

cPa DIXON, WALLER & CO., INC.

SOUTH CENTRAL

COUNCIL OF GOVERNMENTS

TRINIDAD, COLORADO

FINANCIAL STATEMENTS

DECEMBER 31, 2019

DIXON, WALLER & CO., INC.

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SOUTH CENTRAL

COUNCIL OF GOVERNMENTS

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FINANCIAL SECTION

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund, of the South Central Council of Governments, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the South Central Council of Governments as of December 31, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i through v and 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2020 on our consideration of the South Central Council of Governments' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Central Council of Governments' internal control over financial reporting and compliance.

Sifton, Waller & Co., Inc.

July 15, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of South Central Council of Governments (SCCOG), we offer readers of SCCOG's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2019. We encourage readers to consider the information presented here.

Financial Highlights

The assets of SCCOG exceeded liabilities at the close of the most recent year by \$6,056,160 (net position). Of this amount \$4,035,826 (unrestricted net position) may be used to meet SCCOG's ongoing obligation to creditors.

At the close of the current fiscal year, SCCOG's governmental fund reported an ending fund balance of \$2,422,975. Of this total amount, \$40,715 is Non-spendable and associated with Inventories and Prepaid Expenses, \$693,595 is Restricted and can only be spent on specific purposes such as Debt Service and Programs for Senior Services and Housing, \$364,164 is committed to Capital Improvements and future contracted services and \$12,901 is assigned to specific programs.

Overview of the Financial Statements

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

Government Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

Governmental Funds

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

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

Notes to the basic financial statements

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

Other Information

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

Government Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of an agency’s financial position. In the case of South Central Council of Governments, assets exceeded liabilities by \$6,056,160 at the close of the most recent fiscal year.

South Central Council of Governments’ Net Position

	Governmental Activities	
	<u>2018</u>	<u>2019</u>
Current and other assets	4,725,837	4,886,620
Capital Assets	<u>2,200,135</u>	<u>2,468,538</u>
Total Assets	<u>6,925,972</u>	<u>7,355,158</u>
Long-term Liabilities	983,187	1,114,994
Other Liabilities	<u>137,256</u>	<u>184,004</u>
Total Liabilities	<u>1,120,443</u>	<u>1,298,998</u>

Net Position		
Invested in capital assets net of related debt	1,196,619	1,326,739
Restricted	685,046	693,595
Unrestricted	<u>3,923,864</u>	<u>4,035,826</u>
Total net position	<u>5,805,529</u>	<u>6,056,160</u>

Governmental Activities

Governmental activities increased South Central Council of Governments' net position by \$250,631. There were no business-type activities in 2019.

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2019</u>
Revenues:		
Program revenues		
Charges for Service	3,352,280	3,160,870
Operating Grants & Contributions	1,861,576	2,797,413
Capital Grants & Contributions	46,632	64,000
General Revenue		
Program Income	0	0
In-Kind Contributions	32,971	40,112
Interest Income	20,836	5,605
Local Revenues	41,485	44,799
Gain on Sale of Building	<u>87,820</u>	<u>0</u>
Total Revenues and Transfers	5,443,600	6,112,799
Expenses:		
Governmental Activities	<u>4,965,160</u>	<u>5,862,168</u>
Changes in Net Position	478,440	250,631
Net Position – Beginning	<u>5,345,607</u>	<u>5,805,529</u>
Prior Period Adjustment	(18,518)	0
Net Position – Ending	<u>5,805,529</u>	<u>6,056,160</u>

South Central Council of Governments' Activities by Major Function

	<u>2018</u>		<u>2019</u>	
	<u>Total Cost of Service</u>	<u>Net Cost of Service</u>	<u>Total Cost of Service</u>	<u>Net Cost of Service</u>
Grants, Contracts, and Services	\$4,965,160	\$295,328	\$5,862,168	\$160,115

Financial Analysis of SCCOG's Funds

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

Governmental Funds

The focus of SCCOG's governmental funds is to provide information on current year revenue, expenditures, and balances of spendable resources. Such information is useful in assessing SC COG's financing requirements. In particular, Unrestricted Fund Balance may serve as a useful measure of SCCOG's net resources available for spending at the end of the fiscal year. SCCOG had a beginning Fund Balance of \$2,325,798 with revenues exceeding expenses by \$97,177 during the year which increased the fund balance to \$2,422,975. The ending Unrestricted Fund Balance of \$1,311,600 is available for spending at SC COG's discretion.

