

REGIONAL AIR QUALITY COUNCIL

BASIC FINANCIAL STATEMENTS

December 31, 2011

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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, 2011, 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, 2011, 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 June 25, 2102 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 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 and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Regional Air Quality Council's financial statements. The individual fund schedule and schedule of expenditures of federal awards, as required by the *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* (Circular A-133) are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, individual fund schedule and the schedule of expenditure of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

John Cutler & Associates, LLC

June 25, 2012

**Regional Air Quality Council
Management's Discussion and Analysis
December 31, 2011**

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, 2011. The Council considers each fiscal year separately. Although 2010 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, 2011, the Council has entered into multi-year contracts that total \$8,748,899.
- During the current economic recession, the Council has been able to maintain the majority of its local government funding.. In 2011, local government contributions only decreased by \$7,400 or 3.3% from 2010.
- Local government contributions actually increased by \$5,200 or 2.3% from the funding level budgeted by Council for 2011. Council has worked to maintain strong partnerships with local governments.
- The Council reached out to private sector partners and secured additional funding for programs. In 2011, private sector contributions increased by \$176,500 or 81.5 % from the anticipated private sector funding.
- In 2011, the Council was able to keep its administrative costs under the budgeted amount while increasing its programs. Administrative costs decreased by \$66,250 or 8.46% from 2010 while project costs (due to increased grant funding) increased by \$744,939 or 19.49% from 2010. This illustrates that Council has maintained efficient and effective operations within the organization.

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

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 544,284	\$ 259,897
Accounts receivable	790,683	455,361
Prepaid expenses	<u>12,764</u>	<u>12,685</u>
Total current assets	<u>1,347,731</u>	<u>727,943</u>
Total noncurrent assets	<u>11,586</u>	<u>4,904</u>
Total assets	<u>\$ 1,359,317</u>	<u>\$ 732,847</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 797,413	\$ 351,448
Accrued payroll and payroll taxes	12,742	16,228
Accrued compensated absences	<u>53,023</u>	<u>45,395</u>
Total liabilities	<u>863,178</u>	<u>413,071</u>
Net assets		
Invested in capital assets	9,933	3,251
Unrestricted	<u>486,206</u>	<u>316,525</u>
Total net assets	<u>\$ 496,139</u>	<u>\$ 319,776</u>

As shown in Table 1 above, the Council's assets increased in 2011 because of additional project funds received through contracts in 2011.

The change in accounts receivable from 2010 to 2011 is due to the nature of the Council's income contracts for programs and the timing of contract reimbursements. December and fourth quarter 2011 invoices for contract reimbursements were submitted for payment in early 2012.

Operating Results and Changes in the Council's Net Assets

In 2011, the Council's net assets increased by \$176,363 as shown in Table 2. This increase is made up of several different components. The reasons for this increase are discussed under the "Operating Losses" section below.

Table 2: Operating Results and Changes in Net Assets

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Total operating revenues (contract, local government & in-kind project income)	\$ <u>4,407,583</u>	\$ <u>3,613,603</u>
Operating Expenses		
Direct contract costs	3,731,178	3,096,079
General and administrative	<u>716,762</u>	<u>783,012</u>
Total operating expenses	<u>4,447,940</u>	<u>3,879,091</u>
Operating Loss	(40,357)	(265,488)
Nonoperating Revenues		
Total nonoperating revenues (private sector contributions/interest income)	<u>216,720</u>	<u>165,146</u>
Increase (decrease) in net assets	<u>\$ 176,363</u>	<u>\$ (100,342)</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 (\$40,137) and (\$265,488), respectively. The losses are due to the nature of the Council's programs and funding sources. Some funding sources provide 100% of their program contributions at the beginning of a project which can be expended over multiple years, while other sources provide funding on a reimbursement basis.

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 the direct contract costs and a portion of the general and administrative costs. Non-operating revenues (i.e. private sector contributions) and reserve funds, which are not represented in the operating loss, are used to pay for the remaining program and general and administrative costs. Therefore, the increase/decrease in net assets is a more accurate reflection of the Council's economic condition. The increase in net assets in 2011 reflects the annual fluctuation in recovery of indirect costs through contracts. Council submits indirect cost rates for approval to its cognizant agency annually to assure that indirect costs are recovered equitably between all funding sources.

Non-Operating Revenues

Non-operating revenues consist primarily of contributions from private companies. Cash contributions increased in 2011 compared to 2010 because of project specific donations received in 2011. 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.

Examples of how these "non-operating" revenues (ie. private sector contributions) are used by the Council are listed below.

