

Region 9 Economic Development District
of Southwest Colorado, Inc.

FINANCIAL STATEMENTS INDEPENDENT
AUDITOR'S REPORT

September 30, 2018

CONTENTS

	Page
Independent Auditor's Report.....	1
Management's Discussion and Analysis (Unaudited)	3
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	10
Statement of Activities.....	11
Fund Financial Statements	
Balance Sheet - Governmental Funds	12
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities.....	14
Statement of Net Position - Proprietary Funds.....	15
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	16
Statement of Cash Flows – Proprietary Funds.....	17
Notes to Financial Statements	19
Required Supplementary Information (Unaudited)	
Schedule of Revenues, Expenditures and Changes in Fund Balance - General Fund – Budget and Actual.....	30
Single Audit Section	
Schedule of Expenditures of Federal Awards	31
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	33
Independent Auditor's Report on Compliance for each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	34
Schedule of Findings and Questioned Costs	36
Summary Schedule of Prior Audit Findings.....	37
Corrective Action Plan.....	40

INDEPENDENT AUDITOR'S REPORT

March 12, 2019

Board of Directors
Region 9 Economic Development District of Southwest Colorado, Inc.
Durango, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Region 9 Economic Development District of Southwest Colorado, Inc. as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Region 9 Economic Development District of Southwest Colorado, Inc., as of September 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-9 and budgetary comparison information on page 30 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

March 12, 2019

Region 9 Economic Development District of Southwest Colorado, Inc.

Page 2

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 Region 9 Economic Development District of Southwest Colorado Inc.'s 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* (CFR) 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 schedule of expenditures of federal awards is the responsibility of management and was 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2019, on our consideration of Region 9 Economic Development District of Southwest Colorado Inc.'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Region 9 Economic Development District of Southwest Colorado, Inc.'s internal control over financial reporting and compliance.

 Beckstead & Co., LLC

Region 9 Economic Development District of Southwest Colorado, Inc.
Management's Discussion and Analysis
September 30, 2018

OVERVIEW OF SELECTED FINANCIAL STATEMENTS

Statement of Net Position. The statement of net position for the Region 9 Economic Development District of Southwest Colorado (Region 9 EDD), Inc. is divided into two categories, Governmental Activities and Business Type Activities (the proprietary funds). The difference between assets and liabilities is reported as *net position*. It provides information pertaining to the nature of Region 9 EDD's assets and liabilities. The statement also provides the basis for determining the overall financial health of Region 9 EDD including liquidity and financial flexibility. On September 30, 2018 total assets for Governmental Activities were \$1,062,854 and total assets for the Business-type Activities were \$6,276,811. (Please refer to page 10 of audit.) Total liabilities for Governmental Activities are \$1,030,988 with the primary liability being the internal balance of \$404,724 owed to non-governmental funds. The total liabilities of the Business-type Activities are \$1,131,396 and include a negative liability of (\$404,724), the internal balance owed from other funds. USDA IRP and RMAP notes payable are \$1,225,167 and accounts payables of \$285,592 include funds from the statewide loan fund owed to outside business loan funds. Net position for Governmental Activities is \$31,866. Net position for the Business-type Activities is \$5,145,415.

Statement of Revenues, Expenses and Changes in Fund Balances – Governmental Funds. The Governmental Funds include: The General Fund #100, Enterprise Zone Administration #600, the Four Corners Film Office #640, and the Community Technical Assistance Funds #350 & #355 (which includes the Economic Development Administration (EDA) Planning and Technical Assistance program and other special projects). All these funds are reported within the general fund for financial reporting purposes. The statements of revenues, expenditures, and changes in fund balances measure the success of Region 9 EDD's governmental type operations and can be used to determine if intergovernmental grants and user fees are adequate to recover expenses. When looking at page 13 of the audit, you will see the total revenue for the fiscal year ended September 30, 2018 in the Governmental Funds was \$267,143 and the total expenditures was \$1,054,600 for a deficit of (\$787,457) of revenue over expenditures before other financing sources and uses. Proceeds of \$607,500 from issuance of debt covered most of the capital outlay for our building purchase of \$635,738. Excess of revenues over expenditures for 2017 was a deficit (\$36,214).

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds. The statement of revenues, expenses, and changes in fund net position includes the revenues and expenses of the various loan programs. The total operating revenue in the Proprietary Funds for the fiscal year ended September 30, 2018 was \$484,071 and the total operating expenses were \$543,344 for an operating loss of (\$59,273). This operating loss was covered with funds from intergovernmental grants of \$676,663 for income before transfers of \$571,673.

Statement of Cash Flows – Proprietary Funds. The statement of cash flows presents information concerning Region 9 EDD's cash receipts and cash payments during the year from Proprietary Funds. The statement reports the cash receipts, cash payments and net cash from operations, investments, intergovernmental grants, and related financial activities. At September 30, 2018, cash and cash equivalents were \$807,941, and at September 30, 2017 they were \$1,005,039.

FINANCIAL ANALYSIS

A summary of the statement of net position is included in the following Table A. Increases or decreases in Region 9 EDD's net position are indicators of improving or deteriorating financial health. Region 9 EDD's primary and major assets are the notes receivable from the business loan program and cash on hand available for lending.

TABLE A

Statement of Net Position

	FY2017	FY2018
Current and other assets	\$6,531,696	\$6,702,244
Capital assets, net	<u>13,357</u>	<u>637,421</u>
Total assets	<u>\$6,545,053</u>	<u>\$7,339,665</u>
Current liabilities	\$ 865,457	\$ 490,012
Long-term liabilities	<u>907,510</u>	<u>1,672,372</u>
Total liabilities	<u>\$ 1,772,967</u>	<u>\$ 2,162,384</u>
Net position:		
Invested in capital assets, net of related debt	\$ 13,357	\$ 31,050
Restricted	1,687,620	2,408,858
Unrestricted	<u>3,071,109</u>	<u>2,737,373</u>
Total net position	<u>\$ 4,772,086</u>	<u>\$ 5,177,281</u>

From October 1, 2017 to September 30, 2018 there was an increase in total assets of \$794,612 and an increase in total liabilities of \$389,417. The increase in assets was due to an increase Notes Receivable and the building purchase. The increase in liabilities was a new Intermediary Relending Program (IRP) loan, the building financing and a payable to outside business loan funds.

Revenues, Expenses and Changes in Fund Balance / Net Position

Table B summarizes activity in the Governmental Funds and Table C summarizes activity in the Proprietary Funds for FY2017 and FY2018. In the following Table B shows a decrease in revenue and an increase in expenditures with a larger deficit of revenues over expenditures for FY2018. The ending fund balance decreased due to other financing sources, which is the internal fund transfer that adjusts the due to and due from accounts between the Governmental and Proprietary funds.

TABLE B

Statements of Activities-Governmental Funds

	FY ended September 30, 2017	FY ended September 30, 2018
Total revenues	\$ 321,265	\$ 267,143
Total expenditures	<u>357,479</u>	<u>1,054,600</u>
Excess (Deficit) of revenues over (under) expenditures	(36,214)	(787,457)
Other financing sources	<u>97,000</u>	<u>734,500</u>
Change in fund balance	<u>60,786</u>	<u>(52,957)</u>
Fund balance (deficit), beginning	<u>6,862</u>	<u>67,648</u>
Fund balance (deficit), ending	<u>\$ 67,648</u>	<u>\$ 14,691</u>

Table C shows an increase in operating revenues of \$60,598 and a decrease in operating expenses of \$220,494. Non-operating revenues decreased by \$315,419 in 2018. The change in net position of \$444,673 decreased compared to the previous year.

TABLE C
Statement of Activities –Business-Type Activities

	FY ended	FY ended
	September 30, 2017	September 30, 2018
Total operating revenues	\$ 423,473	\$ 484,071
Total operating expenses	<u>763,838</u>	<u>543,344</u>
Operating income (loss)	(340,365)	(59,273)
Non-operating revenues (expenses), Intergovernmental grant and change in fair value of assets held	946,365	630,946
Other financing sources (uses) Transfers out	<u>(97,000)</u>	<u>(127,000)</u>
Change in net position	509,000	444,673
Net position, beginning	<u>4,191,742</u>	<u>4,700,742</u>
Net position, ending	<u>\$ 4,700,742</u>	<u>\$ 5,145,415</u>

FINANCIAL HIGHLIGHTS

Region 9 EDD’s total (both Governmental and Business Type activities) net position on September 30, 2018 was \$5,177,281 including cash of \$783,322. The majority of assets are in the Business Type Activities, loan program. Total Net Position increased by \$405,195 from the prior year.

