

REGIONAL AIR QUALITY COUNCIL

BASIC FINANCIAL STATEMENTS

December 31, 2009

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FINANCIAL SECTION



**JOHN CUTLER
& ASSOCIATES**

To the Board of Directors
Regional Air Quality Council
Denver, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the business-type activities and each major fund of Regional Air Quality Council as of and for the year ended December 31, 2009, which collectively comprise the basic financial statements of the Council, as listed in the table of contents. These financial statements are the responsibility of the Regional Air Quality Council's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Regional Air Quality Council as of December 31, 2009, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August XX, 2010 on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and required supplementary information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Regional Air Quality Council's basic financial statements. The individual fund financial statement and the schedule of expenditures of federal awards required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

John Cutler & Associates, LLC

August 16, 2010

**Regional Air Quality Council
Management's Discussion and Analysis
December 31, 2009**

Introduction

The management's discussion and analysis of the financial performance of the Regional Air Quality Council (the "Council") provides an overview of the Council's financial activities for the year ended December 31, 2009. The Council considers each fiscal year separately. Although 2008 financial information is included in the audit and parts of this discussion and analysis, there is not a direct relationship to income or expenses from year to year, as the programs the Council provides can vary significantly from year to year. This should be read in conjunction with the accompanying financial statements of the Council.

Financial Highlights

- The Council has been successful in securing grant funding to support its increased activities. As of December 31, 2009, the Council has entered into multi-year contracts that total \$10,597,506.
- The Council reached out to private sector partners and secured additional funding for programs, which is reflected in an increase of revenues under the "Other income" line item on the Statement of Revenues and Expenses. In 2009, this additional funding increased by \$45,607 or 98 % from 2008.

Using this Annual Report

The Council's financial statements consist of three statements—a balance sheet; a statement of revenue, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the Council, including resources held by the Council but restricted for specific purposes. The Council is accounted for as an enterprise fund, which records activity in a manner similar to private business and uses the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

The Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Assets report information about the Council's resources and its activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Council's net assets and changes in them. The Council's net assets—the difference between assets and liabilities—is one measure of the Council's financial health or financial position.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Council's Net Assets

The Council's net assets are the difference between its assets and liabilities reported in the Balance Sheet.

Table 1: Assets, Liabilities and Net Assets

	<u>2009</u>	<u>2008</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 478,778	\$ 959,492
Accounts receivable	354,779	460,312
Prepaid expenses	<u>15,107</u>	<u>11,640</u>
Total current assets	<u>848,664</u>	<u>1,431,444</u>
Total noncurrent assets	<u>5,114</u>	<u>6,267</u>
Total assets	<u>\$ 853,778</u>	<u>\$ 1,437,711</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 387,870	\$ 454,457
Accrued payroll and payroll taxes	15,298	10,303
Accrued compensated absences	<u>30,492</u>	<u>28,752</u>
Total liabilities	<u>433,660</u>	<u>493,512</u>
Net assets		
Invested in capital assets	3,561	4,714
Unrestricted	<u>416,557</u>	<u>939,485</u>
Total net assets	<u>\$ 420,118</u>	<u>\$ 944,199</u>

As shown in Table 1 above, the Council's assets decreased in 2009 because funds received in 2008 were expended in 2009. The 2008 increase in cash was due to a one-time cash donation of \$500,000, which is one reason that the cash and cash equivalents are lower in 2009.

The change in accounts receivable from 2008 to 2009 is due to the nature of the Council's income contracts for 2009 programs and the timing of contract reimbursements. December and fourth quarter 2009 invoices for contract reimbursements were submitted for payment in early 2010.

Operating Results and Changes in the Council's Net Assets

In 2009, the Council's net assets decreased by \$524,081, as shown in Table 2. This decrease is made up of several different components. The reasons for this decrease are discussed under the "Operating Losses" section below.