- Council had a contract with the Environmental Protection Agency (EPA) that reimbursed the Council for equipment expenses only. All other costs (ie. administrative 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 80-82.79% of the total cost incurred. Local government, private sector and/or in-kind contributions funded the remaining 17.21-20% 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'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 2011, the Council had \$6,682 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. Capital assets include computers, projectors, a server and the phone system with voicemail. Council also recycled older obsolete computers and the old phone system 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, 2015. 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, 2011

	<u>2011</u>	<u>2010</u>
ASSETS		
Current Assets		
Cash	\$ 544,284	\$ 259,897
Accounts Receivable	790,683	455,361
Prepaid Expenses	<u>12,764</u>	<u>12,685</u>
Total Current Assets	<u>1,347,731</u>	<u>727,943</u>
Noncurrent Assets		
Capital Assets, net of accumulated depreciation	9,933	3,251
Other	<u>1,653</u>	<u>1,653</u>
Total Noncurrent Assets	<u>11,586</u>	<u>4,904</u>
TOTAL ASSETS	<u>1,359,317</u>	<u>732,847</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	797,413	351,448
Accrued Expenses	<u>12,742</u>	<u>16,228</u>
Total Current Liabilities	<u>810,155</u>	<u>367,676</u>
Noncurrent Liabilities		
Accrued Compensated Absences	<u>53,023</u>	<u>45,395</u>
TOTAL LIABILITIES	<u>863,178</u>	<u>413,071</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	9,933	3,251
Unreserved	<u>486,206</u>	<u>316,525</u>
TOTAL NET ASSETS	<u>\$ 496,139</u>	<u>\$ 319,776</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, 2011

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Project Service Charges	\$ 3,820,637	\$ 3,075,698
Contributions to Programs		
Local Governments	221,350	213,950
In-Kind	334,255	306,241
Other Income	<u>31,341</u>	<u>17,714</u>
TOTAL OPERATING REVENUES	<u>4,407,583</u>	<u>3,613,603</u>
OPERATING EXPENSES		
Direct Contract Costs	3,731,178	3,096,079
General and Administrative	<u>716,762</u>	<u>783,012</u>
TOTAL OPERATING EXPENSES	<u>4,447,940</u>	<u>3,879,091</u>
OPERATING LOSS	<u>(40,357)</u>	<u>(265,488)</u>
NON-OPERATING REVENUES		
Interest Income	<u>220</u>	<u>146</u>
LOSS BEFORE CONTRIBUTIONS	<u>(40,137)</u>	<u>(265,342)</u>
Contributions	<u>216,500</u>	<u>165,000</u>
NET INCOME (LOSS)	176,363	(100,342)
NET ASSETS, Beginning	<u>319,776</u>	<u>420,118</u>
NET ASSETS, Ending	<u>\$ 496,139</u>	<u>\$ 319,776</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, 2011

Increase (Decrease) in Cash and Cash Equivalents

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received Grantors	\$ 3,424,947	\$ 2,992,830
Cash Received from Local Governments	221,350	213,950
Cash Paid to Suppliers	(2,959,158)	(2,935,286)
Cash Paid to Employees	(609,093)	(653,403)
Net Cash Provided (Used) by Operating Activities	<u>78,046</u>	<u>(381,909)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(10,379)	(2,118)
Capital Contributions	216,500	165,000
Net Cash Provided by Capital and Related Financing Activities	<u>206,121</u>	<u>162,882</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	220	146
Net Increase (Decrease) in Cash and Cash Equivalents	284,387	(218,881)
CASH AND CASH EQUIVALENTS, Beginning	<u>259,897</u>	<u>478,778</u>
CASH AND CASH EQUIVALENTS, Ending	<u>\$ 544,284</u>	<u>\$ 259,897</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	\$ (40,357)	\$ (265,488)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	3,697	2,428
Changes in Assets and Liabilities		
Accounts Receivable	(335,322)	(100,582)
Prepaid Expenses and Deposits	(79)	2,322
Accounts Payable	445,965	(36,422)
Accrued Expenses	(3,486)	930
Accrued Compensated Absences	7,628	14,903
Total Adjustments	<u>118,403</u>	<u>(116,421)</u>
Net Cash Provided by Operating Activities	<u>\$ 78,046</u>	<u>\$ (381,909)</u>

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

REGIONAL AIR QUALITY COUNCIL

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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. On May 5, 2011, the Governor extended and reauthorized the Council. The Governor issued a new executive order on January 23, 2012, that continues the Council's existence through April 30, 2015. 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, 2011

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, 2011

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. Accumulated vacation expense is recorded when time off occurs. Upon termination employees are paid for accumulated vacation time. Sick leave benefits are recognized as expense when the time off occurs. Sick leave benefits can be accumulated, but are not payable in cash at time of termination. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at time of termination.

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, 2011

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, 2011, 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, 2011, the Council had deposits with financial institutions with a carrying amount of \$544,284. The bank balances with the financial institutions were \$679,660. Of these balances, \$250,000 was covered by federal depository insurance and \$429,660 was covered by collateral held by authorized escrow agents in the financial institutions name (PDPA).