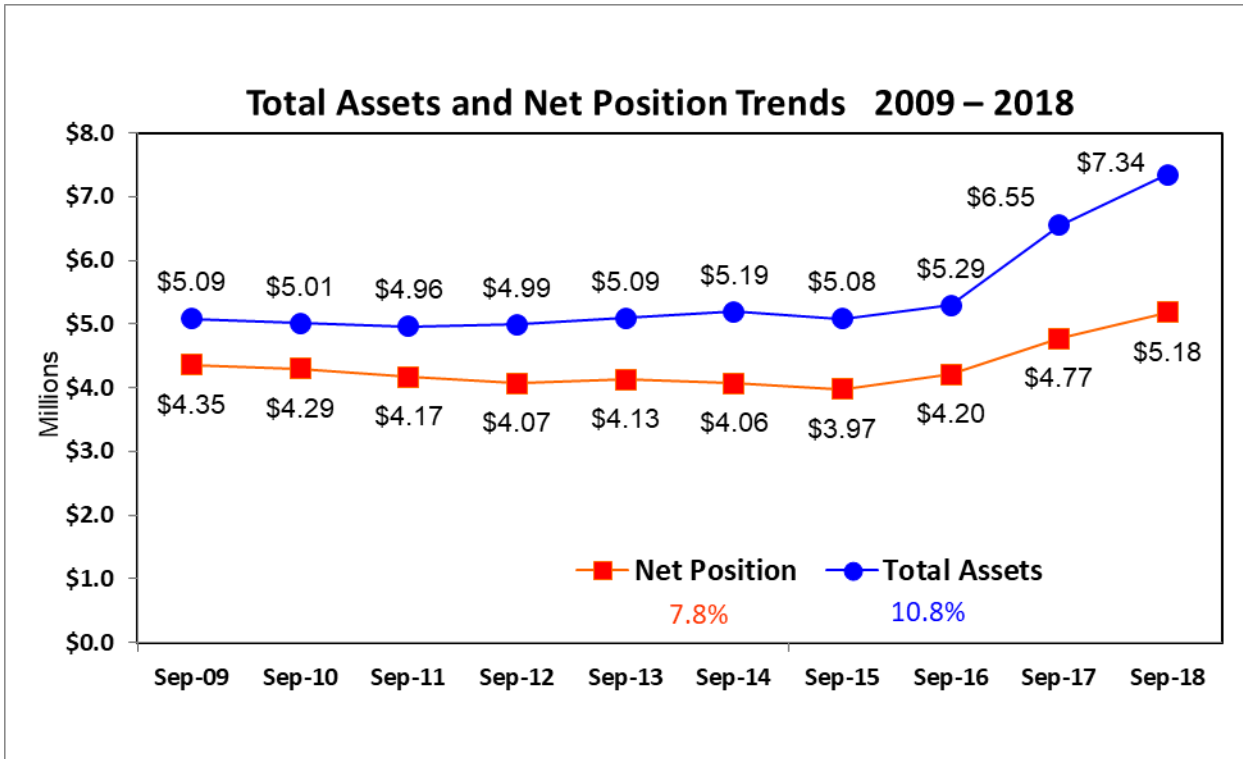
The Governmental Funds had total revenues of \$267,143 and total expenditures of \$1,054,600 for revenue over expenses of (\$787,457). By comparison, in the previous fiscal year, the Governmental Funds had total revenues of \$321,265 and total expenditures of \$357,479 resulting in revenue over expenses of (\$36,412). The comparison shows a decrease from the previous year of \$751,045 which is largely from the new building purchase.

For year 2018 the Proprietary Fund operating revenues of \$484,071 and operating expenses of \$543,344 resulted in an operating loss of (\$59,273). This loss was offset by Intergovernmental grants and other financing sources of \$503,946 for a change in net position of \$444,673. Compared to fiscal year 2017 the Proprietary Fund operating expenses of \$763,838 exceeded operating revenues of \$423,473 resulting in an operating loss of (\$340,365). Intergovernmental grants and other financing sources offset the operating loss by \$849,365 for a change in net positions of \$509,000. Ending net position for 2018 was \$5,145,415 compared to 2017 of \$4,700,742.

MANAGEMENT’S DISCUSSION AND FINANCIAL ANALYSIS

Total assets and net position have seen improvement this reporting period. Per the following chart, the annual growth of total assets and net position has been increasing since the end of the “Great Recession”.

The Net Position is the Total Assets less liabilities. In year 2018 the Total Assets increased by 11.4% and Net Position increased by 8.1%.



Even with the upturn in Total Assets and Net Position, preventing future declines and increasing unrestricted cash is important. Staff has explored new lending capital sources and more aggressive loan goals to help diversify. These measures of increasing revenues and reducing expenses will help prevent future declining trends.

One factor that affects Region 9 EDD’s financial position are interest rates for loans and deposits. Another factor that contributes to Region 9 EDD’s Net Position is providing matching funds to programs that are not reimbursed. Region 9 EDD spent \$127,000 in FY2018 compared to \$97,000 FY2017 and \$137,129 FY2016 for matching funds for the EDA Planning grant and other economic development initiatives. These activities are accounted for in Fund #350 & Fund #355. This fund also supports other programs such as the local economic development groups and data publications.

The primary liabilities of Region 9 EDD are the loans from the USDA for the Intermediary Re-lending Program (IRP) and the Rural Micro-Entrepreneur Assistance Program. The USDA notes payable for FY2018 was \$1,122,667. Two certificates of deposits totaling \$79,602 are pledged as security for the IRP loans from USDA and a certificate of deposit \$15,040 as cash reserves for the RMAP. Region 9 EDD also received a grant from the Colorado Economic Development Commission (EDC). The grant, which Region 9 EDD administers, is to make small business loans throughout Colorado. The total grant amount is \$1,500,000 with the final disbursement of \$700,000, which Region 9 EDD received in 2018. Including Region 9 EDD, there are a total of 12 Regions with microloan funds entitled to utilize this grant funding. Region 9 EDD disbursed funds to the different outside business loan funds and had a payable for year-end of \$283,391.

Region 9 EDD continues to support the efforts of Southwest Colorado Accelerator Program for Entrepreneurs (SCAPE) by investing in the Program’s companies and utilizing financial resources for development and operations. Currently, Region 9 EDD has equity investments totaling \$108,197 of

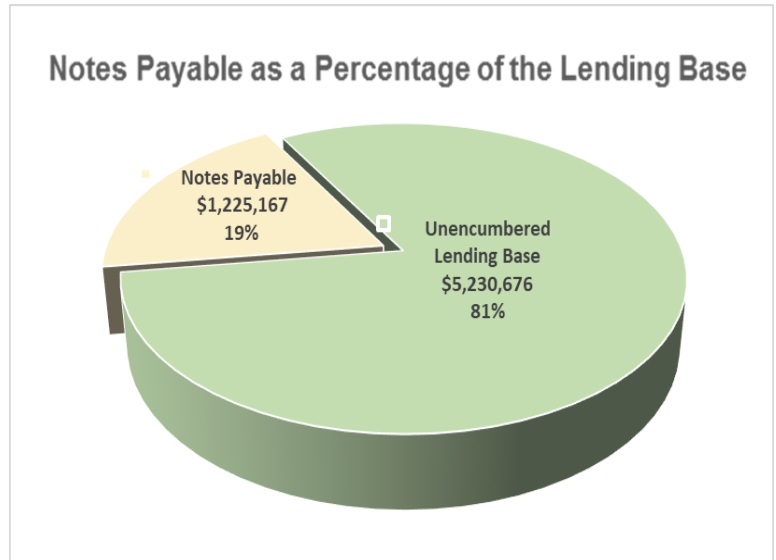
which \$31,155 is invested in the individual companies completing the SCAPE program. As of September 30, 2018, Region 9 EDD has also invested \$77,044 in 8 companies through two SCAPE investment funds, rather than the individual companies.

FINANCIAL POLICY PRIORITIES

A financial goal of Region 9 EDD is to grow the loan portfolio to a level that the interest received on the loans will pay for operational costs of the business loan programs as well as help pay for the governmental programs that Region 9 EDD administers. The current target is \$10 million. This compares to the current loan balance (after allowance for loan loss) on September 30, 2018 of \$5,423,650. Loan portfolio growth takes place as more intergovernmental grants are received. Any recession or market changes may require the target to be higher for financial sustainability.

Another priority is to keep the amount of funds borrowed for the loan funds within an acceptable range. Region 9 EDD policy is that borrowed funds should not exceed 30% of the total Lending Base which is Notes Receivable; plus, unrestricted cash on hand to lend; plus, CDBG funds receivable.

