal year were determined as of December 31 of the prior year.

<sup>1</sup> Until a full 10-year trend is compiled, the Association will present information for those years for which information is available.

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Schedule of Association Contributions <sup>1</sup>**  
**PERA's Health Care Trust Fund**  
**December 31, 2018**

	2018	2017	2016
Contractually required contribution	\$ 19,364	\$ 21,366	\$ 23,384
Contributions in relation to the contractually required contribution	(19,364)	(21,366)	(23,384)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Association's covered payroll	\$ 1,898,434	\$ 2,094,739	\$ 2,292,606
Contributions as a percentage of covered payroll	1.02%	1.02%	1.02%

<sup>1</sup> Until a full 10-year trend is compiled, the Association will present information for those years for which information is available.

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**General Fund**  
**Budgetary Comparison Schedule**  
**For the Year Ended December 31, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Intergovernmental	\$ 2,678,653	\$ 2,678,653	\$ 2,539,560	\$ (139,093)
Charges for services	992,774	992,774	999,436	6,662
Miscellaneous	1,184,084	1,184,084	1,363,368	179,284
Total revenues	4,855,511	4,855,511	4,902,364	46,853
Expenditures				
Health and welfare	5,033,167	5,033,167	4,438,578	594,589
Capital outlay	164,276	164,276	92,550	71,726
Total expenditures	5,197,443	5,197,443	4,531,128	666,315
Excess of revenues over (under) expenditures	\$ (341,932)	\$ (341,932)	371,236	\$ 713,168
Adjustments to GAAP Basis				
Deduct in-kind revenues			(312,932)	
Add in-kind expenditures			312,932	
Change in fund balance - GAAP Basis			371,236	
Fund balance at beginning of year			1,540,544	
Fund balance at end of year			\$ 1,911,780	

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to the Required Supplementary Information**

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**Note A – Budgetary data**

An annual budget is established for the Association as required by Colorado Local Government Budget Laws and is adopted on a basis consistent with accounting principles generally accepted in the United States except for short-term borrowings and repayments and in-kind sources, which are included as revenues and expenditures in the budgetary comparison schedules but do not appear in the government-wide or fund financial statements.

Expenditures may not legally exceed appropriations. Budget amounts included in the financial statements are based on the original and final amended budgets. After budget approval, the Board of Directors may approve supplemental appropriations if an occurrence, condition or need exists which was not known at the time the budget was adopted.

- On or before October 15<sup>th</sup>, the Executive Director submits a proposed budget for the following year to the Board of Directors.
- A proposed budget is made available for public inspection, and public hearings are conducted to obtain taxpayer comments.
- On or before December 31<sup>st</sup>, the Association must adopt and appropriate the budget by resolution or ordinance.

**Note B – Factors affecting trends in amounts reported in the pension and OPEB schedules**

Information about factors that significantly affect trends in the amounts reported in the Schedules of the Association's Proportionate Share of the Net Pension and OPEB Liabilities and the Schedules of Association Contributions is available in PERA's comprehensive annual financial report which can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

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### **Other Supplementary Information**

Other supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

Such schedules include:

- General Fund – Budgetary Comparison Schedule – Revenues
- General Fund – Budgetary Comparison Schedule – Expenditures

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**General Fund**  
**Budgetary Comparison Schedule - Revenues**  
**For the Year Ended December 31, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
<b>Intergovernmental</b>				
Federal grants	\$ 1,641,343	\$ 1,641,343	\$ 1,476,464	\$ (164,879)
State grants	1,037,310	1,037,310	1,013,096	(24,214)
Local grants	351,143	351,143	50,000	(301,143)
Total intergovernmental	3,029,796	3,029,796	2,539,560	(490,236)
<b>Charges for services</b>				
County express	795,618	795,618	905,561	109,943
Bus fares	112,876	112,876	58,252	(54,624)
Bus tickets	84,280	84,280	35,623	(48,657)
Total charges for services	992,774	992,774	999,436	6,662
<b>Miscellaneous</b>				
Private contributions	14,634	14,634		(14,634)
Local contributions	113,000	113,000	363,729	250,729
Contributions - copay	211,244	211,244	145,553	(65,691)
Enterprise zone revenues	260,000	260,000	333,409	73,409
Earnings on investments	36	36	256	220
In-kind revenues	188,502	188,502	312,932	124,430
Sale of assets			1,401	1,401
Miscellaneous	45,525	45,525	206,088	160,563
Total miscellaneous	832,941	832,941	1,363,368	530,427
Total revenues	\$ 4,855,511	\$ 4,855,511	\$ 4,902,364	\$ 46,853

