

COLORADO VENTURE CAPITAL AUTHORITY
Denver, Colorado

FINANCIAL STATEMENTS
December 31, 2017 and 2016

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June 27, 2018

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Colorado Venture Capital Authority
Denver, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the Colorado Venture Capital Authority, a component unit of the state of Colorado, which are comprised of the statements of net position as of December 31, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the component unit'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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits 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 auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Colorado Venture Capital Authority as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Colorado Venture Capital Authority and do not purport to, and do not, present fairly the financial position of the State of Colorado, as of December 31, 2017 and 2016, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages III - IX 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2018, on our consideration of the Colorado Venture Capital Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Colorado Venture Capital Authority's 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 the Colorado Venture Capital Authority's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Denver, Colorado
June 21, 2018



Venture Capital Authority

Management’s Discussion and Analysis

Our discussion and analysis of Colorado Venture Capital Authority’s (the Authority or VCA) financial performance provides an overview of the Authority’s financial activities for the fiscal years ended December 31, 2017 and 2016. Please read it in conjunction with the Authority’s financial statements.

Relationship of the Authority to the Funds

The Authority’s responsibility is limited to the selection (and limited oversight) of High Country Venture, LLC and High Country Venture II, LLC (collectively, the Manager) to serve as the general partner of Colorado Fund I, L.P. (Fund I) and Colorado Fund II, L.P. (Fund II) (collectively, the Funds), respectively. The Authority reviews the activities and progress of the Funds in relation to the VCA Statute on an ongoing basis. On behalf of the Authority, the Colorado Office of Economic Development & International Trade reviews the geographical designation of portfolio company investments under the VCA Statute and may recommend to the Authority disqualification of an investment based on a failure to meet the requirements of the VCA Statute. However, in compliance with the VCA Statute and other applicable laws and, as is customary for an investor in a private equity fund, the Manager (and not the Authority) as general partner of the Funds has the sole power and authority to call capital for and select, oversee, and sell all Fund investments, pursuant to the terms of the Funds’ limited partnership agreements.

In September of 2017, the Authority issued a request for proposal (RFP) for a fund manager to serve as the general partner for a new fund designated as the Greater Colorado Venture Fund I, L.P. In December 2017, the Authority reviewed the RFP applications and attended RFP presentations. On December 12, 2017, the Authority selected the Greater Colorado Venture Fund I, L.P. fund manager as Greater Colorado Venture Fund GP, LLC. The Authority’s capital commitment will be approximately \$9.1 million and the Authority may commit up to an additional \$3 million in its sole discretion until the one year anniversary of the initial closing date. A term sheet for Greater Colorado Venture Fund GP, LLC has been approved by the Authority and the limited partnership agreement is in negotiations at this time.

Regulatory Highlights

As of December 31, 2017 (Year-End), both Fund I and Fund II were in compliance with the geographical investment requirements of the VCA Statute, as shown in the charts below.

Fund I Capital Contributions as Percentage of Geographical Targets:

	Target as of 12/31/2017	Investment as of 12/31/2017	% of 12/31/2017 Target
Statewide	\$10,883,204	\$13,425,266	123%
Rural	\$5,441,602	\$5,447,993	100%
Urban Distressed	\$5,441,602	\$5,476,771	101%

**COLORADO VENTURE CAPITAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017 and 2016**

Regulatory Highlights (Continued)

Fund II Capital Contributions as Percentage of Geographical Targets:

	Target as of 12/31/2017	Investment as of 12/31/2017	% of 12/31/2017 Target
Statewide	\$6,343,565	\$13,874,545	219%
Rural	\$3,171,782	\$6,236,604	197%
Urban Distressed	\$3,171,782	\$6,675,061	210%

Financial Highlights

The Authority uses investment fund accounting terminology, whereby Operating Revenues include exchange transactions, manager application fees (in those years when the Authority has invited applications for new managers) and both realized and unrealized gains and losses from investments of the Funds. Operating Expenses are the administrative expenses of the Authority.