September 30, 2018	
Gross Notes Receivable	\$ 5,773,922
Unrestricted Cash to Lend	\$ 429,877
Loan Funds AR	\$ 252,044
Lending Base	\$ 6,455,843
Notes Payable	\$ 1,225,167
Unencumbered Lending Base	\$ 5,230,676



Maintaining liquidity is an issue, especially in periods of high loan demand. Region 9 EDD relies on principal and interest payments on loans outstanding to cover operating costs and to provide liquid assets for additional loans. Region 9 EDD maintains an operating cash balance of \$100,000 in the primary bank account that is not included in the funds available for lending.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. Region 9 EDD’s investments in capital assets for its governmental activities as of September 30, 2018 amounts to \$637,421 (net of accumulated depreciation). Investments in capital assets include building, software, equipment, furniture & fixtures, and computers.

	<u>Total Book Value of Capital Assets</u>	
	2017	2018
Software	\$1,024	\$2,971
Equipment	4,096	2,731
Furniture & Fixtures	1,664	2,943
Computers	6,583	7,275
Phone System		4,834
Tuff Shed		1,872
Building		614,793
Total	\$13,357	\$637,421

In 2018, the largest investments in capital assets was a building purchase. Other capital assets included replacing outdated computers, a new phone system and a storage shed.

Long-term & Short-term Debt. For Year 17-18, Region 9 EDD had a total debt for its business-type activities due to United States Department of Agriculture (USDA) of \$1,122,667. This amount is comprised of 6 notes payable to the USDA. Five notes are through USDA’s Intermediary re-lending program (IRP). The original amount for each note was \$250,000, borrowed at 1% amortized over a 30-year period. The sixth note was through the Rural Microenterprise Assistance Program (RMAP). The original note amount was \$281,047 at 2% amortized over a twenty-year term. All notes are secured by restricted cash, receivables, contract rights, and general intangibles. The borrowed funds were loaned to businesses and are part of the receivables used as security. Additionally, in 2018 fiscal year, Region 9 took out a line of credit (LOC) with TBK Bank for \$102,500. The LOC is secured by receivables. The payable to outside business loan funds per the EDC Statewide Loan Grant is secured with restricted cash.

	<u>Total Business-type activities</u>			
	Beginning Balance	Additions / Reductions	Ending Balance	Due Within One Year
USDA (IRP-Note 1)	\$151,251	\$ (8,770)	\$142,481	\$ 8,856
USDA (IRP-Note 2)	168,573	(8,597)	159,976	8,681
USDA (IRP-Note 3)	193,857	(8,345)	185,512	8,426
USDA (IRP-Note 4)	225,428	(8,359)	217,069	8,410
USDA (IRP- Note 5)	-	215,320	215,320	-
USDA (RMAP Note)	216,854	(14,559)	202,309	14,809
TBK Bank LOC	100,000	2,500	102,500	102,500
Total Loans	1,055,963	169,204	1,225,167	151,682

Total debt owed to USDA increase by \$166,704 during the current fiscal year. Regular annual payments are made in January for notes 1 & 2 with the maturity dates in January 2033 and January 2035. The annual payments for notes 3 & 4 are made in March with maturity dates in March 2039 and March 2041. Interest only payments for the 5th IRP note are due October 2019 with regular payments starting in 2020. This note matures in 2047. Payments on the RMAP note are made monthly. This note matures in December of 2030.

<u>Total Business-type activities - Continued</u>				
	Beginning Balance	Additions / Reductions	Ending Balance	Due Within One Year
Statewide Loan Grant Accounts Payable	633,817	(350,425)	283,392	283,392
Total Loans & Accounts Payable	\$1,689,780	(\$ 181,221)	\$1,508,559	\$435,074

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Board of Directors and the management of Region 9 EDD considered many factors when they established the budget for FY2019. Projected revenue from the loan funds, intergovernmental grant revenue, user fees and changes in operating costs are evaluated and considered before a final budget is adopted. Because of Region 9 EDD's dependence on principal and interest payments to sustain its operating and loan activities, the 2019 budget is dependent on loan demand and Region 9 EDD's borrowers' ability to repay the loans due. The District has explored new sources for lending capital to shift reliance from the CDBG program and create more unrestricted funds for programs.

This financial report is designed to provide our Board of Directors, funding partners and other interested parties with the general overview of Region 9 EDD's finances and demonstrates accountability for the money it receives. If you have any questions or need additional information please contact Laura Lewis Marchino, Executive Director, 970-247-9621 or laura@scan.org.

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Region 9 Economic Development District of Southwest Colorado, Inc.

STATEMENT OF NET POSITION

September 30, 2018

	Primary Government		
	Governmental	Business-type	Total
Assets			
Cash and investments - unrestricted	\$ 380,105	\$ 308,575	\$ 688,680
Cash - restricted	-	94,642	94,642
Prepaid expenses	2,216	4,500	6,716
Accounts receivable	43,112	252,044	295,156
Notes receivable, net	-	5,423,650	5,423,650
Accrued interest receivable	-	25,202	25,202
Real property held for sale	-	60,000	60,000
Equity positions	-	108,198	108,198
Capital assets, net of accumulated depreciation	637,421	-	637,421
Total assets	<u>1,062,854</u>	<u>6,276,811</u>	<u>7,339,665</u>
Liabilities			
Accounts payable	1,078	285,592	286,670
Accrued expenses	4,940	25,361	30,301
Internal balances	404,724	(404,724)	-
Long-term liabilities			
Accrued compensated absences	13,875	-	13,875
Notes payable			
Due or payable within one year	7,484	151,682	159,166
Due or payable after one year	598,887	1,073,485	1,672,372
Total liabilities	<u>1,030,988</u>	<u>1,131,396</u>	<u>2,162,384</u>
Net position			
Net investment in capital assets	31,050	-	31,050
Restricted for revolving loans	-	2,408,858	2,408,858
Unrestricted	816	2,736,557	2,737,373
Total net position (deficit)	<u>\$ 31,866</u>	<u>\$ 5,145,415</u>	<u>\$ 5,177,281</u>

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

Region 9 Economic Development District of Southwest Colorado, Inc.

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charge for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
Primary government:						
Governmental activities:						
Economic development	\$ 433,621	\$ 71,816	\$ 127,479	\$ (234,326)		\$ (234,326)
Business-type activities:						
Revolving loans	543,344	484,071	676,663		\$ 617,390	617,390
Total primary government	<u>\$ 976,965</u>	<u>\$ 555,887</u>	<u>\$ 804,142</u>	(234,326)	617,390	383,064
General revenues						
Earnings on investments				345	-	345
Miscellaneous				67,503	-	67,503
Impairment of equity positions				-	(45,717)	(45,717)
Transfers in (out)				127,000	(127,000)	-
Total general revenues and transfers				<u>194,848</u>	<u>(172,717)</u>	<u>22,131</u>
Change in net position				(39,478)	444,673	405,195
Net position, beginning				<u>71,344</u>	<u>4,700,742</u>	<u>4,772,086</u>
Net position, ending				<u>\$ 31,866</u>	<u>\$ 5,145,415</u>	<u>\$ 5,177,281</u>

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

Region 9 Economic Development District of Southwest Colorado, Inc.

BALANCE SHEET - GOVERNMENTAL FUND - GENERAL FUND

September 30, 2018

ASSETS

Assets

Cash	\$ 368,621
Investment in CSAFE	11,484
Prepaid expenses	2,216
Accounts and grants receivable	43,112
Total assets	<u>\$ 425,433</u>

LIABILITIES AND FUND BALANCES

Liabilities

Accounts payable	\$ 1,078
Accrued expenses	4,940
Due to other funds	404,724
Total liabilities	<u>410,742</u>

Fund balances

Nonspendable	2,216
Unassigned	12,475
Total fund balance (deficit)	<u>14,691</u>
Total liabilities and fund balance	<u>\$ 425,433</u>

Total governmental fund balance (deficit)	\$ 14,691
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Amounts reported for governmental activities in the statement on net position are different because:

Capital assets used in the governmental activities are not financial resources and therefore are not reported in the funds	637,421
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds	(606,371)
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Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds	<u>(13,875)</u>
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Net position of governmental activities	<u>\$ 31,866</u>
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The accompanying notes are an integral part of these financial statements.

Region 9 Economic Development District of Southwest Colorado, Inc.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND -
 GENERAL FUND
 For the Year Ended September 30, 2018

	<u>General Fund</u>
Revenues	
Intergovernmental	
Grants	\$ 117,029
Dues assessed to member governments	34,782
Charges for services	37,034
Local sources	
Contributions and grants	10,450
Interest	345
Miscellaneous	67,503
Total revenues	<u>267,143</u>
Expenditures	
Current	
Economic development	413,157
Debt service:	
Principal	1,129
Interest	4,576
Capital outlay	635,738
Total expenditures	<u>1,054,600</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(787,457)</u>
Other financing sources and (uses)	
Proceeds from issuance of debt	607,500
Transfers in	161,012
Transfers out	(34,012)
Other financing sources and (uses)	<u>734,500</u>
Net change in fund balances	(52,957)
Fund balance (deficit), beginning	<u>67,648</u>
Fund balance (deficit), ending	<u><u>\$ 14,691</u></u>

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

Region 9 Economic Development District of Southwest Colorado, Inc.