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**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**General Fund**  
**Budgetary Comparison Schedule - Expenditures**  
**For the Year Ended December 31, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Expenditures				
Health and welfare				
Salaries	\$ 2,435,654	\$ 2,435,654	\$ 2,038,524	\$ 397,130
Personnel benefits	601,561	601,561	516,766	84,795
Personnel recruitment	6,050	6,050	1,992	4,058
Drug testing and CDL	5,925	5,925	6,688	(763)
Staff training	19,961	19,961	4,648	15,313
Software	30,550	30,550	35,215	(4,665)
Equipment maintenance	18,690	18,690	10,197	8,493
Gas	158,031	158,031	116,489	41,542
Gifts	650	650	25,842	(25,192)
Annual meeting	5,825	5,825	1,297	4,528
Miscellaneous	26,050	26,050		26,050
Photocopies	7,023	7,023	2,665	4,358
Postage	9,663	9,663	6,425	3,238
Permits and fees	1,700	1,700	1,689	11
Printing	2,000	2,000	235	1,765
Rent	53,844	53,844	65,938	(12,094)
Subscriptions and dues	18,050	18,050	6,733	11,317
Supplies - field	43,550	43,550	43,161	389
Supplies - office	44,900	44,900	46,347	(1,447)
Bank charges	2,635	2,635	2,986	(351)
Cell phones and pagers	14,500	14,500	15,280	(780)
Telephone service	33,785	33,785	33,365	420
Travel - board	7,200	7,200	4,131	3,069
Travel and per diem	96,123	96,123	55,937	40,186
Utilities	11,865	11,865	10,442	1,423
Vehicle maintenance	152,150	152,150	97,317	54,833
Building maintenance	10,150	10,150	11,861	(1,711)
Advertising	9,000	9,000	9,041	(41)
Marketing	14,070	14,070	4,677	9,393
Audit fees	15,570	15,570	16,146	(576)
Accounting operations	10,150	10,150	7,686	2,464
Insurance	200,939	200,939	81,390	119,549
Direct services	57,125	57,125	78,474	(21,349)
Respite	8,000	8,000	7,307	693
Enterprise zone costs	271,000	271,000	337,574	(66,574)

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Legal and professional services	19,289	19,289	12,081	7,208
Senior center operations	8,969	8,969	13,009	(4,040)
Dental	60,870	60,870	60,856	14
Eye care	20,000	20,000	15,222	4,778
Nutrition assistance	16,000	16,000	13,686	2,314
Transportation services	92,000	92,000	128,265	(36,265)
Contract labor			18,338	(18,338)
Food	223,598	223,598	159,724	63,874
In-kind support	188,502	188,502	312,932	(124,430)
<b>Total health and welfare</b>	<b>5,033,167</b>	<b>5,033,167</b>	<b>4,438,578</b>	<b>594,589</b>
Capital outlay				
Expendable	21,376	21,376	18,889	2,487
Capital	142,900	142,900	73,661	69,239
<b>Total capital outlay</b>	<b>164,276</b>	<b>164,276</b>	<b>92,550</b>	<b>71,726</b>
<b>Total expenditures</b>	<b>\$ 5,197,443</b>	<b>\$ 5,197,443</b>	<b>\$ 4,531,128</b>	<b>\$ 666,315</b>

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## Single Audit Section

The Single Audit Section contains the following:

- Schedule of Expenditures of Federal Awards
- Notes to Schedule of Expenditures of Federal Awards
- Independent Auditors' 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*
- Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance
- Schedule of Findings and Questioned Costs