In accordance with generally accepted accounting principles (GAAP), the Funds have primarily valued the investments held by the Funds based on the most recent arm's length transactions (Transactions) in the securities of those portfolio companies but retain the right to proactively write investments down based on the Manager's business judgment. In the absence of recent Transactions, the manager may use a third-party valuation of a portfolio security. Securities of publicly traded companies, in the event the Funds hold them, will be valued at their year-end closing bid price. For the years ended December 31, 2017 and 2016, in accordance with GAAP, a market approach using Transactions and a blended valuation approach using multiples of revenues and expected cash flows were used as the primary valuation methods. As a result of the changes in the Funds' individual investment valuations as reported in the table below, the Authority's Operating Losses decreased \$535,453 from 2016 (which represents realized and unrealized gains/losses of the Funds in 2017). Fund I recorded Operating Income of \$273,355 in 2017, compared to a loss of \$1,769,221 in 2016. Fund II recorded an Operating Loss of \$1,151,298 in 2017, compared to income of \$355,825 in 2016. Fund I and Fund II each own securities issued by three of the same portfolio companies. Please note that portfolio company names have not been disclosed because of the nondisclosure requirements that the Funds maintain with their portfolio companies.

Individual Company Transactions Resulting in Valuation Changes in total – Fund I. VCA is allocated approximately a 76-77% portion of the Fund I cumulative net income based on its prorated share, net of management and other fees and expenses and management carry.

	Valuation Change	Basis for Valuation Change
Company A	\$482,246	Increase based on blended valuation
Company C	\$83,811	Increase based on blended valuation
Company D	\$(608,949)	Decrease based on transaction at higher share price and dilution of ownership
Company E	\$474,819	Increase based on blended valuation
Company G	\$(58,573)	Decrease based on blended valuation

**COLORADO VENTURE CAPITAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017 and 2016**

Financial Highlights (Continued)

Individual Company Transactions Resulting in Valuation Changes in total – Fund II. VCA is allocated approximately a 78-79% portion of the Fund II cumulative net income based on its prorated share, net of management and other fees and expenses and management carry.

	Valuation Change	Basis for Valuation Change
Company H	\$300,396	Increase based on blended valuation
Company G	\$(25,124)	Decrease based on blended valuation
Company I	\$258,142	Increased based on transaction at lower share price and capital contribution
Company J	\$(985,183)	Decrease based on dilution of ownership
Company K	\$(81,504)	Decrease based on blended valuation
Company L	\$-0-	No transactions during period
Company E	\$682,072	Increase based on blended valuation and capital contribution
Company O	\$(921,288)	Transaction at lower share price
Company P	\$61,336	Increase based on blended valuation
Company Q	\$100,682	Increase based on blended valuation
Company D	\$385,407	Increase due to capital contribution and dilution of ownership

The Authority's Net Position decreased \$817,912 from 2016. Non-Operating Revenues of \$146,844 (comprised of interest income) provided coverage for the Authority's 2017 Operating Expenses of \$86,813.

Fund I made no investments in 2017 and 2016. In 2017, Fund II made five investments in three different companies totaling \$1,250,000, compared with total investments of \$850,000 in 2016. The Authority's proportionate share of capital contributions for Fund II's investments in 2017 was \$1,228,908.

As of December 31, 2017, the Authority's capital account balance in Fund I, including cumulative expenses, gains, losses, and distributions, totaled \$21,901,913. Fund I's cumulative management fees and reimbursable expenses since inception in June 2005 to December 31, 2017 were \$3,792,175.

As of December 31, 2017, the Authority's capital account balance in Fund II, including cumulative expenses, gains, losses and distributions, totaled \$29,051,883. Fund II's cumulative management fees and reimbursable expenses since inception in January 2010 to December 31, 2017 were \$3,505,879.

As of December 31, 2017, the Authority had received \$43,163,950 of cash from cumulative premium tax credit sales (the Authority received its final payment of \$4,150,000 for premium tax credit sales in April 2014 and does not expect to receive future payments for premium tax credit sales).

**COLORADO VENTURE CAPITAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017 and 2016**

Subsequent Events

In May 2018, to ensure adequate continued oversight of the Fund's portfolio investments, the Authority's board of directors passed a motion to consent to the extension of the term of Fund I by one year to June 20, 2019 and to increase the amount of both total and annual reimbursable expenses the Partnership is willing to pay.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of two components: 1) the financial statements and 2) notes to the financial statements that provide enhanced disclosure of certain information in the financial statements.

The statements of Net Position present a snapshot of the Authority's finances. The statements of Net Position also provide an overview of the Authority's capital structure, including assets. The statements of revenues, expenses and changes in Net Position provide details on the results of the Authority's operations over a specified period of time and report whether such results have a positive or negative impact on the statements of Net Position. The statements of cash flows report cash receipts, cash disbursements, and net changes in cash resulting from operating, investing, and noncapital financing activities. These statements provide answers about where cash comes from, how cash was used, and what the changes in cash balances were during the year.