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

Net change in fund balances - total governmental funds	\$ (52,957)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	635,738
Depreciation expense	(11,674)
Governmental funds report proceeds from issuance of debt as other financing sources and principal payments of debt as expenditures. However, in the statement of activities these amounts adjust the amount reported as a liability.	
Proceeds from issuance of debt	(607,500)
Principal payments on debt	1,129
Governmental funds do not record the change in accrued compensated absences during the year as an expenditure. However, in the statement of activities, this change is shown as additional expense. This is the amount of the change in accrued compensated absences in the current year.	
	<u>(4,214)</u>
Change in net position of governmental activities	<u><u>\$ (39,478)</u></u>

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

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

September 30, 2018

	Business-type Activities - Enterprise Revolving Loan Funds					
	CDBG Revolving Loan Fund	Revolving Loan Fund	Intermediary Re-lending Loan Fund	Statewide Revolving Loan Fund	EDA Revolving Loan Fund	Total
Assets						
Cash-unrestricted	\$ -	\$ -	\$ 25,153	\$ 283,422	\$ -	\$ 308,575
Cash-restricted	-	-	94,642	-	-	94,642
Due from other funds	12,729	-	393,563	44,724	330,639	781,655
Grants and other receivables	76,000	25,074	150,970	-	-	252,044
Equity positions	-	108,198	-	-	-	108,198
Prepaid expenses	-	4,500	-	-	-	4,500
Notes receivable, net	1,364,773	2,976,071	609,580	152,011	321,215	5,423,650
Accrued interest receivable	5,218	16,072	2,665	529	718	25,202
Real property held for sale	-	-	60,000	-	-	60,000
Total assets	1,458,720	3,129,915	1,336,573	480,686	652,572	7,058,466
Liabilities						
Accounts payable	187	2,013	-	283,392	-	285,592
Accrued expenses	9,798	14,414	171	652	326	25,361
Due to other funds	-	376,931	-	-	-	376,931
Notes payable						
Portion due within one year	102,500	-	49,182	-	-	151,682
Portion due after one year	-	-	1,073,485	-	-	1,073,485
Total liabilities	112,485	393,358	1,122,838	284,044	326	1,913,051
Net position						
Restricted for revolving loans	1,346,235	-	213,735	196,642	652,246	2,408,858
Unrestricted	-	2,736,557	-	-	-	2,736,557
Total net position	\$ 1,346,235	\$ 2,736,557	\$ 213,735	\$ 196,642	\$ 652,246	\$ 5,145,415

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

Region 9 Economic Development District of Southwest Colorado, Inc.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUNDS

For the Year Ended September 30, 2018

	Business-type Activities - Enterprise Revolving Loan Funds					Total
	CDBG Revolving Loan Fund	Revolving Loan Fund	Intermediary Re-lending Loan Fund	Statewide Revolving Loan Fund	EDA Revolving Loan Fund	
Operating revenues						
Loan fees	\$ 8,414	\$ 12,553	\$ 7,886	\$ 1,540	\$ 4,432	\$ 34,825
Loan interest	83,951	198,070	32,155	7,206	15,779	337,161
Miscellaneous	-	96,655	311	15,119	-	112,085
Total operating revenues	92,365	307,278	40,352	23,865	20,211	484,071
Operating expenses						
Loan processing costs						
Purchased services	1,717	902	413	111	-	3,143
Credit reserve registration fees	3,556	5,474	3,676	1,278	600	14,584
Administration						
Salaries and benefits	257,040	181,886	2,019	5,569	2,290	448,804
Purchased services	48,126	35,238	1,735	467	4,258	89,824
Supplies and materials	20,959	15,329	109	-	234	36,631
Miscellaneous expenses	20,146	3,098	858	432	297	24,831
Contributions	-	18,570	-	-	-	18,570
Interest expense	5,761	-	11,638	-	-	17,399
Provision for loan loss	(26,660)	(48,551)	(40,659)	2,885	2,543	(110,442)
Total operating expenses	330,645	211,946	(20,211)	10,742	10,222	543,344
Operating income (loss)	(238,280)	95,332	60,563	13,123	9,989	(59,273)
Nonoperating revenues (expenses)						
Intergovernmental grants	454,663	-	-	127,000	95,000	676,663
Impairment of equity positions	-	(45,717)	-	-	-	(45,717)
Income (loss) before transfers	216,383	49,615	60,563	140,123	104,989	571,673
Other financing sources (uses)						
Transfers in	-	-	81,680	-	117,500	199,180
Transfers out	-	(326,180)	-	-	-	(326,180)
Other financing sources (uses)	-	(326,180)	81,680	-	117,500	(127,000)
Change in net position	216,383	(276,565)	142,243	140,123	222,489	444,673
Net position, beginning	1,129,852	3,013,122	71,492	56,519	429,757	4,700,742
Net position, ending	\$ 1,346,235	\$ 2,736,557	\$ 213,735	\$ 196,642	\$ 652,246	\$ 5,145,415

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

Region 9 Economic Development District of Southwest Colorado, Inc.

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

For the Year Ended September 30, 2018

	Business-type Activities - Enterprise Revolving Loan Funds					Total
	CDBG Revolving Loan Fund	Revolving Loan Fund	Intermediary Re-lending Loan Fund	Statewide Revolving Loan Fund	EDA Revolving Loan Fund	
Cash flows from operating activities:						
Cash received from customers	\$ 8,414	\$ 84,134	\$ 8,197	\$ 1,659	\$ 4,432	\$ 106,836
Interest received	82,264	193,051	31,573	6,776	15,946	329,610
Cash paid to employees	(257,040)	(181,886)	(2,019)	(5,569)	(2,290)	(448,804)
Cash paid to suppliers	(91,095)	(86,086)	(6,782)	(2,288)	(5,225)	(191,476)
Net cash provided (used) by operating activities	(257,457)	9,213	30,969	578	12,863	(203,834)
Cash flows from noncapital financing activities:						
Intergovernmental grants	494,880	24,058	-	127,000	120,000	765,938
Proceeds from debt	2,500		64,350	-		66,850
Change in accounts payable related to amounts held for other local governments				(349,974)		(349,974)
Payments on debt	-	-	(48,616)	-	-	(48,616)
Interfund transfers	-	(326,180)	81,680	-	117,500	(127,000)
Net cash provided (used) by noncapital financing activities	497,380	(302,122)	97,414	(222,974)	237,500	307,198
Cash flows from capital and related financing activities:						
Payments of interest	(5,761)	-	(11,638)	-	-	(17,399)
Net cash provided (used) by capital and related financing activities	(5,761)	-	(11,638)	-	-	(17,399)
Cash flows from investing activities:						
Recovery of investment written off	-	2,174	-	-	-	2,174
Loans distributed	(383,000)	(550,520)	(387,000)	(127,000)	(190,000)	(1,637,520)
Loan payments received	224,740	733,395	238,333	12,600	84,702	1,293,770
Loan loss recoveries	-	26,289	32,224	-	-	58,513
Net cash provided (used) by investing activities	(158,260)	211,338	(116,443)	(114,400)	(105,298)	(283,063)
Increase (decrease) in cash and cash equivalents	75,902	(81,571)	302	(336,796)	145,065	(197,098)
Cash and cash equivalents at beginning of year	(63,173)	(295,360)	513,056	664,942	185,574	1,005,039
Cash and cash equivalents at end of year	<u>\$ 12,729</u>	<u>\$ (376,931)</u>	<u>\$ 513,358</u>	<u>\$ 328,146</u>	<u>\$ 330,639</u>	<u>\$ 807,941</u>

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

Region 9 Economic Development District of Southwest Colorado, Inc.

