
Lowry Redevelopment Authority

**Financial Report
with Supplemental Information
December 31, 2018**

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Independent Auditor's Report

To the Board of Directors
Lowry Redevelopment Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Lowry Redevelopment Authority (the "Authority") as of and for the year ended December 31, 2018 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.

Auditor's 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 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 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.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Lowry Redevelopment Authority as of December 31, 2018 and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the basic financial statements, the 2017 basic financial statements have been restated to correct the classification of components within net position. Our opinion is not modified with respect to this matter.

Report on Prior Year Financial Statements

The basic financial statements of Lowry Redevelopment Authority as of and for the year ended December 31, 2017 were audited by EKS&H LLLP, which expressed an unmodified opinion in its report dated June 5, 2018.

To the Board of Directors
Lowry Redevelopment Authority

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental information, as identified on the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information, as identified on the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2019 on our consideration of Lowry Redevelopment Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Lowry Redevelopment Authority's internal control over financial reporting and compliance.



June 25, 2019

Year Ended December 31, 2018

This section of the Lowry Redevelopment Authority's (the "Authority") annual report presents management's discussion and analysis of the financial performance of the Authority during the calendar years ended December 31, 2017 and 2018. The discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with the basic financial statements and footnotes.

The discussion and analysis is designed to focus on current activities, resulting changes in financial condition, and currently known facts. The financial statements, footnotes, and this discussion are the responsibility of management.

1. Executive Summary

The Authority's mission, as defined in its intergovernmental agreement between the cities of Denver and Aurora, Colorado, is to redevelop and convert to civilian use the real estate of the former Lowry Air Force Base. The Authority is a quasi-governmental entity that operates as an enterprise in a manner similar to any private real estate developer, financing its infrastructure and land improvements with a combination of bank loans, debt issuances, and reinvested net income. On May 31, 2012, the Authority acquired an additional 70 acres known then as the Buckley Annex (now rebranded as Boulevard One) from the Air Force. The entities entered into a Revenue Sharing Agreement that provides for an equal split of any net profits as defined in the agreement upon completion of development of the entire parcel after a specified period of time. Sunset will now occur when development is completed and all remaining infrastructure is transferred to the cities of Denver and Aurora.

The July 15, 1996 Cooperation Agreement, as amended and restated on December 1, 2002, between Denver Urban Renewal Authority ("DURA") and the City and County of Denver ("CCD") designated the Lowry Tax Increment Area and established the repayment of revenue bonds from property taxes collected from this area. The Series 2008A bonds were issued in October 2008 to refinance the Authority's Series 2002 tax increment bonds, which were originally issued to support the Authority's parks and open space program, demolition and abatement, and a small amount of remaining infrastructure. Subsequently, on May 1, 2012, the Authority refinanced its Series 2008A variable rate refunding revenue bonds with a direct, fixed-interest bank loan through BBVA in the amount of \$43.6 million. This loan refunded the remaining Series 2008A bonds and saved the Authority approximately \$3 million in interest expense. The new loan carried a fixed interest rate of 2.16% annually and was secured by the Authority's property tax increment ("TIF") revenue. In connection with the Series 2012A loan, the Authority also acquired a Series 2012B Advancing Improvement Loan in the amount of \$6.5 million to be used for demolition on the Boulevard One property. This loan was provided at variable tax-exempt rates and also secured by TIF revenue. On December 4, 2017, the principal balance of both the 2012A and B loans were prepaid in entirety, three years earlier than anticipated, using the excess supplemental revenues from 2017. After that date, all property tax revenues generated from the Lowry project flow directly to the original taxing entities, enriching the community with the additional tax increment of over \$14 million annually.

The Authority's major revenue sources for operations have been net proceeds from the sale of real estate. As Lowry is a mixed-use development, the Authority's sales span a wide spectrum of land uses, price points, and product types. The different uses and price points carry with them a wide variety of profit margins, so sales mixes and related profits vary widely from year to year.

To a lesser degree, operations are also supported by "equity sharing" agreements with residential builders (proportional sharing of profits with builders should their finished home prices exceed certain threshold prices).

Prior to 2018, other revenues consisted primarily of Denver property TIF used specifically for servicing the Authority's fixed-interest refunding 2012A and B loans (the proceeds of which financed open space and public school development) and maintaining the underlying loan covenants.

Discussions of revenues, expenses, and construction activity appear in later parts of this section.