Table 2: Operating Results and Changes in Net Assets

	<u>2009</u>	<u>2008</u>
Operating Revenues		
Total operating revenues (contract, local government & in-kind project income)	\$ <u>2,034,416</u>	\$ <u>2,728,270</u>
Operating Expenses		
Direct contract costs	2,062,910	2,511,287
General and administrative	<u>707,727</u>	<u>643,835</u>
Total operating expenses	<u>2,770,637</u>	<u>3,155,122</u>
Operating Loss	(736,221)	(426,852)
Nonoperating Revenues		
Total nonoperating revenues (private sector contributions/interest income)	<u>212,140</u>	<u>960,947</u>
Increase (decrease) in net assets	<u>\$ (524,081)</u>	<u>\$ 534,095</u>

Operating Losses

The first component of the overall change in the Council's net assets is its operating income or loss—generally, the difference between operating revenues and operating expenses. In each of the past two years, the Council has reported an operating loss of (\$736,221) and (\$426,852), respectively. The losses are due to the nature of the Council's programs and funding sources.

The Council's financial statements conform to the requirements of GASB 34, which divide income by definition into two categories, operating and non-operating. Under this definition, only contract income and contributions to programs, which funds a large portion of the Council's programs, are included in operating income. However, the Council considers its private sector contributions to be significant sources of revenue and reflects this in its budget. As part of the new requirements, contributions, which are considered non-operating income, are not recognized in the operating loss shown in Table 2 above.

The Council's operating revenue was used to pay for all of the direct contract costs and a portion of the general and administrative costs. The remaining general and administrative costs were paid for by non-operating revenues (private sector contributions) and reserve funds, which are not represented in the operating loss. Therefore, the increase in net assets is a more accurate reflection of the Council's economic condition.

Examples of how these "non-operating" revenues are used by the Council are listed below.

- The contract with the Environmental Protection Agency (EPA) reimbursed the Council for equipment expenses only. All other costs associated with the EPA project were funded with local government and/or private sector contributions.
- The Colorado Department of Transportation (CDOT) contracts reimburse expenses at 80% of the total cost incurred. Local government, private sector and/or in-kind contributions funded the remaining 20% of the costs.

- Occasionally, private sector funding is donated to support specific projects. In this case, those revenues are used for the specific operating expenses.

The Council also recognizes that income and expenses from contracts with EPA, Colorado Department of Public Health and Environment (CDPHE) and CDOT fluctuate due to multi-year contract dates, increases in services and changes in program schedules. This is why the Council has relied on its local government and private sector contributions as its funding base since 1990.

Non-Operating Revenues

Non-operating revenues consist primarily of contributions from private companies. Cash contributions increased significantly in 2008 due to a large private sector contribution, which accounts for a major portion of the decrease in cash in 2009. They are listed as non-operating revenue under governmental accounting rules as the entity providing the contributions is not the direct recipient of the benefit from their contribution. The Council has relied on its private sector contributions as part of its funding base since 1990.

The Council's Cash Flow

Changes in the Council's cash flows are consistent with changes in operating losses and operating revenues and expenses, discussed earlier.

Capital Assets and Debt Administration

At the end of 2009, the Council had \$3,561 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In 2009, the Council purchased one new computer and recycled older obsolete computers which were removed from the fixed assets list.

Other Economic Factors

The Regional Air Quality Council was established by an executive order and exists at the discretion of the governor of the state of Colorado. The Council is considered a political subdivision of the state of Colorado. The Council's current executive order expires on April 30, 2011. The Council has existed as a nonprofit corporation since 1990.

The Council is not subject to the requirements of TABOR amendments because it has no taxing or bonding authority.

The Council relies on local governments in the seven-county metro Denver area for significant funding. This funding is voluntary and can change annually. However, Council management works with the local government partners to help ensure funding levels remain consistent.

Grant funding varies annually based on awards received and project contract periods. Council staff is always working to procure additional grant funding.

Council Contact Information

This financial report is designed to provide our contributors, suppliers and taxpayers with a general overview of the Council's finances and to show the Council's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Council by telephone at (303) 629-5450 or by email at staff@raqc.org.