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - Continued

For the Year Ended September 30, 2018

	Business-type Activities - Enterprise Revolving Loan Funds					Total
	CDBG Revolving Loan Fund	Revolving Loan Fund	Intermediary Re-lending Loan Fund	Statewide Revolving Loan Fund	EDA Revolving Loan Fund	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities						
Operating income (loss)	\$ (238,280)	\$ 95,332	\$ 60,563	\$ 13,123	\$ 9,989	\$ (59,273)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities						
Provision for loan loss	(26,660)	(48,551)	(40,659)	2,885	2,543	(110,442)
Interest expense	5,761	-	11,638	-	-	17,399
(Increase) decrease in accounts receivable	-	(25,074)	-	-	-	(25,074)
(Increase) decrease in accrued interest	(1,687)	(5,019)	(582)	(430)	167	(7,551)
Increase (decrease) in unearned revenue	-	-	-	(15,000)	-	(15,000)
Increase (decrease) in accounts payable	3,409	(7,475)	9	-	164	(3,893)
Total adjustments	<u>(19,177)</u>	<u>(86,119)</u>	<u>(29,594)</u>	<u>(12,545)</u>	<u>2,874</u>	<u>(144,561)</u>
Net cash provided (used) by operating activities	<u>\$ (257,457)</u>	<u>\$ 9,213</u>	<u>\$ 30,969</u>	<u>\$ 578</u>	<u>\$ 12,863</u>	<u>\$ (203,834)</u>
Statement of Net Position classifications						
Cash - unrestricted	\$ -	\$ -	\$ 25,153	\$ 283,422	\$ -	\$ 308,575
Cash - restricted	-	-	94,642	-	-	94,642
Due from other funds	12,729	-	393,563	44,724	330,639	781,655
Due to other funds	-	(376,931)	-	-	-	(376,931)
Cash and cash equivalents at end of year	<u>\$ 12,729</u>	<u>\$ (376,931)</u>	<u>\$ 513,358</u>	<u>\$ 328,146</u>	<u>\$ 330,639</u>	<u>\$ 807,941</u>

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

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Region 9 Economic Development District of Southwest Colorado, Inc. (the District), is a not-for-profit corporation formed by local governments in Southwest Colorado in 1989 to provide economic development programs to Southwest Colorado and operates solely for the purpose of administering development grants.

The financial statements of the District have been prepared under accounting standards established by the Governmental Accounting Standards Board. The District was created by governmental entities; those governmental entities control a majority of the District's officers and the District can be dissolved by the governments that created it. Under guidance provided by the Governmental Accounting Standards Board, the District is to be considered a government for determination of the accounting standards applicable to its financial statements. The significant accounting policies applied are described below to enhance the usefulness of the financial statements to the reader.

Government-wide and Fund Financial Statements

The government-wide statements include the statement of net position and the statement of activities, which display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through intergovernmental revenues and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenue for the different business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District has adopted an informal indirect expense allocation plan rather than employ a formal indirect cost rate proposal (ICRP). These indirect expense allocations are reflected in the expenditures of the District's fund financial statements. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

The fund financial statements provide information about the District's funds. Separate statements for each fund category (governmental and proprietary) are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party received and gives up essentially equal values. Nonoperating revenues, such as subsidies, grants, and investment earnings, result from nonexchange transactions or ancillary activities.

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

The District reports the following major governmental funds:

The general fund is the District's primary operating fund. It accounts for all financial resources of the District, except for those required to be accounted for in another fund.

Proprietary funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. All of the District's proprietary funds are enterprise funds. The District's major proprietary funds are as follows:

CDBG Revolving Loan Fund – used to account for collecting, disbursing and administering federal funds received in a Community Development Block Grant passed through the State of Colorado for the purpose of providing loans to qualified businesses in the region. There have been seven of these grants awarded since 1995. The seventh contract was awarded July 20, 2015 and was active in this reporting period.

Revolving Loan Fund – used to account for disbursing, collecting and administering loans that are considered “revolved” or that were originally made in a grant that has been closed.

Intermediary Re-lending Loan Fund – used to account for collecting, disbursing, and administering federal funds received from a USDA loan for the purpose of providing loans to qualified businesses in the region.

EDA Revolving Loan Fund - used to account for disbursing, collecting and administering federal funds from the Economic Development Administration for the purpose of providing loans to qualified businesses in the region.

Measurement Focus, Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-reciprocal transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. On an accrual basis, revenue from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Grants, donations, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Deposits and Investments

The District's cash and cash equivalents are comprised of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Certain funds hold all cash balances and reflect other funds' equity in these balances as a due to/from other funds. These amounts are considered cash equivalents and are eliminated in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are reclassified and presented as internal balances.

Equity Positions

Equity positions consist of securities issued by private companies; may be subject to restrictions on their resale; and are generally illiquid. Purchase of these equity positions are made primarily for the purpose of promoting economic development in conjunction with the District's mission. Secondly, the District seeks to realize appreciation and ultimately a gain on the sale of these positions. These equity positions are valued at cost, as adjusted for estimated impairment (if applicable). Gains, and losses not previously recognized through impairment, are recognized upon sale or liquidation of the equity position.

Notes Receivable

All notes receivable are shown net of an allowance for uncollectible loans. Loan payments past due more than 30 days are considered delinquent. Accrual of interest ceases when the loan is written off. The allowance for uncollectible loans is an estimate computed by grading each outstanding loan and applying percentages to each grade. Percentages are based on historical write-offs for similar loans. The allowance for uncollectible loans is reduced for each loan that is registered in the Colorado Credit Reserve Program. This program is a pooled insurance type program whereby each participating lender establishes a reserve account to cover losses on the loans it registers under the program. The District pays a registration fee into the reserve account each time a loan is registered. Registered small business loans qualify for a state funded match in the reserve account. Loan losses are covered by the program up to the total amount in the reserve account.

Real Property Held for Sale

The District occasionally holds real property that is acquired through foreclosure on collateralized notes receivable that default. The property is recorded at estimated fair value at the date of foreclosure and is subsequently adjusted for estimated impairment (if applicable). Gains, and losses not previously recognized through impairment, are recognized upon sale or liquidation of the property.

Restricted Assets

Certain assets of the District are classified as restricted assets because their use is restricted by grant agreements.

Capital Assets

Purchased or constructed capital assets are reported at cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The District defines capital assets as assets with an initial, individual cost of more than \$1,000.

Capital assets of the primary government consist of office equipment and software and are depreciated using the straight-line method over a 5-year estimated useful life.

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Compensated Absences

The total compensated absence liability is reported on the government-wide financial statements. Proprietary funds report the total compensated liability in each individual fund at the fund reporting level. Governmental funds report the compensated absence liability at the fund reporting level when paid.

Fund Balance

Generally, fund balance represents the difference between the current assets and current liabilities. The District reports as restricted those portions of fund balance which are legally segregated for a specific future use or which do not represent available, spendable resources and therefore are not available for appropriation or expenditure. Fund balance related to prepaid expenses is not in spendable form and is reported as nonspendable fund balance. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods. Assignment and commitment indicate management's intent to set aside resources for specific purposes. The District's policy with regard to the order of spending is to spend the restricted funds first, if available, followed by committed funds, assigned funds, and finally, unassigned funds. The Board commits funds by resolution and assigns funds by motion. The same level of action is required to remove a commitment or assignment of funds.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. This net position amount also is adjusted by any bond issuance deferred amount. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditor, grantors, or laws or regulations of governments. All other net position is reported as unrestricted.

Interfund Activity

Flow of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources and (uses) in governmental funds and in proprietary funds.

Income Taxes

The District has received an Internal Revenue Service exemption from federal income taxes under Internal Revenue Code section 501(c)(6). The District adopted accounting requirements that prescribe when to recognize and how to measure the financial statement effects of income tax positions taken or expected to be taken on its income tax returns, including the position that the District continues to qualify to be treated as a tax-exempt entity for both federal and state income tax purposes. These rules require management to evaluate the likelihood that, upon examination by relevant taxing jurisdictions, those income tax positions would be sustained.

Based on that evaluation, if it were more than 50% probable that a material amount of income tax would be imposed at the entity level upon examination by the relevant taxing authorities, a liability would be recognized in the accompanying balance sheet along with any interest and penalties that would result from that assessment. When the District has unrelated business income, the federal Exempt Organization Business Income Tax Return (Form 990T) would be subject to examination by the Internal Revenue Service for three years after filing. Should any penalties and interest be incurred, they would be recognized as administration expenses.

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Estimates

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

Budgetary Information

The District, a not-for-profit corporation, is not required to adopt an annual budget or to appropriate funds and is not subject to the Colorado state budget law. A budget to actual comparison is presented for those funds required to be reported by general accepted accounting principles.

Subsequent Events

Management has evaluated subsequent events through March 12, 2019, the date which the financial statements were available to be issued. No events were identified that required additional disclosure.

CASH

Cash Deposits

Cash includes money held in demand deposit and money market accounts. Custodial credit risk for these deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District allocates its deposits to various financial institutions to mitigate this risk. As of September 30, 2018, the District's bank balances exceeded federally insured amounts by \$246,921.