The Authority was established by the Colorado legislature to provide funding for seed and early-stage investments in Colorado businesses, in conjunction with meeting other related legislative requirements. The Authority meets this objective by entering into limited partnership agreements, such as with the Manager of Fund I and Fund II, and other similar arrangements that may be entered into by the Authority. One of the most important questions asked about the Authority's finances is, "Is the Authority in a position to financially meet its obligations under the Fund I limited partnership agreement and the Fund II limited partnership agreement?" The statements of Net Position and the statements of revenues, expenses, and changes in Net Position report information about the Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the applicable year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's Net Position and changes in it. The Authority's Net Position (the difference between assets and liabilities) is one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's Net Position are one indicator of whether its financial health is improving or deteriorating.

The VCA incurred a total of \$273,355 of net unrealized and realized gains from Fund I during 2017, compared to a total of \$1,769,221 of net unrealized and realized losses from Fund I during 2016. The gains are further detailed under the Section titled "Financial Highlights."

The VCA incurred a total of \$1,151,298 of net unrealized and realized losses from Fund II during 2017, compared to a total of \$355,825 of net unrealized and realized gains from Fund II during 2016. The losses are further detailed under the Section titled "Financial Highlights."

**COLORADO VENTURE CAPITAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017 and 2016**

Condensed Financial Information

	For the Years Ended December 31,		
	2017	2016	2015
Assets			
Total current assets	\$ 10,400,372	\$ 11,655,778	\$ 11,050,960
Total noncurrent assets	<u>50,953,796</u>	<u>50,516,302</u>	<u>52,521,793</u>
Total assets	<u>\$ 61,354,168</u>	<u>\$ 62,172,080</u>	<u>\$ 63,572,753</u>
Liabilities and Net Position			
Total liabilities	\$ -	\$ -	\$ -
Total net position	<u>61,354,168</u>	<u>62,172,080</u>	<u>63,572,753</u>
Total liabilities and net position	<u>\$ 61,354,168</u>	<u>\$ 62,172,080</u>	<u>\$ 63,572,753</u>
Revenues, Expenses, and Changes in Net Position			
Total operating losses	\$ (877,943)	\$ (1,413,396)	\$ (1,648,134)
Total operating expenses	<u>(86,813)</u>	<u>(85,050)</u>	<u>(101,441)</u>
Operating loss	(964,756)	(1,498,446)	(1,749,575)
Total nonoperating revenues	<u>146,844</u>	<u>97,773</u>	<u>137,645</u>
Change in net position	(817,912)	(1,400,673)	(1,611,930)
Net position - beginning of year	<u>62,172,080</u>	<u>63,572,753</u>	<u>65,184,683</u>
Net position - end of year	<u>\$ 61,354,168</u>	<u>\$ 62,172,080</u>	<u>\$ 63,572,753</u>

Financial Analysis

The difference in the change of the Authority's Net Position during fiscal year 2016 compared to fiscal year 2017 was primarily a result of (a) a net gain on unrealized and realized investments on investments for Fund I during 2017 compared to a loss on unrealized and realized investments during 2016 and (b) a net loss on unrealized and realized investments during 2017 for Fund II compared to a net gain on unrealized and realized investments during 2016. The significant difference in the change of the Authority's Net Position when comparing fiscal year 2016 to fiscal year 2015 was primarily a result of (i) greater net unrealized and realized losses on investments for Fund I during 2016 compared to 2015 and (ii) a net gain on unrealized and realized investments during 2016 for Fund II compared to a loss on unrealized and realized investments during 2015.

**COLORADO VENTURE CAPITAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017 and 2016**

Financial Analysis (Continued)

As of December 31, 2017, the Authority's Net Position consists primarily of deposits held with the Colorado State Treasury and the remaining investments in Fund I and Fund II.

The Authority has contributed approximately \$24,350,000¹, in excess of 100%, of its total funding commitment to Fund I as of December 31, 2017. The Authority has contributed approximately \$26,786,000¹, in excess of 100%, of its total funding commitment to Fund II as of December 31, 2017 (but only needs to fund an additional \$107,000 in rural investments over the next several years to meet the VCA Statute's geographical target 10-year target, although the Authority has greatly exceeded meeting the five-year target). The Authority does not believe that there is a significant risk that it will not be able to meet its future commitments under the agreements.