General Fund Budgetary Highlights

SCCOG originally budgeted \$6,341,500 in revenues for the year. Budgeted revenues were amended and decreased by \$35,337 during the year to end with final budgeted revenues of \$6,306,163 Actual revenues for the year totaled \$6,311,247 and had a favorable actual budget variance of \$5,084.

SCCOG originally budgeted \$6,313,339 in expenditures for the year. Budgeted expenditures were amended and reduced by \$59,474 during the year to end with final budgeted expenditures of \$6,253,865. Actual expenditures for the year totaled \$6,376,253 and had an unfavorable actual to budget variance of \$122,388.

SCCOG originally budgeted an ending Fund Balance of \$2,201,291 for the year. Budgeted Fund Balance was amended and increased by \$184,078 during the year to end with a final budgeted Fund Balance of \$2,385,869. Actual ending Fund Balance for the year totaled \$2,422,975 and had a favorable actual to budget variance of \$37,106.

Capital Asset and Debt Administration

Capital Assets

SCCOG's investment in capital assets for governmental activities as of December 31, 2019 amounts to \$2,468,538 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles, furniture and fixtures, equipment and improvements.

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

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2019</u>
Land	\$ 53,821	127,622
Buildings	1,885,129	2,043,022
Vehicles	154,909	218,152
Equipment	45,019	31,034
Furniture, Fixtures	<u>61,257</u>	<u>48,708</u>
 Total investment in capital assets, net	 <u>\$ 2,200,135</u>	 <u>2,468,538</u>

SCCOG's governing board has authorized long-term financing, through the United States Department of Agriculture – Rural Development (USDA-RD), for the Early Learning Center (ELC) Facility in the amount of \$1,200,000 at an interest rate of 4.125% the long-term debt balance for the ELC Facility at December 31, 2019 totaled \$983,184.

The Walsenburg Facility was purchased in the amount of \$200,000. SCCOG put a security deposit and cash down payment of \$37,817. The remaining balance of \$162,183 was taken out as a loan through InBank at an interest rate of 4.0% for the first 5 years. After five years SCCOG will either payoff the balance of the loan \$134,013 or renegotiate the interest terms. The facility had \$25,030 in renovations completed in 2019. The long-term debt balance for the Walsenburg Facility at December 31, 2019 totaled \$158,615.

Requests for Information

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

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

BASIC FINANCIAL STATEMENTS

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
STATEMENT OF NET POSITION
December 31, 2019

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash	1,797,152
Receivables (Net, where Applicable, of Allowance for Uncollectibles):	
Grants and Accounts	742,307
Rehabilitation Loans (Net of Allowance)	2,306,446
Prepaid Assets	31,825
Inventory at Cost	8,890
Fixed Assets	4,661,811
Accumulated Depreciation	(2,193,273)
<u>Total Assets</u>	<u>7,355,158</u>
 <u>DEFERRED OUTFLOW OF RESOURCES</u>	
-	
<u>LIABILITIES</u>	
Unearned Grant Revenue	21,493
Accounts Payable	61,697
Accrued Wages & Benefits Payable	74,009
Payroll Withholding	-
Operating Advances	-
Loans:	
Due Within One Year	26,805
Due in More Than One Year	1,114,994
<u>Total Liabilities</u>	<u>1,298,998</u>
 <u>DEFERRED INFLOW OF RESOURCES</u>	
-	
<u>NET POSITION</u>	
Net Investment in Capital Assets	1,326,739
Restricted for:	
Tabor Reserve	-
Debt Service	48,195
Housing Programs	491,829
Program Specified Expenditures	153,571
Unrestricted	4,035,826
<u>Total Net Position</u>	<u>6,056,160</u>

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

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2019

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue & Changes in Net Position</u>	
		<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	<u>Capital Grants & Contributions</u>	<u>Governmental Activities</u>	<u>Total</u>
<u>Governmental Activities</u>						
Grants, Contracts & Services	5,862,168	3,160,870	2,797,413	64,000	160,115	160,115
<u>Total Governmental Activities</u>	<u>5,862,168</u>	<u>3,160,870</u>	<u>2,797,413</u>	<u>64,000</u>	<u>160,115</u>	<u>160,115</u>
<u>Business Type Activities</u>	-	-	-	-	-	-
<u>Total Business Type Activities</u>	-	-	-	-	-	-
<u>Total Primary Government</u>	<u>5,862,168</u>	<u>3,160,870</u>	<u>2,797,413</u>	<u>64,000</u>	<u>160,115</u>	<u>160,115</u>
		<u>General Revenues:</u>				
					40,112	40,112
					5,605	5,605
					44,799	44,799
					<u>90,516</u>	<u>90,516</u>
		Change in Net Position			250,631	250,631
		Net Position – Beginning			<u>5,805,529</u>	<u>5,805,529</u>
		Net Position – Ending			<u>6,056,160</u>	<u>6,056,160</u>

