

COLORADO SPRINGS DOWNTOWN DEVELOPMENT AUTHORITY

FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTAL INFORMATION

AND

ADDITIONAL INFORMATION

WITH

INDEPENDENT AUDITORS' REPORT

YEAR ENDED DECEMBER 31, 2017

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Office of the State Auditor

February 21, 2018

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Colorado Springs Downtown Development Authority
Colorado Springs, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Colorado Springs Downtown Development Authority (Authority), 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 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

INDEPENDENT AUDITOR'S REPORT - CONTINUED

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority, as of December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

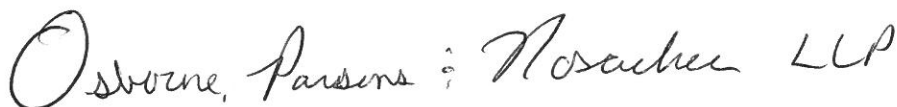
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 3 through 8, and the analysis and budgetary comparison information on pages 21 and 22, 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.

Additional Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of grant and other program expense is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of grant and other program expense is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of grant and other program expense is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Colorado Springs, Colorado
February 13, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

COLORADO SPRINGS DOWNTOWN DEVELOPMENT AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Colorado Springs Downtown Development Authority (DDA), we offer readers of the DDA Annual Financial Report this narrative and analysis of the financial activities for the fiscal year ended December 31, 2017. We encourage readers to consider the information presented here in conjunction with additional information that can be found in the basic financial statements.

Financial Highlights

- The DDA is authorized to use the form of financing known as “tax increment financing” (TIF). The division of property tax is made according to the “base” assessed valuation of the Authority’s area and any “increment” valuation (increase) that may have occurred within the area. Net revenue from TIF received in 2017 was \$352,358; in 2017, the DDA made its first TIF reimbursement payout, \$9,601, to Blue Dot Place Apartments.
- In 2017, the Board continued its events grants program, supporting major events and festivals that attract thousands of people downtown. Music, art, sports and youth-oriented events stimulate sales tax growth, increase retail and restaurant revenue and encourage business development. In 2017, DDA provided \$40,250 in grants for events such as the Colorado Classic bike race, 2018 Downtown Olympic Celebration, Waldo Waldo 5K and others.
- DDA embarked on key priorities of the Experience Downtown Plan of Development and Master Plan, engaging firms for visioning and planning processes for improvements to gateways (Kimley Horn contracted) and alleyways (HB&A). Costs in 2017 totaled \$61,668.
- DDA created and launched a Downtown Development Toolkit website, with key information on resources and zoning considerations for developers seeking to invest in Downtown.
- DDA created and launched a Downtown Development Toolkit website, with key information on resources and zoning considerations for developers seeking to invest in Downtown.
- DDA provided \$1.89 million in Special Project Grants, including \$775,000 to the US Olympic Museum, \$750,000 to ArtSpace of Minneapolis, Minn., for pre-development costs toward construction of affordable artist housing; and \$240,000 toward alleyway and building exterior improvements in the Winfield Scott Stratton block of South Tejon Street.
- DDA continued the Holiday Pop Up Shop program, filling one store vacancy during the holiday season, generating significant positive media coverage and helping entrepreneurs learn brick-and-mortar skills.
- DDA partnered with the Greater Downtown Colorado Springs Business Improvement District on consumer marketing of Downtown, with \$92,069 spent on print and broadcast advertising placement, printing of tourism maps and event collateral, photography, fees associated with operating the Downtown Gift Card program, and other marketing initiatives to attract diners, shoppers and patrons to Downtown.

**COLORADO SPRINGS DOWNTOWN DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

- The Authority's general fund balance is intended as a reserve for future high-impact projects and planning.

Overview of Financial Statements

- The contents of this memorandum are intended to serve as an introduction to the DDA's basic financial statements.