2. Using the Annual Financial Report

This annual report consists of a series of financial statements prepared in accordance with the Governmental Accounting Standards Board ("GASB") Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. As with private corporations, these statements focus on the financial position of the Authority as a whole, the changes in financial position, and cash flows. The information provided in these statements speaks to the financial health of the Authority with additional relevant context provided in this Discussion and Analysis section.

The statements of net position include all assets and liabilities. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the product or service is provided, and expenses and liabilities are recognized when incurred regardless of when cash is exchanged.

The statements of revenues, expenses, and changes in net position present revenues earned and expenses incurred during the calendar year. Activities are reported as either operating or non-operating, in accordance with *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended. Under these guidelines, interest income and interest and other debt-service-related expenses are classified as non-operating revenues and expenses, respectively. Use of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The statements of cash flows present the Authority's ability to meet financial obligations as they mature. It portrays information related to inflows and outflows summarized by operating, capital and related financing, non-capital financing, and investing activities.

3. Net Position

Condensed Statements of Net Position (in Thousands)

	December 31,		
	2018	2017	2016
Assets			
Current assets			
Unrestricted cash, investments, and receivables	\$ 15,085	\$ 14,366	\$ 8,504
Restricted cash, investments, and receivables	<u>3,558</u>	<u>3,546</u>	<u>4,812</u>
Total current assets	<u>18,643</u>	<u>17,912</u>	<u>13,316</u>
Non-current assets			
Restricted cash, investments, and receivables	-	-	2,370
Property and equipment	<u>31,519</u>	<u>31,008</u>	<u>34,317</u>
Total non-current assets	<u>31,519</u>	<u>31,008</u>	<u>36,687</u>
Total assets	<u>\$ 50,162</u>	<u>\$ 48,920</u>	<u>\$ 50,003</u>
Liabilities			
Current liabilities	<u>\$ 347</u>	<u>\$ 1,612</u>	<u>\$ 13,833</u>
Total liabilities	<u>\$ 347</u>	<u>\$ 1,612</u>	<u>\$ 13,833</u>
Net Position			
Net position			
Invested in capital assets, net of related debt	\$ 24,786	\$ 22,856	\$ 22,851
Restricted			
Future projects	3,546	3,546	7,182
Unrestricted	<u>21,483</u>	<u>20,906</u>	<u>6,137</u>
Total net position	<u>49,815</u>	<u>47,308</u>	<u>36,170</u>
Total liabilities and net position	<u>\$ 50,162</u>	<u>\$ 48,920</u>	<u>\$ 50,003</u>

The financial statements reported here reflect a 5% increase in the Authority's net position from 2017 but a 38% increase in the Authority's net position from 2016, primarily attributable to reduction and pay off of notes payable from TIF excess surplus revenue. Assets exceed liabilities by \$49.8 and \$47.3 million for 2018 and 2017 respectively, with the unrestricted portion of equity at \$21.5 and \$20.9 million. This unrestricted portion is financing the Authority's working capital. The Authority's remaining equity is invested in existing property and capital assets.

Lowry Redevelopment Authority

Management's Discussion and Analysis (Continued)

Year Ended December 31, 2018

3. Net Position (continued)

The Authority has a ratio of current assets to current liabilities of 53.7:1 as of December 2018, 11.1 to 1 as of December 31, 2017 and .96 to 1 as of December 31, 2016. As of December 31, 2016, current asset and current liability balances include the current portion of restricted cash designated for the next year's amortization and the related liability. As of December 31, 2017 and 2018, restricted cash is designated for current development projects. The ratio of total assets to total liabilities is 144.6 to 1 for 2018, 30.3 to 1 for 2017 and 3.6 to 1 for 2016. The Authority believes it is well-positioned for covering all obligations.

The Authority's capital assets consist of office equipment and furniture and a vehicle. All land and related improvements are held for development and sale or dedication to CCD. Buildings have been written off as they were demolished or sold.