The Authority does not have any material liabilities and has no plans to take on material liabilities, except liabilities of a short-term nature incurred during the normal course of its operations.

The Authority experienced a Net Loss in Operating Revenues in 2017, 2016, and 2015 of \$877,943, \$1,413,396, and \$1,648,134, respectively, all of which were associated with the Authority's percentage share of the Funds' net gain or loss. Authority Operating Revenues are generally expected to be dependent on the results of the investments made by the Funds and any future similar arrangements entered into by the Authority. There are inherent risks associated with investing in seed and early-stage companies that may impact future Operating Revenues. The Authority's 2017, 2016, and 2015 Operating Expenses were within the required cash amounts that the Authority had estimated would be needed to be available to cover such expenses. The Authority plans to continue covering its Operating Expenses from its cash for the foreseeable future.

Budget

The Authority's budgeted final expenses were \$218,500 for 2017 compared to actual expenses of \$86,813, and for 2016, budgeted final expenses were \$293,000 compared to actual expenses of \$85,050. The Authority had budgeted in both 2017 and 2016 for anticipated expenses regarding a possible request for proposal and costs associated with negotiating and investing in a new fund.

Risk Factors

The longer-term view and future results of the Authority's finances will be impacted (positively or negatively) by the results of the investments made by the Manager in Funds I and II and any other similar arrangements entered into by the Authority. It is anticipated that such investments will generally be high-risk, and the results of such investments may not be known for an extended period of time.

¹ From page III and IV numbers

**COLORADO VENTURE CAPITAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017 and 2016**

Contacting the Authority

This financial report is designed to provide citizens and taxpayers with a general overview of the Authority's financial position and to demonstrate the Authority's accountability for the funds received. If you have questions about this report or need additional financial information, please contact the Venture Capital Authority, c/o Jeff Kraft, Director, Business Funding and Incentives, or John Reece, Manager, at the Colorado Office of Economic Development and International Trade, at 1625 Broadway, Suite 2700, Denver, Colorado 80202.

BASIC FINANCIAL STATEMENTS

**COLORADO VENTURE CAPITAL AUTHORITY
STATEMENTS OF NET POSITION
December 31, 2017 and 2016**

ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash	\$ 43,044	\$ 15,423
Deposits held with Colorado State Treasury	10,166,804	11,633,391
Distribution receivable from Colorado Fund II, L.P.	181,748	-
Other assets	<u>8,776</u>	<u>6,964</u>
Total current assets	<u>10,400,372</u>	<u>11,655,778</u>
NONCURRENT ASSETS		
Investment in Colorado Fund I, L.P.	21,901,913	21,620,889
Investment in Colorado Fund II, L.P.	<u>29,051,883</u>	<u>28,895,413</u>
Total noncurrent assets	<u>50,953,796</u>	<u>50,516,302</u>
TOTAL ASSETS	<u><u>\$ 61,354,168</u></u>	<u><u>\$ 62,172,080</u></u>

LIABILITIES AND NET POSITION

	<u>2017</u>	<u>2016</u>
LIABILITIES	\$ -	\$ -
UNRESTRICTED NET POSITION	<u>61,354,168</u>	<u>62,172,080</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 61,354,168</u></u>	<u><u>\$ 62,172,080</u></u>

These financial statements should be read only in connection with
the accompanying notes to the financial statements.

COLORADO VENTURE CAPITAL AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES (LOSSES)		
Unrealized/realized gain (loss) on investment in Colorado Fund I, L.P.	\$ 273,355	\$ (1,769,221)
Unrealized/realized gain (loss) on investment in Colorado Fund II, L.P.	<u>(1,151,298)</u>	<u>355,825</u>
Total operating losses	(877,943)	(1,413,396)
OPERATING EXPENSES		
Professional fees	85,273	79,782
Insurance	850	3,976
Other expenses	<u>690</u>	<u>1,292</u>
Total operating expenses	<u>86,813</u>	<u>85,050</u>
OPERATING LOSS	(964,756)	(1,498,446)
NONOPERATING REVENUES		
Interest income	<u>146,844</u>	<u>97,773</u>
CHANGE IN NET POSITION	(817,912)	(1,400,673)
NET POSITION - BEGINNING OF YEAR	<u>62,172,080</u>	<u>63,572,753</u>
NET POSITION - END OF YEAR	<u>\$ 61,354,168</u>	<u>\$ 62,172,080</u>

These financial statements should be read only in connection with
the accompanying notes to the financial statements.