Government-Wide and Fund Financial Statements

- The Government-Wide financial statements (statements of net position and activities) are designed to provide readers with a broad overview of the Authority's finances using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when received and expenses are paid and recorded when a liability is incurred.
- Every fund within the accounts of the Authority is considered an individual fiscal and accounting unit. Each account contains a self-balancing set of accounts that record cash and/or other assets with related liabilities, obligations, reserved and equities that have been specified for individual activities or objectives.
- The Authority used the general fund to monitor its financial resources in 2017. The Authority adopts an annual appropriated budget for all funds. A budgetary comparison statement has been provided to demonstrate compliance with the accepted budget.

**COLORADO SPRINGS DOWNTOWN DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Comparative statements of net position and comments relating to significant changes are:

Statement of Net Position

Assets	2017	2016	Increase (Decrease)
Cash and cash equivalents	\$ 2,773,042	\$ 2,826,014	\$ (52,972)
Cash with county treasurer	9	7,961	(7,952)
Property tax receivable	787,414	733,854	53,560
TIF receivable	400,877	369,526	31,351
Prepaid expense	6,248	7,916	(1,668)
Related party receivable	250,000	-	250,000
Accrued interest	79,886	64,699	15,187
Note receivable	760,677	760,677	-
Total assets	\$ 5,058,153	\$ 4,480,477	\$ 577,676
Liabilities			
Accounts payable	\$ 19,840	\$ 39	\$ 19,801
Grants payable	1,812,414	113,980	1,698,434
Grants payable, related parties	-	75,000	(75,000)
Tax escrow	10,807	9,606	1,201
Total liabilities	1,843,061	205,157	1,644,436
Deferred inflows of financial resources			
Unearned property tax revenue	787,414	733,854	53,560
Unearned TIF revenue	400,877	369,526	31,351
Total deferred inflows of financial resources	1,188,291	1,144,509	84,911
Net position			
Restricted for emergency	80,155	28,385	51,770
Unrestricted	1,946,646	3,440,257	(1,493,611)
Total net position	\$ 2,026,801	\$ 3,130,811	\$ (1,441,841)

Cash

The related party receivable is established with Downtown Ventures to support early cash flow needs in its establishment of a bike sharing program.

**COLORADO SPRINGS DOWNTOWN DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Liabilities

Grants payable increased due to significant multiyear grant commitments to the US Olympic Museum and other projects.

Net position

Unrestricted net assets decreased due to the aforementioned multiyear grant commitments.

Comparative statement of activities and comments related to significant changes are:

Statement of Activities			
	2017	2016	Increase (Decrease)
Expenses			
Programs			
Grants and other program expense	\$ 2,123,079	\$ 581,988	\$ 1,541,091
Contract for services	410,110	320,000	90,110
Marketing	92,069	-	92,069
Overhead	2,078	1,565	513
Professional fees	28,930	21,146	7,784
Insurance	4,505	2,248	2,257
County treasurer fee	18,562	19,221	(659)
Bad debt	600	-	-
Total expenses	2,679,933	946,168	1,732,506
Revenue			
Property tax	720,244	743,293	(23,049)
Specific ownership tax	105,058	90,929	14,129
TIF tax	352,358	397,282	(44,924)
Interest	42,931	41,925	1,006
Other revenue	17,501	10,570	6,931
Total revenue	1,238,092	1,283,999	(45,907)
Change in net position	(1,441,841)	337,831	(1,778,413)
Net position			
Beginning of the year	3,468,642	3,130,811	337,831
End of the year	\$ 2,026,801	\$ 3,468,642	\$ (1,441,841)

Expenses

Increase in grant commitments and contracts for service.

Revenue

Decrease in TIF property taxes, due to changes in property tax valuations.

**COLORADO SPRINGS DOWNTOWN DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Comparison of original and final budget:

	Budgeted Amounts		
	Original	Final	Difference
Expenditures			
Programs	\$ 3,749,143	\$ 3,749,143	\$ -
Overhead	59,728	59,728	-
Professional fees	38,866	38,866	-
Total expenditures	<u>3,847,737</u>	<u>3,847,737</u>	<u>-</u>
Revenue			
Property tax	726,352	726,352	-
Specific ownership tax	72,000	72,000	-
TIF tax	347,344	347,344	-
Interest	15,815	15,815	-
Other	5,000	5,000	-
Total revenue	<u>1,166,511</u>	<u>1,166,511</u>	<u>-</u>
Revenue over expenditures	<u>\$ (2,681,226)</u>	<u>\$ (2,681,226)</u>	<u>\$ -</u>

There was no modification to the original budget adopted.