4. Property Held for Development and Infrastructure

Investment in land development and improvements owned by the Authority as of December 31, 2018 includes the following (in thousands):

	Percent Charged off	Total Investment	Charges Against Operations	Transfers to Cities/ BOCA	Total Charges and Transfers	Net Investment
<u>Boulevard One:</u>						
Basic Infrastructure	77%	\$ 25,164	\$ (17,057)	\$ (2,283)	\$ (19,340)	\$ 5,824
Parks and Open Space	39%	6,334	-	(2,501)	(2,501)	3,833
Demolition and Abatement	95%	6,794	(4,763)	(1,691)	(6,454)	340
Total Boulevard One Development		<u>38,292</u>	<u>(21,820)</u>	<u>(6,475)</u>	<u>(28,295)</u>	<u>9,997</u>
<u>Legacy Lowry:</u>						
Basic Infrastructure	94%	57,651	(32,773) (B)	(21,489)	(54,262) (B)	3,389
Parks and Open Space	77%	55,322	(679) (A)	(41,663)	(42,342) (A)	12,980
Demolition and Abatement	79%	24,633	-	(19,480)	(19,480)	5,153
Total Legacy Lowry Development		<u>137,606</u>	<u>(33,452)</u>	<u>(82,632)</u>	<u>(116,084)</u>	<u>21,522</u>
Total Investment in Land Development		175,898	(55,272)	(89,107)	(144,379)	31,519
Equipment and Improvements	100%	29	(29)	-	(29)	-
Total Property and Infrastructure		<u>\$ 175,927</u>	<u>\$ (55,301)</u>	<u>\$ (89,107)</u>	<u>\$ (144,408)</u>	<u>\$ 31,519</u>

(A) Parks costs charged off are those of the West Neighborhood Park and Roslyn Park, funded by sales revenues. Other parks and demolition costs were funded by tax increments.

(B) Charge offs of basic infrastructure to sales have been based on net acres purchased by developers and transfers to Public Benefit Conveyance recipients. At the earlier of deeding to the cities or termination of Lowry operations, the value of remaining infrastructure areas will be accounted for as distributions to the cities as this will represent the publicly funded value of main rights of way through the entire property.

Lowry Redevelopment Authority

Management's Discussion and Analysis (Continued)

Year Ended December 31, 2018

4. Property Held for Development and Infrastructure (continued)

Annual construction investment in development property was as follows (in thousands):

	For the Years Ended		
	December 31,		
	2018	2017	2016
Parks and open space	\$ 1,493	\$ 2,721	\$ 1,180
Demolition - Boulevard One	438	1,093	725
Infrastructure - Boulevard One	<u>3,873</u>	<u>5,240</u>	<u>2,430</u>
Total investment	<u>\$ 5,804</u>	<u>\$ 9,054</u>	<u>\$ 4,335</u>

Basic infrastructure (excluding portions funded by grants) and in-tract costs are being amortized against land sales in proportion to acreage sold. Parks, public rights of way, open space, and demolition investments do not generate operating revenue and are being partially funded by tax-increment revenues with repayment from property taxes; therefore, these elements are not being amortized against sales. Further detail regarding capital asset activity is included in the notes to these financial statements.

5. Operations

Condensed Statements of Revenues, Expenses, and Changes in Net Position (in Thousands)

	For the years ended December 31,					
	2018		2017		2016	
	Amount	Percent	Amount	Percent	Amount	Percent
Operating Revenues						
Real estate sales	\$ 6,554		\$ 14,415		\$ 4,797	
Cost of real estate sales	(3,873)		(6,153)		(3,243)	
Net real estate income	2,681	66.0%	8,262	32.4%	1,554	9.00%
Property tax increment	-	0.0%	13,627	53.4%	12,998	75.30%
Other revenues	1,380	34.0%	3,641	14.3%	2,721	15.80%
	4,061	100.0%	25,530	100.0%	17,273	100.00%
Operating Expenses	1,682	41.4%	1,785	7.0%	1,746	10.10%
Operating Income	2,379	58.6%	23,745	93.0%	15,527	89.90%
Nonoperating Revenues (Expenses)						
Interest income	128		90		38	
Interest expense & debt related fees	-		(1,115)		(1,258)	
Donations of property of organizations	-		(1,991)		-	
Transfers of property deeded to BOCA	-		(4,484)		-	
Transfers of property to the City of Denver	-		(5,107)		-	
	128		(12,607)		(1,220)	
Total Increase in Net Position	2,507		11,138		14,307	
Net Position Beginning of Year	47,308		36,170		21,863	
Net Position, End of Year	\$ 49,815		\$ 47,308		\$ 36,170	

5. Operations (continued)

Lowry is a mixed-use development with widely varying finished product price points and costs, as mandated by the intergovernmental agreement forming the entity. Sales dollar volume and related costs will thus vary from year to year, depending on the sales product and price-point mix in addition to market conditions. Sales and profit growth year over year is not an objective as the real estate available for sale is finite and the spectrum of product and price points is wide. The objective is to have a balanced, viable sales program each year that provides enough cash flow to fund the continuing operations, meet current debt obligations, and reinvest in continued development until the entire program is completed.