Investment in CSAFE

At September 30, 2018, the District had \$11,484 invested in the Colorado Surplus Asset Fund Trust (CSAFE), which is structured to be a stable value investment pool to meet the investment needs of local governments in Colorado. The State Securities Commission administers and enforces all State statutes governing the Trust. CSAFE seeks to maintain, but does not guarantee a net asset value at \$1.00 per share. CSAFE may invest in securities of the United States Treasury, United States Agencies, Primary Dealer Repurchase Agreements, AAAM rated money market funds, approved Colorado Banks and highly rated commercial paper. A designated custodial bank serves as custodian for CSAFE's investment portfolio and serves as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. As of September 30, 2018, the public entity investment pool, CSAFE, was rated AAAM by Standard & Poor's Financial Services, LLC. CSAFE records its investments at amortized cost and the District records its investment in CSAFE using the amortized cost method. There are no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period

Interest rate risk. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Colorado statutes do not allow investment maturities to exceed five years.

Credit risk. The District's policy allows investments meeting defined rating and risk rating criteria as follows:

- Obligations of the United States and certain U.S. government agency securities
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain international agency securities
- Certain mutual funds

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Concentration of credit risk. The District places no limit on the amount the District may invest in any one issuer. At September 30, 2018, 100% of District's invested funds are in CSAFE.

RESTRICTED CASH

In the Intermediary Re-lending Loan Fund, cash of \$94,642 has been restricted. These funds were pledged by the Board of Directors as collateral for local loan programs.

NOTES RECEIVABLE

Notes receivable represent loans made by the District to qualifying local businesses. The loans' proceeds were funded with a Community Development Block Grant, an Economic Development Administration Planning and Technical Assistance Fund Grant and four USDA Intermediary Re-lending Loans. Loans are typically collateralized by real or tangible property (second or next available position on deed of trust) and personal guaranties. The notes receivable are recorded in their respective Revolving Loan Funds. Collections of principal and interest are deposited back into the program to be utilized for additional loans and administrative expenses. Notes receivable balances and related allowances at September 30, 2018 have been reported as follows:

	CDBG Revolving Loan Fund	Revolving Loan Fund	Intermediary Re-lending Fund	Statewide Revolving Loan Fund	EDA Revolving Loan Fund	Totals
Notes receivable	\$ 1,459,980	\$ 3,186,162	\$ 633,566	\$ 159,396	\$ 334,818	\$ 5,773,922
Allowance for losses on uncollectible loans	(95,207)	(210,091)	(23,986)	(7,385)	(13,603)	(350,272)
Notes, net of allowance	<u>\$ 1,364,773</u>	<u>\$ 2,976,071</u>	<u>\$ 609,580</u>	<u>\$ 152,011</u>	<u>\$ 321,215</u>	<u>\$ 5,423,650</u>

A summary of note receivable activity for the year follows:

Balance at beginning of year	\$ 1,301,720	\$ 3,372,375	\$ 511,707	\$ 44,996	\$ 229,521	\$ 5,460,319
Loans disbursed	383,000	550,520	387,000	127,000	190,000	1,637,520
Loans charged off	-	(3,427)	(26,808)	-	-	(30,235)
Principal collections	(224,740)	(733,306)	(238,333)	(12,600)	(84,703)	(1,293,682)
Balance at end of year	<u>\$ 1,459,980</u>	<u>\$ 3,186,162</u>	<u>\$ 633,566</u>	<u>\$ 159,396</u>	<u>\$ 334,818</u>	<u>\$ 5,773,922</u>

An analysis of the the change in the allowance for uncollectible loans is as follows:

Balance at beginning of year	\$ 121,867	\$ 235,690	\$ 59,229	\$ 4,500	\$ 11,061	\$ 432,347
Loans charged off	-	(3,427)	(26,808)	-	-	(30,235)
Recoveries	-	26,379	32,224	-	-	58,603
Loan loss reserve	(26,660)	(48,551)	(40,659)	2,885	2,542	(110,443)
Balance at end of year	<u>\$ 95,207</u>	<u>\$ 210,091</u>	<u>\$ 23,986</u>	<u>\$ 7,385</u>	<u>\$ 13,603</u>	<u>\$ 350,272</u>

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

EQUITY POSITIONS AND REAL PROPERTY HELD FOR SALE

At September 30, 2018 the real property held for sale had a carrying amount of \$60,000.

The equity positions were comprised of the following:

Pagosa Verde LLC	\$ 6,500
Echo Jar, Inc.	12,327
Ecospire, PBC	12,327
SCAPE Investment Fund	<u>77,044</u>
	<u>\$ 108,198</u>

The Pagosa Verde LLC, Echo Jar, Inc., Ecospire, PBC, and New Hat Foods investments represent equity ownership in small, closely-held operations.

The investment in the SCAPE Investment Fund represents amounts held by this investment fund at September 30, 2018 that have been or will be invested in small, closely-held startups.

CAPITAL ASSETS

A summary of changes in general capital assets during the year ended September 30, 2018 follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets being depreciated - equipment	\$ 86,540	\$ 18,889	\$ 15,291	\$ 90,138
Capital assets being depreciated - building	-	616,849	-	616,849
Less accumulated depreciation for equipment	<u>(73,183)</u>	<u>(11,674)</u>	<u>(15,291)</u>	<u>(69,566)</u>
Governmental activities capital assets, net	<u>\$ 13,357</u>	<u>\$ 624,064</u>	<u>\$ -</u>	<u>\$ 637,421</u>
Business-type activities				
Capital assets being depreciated - software	\$ 6,500	\$ -	\$ -	\$ 6,500
Less accumulated depreciation for software	<u>(6,500)</u>	<u>-</u>	<u>-</u>	<u>(6,500)</u>
Business-type activities capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Economic development	\$ 11,674
Business-type activities:	
Administration	\$ -

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTES PAYABLE

At September 30, 2018, the District had borrowed \$250,000 under each of five loans (of which \$34,680 had yet to be disbursed at September 30, 2018) from the United States Department of Agriculture (USDA) through its intermediary re-lending program. A sixth loan of \$281,047 is through the USDA's Rural Micro-entrepreneur Assistance Program. The five \$250,000 notes bear interest at 1% and the \$281,047 note bears interest at 2%. All are secured by restricted cash, receivables, contract rights, and general intangibles. The first two years of each loan require interest only payments. Each of the \$250,000 notes carries thirty-year payment terms. The \$281,047 note carries a twenty-year payment term. The \$250,000 notes' final payments are due in January 2033, January 2035, March 2039, March 2041, and October 2047. The \$281,047 note's final payment is due in December 2030.

During the year ended September 30, 2018, the District borrowed \$607,500 from 1st Southwest Bank to finance the purchase of its office building. The note bears interest at 4.375% per annum and is secured by the District's office building. The note requires monthly principal and interest payments of \$2,852 through July, 2053.

The District has a \$500,000 line of credit from the TBK Bank. \$102,500 has been drawn and is outstanding at September 30, 2018. The line of credit bears interest at .5% less than the Wall Street Journal prime rate. Unpaid principal and interest are due on July 28, 2019.

Changes in long-term obligations for the year ended September 30, 2018 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities:					
USDA (Note 1)	\$ 151,251	\$ -	\$ 8,770	\$ 142,481	\$ 8,856
USDA (Note 2)	168,573	-	8,597	159,976	8,681
USDA (Note 3)	193,857	-	8,345	185,512	8,426
USDA (Note 4)	225,428	-	8,359	217,069	8,410
USDA (Note 5)	-	215,320	-	215,320	-
USDA (RMAP) (Note 6)	216,854	-	14,545	202,309	14,809
TBK Bank LOC	100,000	2,500	-	102,500	102,500
Total	<u>\$ 1,055,963</u>	<u>\$ 217,820</u>	<u>\$ 48,616</u>	<u>\$ 1,225,167</u>	<u>\$ 151,682</u>
Governmental activities:					
1 st Southwest Bank	<u>\$ -</u>	<u>\$ 607,500</u>	<u>\$ 1,129</u>	<u>\$ 606,371</u>	<u>\$ 7,484</u>

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

The following is a schedule of debt service to maturity for the notes payable (excluding the line of credit):

Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 7,484	\$ 26,744	\$ 34,228	\$ 49,182	\$ 11,624	\$ 60,806
2020	7,758	26,469	34,227	49,813	12,923	62,736
2021	8,373	25,854	34,227	58,229	12,282	70,511
2022	8,545	25,683	34,228	58,979	11,532	70,511
2023	8,950	25,277	34,227	59,737	10,774	70,511
2024-2028	49,852	121,285	171,137	310,395	42,160	352,555
2029-2033	63,597	107,540	171,137	276,400	23,008	299,408
2034-2038	79,424	91,712	171,136	165,107	11,300	176,407
2039-2043	98,120	73,017	171,137	79,075	4,478	83,553
2044-2048	122,883	48,254	171,137	15,750	925	16,675
2049-2053	151,385	16,920	168,305	-	-	-
	<u>\$ 606,371</u>	<u>\$ 588,755</u>	<u>\$ 1,195,126</u>	<u>\$ 1,122,667</u>	<u>\$ 141,006</u>	<u>\$ 1,263,673</u>

RETIREMENT PLAN

On October 29, 1998 the District adopted a SIMPLE retirement account plan. All employees with annual compensation greater than \$5,000 are eligible to participate. Participants may elect to voluntarily contribute up to \$12,500 of their compensation to the plan annually. The District matches dollar for dollar employee pre-tax contributions in an amount up to 3% of the employee's compensation. Employee and employer contributions are fully vested at all times. The District's total contribution to the plan for the year ended September 30, 2018 was \$11,570.