**COLORADO SPRINGS DOWNTOWN DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

A comparison of the final budget and actual, with comments concerning significant variance:

	Final Budgeted Amounts	Actual	Variance with Final Budget Favorable (Unfavorable)
Expenditures			
Programs	\$ 3,749,143	\$ 2,123,079	\$ 1,626,064
Contract for services	-	410,110	(410,110)
Marketing	-	92,069	(92,069)
Overhead	59,728	2,078	57,650
Professional fees	38,866	28,930	9,936
Insurance	-	4,505	(4,505)
County treasurer fee	-	18,562	(18,562)
Bad debt	-	600	(600)
Total expenditures	3,847,737	2,679,933	1,167,804
Revenue			
Property tax	726,352	720,244	(6,108)
Specific ownership tax	72,000	105,058	33,058
TIF tax	347,344	352,358	5,014
Interest	15,815	27,744	11,929
Other	5,000	17,501	12,501
Total revenue	1,166,511	1,222,905	56,394

Expenditures

Programs are always budgeted at a high amount in anticipation of catalytic projects; actual program expenditure is most often less than budgeted.

Revenue

Minor changes only due to final property valuation figures.

Requests for Information

Additional information or questions may be addressed by contacting Susan Edmondson at
111 S. Tejon St, Suite 703, Colorado Springs, CO 80903

FINANCIAL STATEMENTS

COLORADO SPRINGS DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2017

	General Fund	Adjustments	Statement of Net position
Assets			
Cash and cash equivalents	\$ 2,773,042	\$ -	\$ 2,773,042
Cash held by county treasurer	9	-	9
Property taxes receivable	787,414	-	787,414
TIF receivable	400,877	-	400,877
Prepaid expense	6,248	-	6,248
Related party receivable	-	250,000	250,000
Accrued interest	-	79,886	79,886
Note receivable	-	760,677	760,677
Total assets	\$ 3,967,590	\$ 1,090,563	\$ 5,058,153
Liabilities			
Accounts payable	\$ 19,840	\$ -	\$ 19,840
Grants payable	1,513,664	298,750	1,812,414
Tax escrow	10,807	-	10,807
Total liabilities	1,544,311	298,750	1,843,061
Deferred inflows of financial resources			
Unearned property tax revenue	787,414	-	787,414
Unearned TIF revenue	400,877	-	400,877
Total deferred inflows of financial resources	1,188,291	-	1,188,291
Fund balance			
Non-spendable	6,248	(6,248)	
Restricted for emergency	80,155	(80,155)	
Assigned	1,997,328	(1,997,328)	
Unassigned	(848,743)	848,743	
Total fund balances	1,234,988	\$ (1,234,988)	
Total liabilities, deferred inflows of financial resources, and fund balances	\$ 3,967,590		
Net position			
Restricted for emergency		\$ 80,155	80,155
Unrestricted		1,946,646	1,946,646
Total net position		\$ 2,026,801	\$ 2,026,801

See notes to financial statements

**COLORADO SPRINGS DOWNTOWN DEVELOPMENT AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2017**

Fund balance per the governmental fund balance sheet \$ 1,234,988

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

Long-term receivables, including accrued interest, related party receivable and note receivable, are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. The long-term grants payable are also a reconciling item because the expenditure for the grants was recognized in the current period, but the grant remains unpaid

Accrued interest	79,886	
Related party receivable	250,000	
Note receivable	760,677	
Long-term grants payable	(298,750)	
Total long-term receivables	791,813	791,813