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2018**

	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Transportation			
Pass-through program from:			
Colorado Department of Transportation			
Formula Grants for Rural Areas	20.509	491001572	\$ 416,365
U.S. Department of Health and Human Services			
Pass-through programs from:			
Colorado Department of Human Services			
Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	18AACOT7EA	7,811
Special Programs for the Aging - Title VII, Chapter 2 - Long-Term Care Ombudsman Services for Older Individuals	93.042	18AACOT7EA	741
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043	*	3,867
National Family Caregiver Support, Title III, Part E	93.052	*	55,436
Community Services Block Grant	93.569	L18CSBG32	139,700
			<u>207,555</u>
Total U.S. Department of Health and Human Services			
Aging Cluster			
U.S. Department of Health and Human Services			
Pass-through programs from:			
Colorado Department of Human Services			
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	18AACOT3SS	165,030
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	18AACOT3CM	254,176
Nutrition Services Incentive Program	93.053	18AACOT3FC	27,072
			<u>446,278</u>
Total Aging Cluster			
Medicaid Cluster			
U.S. Department of Health and Human Services			
Pass-through program from:			
Colorado Department of Health Care Policy and Financing			
Medical Assistance Program	93.778	*	406,265
			<u>406,265</u>
Total Medicaid Cluster			
			<u>\$ 1,476,463</u>

\* Number not readily available

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Notes to Schedule of Expenditures of Federal Awards**

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**Note A – Basis of presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Northeastern Colorado Association of Local Governments, under programs of the federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of Northeastern Colorado Association of Local Governments, it is not intended to and does not present the financial position, changes in net position, or cash flows of Northeastern Colorado Association of Local Governments.

**Note B – Summary of significant accounting policies**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note C – Indirect cost rate**

The Association has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

**Note D – Subrecipients**

The Association did not pass through any federal grants to subrecipients.

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**Independent Auditors' 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  
Northeastern Colorado Association of Local Governments  
Fort Morgan, Colorado

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 the major fund of Northeastern Colorado Association of Local Governments (the Association), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated June 13, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Association's 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 Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's 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 the Association's financial statements are free of 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.

*Lauer, Szabo & Associates, P.C.*

Sterling, Colorado  
June 13, 2019



**Independent Auditors' Report on Compliance for Each Major Program  
and on Internal Control Over Compliance Required by the Uniform Guidance**

Board of Directors  
Northeastern Colorado Association of Local Governments  
Fort Morgan, Colorado

**Report on Compliance for Each Major Federal Program**

We have audited Northeastern Colorado Association of Local Governments' (the Association) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Association's major federal programs for the year ended December 31, 2018. The Association's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Association's 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 the Association's 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 the Association's compliance.

## **Opinion on Each Major Federal Program**

In our opinion, the Association 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, 2018.

## **Report on Internal Control over Compliance**

Management of the Association 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 the Association's 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 the Association's 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

*Lauer, Szabo & Associates, P.C.*

Sterling, Colorado  
June 13, 2019

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended December 31, 2018**

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**Summary of audit results**

1. The auditors' report expresses an unmodified opinion on the financial statements of Northeastern Colorado Association of Local Governments (the Association).
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' 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*.
3. No instances of noncompliance material to the basic financial statements of the Association were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditors' report on compliance for the major federal award programs for the Association expresses an unmodified opinion on all major federal programs.
6. The audit did not disclose any findings relative to the major federal award programs of the Association.
7. The programs tested as major were:

Formula Grants for Rural Areas	CFDA No. 20.509
Aging Cluster	CFDA Nos. 93.044, 93.045 and 93.053
8. The threshold for distinguishing Type A and B programs was \$750,000.
9. The Association did not qualify as a low-risk auditee.

**Findings - Financial statement audit**

We noted no findings that are required to be reported under *Government Auditing Standards*.

**Findings and questioned costs - major federal award programs audit**

We noted no findings or questioned costs that are required to be reported in accordance with the Uniform Guidance.

**NORTHEASTERN COLORADO ASSOCIATION OF LOCAL GOVERNMENTS**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended December 31, 2018**

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**Prior year findings**

There were no findings or questioned costs reported for the year ended December 31, 2017.