RISK OF LOSS

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. There have been no reductions in insurance coverages provided to the District and there have been no settlements exceeding insurance coverage for the past four years.

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

INTERFUND TRANSFERS AND BALANCES

The composition of interfund transfers for the year ended September 30, 2018 is as follows:

	General Fund	Intermediary Re-lending Loan Fund	EDA Revolving Loan Fund	Total
Transferred from:				
General Fund	\$ -	\$ -	\$ 34,012	\$ 34,012
Revolving Loan Fund	161,012	81,680	83,488	326,180
	<u>\$ 161,012</u>	<u>\$ 81,680</u>	<u>\$ 117,500</u>	<u>\$ 360,192</u>

The purpose of the transfers is to transfer surplus funds to the General Fund, meet the matching requirement of the Intermediary Re-lending Loan Fund and / or to transfer funds to the EDA Revolving Loan Fund to meet operating requirements.

The composition of inter-fund due from / to balances at September 30, 2018 is as follows:

	CDBG Revolving Loan Fund	Intermediary Re-lending Loan Fund	Statewide Revolving Loan Fund	EDA Revolving Loan Fund	Total
Due from:					
General Fund	\$ 12,729	\$ 16,632	\$ 44,724	\$ 330,639	\$ 404,724
Revolving Loan Fund	-	376,931	-	-	376,931
	<u>\$ 12,729</u>	<u>\$ 393,563</u>	<u>\$ 44,724</u>	<u>\$ 330,639</u>	<u>\$ 768,926</u>

The reason for the inter-fund due to / from balances is because the general fund maintains the bank account that records deposits and disbursements of the other funds.

CONTINGENT LIABILITIES

The District participates in federally assisted grant and loan programs which are subject to program compliance audits by the grantors, lenders, or their representatives. Not all of the audits of the programs included in the year ended September 30, 2018 have been conducted. Accordingly, the District's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

STATUTORY COMPLIANCE

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of an expiring tax, or tax policy change directly causing a net tax revenue gain to any local government.

The District is not a direct tax supported entity; therefore management believes that it is not subject to the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions may require judicial interpretation.

REQUIRED SUPPLEMENTARY INFORMATION

Region 9 Economic Development District of Southwest Colorado, Inc.

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND - BUDGET AND ACTUAL

For the Year Ended September 30, 2018
(Unaudited)

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Intergovernmental				
Dues assessed to member governments	\$ 40,000	\$ 40,000	\$ 34,782	\$ (5,218)
Grants	128,305	128,305	117,029	(11,276)
Charges for services	36,950	36,950	37,034	84
Local sources				
Interest	500	500	345	(155)
Contributions and grants	7,000	7,000	10,450	3,450
Miscellaneous	61,900	61,900	67,503	5,603
Total revenues	<u>274,655</u>	<u>274,655</u>	<u>267,143</u>	<u>(7,512)</u>
Expenditures				
Current				
Economic development				
Administration	437,704	494,704	413,157	81,547
Debt service:				
Principal	-	-	1,129	(1,129)
Interest	150	150	4,576	(4,426)
Capital outlay	-	-	635,738	(635,738)
Total expenditures	<u>437,854</u>	<u>494,854</u>	<u>1,054,600</u>	<u>(559,746)</u>
Excess (deficiency) of revenues over (under) expenditures	(163,199)	(220,199)	(787,457)	(567,258)
Other financing sources and (uses)				
Proceeds from issuance of debt	-	-	607,500	607,500
Transfer in	275,752	275,752	161,012	(114,740)
Transfer out	<u>(98,752)</u>	<u>(98,752)</u>	<u>(34,012)</u>	<u>64,740</u>
Net change in fund balance	13,801	(43,199)	(52,957)	(9,758)
Fund balance (deficit), beginning	<u>67,648</u>	<u>67,648</u>	<u>67,648</u>	<u>-</u>
Fund balance (deficit), ending	<u>\$ 81,449</u>	<u>\$ 24,449</u>	<u>\$ 14,691</u>	<u>\$ (9,758)</u>

SINGLE AUDIT SECTION

Region 9 Economic Development District of Southwest Colorado, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended September 30, 2018

<u>Federal Grantor / Pass Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>2018 Amount of Award Expended</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed through Colorado Department of Local Affairs			
Community Development Block Grant	14.228	15-600	\$ 454,663
Total U.S. Department of Housing and Urban Development			<u>454,663</u>
U.S. DEPARTMENT OF COMMERCE			
Economic Development Support for Planning Organizations Grant	11.302		70,000
Economic Development Assistance for Recovery Coordinator	11.307		21,933
Economic Development Association Revolving Loan Fund	11.307		<u>243,293</u>
Total U.S. Department of Commerce			<u>335,226</u>
U.S. DEPARTMENT OF AGRICULTURE			
Rural Development - Intermediary Relending Program	10.767		954,427
Rural Development - Rural Microentrepreneur Assistance Program	10.870		<u>216,853</u>
Total U.S. Department of Agriculture			<u>1,171,280</u>
Total expenditures of federal awards			<u>\$ 1,961,169</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Region 9 Economic Development District of Southwest Colorado, Inc. under programs of the federal government for the year ended September 30, 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 Region 9 Economic Development District of Southwest Colorado, Inc., it is not intended to and does not present the financial position, changes in net position, or cash flows of Region 9 Economic Development District of Southwest Colorado, Inc.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the 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. Expenditures reported for the Economic Development Association Revolving Loan Fund grant, CFDA number 11.307, are calculated according to formula. Loan balances outstanding at the end of the year that were expended in prior years are included in this calculation.

Pass-through entity identifying numbers are presented when available.

INDIRECT DE MINIMIS COST RATE

The District utilizes the ten percent de minimis cost rate allowed by Uniform Guidance.

Region 9 Economic Development District of Southwest Colorado, Inc.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For the year ended September 30, 2018

U.S. DEPARTMENT OF COMMERCE FEDERAL AWARDS

Amounts reported on the Schedule of Expenditures of Federal Awards for the U.S. Department of Commerce Economic Development Association Revolving Loan Fund are calculated according to the following program-required formula:

	Fund 1	Fund 2	Total
Balance of revolving loan fund loans	\$ 117,880	\$ 216,938	
Cash and investments held by the fund	61,006	-	
Administrative expenses	879	-	
	179,765	216,938	
Federal share	75%	50%	
Amount reported on the Schedule of Expenditures of Federal Awards	\$ 134,824	\$ 108,469	\$ 243,293

FEDERAL AWARDS EXPENDED FOR LOAN OR LOAN GUARANTEE PROGRAMS

Balances of loans and loan guarantee programs outstanding as of September 30, 2018 for loans described in 2 CFR section 200.502(b) are as follows:

CFDA#	Program Name	9/30/17 Bal	FY18 Loans	SEFA
10.767	Rural Development-Intermediary Relending Program	\$ 739,107	\$ 215,320	\$ 954,427

September 30, 2018 balance is \$920,358

CFDA#	Program Name	9/30/17 Bal	FY18 Loans	SEFA
10.870	Rural Development-Rural Microentrepreneur Assistance Program	\$ 216,853	\$ -	\$ 216,853

September 30, 2018 balance is \$202,309

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

March 12, 2019

Board of Directors
Region 9 Economic Development District of Southwest Colorado, Inc.
Durango, 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, the business-type activities, each major fund, and the aggregate remaining fund information of Region 9 Economic Development District of Southwest Colorado, Inc., as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise Region 9 Economic Development District of Southwest Colorado, Inc.'s basic financial statements, and have issued our report thereon dated March 12, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Region 9 Economic Development District of Southwest Colorado, Inc.'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 Region 9 Economic Development District of Southwest Colorado, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Region 9 Economic Development District of Southwest Colorado, Inc.'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 Region 9 Economic Development District of Southwest Colorado, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



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

March 12, 2019

Board of Directors
Region 9 Economic Development District of Southwest Colorado, Inc.
Durango, Colorado

Report on Compliance for Each Major Federal Program

We have audited Region 9 Economic Development District of Southwest Colorado, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Region 9 Economic Development District of Southwest Colorado, Inc.'s major federal programs for the year ended September 30, 2018. Region 9 Economic Development District of Southwest Colorado, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Region 9 Economic Development District of Southwest Colorado, Inc.'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 Region 9 Economic Development District of Southwest Colorado, Inc.'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 Region 9 Economic Development District of Southwest Colorado, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Region 9 Economic Development District of Southwest Colorado, Inc., 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 September 30, 2018.