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

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2019

	<u>General</u>
<u>ASSETS</u>	
Cash	1,797,152
Receivables (Net, of Allowance Where Applicable):	
Accounts & Grants	742,307
Prepaid Insurance	31,825
Inventory	8,890
<u>Total Assets</u>	<u>2,580,174</u>
 <u>LIABILITIES AND FUND BALANCES</u>	
<u>Liabilities</u>	
Accounts Payable	61,697
Accrued Wages & Benefits	74,009
Unearned Grant Revenue	21,493
<u>Total Liabilities</u>	<u>157,199</u>
 <u>Fund Balances</u>	
Nonspendable:	
Inventories	8,890
Prepaid Expense	31,825
Restricted:	
Debt Service	48,195
Housing Programs	491,829
Program Specified Expenditures	153,571
TABOR Reserve	-
Committed:	
Capital Improvements	364,164
Specific Programs	12,901
Unassigned:	<u>1,311,600</u>
<u>Total Fund Balances</u>	<u>2,422,975</u>
 <u>TOTAL LIABILITIES AND FUND BALANCES</u>	 <u>2,580,174</u>

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

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
December 31, 2019

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

<u>Total Fund Balance – Governmental Funds</u>	2,422,975
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$4,661,811 and the accumulated depreciation is \$2,193,273.	2,468,538
Loans for the rehabilitation of housing were made through a revolving loan program to provide future funds for housing rehabilitation. The receipt of loan proceeds is recognized as revenue in the fund financial statements as received. No loans receivable are recorded in the fund financial statements.	
Rehabilitation Loans	3,282,810
Allowance	<u>(976,364)</u>
	2,306,446
Long-term liabilities, including loans and general obligation bonds are not due and payable in the current period and therefore are not reported in funds.	<u>(1,141,799)</u>
<u>Total Net Position – Governmental Activities</u>	<u>6,056,160</u>

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

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2019

	<u>General</u>
<u>REVENUE</u>	
Federal Sources	1,556,701
State Sources	3,268,187
Local Sources	890,964
Program Income	549,678
In-Kind Contributions	40,112
Interest	<u>5,605</u>
<u>Total Revenues</u>	<u>6,311,247</u>
 <u>EXPENDITURES</u>	
General Government	
Grants, Contracts & Services	<u>6,376,253</u>
<u>Total Expenditures</u>	<u>6,376,253</u>
 <u>REVENUES OVER (UNDER) EXPENDITURES</u>	 (65,006)
 <u>OTHER FINANCING SOURCES (USES)</u>	
Debt Proceeds	<u>162,183</u>
 <u>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</u>	 97,177
 <u>FUND BALANCES – Beginning</u>	 <u>2,325,798</u>
 <u>FUND BALANCES - Ending</u>	 <u>2,422,975</u>

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

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES OF GOVERNMENT FUNDS TO THE STATEMENT OF ACTIVITIES
 Year Ended December 31, 2019

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

Net Change in Fund Balances – Total Governmental Funds 97,177

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

Capital Outlays More Than \$3,000	455,390	
Depreciation Expense	(186,987)	268,403

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

Rehabilitation Cost	244,644	
Loan Payments	(198,448)	
Bad Debt Expense	<u>(22,862)</u>	23,334

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

Loan Payments - Principal	23,900	
Loan Proceeds	<u>(162,183)</u>	<u>(138,283)</u>

Change in Net Position of Governmental Activities 250,631

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

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A Reporting Entity

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

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

B. Government – Wide and Fund Financial Statements

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

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

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

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

The COG reports the following major governmental fund:

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

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

D. Capital Assets

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

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Capital Assets (Continued)

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

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

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

E. Budgets and Budgetary Accounting

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

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

F. Encumbrances

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

G. Inventory

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

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

I. Deferred Outflows / Inflows of Resources

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

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

J. Use of Estimates

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

K. Deposits and Investments

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

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

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Long-Term Obligations

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

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

M. GASB Statement No. 54

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

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

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

Fund Balance Classification Policies and Procedures

Committed Fund Balance Policy:

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

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

M. GASB Statement No. 54 (Continued)

Assigned Fund Balance Policy:

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

Order of Fund Balance Spending Policy

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

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

Fund Balance Classification by Fund:

	<u>General Fund</u>	<u>Total Governmental Funds</u>
<u>Nonspendable:</u>		
Inventories	8,890	8,890
Prepaid Expense	31,825	31,825
<u>Restricted:</u>		
TABOR Reserve	-	-
Debt Service	48,195	48,195
Housing Programs	491,829	491,829
Program Specified Expenditures	153,571	153,571
<u>Committed:</u>		
Capital Improvements	364,164	364,164
Specific Programs	12,901	12,901
<u>Unassigned</u>	<u>1,311,600</u>	<u>1,311,600</u>
<u>Total Fund Balances</u>	<u>2,422,975</u>	<u>2,422,975</u>

N. In-Kind Contributions

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

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 2 CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	53,821	73,801	-	127,622
Construction in Progress	-	-	-	-
Total Capital Assets Not Being Depreciated	53,821	73,801	-	127,622
Capital Assets Being Depreciated:				
Buildings	2,861,728	243,335	-	3,105,063
Vehicles	888,635	118,483	60,188	946,930
Equipment	308,237	19,771	-	328,008
Furniture, Fixtures	154,188	-	-	154,188
Total Capital Assets Being Depreciated	4,212,788	381,589	60,188	4,534,189
Less Accumulated Depreciation for:				
Buildings	976,599	85,442	-	1,062,041
Vehicles	733,726	55,240	60,188	728,778
Equipment	263,218	33,756	-	296,974
Furniture, Fixtures	92,931	12,549	-	105,480
Total Accumulated Depreciation	2,066,474	186,987	60,188	2,193,273
<u>Total Capital Assets Being Depreciated, Net</u>	<u>2,146,314</u>	<u>194,602</u>	-	<u>2,340,916</u>
<u>Governmental Activities Capital Assets, Net</u>	<u>2,200,135</u>	<u>268,403</u>	-	<u>2,468,538</u>

NOTE 3 CASH

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

	Carrying Value	Bank Balance
Insured (FDIC)	508,328	504,656
Uninsured, collateralized under the Public Deposit Protection Act of the State of Colorado	1,288,716	1,492,731
Cash on Hand	108	-
<u>Total Cash</u>	<u>1,797,152</u>	<u>1,997,387</u>

As presented above, deposits with a bank balance of \$1,492,731 and a carrying balance of \$1,288,716 as of December 31, 2019 are uninsured, are exposed to custodial risk, and are collateralized with securities held by the pledging financial institution.

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 4 ACCOUNTS/GRANTS RECEIVABLE

Amounts shown as receivable represent requests for reimbursement on expenditures made in 2019 that have not been received at December 31, 2019 or amounts due from customers.

NOTE 5 CONTINGENCIES - TAX, SPENDING AND DEBT LIMITATIONS

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

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

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

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

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

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

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

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

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

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

NOTE 6 RISK MANAGEMENT

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

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

NOTE 7 PENSION DISCLOSURE-DEFINED CONTRIBUTION PLAN

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

- Colorado Retirement Association

Employees contribute 5% (3% previous to July 1, 2000) of their salary to the plan with an equal amount contributed by the COG. Vesting occurs at the rate of 20% per year. COG contributions for, and earnings forfeited by, employees who leave employment before fully vesting are returned to the COG. The COG's total payroll for fiscal year 2019 was \$3,353,119. The salary for which contributions were calculated was \$1,036,242. The COG and employees each made the required contributions of \$51,812 or \$103,624 in total. COG recognized \$43,280 in pension expense in 2019, which is net of forfeitures of \$8,532. COG has no outstanding pension liability at year end.

NOTE 8 DEFERRED COMPENSATION PLAN

Employees are eligible to participate in a deferred compensation plan established and administered pursuant to Section 457 of the Internal Revenue Code by the Colorado Retirement Association (CRA). The amount deferred by employees is transferred to CRA for the exclusive benefit of the deferring employee. CRA acts as trustee for plan assets. Employee contributions for 2019 were \$9,163.