BASIC FINANCIAL STATEMENTS

REGIONAL AIR QUALITY COUNCIL

STATEMENT OF NET ASSETS

As of December 31, 2009

	<u>2009</u>	<u>2008</u>
ASSETS		
Current Assets		
Cash	\$ 478,778	\$ 959,492
Accounts Receivable	354,779	460,312
Prepaid Expenses	<u>15,107</u>	<u>11,640</u>
Total Current Assets	<u>848,664</u>	<u>1,431,444</u>
Noncurrent Assets		
Capital Assets, net of accumulated depreciation	3,561	4,714
Other	<u>1,553</u>	<u>1,553</u>
Total Noncurrent Assets	<u>5,114</u>	<u>6,267</u>
TOTAL ASSETS	<u>853,778</u>	<u>1,437,711</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	387,870	454,457
Accrued Expenses	<u>15,298</u>	<u>10,303</u>
Total Current Liabilities	<u>403,168</u>	<u>464,760</u>
Noncurrent Liabilities		
Accrued Compensated Absences	<u>30,492</u>	<u>28,752</u>
TOTAL LIABILITIES	<u>433,660</u>	<u>493,512</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	3,561	4,714
Unreserved	<u>416,557</u>	<u>939,485</u>
TOTAL NET ASSETS	<u>\$ 420,118</u>	<u>\$ 944,199</u>

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

REGIONAL AIR QUALITY COUNCIL

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
Year Ended December 31, 2009

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Project Service Charges	\$ 1,664,158	\$ 2,325,639
Contributions to Programs		
Local Governments	204,750	179,650
In-Kind	119,115	222,195
Other Income	<u>46,393</u>	<u>786</u>
TOTAL OPERATING REVENUES	<u>2,034,416</u>	<u>2,728,270</u>
OPERATING EXPENSES		
Direct Contract Costs	2,062,910	2,511,287
General and Administrative	<u>707,727</u>	<u>643,835</u>
TOTAL OPERATING EXPENSES	<u>2,770,637</u>	<u>3,155,122</u>
OPERATING LOSS	<u>(736,221)</u>	<u>(426,852)</u>
NON-OPERATING REVENUES		
Interest Income	<u>160</u>	<u>2,698</u>
LOSS BEFORE CONTRIBUTIONS	<u>(736,061)</u>	<u>(424,154)</u>
Contributions	<u>211,980</u>	<u>958,249</u>
NET INCOME	(524,081)	534,095
NET ASSETS, Beginning	<u>944,199</u>	<u>410,104</u>
NET ASSETS, Ending	<u>\$ 420,118</u>	<u>\$ 944,199</u>

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

REGIONAL AIR QUALITY COUNCIL

STATEMENT OF CASH FLOWS

PROPRIETARY FUND TYPE

Year Ended December 31, 2009

Increase (Decrease) in Cash and Cash Equivalents

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received Grantors	\$ 1,935,199	\$ 2,468,966
Cash Received from Local Governments	204,750	179,650
Cash Paid to Suppliers	(2,227,266)	(2,512,894)
Cash Paid to Employees	<u>(603,800)</u>	<u>(526,098)</u>
Net Cash Provided by Operating Activities	<u>(691,117)</u>	<u>(390,376)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(1,737)	(1,631)
Capital Contributions	211,980	958,249
Net Cash Provided by Capital and Related Financing Activities	<u>210,243</u>	<u>956,618</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	<u>160</u>	<u>2,698</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(480,714)	568,940
CASH AND CASH EQUIVALENTS, Beginning	<u>959,492</u>	<u>390,552</u>
CASH AND CASH EQUIVALENTS, Ending	<u>\$ 478,778</u>	<u>\$ 959,492</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	<u>\$ (736,221)</u>	<u>\$ (426,852)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	2,397	2,161
Loss on Disposal of Capital Assets	493	-
Changes in Assets and Liabilities		
Accounts Receivable	105,533	(79,654)
Prepaid Expenses	(3,467)	1,603
Accounts Payable	(66,587)	104,190
Accrued Expenses	4,995	-
Accrued Compensated Absences	1,740	8,176
Total Adjustments	<u>45,104</u>	<u>36,476</u>
Net Cash Provided by Operating Activities	<u>\$ (691,117)</u>	<u>\$ (390,376)</u>

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

REGIONAL AIR QUALITY COUNCIL

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Regional Air Quality Council (the “Council”) was established by an executive order of the governor of the State of Colorado. In June 2007, the Governor recreated and reauthorized the Council. The governor issued a new executive order on March 25, 2009, that continues the Council's existence through April 30, 2011. The Council exists at the discretion of the governor of the State of Colorado.

