

**REGIONAL AIR QUALITY COUNCIL**

**BASIC FINANCIAL STATEMENTS**

**December 31, 2016**

## TABLE OF CONTENTS

### PAGE

### INTRODUCTORY SECTION

Title Page

Table of Contents

### FINANCIAL SECTION

Independent Auditors' Report

Management's Discussion and Analysis

i - iv

#### **Basic Financial Statements**

Statement of Net Position

1

Statement of Revenues, Expenses and Changes in Fund Net Position

2

Statement of Cash Flows

3

Notes to Financial Statements

4 - 11

#### **Individual Fund Statement**

Budgetary Comparison Schedule

12

### COMPLIANCE

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*

13 – 14

Report On Compliance For Each Major Federal Program,  
Report On Internal Control Over Compliance As Required By  
Uniform Guidance

15 – 16

Schedule of Findings and Questioned Costs

17

Schedule of Expenditures of Federal Awards

18

**FINANCIAL SECTION**



# JOHN CUTLER & ASSOCIATES

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

## INDEPENDENT AUDITORS' REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Regional Air Quality Council (the "Council"), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Regional Air Quality Council, as of December 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's basic financial statements. The budgetary comparison schedule and the schedule of expenditures of federal awards, as required by the and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) listed in the table of contents 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, budgetary comparison schedule and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2017 on our consideration of the Regional Air Quality 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 or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Regional Air Quality Council's internal control over financial reporting and compliance.

*John Cutler & Associates, LLC*

July 31, 2017

**Regional Air Quality Council  
Management's Discussion and Analysis  
December 31, 2016**

***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, 2016. The Council considers each fiscal year separately. Although 2015 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 continues to have a strong financial position. The Council has a solid cash position and significant contract funding to fund its programs.
- The Council has been successful in securing grant funding to support its activities. As of December 31, 2016, the Council has entered into multi-year contracts with state and federal agencies that total \$25,520,546. Of this amount, \$12,616,598 has been spent by Council and reimbursed by various agencies and \$12,903,948 is remaining on the contracts.
- In 2016, the Council's overall local government funding level remained the same from 2015. Council continues to work sustain its local government funding levels and to maintain strong partnerships with local governments.
- Council has been successful in securing in-kind match contributions from partners to match federal grant funds. The collected in-kind match was sufficient to meet contractual requirements.
- Administrative costs increased by \$45,781 or 4.5% from 2015. This increase is due to increased costs related to staffing, health care, and rent operating cost increases for office and building updates. However, the administrative costs were still under the 2016 budgeted amount.

***Using this Annual Report***

The Council's financial statements consist of three statements— statement of net position; a statement of revenue, expenses and changes in net position; and a statement of cash flows proprietary fund type. 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 Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position**

The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position 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 position and changes in them. The Council’s net position—the difference between assets and liabilities—is one measure of the Council’s financial health or financial position.

**The Statement of Cash Flows Proprietary Fund Type**

The Statement of Cash Flows Proprietary Fund Type 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 Position**

The Council’s net position is the difference between its assets and liabilities reported in the Statement of Net Position.

**Table 1: Assets, Liabilities and Net Position**

	2016	2015
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 706,164	\$ 520,686
Accounts receivable	2,779,203	2,902,271
Prepaid expenses	<u>47,309</u>	<u>24,017</u>
Total current assets	<u>3,532,676</u>	<u>3,446,974</u>
Total noncurrent assets	<u>48,946</u>	<u>60,086</u>
 Total assets	 \$ <u>3,581,622</u>	 \$ <u>3,507,060</u>
 <b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 2,655,736	\$ 2,624,700
Accrued expenses	<u>18,048</u>	<u>16,938</u>
Total current liabilities	<u>2,673,784</u>	<u>2,641,638</u>
 Noncurrent liabilities		
Accrued compensated absences	<u>65,690</u>	<u>54,371</u>
 Total Liabilities	 \$ <u>2,739,474</u>	 \$ <u>2,696,009</u>
 <b>Net Position</b>		
Invested in capital assets	47,293	58,433
Unrestricted	<u>794,855</u>	<u>752,618</u>
 Total Net Position	 \$ <u>842,148</u>	 \$ <u>811,051</u>

As shown in Table 1 above, the Council’s net position increased in 2016. This is a reflection of contract work. The RAQC’s projects are funded with multi-year contracts and the work schedules and payments revolve around vendor and recipient availability. The RAQC also budgeted to use some of its previous year fund balance to pay for program costs not included within contracts.