COLORADO VENTURE CAPITAL AUTHORITY
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to vendors	\$ (88,625)	\$ (81,236)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in Colorado Fund I, L.P.	(30,551)	(24,453)
Distributions received from Colorado Fund I, L.P.	22,882	-
Investments in Colorado Fund II, L.P.	(1,489,516)	(1,181,768)
Distributions received from Colorado Fund II, L.P.	-	1,798,316
Interest Income	<u>146,844</u>	<u>97,773</u>
Net cash provided (used) by investing activities	<u>(1,350,341)</u>	<u>689,868</u>
NET CHANGE IN CASH AND DEPOSITS HELD WITH COLORADO STATE TREASURY	(1,438,966)	608,632
CASH AND DEPOSITS HELD WITH COLORADO STATE TREASURY - BEGINNING OF YEAR	<u>11,648,814</u>	<u>11,040,182</u>
CASH AND DEPOSITS HELD WITH COLORADO STATE TREASURY - END OF YEAR	<u>\$ 10,209,848</u>	<u>\$ 11,648,814</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (964,756)	\$ (1,498,446)
Adjustments to reconcile operating loss to net cash used by operating activities:		
(Gain) loss on investment in Colorado Fund I, L.P.	(273,355)	1,769,221
(Gain) loss on investment in Colorado Fund II, L.P.	1,151,298	(355,825)
Effect of changes in assets and liabilities:		
Other current assets	<u>(1,812)</u>	<u>3,814</u>
Net cash used by operating activities	<u>\$ (88,625)</u>	<u>\$ (81,236)</u>

These financial statements should be read only in connection with the accompanying notes to the financial statements.

COLORADO VENTURE CAPITAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 – DEFINITION OF REPORTING ENTITY

Colorado Venture Capital Authority (the Authority) is an enterprise fund and component unit of the State of Colorado. Formed in 2004, the Authority was created by Colorado Senate Bill 04-106 to provide funding for seed and early-stage investments in Colorado businesses. The Authority was allocated \$50,000,000 in premium tax credits, which were subsequently sold to insurance companies. With the proceeds received from the sale of the premium tax credits in 2005, the Authority entered into a limited partnership agreement forming Colorado Fund I, L.P. (Fund I), whereby the Authority has committed to provide up to \$21,766,408 to Fund I for investment in businesses meeting the Authority's criteria, as defined, over the term of Fund I (as amended through June 2018). In May 2018, the Authority's board of directors passed a motion to consent to the extension of the term of Fund I by one year to June 20, 2019. In 2010, the Authority entered into a limited partnership agreement forming Colorado Fund II, L.P. (Fund II), whereby the Authority has committed to provide up to \$25,374,260 to Fund II for investment in businesses meeting the Authority's criteria, as defined, over the term of Fund II (through December 2019, unless otherwise earlier terminated or extended). The Authority selected High Country Venture, LLC and High Country Venture II, LLC (collectively, HCV) to serve as General Partner of both Fund I and Fund II (collectively, the Funds), respectively. The Authority is a limited partner of the Funds along with an affiliate of HCV. The Funds' initial investments in portfolio companies typically represent seed and early-stage capital investments in businesses in the life sciences, information technology, agritechology, medical device, and retail sectors.

HCV is independently operated and generally makes funding decisions, provided they meet the criteria of C.R.S. 24-46-201 (the VCA statute). The Authority's approval is limited to ensuring that businesses receiving funding meet minimum specified requirements set forth in the VCA statute. The investment size of the Funds' total investment in portfolio companies generally ranges from \$250,000 to \$3,800,000. As of December 31, 2017, the limited partners of the Funds had contributed for the purchase of securities in portfolio companies approximately \$21,766,000, or 100%, and \$25,135,000, or 99%, of their total funding commitments to Fund I and Fund II, respectively.