REGIONAL AIR QUALITY COUNCIL

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 3: DEPOSITS AND INVESTMENTS (Continued)

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.

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, 2011.

NOTE 4: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2011 is summarized below:

	<u>Balances</u> <u>12/31/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>12/31/11</u>
Business-type Activities				
Capital Assets, depreciated				
Furniture, Fixtures and Equipment	\$ 55,860	\$ 10,379	\$ -	\$ 66,239
Less Accumulated Depreciation	<u>52,609</u>	<u>3,697</u>	<u>-</u>	<u>56,306</u>
Total Capital Assets, depreciated, Net	<u>\$ 3,251</u>	<u>\$ 6,682</u>	<u>\$ -</u>	<u>\$ 9,933</u>

REGIONAL AIR QUALITY COUNCIL

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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, 2013. Future minimum lease payments are as follows:

2012	\$ 43,763
2013	<u>14,799</u>
Total	<u>\$ 58,562</u>

Rent expense of \$44,270 was recognized in the financial statements for the year ended December 31, 2011.

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, 2011, the Council has entered into contracts with a total amount of \$8,748,899. Of this amount \$3,553,353 has been spent by the Council and subsequently reimbursed by the various agencies and \$5,195,546, 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 \$14,170 were made to the plan for the year ended December 31, 2011.

REGIONAL AIR QUALITY COUNCIL

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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, 2011, 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.

INDIVIDUAL FUND SCHEDULE

REGIONAL AIR QUALITY COUNCIL

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2011

	2011		VARIANCE Positive (Negative)	2010 ACTUAL
	ORIGINAL AND FINAL BUDGET	ACTUAL		
REVENUES				
Project Service Charges	\$ 7,032,200	\$ 3,820,637	\$ (3,211,563)	\$ 3,075,698
Contributions				
Local Governments	216,150	221,350	5,200	213,950
Private Companies	40,000	216,500	176,500	165,000
In-Kind	-	334,255	334,255	306,241
Interest	-	220	220	146
Other Revenues	-	31,341	31,341	17,714
TOTAL REVENUES	7,288,350	4,624,303	(2,664,047)	3,778,749
EXPENDITURES				
Direct Contract Costs				
Clean Air Fleets	5,450,300	2,781,283	2,648,585	2,212,757
Ozone SIP Modeling	556,600	221,416	335,184	62,789
Repair Your Air Project	70,200	81,647	(506)	230,861
Legislative Liaison Services	20,000	19,800	200	18,150
Ozone Awareness Project	415,000	528,925	(75,315)	541,900
Transportation Demand Management	82,700	88,309	(5,609)	24,727
Public Outreach	10,000	9,798	(28,917)	4,895
Total Direct Contract Costs	6,604,800	3,731,178	2,873,622	3,096,079
General and Administrative				
Salaries and related expenses	713,000	613,235	99,765	669,236
Office rent	45,000	44,271	729	48,552
Other	10,000	11,019	(1,019)	17,154
Equipment Lease	6,500	6,444	56	6,226
Telephone	7,000	5,938	1,062	7,060
Insurance	2,000	2,264	(264)	2,093
Accounting	8,500	8,500	-	8,500
Travel	11,000	8,880	2,120	8,580
Office Supplies	7,000	3,270	3,730	5,393
Depreciation	-	3,697	(3,697)	2,428
Repairs and Maintenance	5,000	5,263	(263)	4,121
Printing and copying	3,500	3,077	423	3,181
Office equipment	12,500	904	11,596	488
Total General and Administrative	831,000	716,762	114,238	783,012
TOTAL EXPENSES	7,435,800	4,447,940	2,987,860	3,879,091
Change in Net Assets	(147,450)	176,363	323,813	(100,342)
NET ASSETS, Beginning	432,300	319,776	(112,524)	420,118
NET ASSETS, Ending	\$ 284,850	\$ 496,139	\$ 211,289	\$ 319,776

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

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 June 25, 2012. 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 *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 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.

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 Cutler & Associates, LLC

June 25, 2012



JOHN CUTLER & ASSOCIATES

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

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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, 2011. 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, 2011.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 *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.

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 Cutler & Associates, LLC

June 25, 2012

REGIONAL AIR QUALITY COUNCIL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2011

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weaknesses identified? yes no

- Significant Deficiencies? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? yes no

- Significant Deficiencies? yes 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 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?

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, 2011

	<u>Major Program ?</u>	<u>CDFA #</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	\$ 2,169,293
<u>ENVIRONMENTAL PROTECTION AGENCY</u>			
Direct Program National Clean Diesel Emmission Reduction Program	No	66.039	<u>1,012,064</u>
Total Federal Financial Assistance			<u><u>\$ 3,187,931</u></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 had no sub-receptients during the year-ended December 31, 2011.

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