Report on Internal Control over Compliance

Management of Region 9 Economic Development District of Southwest Colorado, Inc. 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 Region 9 Economic Development District of Southwest Colorado, Inc.'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 Region 9 Economic Development District of Southwest Colorado, Inc.'s internal control over compliance.

March 12, 2019
Region 9 Economic Development District of Southwest Colorado, Inc.
Page 2

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding 2018-001 that we consider to be material weaknesses. We also identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding 2018-002 and Finding 2018-003 that we consider to be significant deficiencies.

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.



SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2018

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified Yes No
- Significant deficiency(ies) identified Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified Yes No
- Significant deficiency(ies) identified Yes None reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of major programs:

CFDA Number(s)
10.767

Name of Federal Program or Cluster
Rural Development - Intermediary Relending Program

Dollar threshold used to distinguish Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

Region 9 Economic Development District of Southwest Colorado, Inc.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended September 30, 2018

SECTION II – FINANCIAL STATEMENT FINDINGS

There are no financial statement findings.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding Number: 2018-001 Preparation of the Schedule of Expenditures of Federal Awards

Federal Agency: U.S. Department of Agriculture
CFDA Number: 10.767
Program: Rural Development-Intermediary Relending Program
Requirement: Reporting
Type of Finding: Non-Compliance and Material Weakness

Criteria: 2 CFR 200.502(b) requires that loan and loan guarantee programs with continuing compliance requirements report the balance of loans at the beginning of the audit period plus new loans during the audit period as federal awards on the Schedule of Expenditures of Federal Awards (SEFA).

Condition: The SEFA prepared by the District did not include the balance of loans at the beginning of the audit period in its SEFA.

Context: During our audit, we noted that the District did not report the proper amount in the SEFA for the Rural Development - Intermediary Relending Program. Including the proper amount in the SEFA resulted in this program being audited as a major program.

Cause: District personnel were unaware of the requirement to include balances of loans outstanding for this program in the SEFA.

Effect: Correction of the SEFA and audit testing of this program as major was required.

Questioned Costs: None

View of Responsible Officials: The District agrees with the finding and will implement corrective action. Please refer to the corrective action plan on page 40.

Finding Number: 2018-002 Reporting of Periodic Information to USDA

Federal Agency: U.S. Department of Agriculture
CFDA Number: 10.767
Program: Rural Development-Intermediary Relending Program
Requirement: Reporting
Type of Finding: Non-Compliance and Significant Deficiency

Criteria: The Loan Agreement with USDA requires that the District quarterly report information regarding lending activity, income and expenses, financial condition, and a summary of names and characteristics of the ultimate recipients the District has financed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended September 30, 2018

Condition: Quarterly information reported by the District to USDA utilizing USDA's on-line reporting system did not agree in all respects with the District's internal financial and loan records. A reconciliation between amounts reported and amounts reflected in the District's records was not created as part of the reporting process.

Context: During our audit, we noted that the District lacked documentation for differences between amounts reported to USDA and its internal records. The District does not have a process for documenting differences and for reviewing the reports for accuracy by a person other than the preparer.

Cause: District personnel have not implemented processes and internal controls to ensure that amounts reported to USDA are accurate and complete.

Effect: Incomplete documentation supporting amounts reported to USDA.

Questioned Costs: None

View of Responsible Officials: The District agrees with the finding and will implement corrective action. Please refer to the corrective action plan on page 40.

Finding Number: 2018-003 Certification by Ultimate Recipients of Insurance and Lobbying Requirements

Federal Agency: U.S. Department of Agriculture
CFDA Number: 10.767
Program: Rural Development-Intermediary Relending Program
Requirement: Special Tests and Provisions
Type of Finding: Non-Compliance and Significant Deficiency

Criteria: The Loan Agreement with USDA and / or program guidelines requires that the District require each ultimate recipient to provide workers compensation insurance and to agree to not use loan proceeds for lobbying.

Condition: The District did not document whether the ultimate recipient obtained required workers compensation insurance and agreed to not use loan proceeds for lobbying.

Context: During our audit, we noted that the District participated in one loan during the audit period with a bank that originated the loan. In this instance, the District did not utilize its standard checklist that would document its compliance considerations regarding the loan. All other loans tested were originated by the District and included the checklist.

Cause: District personnel do not utilize the checklist required by District policy on loans that are originated by other institutions.

Effect: Incomplete documentation supporting compliance.

Questioned Costs: None

View of Responsible Officials: The District agrees with the finding and will implement corrective action. Please refer to the corrective action plan on page 40.

Region 9 Economic Development District of Southwest Colorado, Inc.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended September 30, 2018

There were no prior year findings.

CORRECTIVE ACTION PLAN

Region 9 Economic Development District of Southwest Colorado

Corrective Action Plan for Findings and Recommendations

For the Fiscal Year Ending September 30, 2018

1. Finding -2018-001 Preparation of the Schedule of Expenditures and Federal Awards

2 CFR 200.502(b) requires that loan and loan guarantee programs with continuing compliance requirements report the balance of loans at the beginning of the audit period plus new loans during the audit period as federal awards on the Schedule of Expenditures of Federal Awards (SEFA).

Corrective Action Taken or Planned: All expenditures of Federal funds will be accounted for in the annual SEFA whether funds are received directly from a Federal agency or indirectly from a pass-through entity. This will include outstanding USDA loan balances that have a continuing reporting requirement. To ensure that Federal funds are properly included in the SEFA report, the Comptroller will review the report for compliance under OMB Uniform Guidance. The Comptroller will also reach out to granting agencies for support with any changes in reporting requirements. This practice will help to mitigate the risk of inaccurate reporting.

End Data: annually in audit

Responding Person: Shirley Jones, Comptroller

Staff Explanation: Region 9 has always recorded new USDA loan money on the SEFA but not the balance of loans. The CDFA (Catalog of Federal Domestic Assistance) number is usually listed in the funding source documents. This catalog is a government-wide compendium of federal programs, projects, services, and activities which provide assistance or benefits to the public. The SEFA requires a CDFA number so staff interpreted that if it has a number it should be reported. USDA loans do not have a SEFA on its loan documents.

2. Finding -2018-002 Reporting of Periodic Information to USDA

The Loan Agreement with USDA requires that the District quarterly report information regarding lending activity, income and expenses, financial condition, and a summary of names and characteristics of the ultimate recipients the District has financed—Quarterly information reported on-line to USDA did not agree in all respects with Region 9's internal financial and loan records. A reconciliation between amounts reported and amounts reflected was not created.

Corrective Action Taken or Planned: The need to have more checks and balances between reports and Region 9 financial statements was identified. Staff will create an Excel spreadsheet to highlight and explain any discrepancies between the financials and USDA's Linkin reporting system which does not provide summary reports. A trial balance in Portfol (Region 9's loan software) will be reconciled with the USDA reports and Region 9 financial statements. The reconciled reports will be reviewed by the R9 Executive Director prior to submission.

End Data: on-going

Responding Person: Jenny Stollar Business Loan Officer

3. Finding -2018-003 Certification by Ultimate Recipient of Insurance and Lobbying Requirements

The Loan agreement with USDA requires that the District (Region 9) require each recipient to provide workers compensation insurance and to agree to not use loan proceeds for lobbying.

Corrective Action Taken or Planned: Region 9 has a loan closing checklist including all necessary items and paperwork required for each funding source. The worker's compensation and agreement not to use loan proceeds for lobbying will be added to this checklist and necessary paperwork provided to clients at loan closing. Region 9 also has all loan files audited quarterly by an independent consultant and we will make sure loan auditor has the updated checklist when reviewing USDA loans. Region 9 will also make sure any Banks in which Region 9 is participating with on a loan has this paperwork.

End Data: on-going

Responding Person: Laura Lewis Marchino, Executive Director

Staff Explanation: Region 9 was relying on banks for all loan participation paperwork and also did not confirm worker's compensation nor the use of loan proceeds.

*See attached Schedule of Findings p. 37.