Total net position - governmental activities **\$ 2,026,801**

See notes to financial statements

**COLORADO SPRINGS DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2017**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/expenses			
Program			
Grants and other program expense	\$ 1,824,329	\$ 298,750	\$ 2,123,079
Contract for services	410,110	-	410,110
Marketing	92,069	-	92,069
Overhead	2,078	-	2,078
Professional fees	28,930	-	28,930
Insurance	4,505	-	4,505
County treasurer fee	18,562	-	18,562
Bad debt	600	-	600
Total expenditures/expenses	<u>2,381,183</u>	<u>298,750</u>	<u>2,679,933</u>
Revenue			
Property tax	720,244	-	720,244
Specific ownership tax	105,058	-	105,058
TIF	352,358	-	352,358
Interest	27,744	15,187	42,931
Other revenue	17,501	-	17,501
Total revenue	<u>1,222,905</u>	<u>15,187</u>	<u>1,238,092</u>
Other financing uses			
Related party line of credit issuance	<u>(250,000)</u>	<u>250,000</u>	<u>-</u>
Expenditures over revenue	(1,408,278)	1,408,278	-
Change in net position	-	(1,441,841)	(1,441,841)
Fund balance/net position			
Beginning of the year	<u>2,643,266</u>	<u>825,376</u>	<u>3,468,642</u>
End of the year	<u>\$ 1,234,988</u>	<u>\$ 791,813</u>	<u>\$ 2,026,801</u>

See notes to financial statements

**COLORADO SPRINGS DOWNTOWN DEVELOPMENT AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT
OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
DECEMBER 31, 2017**

Revenue over expenditures - governmental funds \$ (1,408,278)

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

The long-term portion of grants payable is recorded as an expenditure in the current year, but the grant remains unpaid and is classified as a liability and a reconciling item on the statement of net position. (298,750)

The related party receivable reported on the statement of net position is a use of current financial resources, but it does not have any effect on the statement of activities. 250,000

Interest revenue on the notes receivable in the statement of activities differs from the amount reported in the governmental funds because interest revenue is recognized as revenue in the governmental funds when it is available to pay for current period expenditures. In the statement of activities, interest revenue is recognized as it accrues regardless of when it is due and collected. The interest revenue reported in the statement of activities is the result of the increased accrued interest on the note receivable. 15,187

Total net change in statement of activities \$ (1,441,841)

NOTES TO FINANCIAL STATEMENTS

**COLORADO SPRINGS DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

History and organization - The Colorado Springs Downtown Development Authority (Authority) was established in January 2007 by the City Council of Colorado Springs, Colorado. The Authority was organized for the public health, safety, prosperity, security, and welfare of Downtown in order to halt or prevent deterioration of property values or structures within the central business district, to assist in the planning, development, and redevelopment of this district. Operations are financed primarily by tax revenues collected on real and personal property located within the central business district.

An eleven-member Board of Directors, as provided by the City of Colorado Springs, Colorado, Ordinance 07-15, governs the Authority.

The Authority normally enters into a short-term Contract for Services Agreement with the Downtown Partnership of Colorado Springs (Partnership), a non-profit corporation. Under this service agreement, the Partnership agrees to manage and administer the Authority in accordance with the Authority's Budget and Scope of Work.

The Authority has no component units for which either discrete or blended presentation is required.

The Authority is considered a governmental fund type, component unit of the City of Colorado Springs.

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to a governmental unit. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles.

Government-wide financial statements - The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the government.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expense is recorded when a liability is incurred regardless of the timing of the related cash flow.

Fund financial statements - The accounts of the Authority are organized on the basis of funds. Each fund is considered an independent fiscal and accounting entity with a self-balancing set of accounts. Each fund records cash and/or other assets, together with all related liabilities, obligations, reserves and equities, segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Governmental fund type - The General Fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

Basis of accounting - Basis of accounting refers to when revenue and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement focus applied.

COLORADO SPRINGS DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. Taxpayer assessed income and gross receipts are considered measurable when in the hands of intermediary collecting governments and are recognized as revenue at that time. Anticipated refunds of such taxes are reported as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due.

Deferred inflow of financial resources - Upon certification of the amount of levy by the Authority to El Paso County, Colorado, the County levies the property tax in December of the year prior to the year of collection of the tax. The County also acts as the billing and collection agency for the Authority. Property taxes attach as a lien on January 1, and may be paid in full by April 30, or in equal installments by February 28 and July 31. The tax is recorded as a receivable when measurable and an enforceable legal claim attaches to the property and is recognized as revenue when the money is available in the following year.