In September of 2017, the Authority issued a request for proposal (RFP) for a fund manager to serve as the general partner for a new fund designated as the Greater Colorado Venture Fund I, L.P. In December 2017, the Authority reviewed the RFP applications and attended RFP presentations. On December 12, 2017, the Authority selected the Greater Colorado Venture Fund I, L.P. fund manager as Greater Colorado Venture Fund GP, LLC. The Authority's capital commitment will be approximately \$9.1 million and the Authority may commit up to an additional \$3 million in its sole discretion until the one-year anniversary of the initial closing date. A term sheet for Greater Colorado Venture Fund GP, LLC has been approved by the Authority and the limited partnership agreement is in negotiations at this time.

Pursuant to C.R.S. Section 24-46-202, there are nine appointed members serving on the Board of Directors, of whom five are appointed by the Governor, two appointed by the President of the Senate, and two appointed by the Speaker of the House of Representatives. Each member shall serve until a successor has been appointed and qualified. Any member shall be eligible for reappointment. The Board of Directors, with the cooperation of the Office of Economic Development, is responsible for overseeing the activities and progress of the Funds in relation to the specified requirements set forth by the VCA statute.

COLORADO VENTURE CAPITAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units accounted for as a proprietary enterprise fund. The enterprise fund is used since the Authority's powers are related to those operated in a manner similar to a private corporation where net income and capital maintenance are appropriate determinations of accountability.

The more significant accounting policies of the Authority are described as follows:

Basis of Accounting

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units accounted for as a proprietary fund. The accompanying financial statements are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

The Authority follows the Governmental Accounting Standards Board (GASB) accounting pronouncements, which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency. The Authority is not financially accountable for any other organization. The State of Colorado has determined that the Authority is a component unit of the State.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Authority considers highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

Investments

As described in Note 1, the Authority is a limited partner in the Funds. While the Funds own capital investments in qualified businesses, the Authority owns an interest in the Funds itself rather than an interest in each underlying investment. Therefore, the Authority accounts for its investments based on the aggregate value of its ownership interests in the Funds. The Authority records its investments in the Funds at fair market value, which is determined based on the performance of the Funds underlying investments net of operating and nonoperating expenses.

The investments, in general, are exposed to various risks, such as interest rate, credit, overall market volatility risks and that the businesses may fail. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect investment balances and the amounts reported in the financial statements.

COLORADO VENTURE CAPITAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Additionally, because of the inherent uncertainty of investment valuation where a ready market does not exist, as in the case of the Authority's investment in the Funds, estimated values may differ from the values that would have been used had a ready market existed, and the difference could be material.

Unrealized and realized gains and losses on investments are recorded in the accompanying statements of revenues, expenses, and changes in net position.

Investment in Colorado Fund I, L.P. and Colorado Fund II, L.P. Profit and Loss Allocations

Income or losses of the Funds are generally allocated 20% to the General Partner and 80% to the limited partners, pro-rata, in accordance with the limited partners' respective partnership percentages. However, should the allocation of losses cause a partner's capital account to be reduced below zero (a Loss Partner), losses are reallocated from the Loss Partner to the Non-loss Partners to the extent of the deficit. Nonloss Partners who receive reallocated losses will receive priority in the allocation of future income from the Funds until recovered.

The Authority's investment in Fund I totaled \$21,901,913 and \$21,620,889 as of December 31, 2017 and 2016, respectively, representing cumulative capital contributions of \$25,559,878, plus the cumulative allocable net unrealized gains of \$14,552,470, less cumulative distributions of \$18,210,435 as of December 31, 2017, and cumulative capital contributions of \$25,529,327, plus cumulative allocable net unrealized gains of \$14,279,115, less cumulative distributions of \$18,187,553 as of December 31, 2016. The Authority's investment in Fund II totaled \$29,051,883 and \$28,895,413 as of December 31, 2017 and 2016, respectively, representing cumulative capital contributions of \$28,339,301, plus the cumulative allocable net unrealized gains of \$2,862,736, less cumulative distributions of \$2,150,154 as of December 31, 2017, and cumulative capital contributions of \$26,849,785, plus cumulative net allocable unrealized gains of \$4,014,034, less cumulative distributions of \$1,968,406 as of December 31, 2016.

Net Position

When both restricted (externally or legislatively imposed restrictions) and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted, as they are needed. All of the Authority's net position is unrestricted and is available for use in general operations.

Operating Revenues and Expenses

The Authority distinguishes between operating revenues and expenses and nonoperating items in the Statements of Revenues, Expenses and Changes in Net Position. Operating revenues and expenses generally result from exchange transactions consisting of gains and losses from investments in the Funds. Operating expenses represent the administrative expenses of the Authority.