The change in accounts receivable from 2015 to 2016 is due to the nature of the Council’s income contracts for programs and the timing of contract reimbursements. December and fourth quarter 2015 invoices for contract reimbursements were submitted for payment in early 2016. The year-end accounts receivable balance is based on the amount of work completed on each contracted project.

**Operating Results and Changes in the Council’s Net Position**

In 2016, the Council’s changes in net position increased to \$842,148 as shown in Table 2. This increase is due of several different components. The reasons for this increase are discussed under the “Operating Losses/Gains” section below.

**Table 2: Operating Results and Changes in Net Position**

	<u>2016</u>	<u>2015</u>
<b>Operating Revenues</b>		
Project Service Charges	6,319,609	5,869,482
Contributions to Programs (local governments)	199,750	199,750
Contributions to Programs (in-kind project income)	1,124,3524	302,454
Other income	505	1,140
Total operating revenues	\$ <u>7,644,216</u>	\$ <u>6,372,826</u>
<b>Operating Expenses</b>		
Direct contract costs	6,728,307	5,464,293
General and administrative	<u>1,000,976</u>	<u>952,466</u>
Total operating expenses	<u>7,729,283</u>	<u>6,416,759</u>
<b>Operating Loss</b>	(85,067)	(43,933)
<b>Nonoperating Revenues</b>		
Total nonoperating revenues (private sector contributions/interest income)	<u>116,164</u>	<u>115,051</u>
Net Income (Loss)	<u>31,097</u>	<u>71,118</u>
<b>NET POSITION, Beginning</b>	811,051	826,678
<b>Prior Period Adjustment</b>	-	(86,745)
<b>NET POSITION, Ending</b>	<u>\$ 842,148</u>	<u>\$ 811,051</u>

**Operating Loss/Gain**

The first component of the overall change in the Council’s net position is its income or loss/gain—generally, the difference between revenues and expenses. In 2016, the Council has reported a net income gain of \$31,097. A contributing factor to this net gain is Supplemental Environmental Program (SEP) funding for the lawn mower exchange program, much of which was received in 2016 and slated for expenditure in 2017.



The Council's financial statements conform to the requirements of GASB 34, which divide income by definition into two categories, operating and non-operating.

The Council's operating revenue was used to pay for the direct contract costs and a portion of the general and administrative costs. The increase in net position in 2016 also 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 interest and Supplemental Environmental Program (SEP) income and private sector contributions.

### ***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 2016, the Council had \$47,293 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. Capital assets include computers, projectors, an infrared camera, a server and a phone system with voicemail. Council also 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 remains in full force until modified or rescinded by future executive order of the Governor. 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 nine-county metro Denver/North Front Range 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 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](mailto:staff@raqc.org).