Fund balances/net position - The Authority adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. As such, governmental funds report fund balances in classifications based primarily on the extent to which the Authority is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance for the Authority's governmental fund consists of the following:

Nonspendable – includes amounts that are (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash such as prepaid items.

Restricted – includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation.

Committed – includes amounts that can only be used for the specific purposes determined by the passage of a resolution of the Authority's Board of Directors. Commitments may be modified or changed only by the Authority's Board of Directors approving a new resolution.

Assigned – includes amounts intended to be used by the Authority for specific purposes that are neither restricted nor committed. Intent is expressed by the Authority's Board of Directors to which the assigned amounts are to be used for specific purposes. Assigned amounts may include appropriations of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's balance.

Unassigned – this is the residual classification for the general fund.

COLORADO SPRINGS DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications, fund balance is reduced in the order of restricted, committed, assigned and unassigned.

In the government-wide financial statements, net position is classified in the following categories:

Restricted net assets - this classification consists of restrictions created by external creditors, grantors, contributors, laws or regulations of other governments, enabling legislation and constitutional provisions.

Unrestricted net assets - this classification represents the remainder of net assets that do not meet the definition of “invested in capital assets, net of related debt”, or “restricted net assets.”

Employee benefits - The Authority has no employees; all services are contracted out.

Fair value of financial instruments - Financial instruments include cash and cash equivalents, taxes receivable, TIF receivable, and accounts payable. The Authority estimates that the fair value of all financial instruments at December 31, 2017, does not differ materially from the aggregate carrying value of its financial instruments recorded in the statement of net position and governmental fund balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require 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 from those estimates.

Stewardship, compliance, and accountability - budgetary information - An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund, with the exception that long-term grants are recognized as expenditures when awarded. Colorado law requires that all funds have legally adopted budgets and total expenditures for each fund cannot exceed the amount appropriated. Appropriations for a fund may be increased provided they are offset by unanticipated revenues. Appropriations are adopted by resolution for each fund in total. Over expenditures are not deemed to exist unless the fund as a total has expenditures in excess of appropriations. All appropriations lapse at year-end.

NOTE 1 – DEPOSITS

Deposits - The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the depository institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured

**COLORADO SPRINGS DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – DEPOSITS - Continued

public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

Deposits are categorized to give an indication of risk assumed by the Authority at the end of the year. Category a) Uncollateralized, Category b) Collateralized with securities held by pledging institution, Category c) Collateralized with securities held by the pledging institution's trust department or agent but not in the depositor-governments name.

Custodial credit risk deposits - Custodial credit risk is the risk that in the event of bank failure, the Authority's deposits will not be returned to it. The Authority does not currently have a policy related to custodial credit risk. As of December 31, 2017, deposits with a bank balance of \$2,543,916 are uninsured but are not exposed to custodial credit risk because they are collateralized with securities held by the pledging financial institution through the PDPA.

NOTE 2 – CASH AND CASH EQUIVALENTS

As of December 31, 2017, cash and cash equivalents consisted of the following:

Cash	\$ 1,748,197
Money Market Funds	<u>1,024,845</u>
	<u>\$ 2,773,042</u>

NOTE 3 – RELATED PARTY RECEIVABLE

In 2017, the Authority's Board of Directors approved a Line of Credit of up to \$500,000 to an entity to fund a bike share program. The Line of Credit involves no collateral and is interest free. The organization borrowed \$250,000 against the Line of Credit during 2017, and the balance at December 31, 2017 is \$250,000. The full balance is due December 2019.