The mission of the Regional Air Quality Council is to develop and propose effective and cost-efficient air quality planning initiatives with input from government agencies, the private sector, stakeholder groups, and citizens of the Denver metropolitan region. Its primary task is to prepare state implementation elements that demonstrate and ensure long-term compliance with state and federal air quality standards and provide acceptable public health and environmental protections to those residing in the Denver metropolitan area, as well as the North Front Range area, as appropriate. The Governor has directed Council to engage in a coordinated process with Colorado Department of Public Health and Environment (CDPHE), Colorado Department of Transportation (CDOT), affected local governments, transportation agencies, and others, as appropriate, to develop and report on options to further reduce emissions from vehicles, reduce vehicle miles traveled and other measures that yield emission reductions from the transportation sector. The Council shall lead the discussions of transportation related air quality issues and provide for the broad coordination and opportunity for public involvement necessary to address this issue.

The accounting policies of the Council conform to generally accepted accounting principles as applicable to governments. Following is a summary of the more significant policies.

Reporting Entity

In accordance with governmental accounting standards, the Regional Air Quality Council has considered the possibility of inclusion of additional entities in its basic financial statements.

The definition of the reporting entity is based primarily on financial accountability. The Council is financially accountable for organizations that make up its legal entity. It is also financially accountable for legally separate organizations if Council officials appoint a voting majority of the organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the Council. The Council may also be financially accountable for governmental organizations that are fiscally dependent upon it.

Based on the application of these criteria, the Council includes the Clean Air Fund, a separate not-for-profit corporation, in this report. This information is included in the activity of the enterprise fund.

REGIONAL AIR QUALITY COUNCIL

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Council financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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, are recorded only when payment is due.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed by the proprietary (enterprise) fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Council has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Council's practice to use restricted resources first, then unrestricted resources as they are needed.

The Council reports all activity in one enterprise fund which is a proprietary fund type. This fund is considered a major fund.

Cash and Investments

Cash equivalents include investments with original maturities of three months or less.

Receivables

Receivables consist of amounts that are owed from various granting agencies.

REGIONAL AIR QUALITY COUNCIL

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property and equipment, are reported in the proprietary fund financial statements. Capital assets are defined by the Council as assets with an estimated useful life in excess of one year and an initial cost of \$1,000 or more. An exception is made to the \$1,000 limit for computer equipment. All computer equipment with a life of more than one year is capitalized regardless of value. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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.

Property and equipment of the Council is depreciated using the straight line method over the following estimated useful lives:

Furniture, fixtures and equipment	5 – 10 years
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Accrued Compensated Absences

Council policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits and as earned whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensation absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as Social Security and Medicare taxes.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Council's financial position and operations. However, complete comparative data in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to read.

REGIONAL AIR QUALITY COUNCIL

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The Council is not legally required to prepare a budget under the Colorado Budget Law; however they approve a budget as a management control device. The budget has been presented in these financial statements for presentation purposes. The following procedures are followed in establishing the budgetary data reflected in the financial statements.

In the last quarter of the preceding year, the Council staff submits to the Board of Directors 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.

NOTE 3: DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At December 31, 2009, State regulatory commissioners have indicated that all financial institutions holding deposits for the Council are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held.

The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

The Council has no policy regarding custodial credit risk for deposits.

At December 31, 2009, the Council had deposits with financial institutions with a carrying amount of \$478,778. The bank balances with the financial institutions were \$573,128. Of these balances, \$250,000 was covered by federal depository insurance and \$323,128 was covered by collateral held by authorized escrow agents in the financial institutions name (PDPA).

Investments

Interest Rate Risk

The Council 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.

REGIONAL AIR QUALITY COUNCIL

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 3: DEPOSITS AND INVESTMENTS (Continued)

Credit Risk

Colorado statutes specify in which instruments the units of local government may invest which includes:

- Obligations of the United States and certain U.S. government agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

The above investments are authorized for all funds and fund types used by Colorado municipalities.

The Council does not have any investments requiring categorization as of December 31, 2009.