Nonoperating revenues result from nonexchange transactions or ancillary activities. The Authority's primary source of nonoperating revenue was derived from the sale of premium tax credits to insurance companies, which concluded in 2014.

COLORADO VENTURE CAPITAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

Budgets are prepared in accordance with the requirements of Colorado Revised Statutes and, accordingly, include “anticipated income and other means of financing proposed expenditures,” and expenditures include, in addition to those shown in the operating statements, capital expenditures. Accordingly, budget comparisons are of the legally adopted budget.

The level of budget control is determined by the resolution appropriating sums of monies. The resolution appropriates the level of budget control by total expenditures. Appropriations lapse at year-end. The Authority’s final budgeted expenses for the years ended December 31, 2017 and 2016 are in the amount of \$218,500 and \$293,000, respectively.

Income Taxes

The Authority was formed as an enterprise fund of the State of Colorado. In the opinion of management and the Authority’s counsel, the Authority is not subject to income taxes.

Use of Estimates in Preparation of Financial Statements

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

New Accounting Standard

In 2016, the Authority implemented GASB Statement No. 72, *Fair Value Measurement and Application*, which provides guidance for determining fair value measurement for financial reporting purposes and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This pronouncement addresses the requirement for financial statement presentation and certain disclosures for state and local governmental entities. See Note 3 and 4 for inclusion of the requirements of this standard.

Subsequent Events

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through June 21, 2018, the date the financial statements were available to be issued.

COLORADO VENTURE CAPITAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 3 – CASH AND DEPOSITS

At December 31, 2017 and 2016, the Authority had cash deposits with a financial institution with a bank balance of \$43,044 and \$15,423, respectively, which are insured by the Federal Depository Insurance Corporation (FDIC).

The Authority deposits cash in excess of amounts required to be invested in the Funds under the terms of the partnership agreements with the Colorado State Treasury (State Treasury). Monies deposited in the State Treasury are invested until the cash is needed. The State Treasury pools these deposits and invests them in securities authorized by state statute and acts as a bank for all state agencies (the Pool). As of December 31, 2017 and 2016, the Authority had deposits held by the State Treasury of \$10,166,804 and \$11,633,391, respectively.

At December 31, 2017 and 2016, the fair value of the deposits held by the State Treasury were not reasonably available without undue cost and effort; however, management believes that the fair values of the deposits would not be significantly different than the carrying values. On the basis of the Authority's participation in the Pool, the Authority reports interest income as an increase or decrease in cash for its share of the State Treasury's unrealized gains and losses on the Pool's underlying investments. The State Treasurer does not invest any of the Pool's resources in any external investment pool, and there is no assignment of income related to participation in the Pool.

At December 31, 2017 and 2016, full credit quality and interest risk reporting was not reasonably available without undue cost and effort to the Authority. However, management believes that the credit quality and interest risk reporting would not be significantly different than the reporting made by the State Treasury as of the most recently available fiscal year ends of June 30, 2017 and 2016. Additional information on investments of the Pool may be obtained in the State's Comprehensive Annual Financial Report for the year ended June 30, 2017.

Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies that assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of the end of the most recent fiscal years for the State Treasury of June 30, 2017 and 2016, approximately 86.9 percent and 83.8 percent, respectively, of investments of the Pool are subject to credit quality risk reporting.

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on the types of investments, the State Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds.

The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. The weighted average maturity of investments in the Pool is shown in the following table as of the end of the most recent fiscal years for the State Treasury of June 30, 2017 and 2016.

COLORADO VENTURE CAPITAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 3 – CASH AND DEPOSITS (CONTINUED)

Weighted Average Maturities (maturities in years)

Investment Type	June 30, 2017		June 30, 2016	
	Weighted Average Maturity	Percent of the Treasury Pool	Weighted Average Maturity	Percent of the Treasury Pool
Commercial paper	0.100	11.0%	0.094	11.5%
U.S. government securities	1.463	30.8	1.343	49.0
Asset-backed securities	2.161	8.6	2.585	14.0
Corporate bonds	3.054	35.4	1.985	22.4
Money market mutual funds	0.000	3.9	0.000	3.1
Municipal bonds	4.000	0.2	0.000	0.0
Other	0.147	10.1	0.000	0.0

None of the investments in the Pool are subject to custodial credit, foreign currency, or concentration of credit risk.