NOTE 4 – NOTE RECEIVABLE

In 2008, the Authority approved a \$500,000 note receivable collateralized by a first note and deed of trust for the purchase of a building for use as an art school. The total purchase price of the building was approximately \$3,500,000. The note had a 6% per annum fixed rate of interest, was being amortized over 20 years and is payable at the end of 15 years. During 2010, the Authority stopped receiving monthly payments and began accruing an interest receivable. In May of 2014, the Authority entered into new agreements with the art school to refinance the note. The modified note receivable balance was increased to include the accrued but unrecognized interest receivable, as well as late payment charges, and reduced the interest rate from 6% to 5%. The agreement also allows the art school to make regular monthly payments of \$1,250 per month with the accrued but not paid interest on the note not added to the note principal or subject to bearing interest on a compound basis. The entity increased its monthly payment to \$1,800 per month during the year ending December 31, 2017. The balance of the note with any unpaid interest is due and payable on December 30, 2023 (See NOTE 7 – Contingencies).

**COLORADO SPRINGS DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 – GRANTS PAYABLE

As of December 31, 2017, grants payable is composed of the following:

<u>December 31,</u>	<u>Amount Payable</u>
Short Term Portion	<u>\$ 1,513,664</u>
Long Term Portion	
2019	208,750
2020	15,000
2021-2025	<u>75,000</u>
	298,750
Total	<u>\$ 1,812,414</u>

NOTE 6 – FUND BALANCE

As of December 31, 2017, fund balances are composed of the following amounts:

	<u>General Fund</u>
Nonspendable	
Prepaid expenses	\$ 6,248
Restricted	
Emergency	80,155
Assigned	
Long-term grants payable	298,750
TIF reserve fund	<u>1,698,578</u>
Total assigned	1,997,328
Unassigned	<u>(848,743)</u>
Total fund balance	<u>\$ 1,234,988</u>

NOTE 7 – AMENDMENT TO COLORADO CONSTITUTION

In November 1992, the voters of Colorado approved the Taxpayer's Bill of Rights (TABOR), which added Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue and debt limitations that apply to the State of Colorado and all local governments.

COLORADO SPRINGS DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 7 – AMENDMENT TO COLORADO CONSTITUTION - continued

TABOR also requires local governments to establish emergency reserve funds. The reserve fund must consist of at least 3% of fiscal year spending. TABOR allows local governments to impose emergency taxes (other than property taxes) if certain conditions are met. Local governments are not allowed to use emergency reserves to compensate for economic conditions, revenue shortfall, or local government salary or benefit increases.

TABOR is complex and subject to interpretation. Ultimate implementation may depend upon litigation and legislative guidance.

Authority voters elected to override the TABOR amendment for 2007 and future years. However, the above-mentioned emergency reserve requirement remains.

The Authority has established an emergency reserve of \$80,155 and believes it has complied with all appropriate aspects of TABOR.

NOTE 8 – CONTINGENCIES

On May 21, 2013, the Authority entered into an agreement with a significant downtown employer for the purpose of job retention. The agreement provides for twenty annual payments of \$20,000 beginning April 1, 2014. The payments are contingent upon the employer having entered into a twenty-year lease extension, not defaulting on the terms of the lease, remaining in the leased property through March 31, 2034, maintaining its corporate headquarters at the leased facility, and annual appropriation by the Authority's Board of Directors.

The Authority is accruing unpaid interest related to the note receivable. Due to historical nonperformance, management evaluated the note, and accrued interest for impairment, and determined that no allowance is necessary, due to the fair value of collateral exceeding the balance of the note and accrued interest (see NOTE 4 – Note Receivable).

NOTE 9 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which it carries commercial insurance.

NOTE 10 – CONTRACT FOR SERVICES

The Authority entered into a Contract for Service Agreement with the Downtown Partnership of Colorado Springs (Partnership) for a twelve-month period ending December 31, 2017. Terms of the agreement specify that the Partnership would manage and administer the Authority in accordance with the 2017 budget and operating plan. The Partnership's compensation under the agreement was \$410,110.

Effective January 1, 2018, the District entered into an agreement, similar to the above, for 2018 services. The Partnership's total compensation under this agreement is \$420,110.

**COLORADO SPRINGS DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 – JOB RETENTION PROGRAM

During 2009 and again in 2013, a corporation entered into an agreement (NOTE 7) with the Authority to maintain its headquarters in the downtown area of Colorado Springs, beginning April 1, 2010 and ending March 31, 2034. The Authority's goal is to promote economic strength, vitality and increase the number of workers in the downtown area, as well as indirectly support regional and local workers.