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2019

NOTE 9 HOUSING LOANS

The housing rehabilitation programs administered by the COG create receivables from the property owners in the amount of assistance extended. The amount of assistance made and unrepaid at December 31, 2019 was \$3,282,810. Of this amount, \$484,312 is in agreements allowing the deferral of repayment until the rehabilitated home is resold. The remaining \$2,798,498 is in agreements requiring monthly payments. The amount of interest charged is determined using income guidelines prescribed in grant agreements. Currently, the range is between 0% and 3%. Collected amounts are recognized as current revenue and are put into a revolving fund the purpose of which it is to do additional housing rehabilitation. Receivable amounts are secured by liens on the properties. Expenditures for rehabilitation are recorded in the fund financial statements when made. Repayments are recognized as revenue when received in the fund financial statements. In the government-wide financial statements, loans are recorded for amounts spent. Loans are reduced when payments are made. An allowance for uncollectible loans has been recorded in the government-wide financial statements for \$976,364.

NOTE 10 LOANS

USDA – Day Care Center

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2020	21,184	40,160
2021	22,075	39,269
2022	23,003	38,341
2023	23,970	37,374
2024	24,977	36,367
2025 – 2029	141,548	165,172
2030 – 2034	173,909	132,810
2035 – 2039	213,670	93,050
2040 – 2044	262,520	44,200
2045 – 2046	<u>76,328</u>	<u>2,162</u>
	<u>983,184</u>	<u>628,905</u>

The loan agreement requires certain amounts to be held in an account restricted for debt service on this loan. The amount held at December 31, 2019 is \$48,195.

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2019

NOTE 10 LOANS (continued)

Bank Loan – Walsenburg Facility

In 2019, COG borrowed \$162,183 to acquire and improve a property in Walsenburg, Colorado. The terms of the loan require monthly payments of \$988 for 59 periods with a balloon payment of \$134,013 due after the completion of monthly payments. The interest rate is 4%. Following are principal and interest payments scheduled.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2020	5,621	6,235
2021	5,850	6,006
2022	6,088	5,768
2023	6,336	5,520
2024	<u>134,720</u>	<u>281</u>
	<u>158,615</u>	<u>23,810</u>

NOTE 11 CHANGES IN LONG-TERM DEBT

	<u>Balance</u> <u>1-1-2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>12-31-2019</u>	<u>Due Within</u> <u>One Year</u>
Bank Loan	-	162,183	3,568	158,615	5,621
USDA Loan (2006)	<u>1,003,516</u>	<u>-</u>	<u>20,332</u>	<u>983,184</u>	<u>21,184</u>
	<u>1,003,516</u>	<u>162,183</u>	<u>23,900</u>	<u>1,141,799</u>	<u>26,805</u>

NOTE 12 RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

NOTE 13 BUDGET INFORMATION

Amounts expended in 2019 exceeded the final budget amounts by \$122,388.

REQUIRED SUPPLEMENTARY INFORMATION

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

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended December 31, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance-
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
<u>REVENUES</u>				
Federal & State Sources	5,087,150	4,959,293	4,824,888	(134,405)
Local Sources	627,454	728,578	890,964	162,386
Program Income	566,955	556,148	549,678	(6,470)
In-Kind Contributions	40,111	39,895	40,112	217
Interest	19,830	22,249	5,605	(16,644)
<u>Total Revenues</u>	<u>6,341,500</u>	<u>6,306,163</u>	<u>6,311,247</u>	<u>5,084</u>
<u>EXPENDITURES</u>				
<u>Grants, Contracts & Services</u>				
Salaries and Wages	3,593,904	3,374,900	3,361,281	13,619
Fringe Benefits	555,984	501,348	473,499	27,849
Consultant and Professional Services	655,349	915,828	938,929	(23,101)
Travel, Vehicle	101,638	82,250	84,553	(2,303)
Debt Service	61,344	59,474	69,257	(9,783)
Consumable Supplies	243,807	231,617	239,146	(7,529)
Rehabilitation (Homes)	407,000	357,410	278,844	78,566
Other Direct Cost	421,802	370,077	447,958	(77,881)
In-Kind Usage	-	-	40,112	(40,112)
Materials, Tools and Equipment	40,111	39,895	-	39,895
Capital Outlay	232,400	321,066	442,674	(121,608)
<u>Total Expenditures</u>	<u>6,313,339</u>	<u>6,253,865</u>	<u>6,376,253</u>	<u>(122,388)</u>
<u>REVENUES OVER (UNDER) EXPENDITURES</u>	28,161	52,298	(65,006)	
<u>OTHER FINANCING SOURCES (USES)</u>				
Debt Proceeds	-	-	162,183	162,183
<u>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</u>	28,161	52,298	97,177	
<u>FUND BALANCE, January 1</u>	<u>2,173,130</u>	<u>2,333,571</u>	<u>2,325,798</u>	
<u>FUND BALANCE, December 31</u>	<u>2,201,291</u>	<u>2,385,869</u>	<u>2,422,975</u>	