NOTE 4 – INVESTMENTS

As described in Note 1, the Authority's investments are comprised of two investments in limited partnerships, Fund I and Fund II. The value of the Authority's investments in the Funds totaled \$50,953,796 and \$50,516,302 as of December 31, 2017 and 2016, respectively. The Funds do not have stated credit ratings and collectively comprise approximately 83% and 81% of the total assets of the Authority as of December 31, 2017 and 2016, respectively, and 100% of the Authority's operating losses for 2017 and 2016.

The Authority categorizes fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

- Level 1 Unadjusted quoted prices for identical instruments in active markets.
- Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.
- Level 3 Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) as a proxy are not classified in the fair value hierarchy.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation.

COLORADO VENTURE CAPITAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 4 – INVESTMENTS (CONTINUED)

The Authority's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

While the Funds own capital investments in qualified businesses, the Authority owns an interest in the Funds itself rather than an interest in each underlying investment. Therefore, the Authority accounts for its investments based on the aggregate value of its ownership interests in the Funds. The Funds are reported at fair value based upon the net value of the Authority's ownership interest in partners' capital, as provided by HCV. See Note 1 for a summary of the Funds investment strategies. Based on the valuation policies and procedures provided by HCV, all investments contained in the Funds are valued in accordance with the authoritative guidance on fair value measurements and disclosures. The following is a summary of the Authority's investments measured at NAV as of December 31, 2017 and 2016.

Investments	Total Investment	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
December 31, 2017				
Investment in Fund I	\$ 21,901,913	\$ -	Not Eligible	N/A
Investment in Fund II	<u>29,051,883</u>	<u>239,160</u>	Not Eligible	N/A
Total Investments	<u>\$ 50,953,796</u>	<u>\$ 239,160</u>		
December 31, 2016				
Investment in Fund I	\$ 21,620,889	\$ -	Not Eligible	N/A
Investment in Fund II	<u>28,895,413</u>	<u>1,464,260</u>	Not Eligible	N/A
Total Investments	<u>\$ 50,516,302</u>	<u>\$ 1,464,260</u>		

The Authority's investment portfolio is exposed to various risks as of December 31, 2017 and 2016 as follows:

Credit and Concentration of Credit Risks – The Authority invests solely in the Funds in accordance with the partnership agreements for the Funds and legislation passed by the Colorado General Assembly.

Interest Rate Risk – Amounts in excess of those required to fund capital contributions under the terms of the Funds' partnership agreement are held as bank deposits in a FDIC insured financial institution and with the Colorado State Treasury.

The Authority's investment portfolio is not exposed to custodial credit or foreign currency risks.

NOTE 5 – RELATED PARTY TRANSACTIONS

The Limited Partnership Agreements (the Agreements) entered into with Fund I and Fund II, require an annual management fee to be paid to HCV for services provided and reimbursement for expenses, as defined in the Agreements.

COLORADO VENTURE CAPITAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 5 – RELATED PARTY TRANSACTIONS (CONTINUED)

The terms of the Agreements require the management fee to be paid in advance on a quarterly basis, based upon percentages ranging from 0.5% per annum to 2.0% per annum of total partner capital commitments for Fund I and Fund II through 2013 and 2019, respectively. Beginning in 2014, there was no management fee requirement for Fund I.

For the years ended December 31, 2017 and 2016, the Authority made capital contributions of \$30,551 and \$24,453, respectively, for reimbursable expenses for Fund I. For the years ended December 31, 2017 and 2016, the Authority made capital contributions to Fund II for management fees of \$253,743 and \$317,178, respectively, and \$31,443 and \$28,932, for reimbursable expenses, respectively.

NOTE 6 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; or acts of God. The Authority maintains commercial insurance for all risks of loss. There have been no claims in the past three fiscal years and, accordingly, there were no settled claims that would have exceeded this commercial coverage in any of the past three fiscal years.

NOTE 7 – TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR) contains tax, spending, revenue, and debt limitations, which apply to the State of Colorado and all local governments.

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. The Authority's management believes a significant portion of its operations qualify for this exclusion.

The Authority's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate fiscal year spending limits and qualification as an enterprise, may require judicial interpretation.

This information is an integral part of the accompanying financial statements.



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

Board of Directors
Colorado Venture Capital Authority
Denver, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Colorado Venture Capital Authority (the Authority), a component unit of the State of Colorado, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 21, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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 result 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Denver, Colorado
June 21, 2018