The terms stipulate the Authority will make annual payments of \$20,000, to the corporation, for a period not to exceed twenty years. As of December 31, 2017, both parties have complied with the aforementioned agreement, and assuming both parties comply with the terms in the future, the Authority will make sixteen additional payments to the corporation.

NOTE 12 – REDEVELOPMENT AGREEMENT

In November 2014, the Authority entered into an agreement with a developer to allocate under Colorado State statutes tax increment financing to assist in the construction of downtown apartments. Under this agreement, the Authority will back the developer with 100% of the net tax increment generated by and attributable to the residential portion of the property for the TIF period (property tax increment rebate). The TIF allocation is calculated by subtracting the property taxes generated annually based on the valuation of the property as of the effective date from the total property taxes generated annually based on the valuation of the property for each year following the effective date. The total allocation is then reduced by the increment due to a local school district, and .5% annual administration fee paid to the Authority. The developer shall only be eligible to receive a rebate of taxes in the actual amount paid. Construction was completed and the apartments were available for occupancy as of January 29, 2016.

NOTE 13 – RELATED-PARTY TRANSACTIONS

As of December 31, 2015, related-party grants payable in the amount of \$75,000 consisted of amounts payable to business entities affiliated with a board members. This grant was paid in 2017.

In January 2016, the Board approved agreements with two developers to allocate, under Colorado State statutes, tax increment financing to assist in the construction of two downtown apartment complexes. Under these agreements, the Authority will back the developers with 100% of the net tax increment generated by and attributable to the residential portion of the property for the TIF period (property tax increment rebate), less amounts owed to Colorado Springs School District 11. One of the projects will also receive five mills of property tax revenue that other downtown businesses pay to the DDA. Both developers were currently serving on the Authority's Board of Directors at the time the agreements were approved. In 2017, TIF financing under this agreement was \$9,601.

In May 2017, the Authority entered an agreement with a local architecture firm to perform concept design services for alleyways in downtown Colorado Springs. The firm is affiliated with a Board Member and the agreement is based on hours worked, but is not to exceed \$30,500. In 2017, the Authority paid approximately \$18,000 toward this contract.

**COLORADO SPRINGS DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 13 – RELATED-PARTY TRANSACTIONS - continued

In 2017, the Authority entered into an agreement with an organization to help fund a bike-share program. The organization shares management personnel with the Authority. The current agreement allows the organization to borrow up to \$500,000 as a line of credit from the Authority. As of December 31, 2017, the organization only borrowed \$250,000 (See NOTE 3).

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 13, 2018 the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

COLORADO SPRINGS DOWNTOWN DEVELOPMENT AUTHORITY
SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED DECEMBER 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual Budgetary Basis</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Programs	\$ 3,749,143	\$ 3,749,143	\$ 2,123,079	\$ 1,626,064
Contract for services	-	-	410,110	(410,110)
Marketing	-	-	92,069	(92,069)
Overhead	59,728	59,728	2,078	57,650
Professional fees	38,866	38,866	28,930	9,936
Insurance	-	-	4,505	(4,505)
County treasurer fee	-	-	18,562	(18,562)
Bad debt	-	-	600	(600)
Total expenditures	<u>3,847,737</u>	<u>3,847,737</u>	<u>2,679,933</u>	<u>1,167,804</u>
Revenue				
Property taxes	726,352	726,352	720,244	(6,108)
Specific ownership tax	72,000	72,000	105,058	33,058
TIF	347,344	347,344	352,358	5,014
Interest	15,815	15,815	27,744	11,929
Other	5,000	5,000	17,501	12,501
Total revenue	<u>1,166,511</u>	<u>1,166,511</u>	<u>1,222,905</u>	<u>56,394</u>
Revenue over (under) expenditures (non-GAAP basis)	(2,681,226)	(2,681,226)	(1,457,028)	<u>\$ 1,224,198</u>
GAAP adjustments				
Long-term grants payable			298,750	
Related party line of credit issuance			(250,000)	
Revenue over (under) expenditures (GAAP basis)			<u>(1,408,278)</u>	
Beginning fund balance, January 1	<u>2,778,119</u>	<u>2,778,119</u>	<u>2,643,266</u>	
Ending fund balance, December 31	<u>\$ 96,893</u>	<u>\$ 96,893</u>	<u>\$ 1,234,988</u>	