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

SINGLE AUDIT SECTION

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of South Central Council of Governments as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise South Central Council of Governments' basic financial statements, and have issued our report thereon dated July 15, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Diaper, Wallert Co, Inc.

July 15, 2020

164 E. MAIN
TRINIDAD, COLORADO 81082
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited South Central Council of Governments' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of South Central Council of Governments' major federal programs for the year ended December 31, 2019. South Central Council of Governments' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, South Central Council of Governments complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control Over Compliance

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

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

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

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

Dickson, Waller & Co., Inc.

July 15, 2020

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2019

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS:

FINANCIAL STATEMENTS

Auditor's Report

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

Internal Control Over Financial Reporting

There were no significant deficiencies or material weaknesses identified.

Noncompliance Material to Financial Statements

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

FEDERAL AWARDS

Internal Control Over Major Programs

No significant deficiencies or material weaknesses were identified.

Auditor's Report on Compliance for Major Programs

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

Audit Findings

No findings requiring disclosure in accordance with 2 CFR Section 200.516(a) were disclosed by the audit.

Major Programs

Highway Planning and Construction	20.205
Formula Grants for Rural Areas	20.509

Dollar Threshold to Distinguish Type A and Type B Programs

\$750,000.

Qualification as low-risk auditee

South Central Council of Governments did not qualify as a low-risk auditee for the fiscal year ended December 31, 2019.

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2019

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended December 31, 2019

NONE

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year ended December 31, 2019

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>		
(Passed through Huerfano County, Colorado)		
Community Development Block Grant/ States Program	14.228	<u>171,885</u>
<u>Total U.S. Department of Housing and Urban Development</u>		<u>171,885</u>
<u>U.S. Department of Health and Human Services</u>		
(Passed through the Colorado Department of Human Services)		
Aging Cluster		
Title III-C-Nutrition C-1	93.045	87,098
C-2	93.045	<u>69,473</u>
<u>Total Program</u>		<u>156,571</u>
Title III-A & B – Supportive Services	93.044	53,205
NSIP Food Program	93.053	<u>40,829</u>
<u>Total Aging Cluster</u>		<u>250,605</u>
(Passed through the Colorado Department of Human Services)		
OMBUDSMAN Title VII	93.042	4,355
Disease Prevention	93.043	17,930
National Family Caregiver	93.052	25,357
Elder Abuse Prevention	93.041	618
(Passed through the Colorado Department of Local Affairs)		
Community Services Block Grant	93.569	<u>55,396</u>
<u>Total Department of Health and Human Services</u>		<u>354,261</u>
<u>U.S. Department of Agriculture</u>		
Rural Housing Preservation Grant	10.433	3,250
(Passed through the Colorado Department of Health and Environment)		
Child and Adult Care Food Program	10.558	<u>83,151</u>
<u>Total U.S. Department of Agriculture</u>		<u>86,401</u>
<u>Federal Transit Administration</u>		
(Passed through the Colorado Department of Transportation)		
Enhanced Mobility of Seniors and Individuals With Disabilities	20.513	64,000
Formula Grants for Rural Areas	20.509	325,757
Rural Transportation Planning	20.205	<u>554,397</u>
<u>Total Federal Transit Administration</u>		<u>944,154</u>
 <u>TOTAL EXPENDITURES</u>		 <u>1,556,701</u>

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

SOUTH CENTRAL COUNCIL OF GOVERNMENTS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2019

NOTE 1 BASIS OF PRESENTATION

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

NOTE 2 NON-CASH ASSISTANCE

Expenditures shown in the accompanying schedule under Department of Agriculture Program 10.558 are cash. The value of commodities received in 2019 was \$0.

NOTE 3 PAYMENTS TO SUBRECIPIENTS

The Council of Governments made no awards of federal financial assistance to any subrecipients in the year ended December 31, 2019.

NOTE 4 INDIRECT COSTS

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