## **BASIC FINANCIAL STATEMENTS**

REGIONAL AIR QUALITY COUNCIL

STATEMENT OF NET POSITION

As of December 31, 2016

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets		
Cash	\$ 706,164	\$ 520,686
Accounts Receivable	2,779,203	2,902,271
Prepaid Expenses	<u>47,309</u>	<u>24,017</u>
Total Current Assets	<u>3,532,676</u>	<u>3,446,974</u>
Noncurrent Assets		
Capital Assets, net of accumulated depreciation	47,293	58,433
Other	<u>1,653</u>	<u>1,653</u>
Total Noncurrent Assets	<u>48,946</u>	<u>60,086</u>
TOTAL ASSETS	<u>3,581,622</u>	<u>3,507,060</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	2,655,736	2,624,700
Accrued Expenses	<u>18,048</u>	<u>16,938</u>
Total Current Liabilities	<u>2,673,784</u>	<u>2,641,638</u>
Noncurrent Liabilities		
Accrued Compensated Absences	<u>65,690</u>	<u>54,371</u>
TOTAL LIABILITIES	<u>2,739,474</u>	<u>2,696,009</u>
NET POSITION		
Investment in Capital Assets	47,293	58,433
Unrestricted	<u>794,855</u>	<u>752,618</u>
TOTAL NET POSITION	<u>\$ 842,148</u>	<u>\$ 811,051</u>

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

REGIONAL AIR QUALITY COUNCIL

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
Year Ended December 31, 2016

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Project Service Charges	\$ 6,319,609	\$ 5,869,482
Contributions to Programs		
Local Governments	199,750	199,750
In-Kind	1,124,352	302,454
Other Income	505	1,140
	<u>7,644,216</u>	<u>6,372,826</u>
TOTAL OPERATING REVENUES		
OPERATING EXPENSES		
Direct Contract Costs	6,728,307	5,464,293
General and Administrative	1,000,976	952,466
	<u>7,729,283</u>	<u>6,416,759</u>
TOTAL OPERATING EXPENSES		
OPERATING INCOME	<u>(85,067)</u>	<u>(43,933)</u>
NON-OPERATING REVENUES		
Interest Income	57	51
	<u>(85,010)</u>	<u>(43,882)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS		
Contributions	116,107	115,000
	<u>31,097</u>	<u>71,118</u>
NET INCOME		
NET POSITION, Beginning	811,051	826,678
Prior Period Adjustment	-	(86,745)
	<u>842,148</u>	<u>811,051</u>
NET POSITION, Ending		

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, 2016

Increase (Decrease) in Cash and Cash Equivalents

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received Grantors	\$ 6,443,182	\$ 3,831,191
Cash Received from Local Governments	199,750	199,750
Cash Paid to Suppliers	(5,712,513)	(3,461,238)
Cash Paid to Employees	(861,105)	(818,745)
Net Cash Provided (Used) by Operating Activities	<u>69,314</u>	<u>(249,042)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	-	(2,737)
Capital Contributions	116,107	115,000
Net Cash Provided by Capital and Related Financing Activities	<u>116,107</u>	<u>112,263</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	57	51
Net Increase (Decrease) in Cash and Cash Equivalents	185,478	(136,728)
CASH AND CASH EQUIVALENTS, Beginning	<u>520,686</u>	<u>657,414</u>
CASH AND CASH EQUIVALENTS, Ending	<u>\$ 706,164</u>	<u>\$ 520,686</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	<u>\$ (85,067)</u>	<u>\$ (43,933)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	11,140	10,623
Changes in Assets and Liabilities		
Accounts Receivable	123,068	(2,039,431)
Prepaid Expenses and Deposits	(23,292)	(9,990)
Accounts Payable	31,036	1,832,223
Accrued Expenses	1,110	1,466
Accrued Compensated Absences	11,319	-
Total Adjustments	<u>154,381</u>	<u>(205,109)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 69,314</u>	<u>\$ (249,042)</u>

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

REGIONAL AIR QUALITY COUNCIL

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**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. In 2013, the Governor extended and amended the Council’s executive order as the lead air quality planning agency for the Denver metropolitan area and the Denver Metro/North Front Range Ozone Non-Attainment Area. The Council exists at the discretion of the governor of the State of Colorado with no specific expiration date.

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/North Front Range 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 and the North Front Range areas, 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, 2016

**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**

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, 2016

**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 acquisition 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
-----------------------------------	--------------

**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.

**Net Position**

The government-wide and business-type fund financial statements utilize a net position presentation. Net position is categorized as investment in capital assets, restricted, and unrestricted.