NOTE 4: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2009 is summarized below:

	<u>Balances</u> <u>12/31/08</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>12/31/09</u>
Business-type Activities				
Capital Assets, depreciated				
Furniture, Fixtures and Equipment	\$ 53,970	\$ 1,737	\$ 1,965	\$ 53,742
Less Accumulated Depreciation	<u>49,256</u>	<u>2,397</u>	<u>1,472</u>	<u>50,181</u>
Total Capital Assets, depreciated, Net	<u>\$ 4,714</u>	<u>\$ (660)</u>	<u>\$ 493</u>	<u>\$ 3,561</u>

NOTE 5: OPERATING LEASE

The Council has entered into a non-cancellable operating lease for its office space and a proportionate amount of the buildings operating expenses. This lease expires on April 30, 2011. Future minimum lease payments are as follows:

2010	\$ 37,842
2011	<u>12,614</u>
Total	<u>\$ 50,456</u>

Rent expense of \$40,550 was recognized in the financial statements for the year ended December 31, 2009.

REGIONAL AIR QUALITY COUNCIL

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 6: CONTRACTS

The Council has entered into various contracts with state and federal agencies to provide services related to the Council's programs. As of December 31, 2009, the Council has entered into contracts with a total amount of \$10,597,506. Of this amount \$5,953,094 has been spent by the Council and subsequently reimbursed by the various agencies and \$4,644,412 is remaining on the contracts.

NOTE 7: RISK MANAGEMENT

The Council is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. Commercial insurance coverage is purchased to handle these risks of loss.

NOTE 8: DEFINED CONTRIBUTION PLAN

The Council contributes to a defined contribution pension plan (the Regional Air Quality Council Money Purchase Plan) covering substantially all employees. Pension expense is recorded for the amount of the Council's contributions, determined in accordance with the terms of the plan. The plan is administered by a trustee appointed by the Council's governing body. The plan provided retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Council's governing body. Contributions of \$14,587 were made to the plan for the year ended December 31, 2009.

NOTE 9: COMMITMENTS AND CONTINGENCIES

Claims and Judgments

The Council participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Council may be required to reimburse the grantor government. As of December 31, 2009, significant amounts of grant expenditures have not been audited but the Council believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the Council.

Tabor Amendment

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local government. The Council believes that it is not subject to the requirements of this amendment because it has no taxing or bonding authority.

REQUIRED SUPPLEMENTARY INFORMATION

REGIONAL AIR QUALITY COUNCIL

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2009

	2009		VARIANCE Positive (Negative)	2008 ACTUAL
	ORIGINAL AND FINAL BUDGET	ACTUAL		
REVENUES				
Project Service Charges	\$ 5,085,460	\$ 1,664,158	\$ (3,421,302)	\$ 2,325,639
Contributions				
Local Governments	210,500	204,750	(5,750)	179,650
Private Companies	40,000	211,980	171,980	958,249
In-Kind	-	119,115	119,115	222,195
Interest	12,000	160	(11,840)	2,698
Other Revenues	-	46,393	46,393	786
TOTAL REVENUES	<u>5,347,960</u>	<u>2,246,556</u>	<u>(3,101,404)</u>	<u>3,689,217</u>
EXPENDITURES				
Direct Contract Costs				
Clean Air Fleets	3,508,500	716,604	2,791,896	1,443,349
Ozone SIP Modeling	162,700	150,018	12,682	246,436
Repair Your Air	410,000	411,800	(1,800)	226,489
Legislative Liaison Services	20,000	19,800	200	19,800
Ozone Awareness	685,500	674,251	11,249	571,838
Fuel Study	150,000	74,801	75,199	-
Public Outreach	20,000	14,136	5,864	3,375
Technical Contingency Assistance	25,000	1,500	23,500	-
Total Direct Contract Costs	<u>4,981,700</u>	<u>2,062,910</u>	<u>2,918,790</u>	<u>2,511,287</u>
General and Administrative				
Salaries and related expenses	675,000	610,535	64,465	542,642
Office rent	39,000	42,763	(3,763)	38,003
Other	10,000	9,013	987	13,265
Equipment Lease	6,000	6,015	(15)	6,059
Telephone	6,000	5,492	508	5,130
Insurance	2,000	2,093	(93)	2,068
Accounting	9,000	8,500	500	8,500
Travel	8,500	9,805	(1,305)	10,785
Office Supplies	6,000	3,447	2,553	5,654
Depreciation	-	2,397	(2,397)	2,161
Repairs and Maintenance	8,000	6,762	1,238	7,973
Printing and copying	1,500	573	927	1,105
Office equipment	2,000	332	1,668	490
Total General and Administrative	<u>773,000</u>	<u>707,727</u>	<u>65,273</u>	<u>643,835</u>
Total Expenses	<u>5,754,700</u>	<u>2,770,637</u>	<u>2,984,063</u>	<u>3,155,122</u>
Change in Net Assets	(406,740)	(524,081)	(117,341)	534,095
NET ASSETS, Beginning	<u>905,000</u>	<u>944,199</u>	<u>39,199</u>	<u>410,104</u>
NET ASSETS, Ending	<u>\$ 498,260</u>	<u>\$ 420,118</u>	<u>\$ (78,142)</u>	<u>\$ 944,199</u>