See notes to required supplemental information

**COLORADO SPRINGS DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Budget accounting - Budgets are prepared in accordance with the requirements of Colorado Revised Statutes - (29-1-103) and accordingly include "anticipated income and other means of financing proposed expenditures". Expenditures also include, in addition to those shown in the operating statements, debt redemptions, and capital expenditures.

Budgets - The Authority adheres to the following procedures in establishing the budgetary data reflected in the financial statements.

- A. Budgets are required by State law for all funds. During September, the proposed budget is submitted to the Board of Directors by the budget officer for the fiscal year commencing the following January 1. The budget includes proposed expenditures and means of financing them.
- B. Public hearings are conducted by the Board of Directors to obtain taxpayer comments.
- C. Prior to December 31, the budget is adopted and appropriations made by formal resolution.
- D. Expenditures may not legally exceed appropriations at the fund level. Board approval is required for changes in the total budget of any fund or changes in project or department budgets. Budget amounts included in the financial statements are based on the final, legally amended budget.
- E. Budget appropriations lapse at the end of each year.

Accordingly, budget comparisons are of the legally adopted budget. The level of budget control is determined by the resolution appropriating sums of monies. Encumbrances are neither recorded on the books of the Authority nor included in the budget. The Board of Directors has the authority to make budget amendments.

ADDITIONAL INFORMATION

COLORADO SPRINGS DOWNTOWN DEVELOPMENT AUTHORITY
SCHEDULE OF GRANT AND OTHER PROGRAM EXPENSE
YEAR ENDED DECEMBER 31, 2017

Grantee	Grants Awarded	Grants Paid	Grants Payable
Special Projects Grants			
United States Olympic Museum	\$ 775,000	\$ 193,750	\$ 581,250
ArtSpace	750,000	-	750,000
Event Grants			
COPPeR - On the Road to Prosperity Event	500	500	-
Colorado Classic Pro Cycling	25,000	25,000	-
Rocky Mountain PBS	750	750	-
Downtown Olympic Celebration	10,000	10,000	-
Waldo Waldo	3,000	3,000	-
Bike Summit	1,000	1,000	-
Job Program Grant			
Colorado Springs Chamber Employment Incentive	100,000	-	100,000
Kinder Morgan	20,000	20,000	-
Building Enhancement Grants			
Ladyfingers Letterpress	14,072	14,072	-
Regina's Unique Boutique	10,460	10,460	-
Winfield Stratton Block	90,000	-	90,000
Winfield Stratton Block Electric Undergrounding	150,000	-	150,000
Colorado Craft	9,850	-	9,850
Carter Payne	38,700	-	38,700
The Bench	7,000	-	7,000
Grants Payable			
Artist Housing - Feasibility - Phase 2 (2016)	-	7,500	-
Catalyst Campus - Homburg Building (2015)	-	75,000	-
Downtown Development Group LLC - 210 Pueblo (2015)	-	20,000	-
Coquette's Bistro (2016)	-	-	45,000
Midtown Ventures - 9 S Weber (2015)	-	-	15,000
	<u>2,005,332</u>	<u>381,032</u>	<u>1,786,800</u>
Other Program Expense			
HB&A Alley Improvements	25,959	17,831	8,128
Kimley-Horn Gateway Improvements	31,900	14,414	17,486
Business Development Costs	39,886	39,886	-
Holiday Pop Up Shops	10,000	10,000	-
Tourism Magazine	10,002	10,002	-
Master Plan Update - White Paper (2016)	-	23,079	-
	<u>\$ 2,123,079</u>	<u>\$ 473,165</u>	<u>\$ 1,812,414</u>