*Investment in Capital Assets* is intended to reflect the portion of net position which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.

*Restricted Net Position* consist of liquid assets, which have third party limitations on their use.



REGIONAL AIR QUALITY COUNCIL

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Net Position** (Continued)

*Unrestricted Net Position* represents assets that do not have any third party limitation on their use. While Council management may have categorized and segmented portion for various purposes, the Council has the unrestricted authority to revisit or alter these managerial decisions.

**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.

**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.

REGIONAL AIR QUALITY COUNCIL

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**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, 2016, 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, 2016, the Council had deposits with financial institutions with a carrying amount of \$706,164. The bank balances with the financial institutions were \$767,475. Of these balances, \$250,000 was covered by federal depository insurance and \$517,475 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.

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

REGIONAL AIR QUALITY COUNCIL

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**NOTE 3: DEPOSITS AND INVESTMENTS** (Continued)

**Investments** (Continued)

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

Fair Value

The Council categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant observable inputs.

The Council does not have any investments requiring categorization as of December 31, 2016.

**NOTE 4: CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2016 is summarized below:

	<u>Balances</u> <u>12/31/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>12/31/16</u>
<b>Business-type Activities</b>				
Capital Assets, depreciated				
Furniture, Fixtures and Equipment	\$ 139,548	\$ -	\$ -	\$ 139,548
Less Accumulated Depreciation	<u>81,115</u>	<u>11,140</u>	<u>-</u>	<u>92,255</u>
Total Capital Assets, depreciated, Net	<u>\$ 58,433</u>	<u>\$ (11,140)</u>	<u>\$ -</u>	<u>\$ 47,293</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, 2019. Future minimum lease payments are as follows:

2017	\$ 60,465
2018	61,734
2019	<u>20,719</u>
Total	<u>\$ 142,918</u>

The Council recognized \$66,274 in rent expense for the year ended December 31, 2016.

REGIONAL AIR QUALITY COUNCIL

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**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, 2016, the Council has entered into contracts with a total amount of \$25,520,546. Of this amount \$12,616,598 has been spent by the Council and subsequently reimbursed by the various agencies and \$12,903,948, 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. Settled claims have not exceeded insured amounts in the last three years.

**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 \$20,364 were made to the plan for the year ended December 31, 2016.

**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, 2016, 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.

REGIONAL AIR QUALITY COUNCIL

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**NOTE 9: COMMITMENTS AND CONTINGENCIES** (Continued)