See the accompanying Independent Auditors' Report.

COMPLIANCE



**JOHN CUTLER
& ASSOCIATES**

To the Board of Directors
Regional Air Quality Council
Denver, Colorado

**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***

We have audited the financial statements of the business-type activities and each major fund of the Regional Air Quality Council, which collectively comprise the Council's basic financial statements and have issued our report thereon dated August 16, 2010. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management of employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Council's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Council's financial statements that is more than inconsequential will not be prevented or detected by the Council's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Council's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

John Luthr & Associates, LLC

August 16, 2010



**JOHN CUTLER
& ASSOCIATES**

To the Board of Directors
Regional Air Quality Council
Denver, Colorado

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of the Regional Air Quality Council with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. The Council's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Council's management. Our responsibility is to express an opinion on the Council's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Council'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. Our audit does not provide a legal determination of Council's compliance with those requirements.

In our opinion, the Council complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

The management of the Council is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Council's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Council's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

John Luthr & Associates, LLC

August 16, 2010

REGIONAL AIR QUALITY COUNCIL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2009

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

• Material weaknesses identified? _____ yes x no

• Reportable conditions identified that are not considered to be material weaknesses? _____ yes x none reported

Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

Internal control over major programs:

• Material weaknesses identified? _____ yes x no

• Reportable conditions identified that are not considered to be material weaknesses? _____ yes x none reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ yes x no

Identification of major program:

20.205 Highway Planning and Construction

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? x yes _____ no

Findings Related to Financial Statements

The audit of the financial statements did not disclose any significant deficiencies in internal control that would be considered a material weakness, and did not disclose any instances of noncompliance with requirements of certain provisions of laws, regulations, and grants that were material to those financial statements.

Findings and Questioned Costs for Federal Awards

The audit of federal awards did not disclose any significant deficiencies in internal control that would be considered a material weakness, and did not disclose any instances of noncompliance with requirements of certain provisions of laws, regulations, and grants that were material to those federal awards.

Regional Air Quality Council
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2009

	<u>Major Program ?</u>	<u>CFDA #</u>	<u>TOTAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Passed through the State Department Of Transportation			
Highway Planning and Construction	Yes	20.205	\$ 1,259,981
<u>ENVIRONMENTAL PROTECTION AGENCY</u>			
Direct Program			
National Clean Diesel Emmissions Reduction Program -ARRA	No	66.034	198,931
Performance Partnership Grants	No	60.605	<u>30,706</u>
Total Federal Financial Assistance			<u>\$ 1,489,618</u>

NOTES

1. Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Council and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the purpose financial statements.

2. Sub-recipients

The Council has the following sub recipients:

	<u>CFDA #</u>	<u>Amount</u>
Furniture Row	66.605	\$ 22,000
Academy 20	66.034	25,615
Cast Transport	66.034	22,000
Colorado Springs School District 11	66.034	25,615
Furniture Row	66.034	96,800
Magellan Frieght Lines LLC	66.034	22,000
Pacific Shipping and Trucking Co., Inc.	66.034	44,000
Colorado Dept of Transportation	20.205	4,694
City and County of Denver (Public Works)	20.205	133,825
Mile High Foods	20.205	114,673
National Rental Car	20.205	3,986
American Furniture Warehouse	20.205	5,756
City of Aurora (Public Works)	20.205	32,573
City of Thornton (Public Works)	20.205	20,000

See the accompanying independent auditors' report.