**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, 2016

	2016		VARIANCE Positive (Negative)	2015 ACTUAL
	ORIGINAL AND FINAL BUDGET	ACTUAL		
REVENUES				
Project Service Charges	\$ 14,713,900	\$ 6,319,609	\$ (8,394,291)	\$ 5,869,482
Contributions				
Local Governments	199,750	199,750	-	199,750
Private Companies	77,500	116,107	38,607	115,000
In-Kind	-	1,124,352	1,124,352	302,454
Interest	-	57	57	51
Other Revenues	-	505	505	1,140
TOTAL REVENUES	<u>14,991,150</u>	<u>7,760,380</u>	<u>(7,230,770)</u>	<u>6,487,877</u>
EXPENDITURES				
Direct Contract Costs				
Vehicle Emission Reducion Program	12,557,000	5,855,180	6,701,820	4,542,775
Ozone SIP Modeling/Technical Analysis	325,000	192,533	132,467	178,505
Front Range Air Quality Study	-	-	-	342,617
CMAQ Local Air Quality Project	380,000	9,423	370,577	-
Legislative Liaison Services	20,000	19,800	200	19,800
Ozone Awareness Project	610,000	494,527	115,473	227,013
Transportation Demand Management	93,700	125,534	(31,834)	140,866
Infrared Camera Project	7,800	7,994	(194)	7,822
Literature Review	-	20,437	(20,437)	-
Public Outreach	10,000	2,879	7,121	4,895
Total Direct Contract Costs	<u>14,003,500</u>	<u>6,728,307</u>	<u>7,275,193</u>	<u>5,464,293</u>
General and Administrative				
Salaries and Related Expenses	892,600	873,534	19,066	820,211
Office Rent	64,000	66,274	(2,274)	70,867
Other	13,000	13,566	(566)	16,026
Equipment Lease	6,000	4,909	1,091	5,251
Telephone	6,500	6,182	318	5,345
Insurance	3,000	2,423	577	2,412
Accounting	8,500	8,500	-	8,500
Travel	11,000	6,587	4,413	6,591
Office Supplies	9,500	3,929	5,571	3,150
Depreciation	-	11,140	(11,140)	10,623
Repairs and Maintenance	6,500	2,505	3,995	5,043
Printing and Copying	3,000	1,427	1,573	1,176
Total General and Administrative	<u>1,023,600</u>	<u>1,000,976</u>	<u>22,624</u>	<u>955,195</u>
TOTAL EXPENSES	<u>15,027,100</u>	<u>7,729,283</u>	<u>7,297,817</u>	<u>6,419,488</u>
Change in Net Position - Budget Basis	(35,950)	31,097	67,047	68,389
GAAP BASIS ADJUSTMENT - Capital Outlay	-	-	-	2,729
Change in Net Position - GAAP Basis	(35,950)	31,097	67,047	71,118
NET POSITION, Beginning	744,711	811,051	66,340	826,678
Prior Period Adjustment	-	-	-	(86,745)
NET POSITION, Ending	<u>\$ 708,761</u>	<u>\$ 842,148</u>	<u>\$ 133,387</u>	<u>\$ 811,051</u>

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of the Regional Air Quality Council as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Regional Air Quality Council's basic financial statements, and have issued our report thereon dated July 31, 2017.

#### **Internal Control over Financial Reporting**

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

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

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

#### **Compliance and Other Matters**

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

## Purpose of this Report

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

*John Luttrell & Associates, LLC*

July 31, 2017



## JOHN CUTLER & ASSOCIATES

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

### **REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY THE UNIFORM GUIDANCE**

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

We have audited the Regional Air Quality Council's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Regional Air Quality Council's major federal programs for the year ended December 31, 2016. The Regional Air Quality Council's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### **Management's Responsibility**

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

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Regional Air Quality Council's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Regional Air Quality 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Regional Air Quality Council's compliance.

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

In our opinion, the Regional Air Quality Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

## Report on Internal Control Over Compliance

Management of the Regional Air Quality Council is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Regional Air Quality Council's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Regional Air Quality 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

*John Luttrell & Associates, LLC*

July 31, 2017

REGIONAL AIR QUALITY COUNCIL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended December 31, 2016

**Summary of Auditors' Results**

*Financial Statements*

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weaknesses identified? \_\_\_\_\_ yes      x   no
- Significant Deficiencies noted? \_\_\_\_\_ 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
- Significant Deficiencies noted? \_\_\_\_\_ 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 the Uniform Guidance?

\_\_\_\_\_ 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: \$750,000

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, 2016

	<u>Major Program ?</u>	<u>C DFA #</u>	<u>Total Expenditures</u>
<b><u>U.S. DEPARTMENT OF TRANSPORTATION</u></b>			
Passed through the State Department Of Transportation Highway Planning and Construction	Yes	20.205	\$ 5,314,989
<b><u>ENVIRONMENTAL PROTECTION AGENCY</u></b>			
Direct Program National Clean Diesel Emmission Reduction Program	No	66.039	<u>643,667</u>
<b>Total Federal Financial Assistance</b>			<u><u>\$ 5,958,656</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 and the audit requirements of Title 2 U.S. Code of Federal Regulations *Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. 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**

In relation to the federal expenditures presented in this schedule, \$4,705,905 in federal awards was passed through to subrecipients during 2016.

3. The Council did not use the 10% de minimus cost rate.

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