Historically, the property tax increment revenue continued to increase as the built-out tax base continued to expand. This revenue was primarily restricted for debt service and payments under related covenants. However, pursuant to the Custodial Agreement for the 2012A loan, one-half of any increment collected in excess of debt service and covenanted payments could be considered for additional project construction, subject to the approval of DURA and CCD. CCD and DURA approved the use of \$3.5 million for such projects at Boulevard One prior to prepayment of the 2012A loans in December of 2017, and these funds remain an asset of the LRA until expended during construction.

Operating income from real estate sales at Boulevard One commenced during 2014, continuing through 2018 as the Authority sold finished single and multifamily lots at Boulevard One. Operating expenses stayed fairly consistent year over year from 2016 to 2018, declining slightly with staff reductions during 2018.

Interest expense decreased commensurate with the reduction of outstanding debt, while interest income increased due to growing average cash balances and improved interest rates year over year.

Debt covenants and tax law have restricted the allowable interest earnings on invested proceeds to not exceed the effective interest rates payable on the notes. Management monitors this exposure at least annually to ensure enough is maintained in the rebate account to make any complying refunds when due. As of July 2, 2012, arbitrage rebate was analyzed and management determined that no arbitrage liability had accrued concurrent with the refunding of the 2008A series bonds. As of December 31, 2017 and 2018, management estimates no additional liability.

Prior to prepayment of the 2012A and B notes at the end of 2017, the Authority annually paid priority fees to DURA based upon amounts determined during the previous TIF bond series issued during 1998, 2000, and 2002. During the years ended December 31, 2017 and 2016, the Authority paid priority fees to DURA in the amounts of \$974,642 and \$937,156, respectively.

As part of its operations, the Authority continued the formal transfers of residual and publicly funded property and infrastructure to CCD in 2016 and 2017. The total value of the property deeded as of December 31, 2017 is estimated to cost \$82.63 million. There were no transfers during 2018, however, these transfers are expected to continue while development of Boulevard One takes place.

Additionally, upon the satisfaction of the 2012A and B notes in December of 2017, a remaining \$5.1 million cash surplus of tax increment was transferred to DURA, and ultimately to the appropriate taxing entities.

The following table further presents a breakdown of operating expenses by department, reconciled to their natural expenditure classifications:

**Operating Expenses by Function Compared with
Operating Expenses by Natural Classification (in Thousands)**

	<u>For the Years Ended December 31</u>		
	2018	2017	2016
Function (including salaries and benefits)			
General, Administrative & Finance	\$ 1,562	\$ 1,619	\$ 1,529
Internal Property Maintenance	24	55	59
Marketing & Public Relations	88	66	100
Utilities	8	45	59
	<u>\$ 1,682</u>	<u>\$ 1,785</u>	<u>\$ 1,746</u>
Classification	2018	2017	2016
Salaries & Benefits	\$ 845	\$ 929	\$ 909
Purchased Services	340	353	330
Supplies & Materials	24	55	59
Utilities	8	45	59
Depreciation & Amortization	1	2	2
Advertising and Public Relations	88	66	100
Insurance	128	142	111
Other	248	193	176
	<u>\$ 1,682</u>	<u>\$ 1,785</u>	<u>\$ 1,746</u>

General and administrative decreased from 2017 to 2018 due to reduction in employed workforce, but increased slightly from 2016 and 2017 due to small increases in salaries and benefits, insurance coverage and legal purchased services. Internal property maintenance decreased in general due to a change from self-maintained grounds to leased office space. Marketing and public relations expense decreased from 2016 to 2017, as all lots were sold or under contract by the end of 2017. During 2018 however, that expense increased due a change in the marketing director's status from employee to contractor status as the hours needed declined. Utilities declined upon the conveyance of parks to the homeowner's association from 2016 to 2017, and then dramatically declined as the main office moved to a leased building.

Lowry Redevelopment Authority

Management's Discussion and Analysis (Continued)

Year Ended December 31, 2018

5. Operations (continued)

Below is a presentation of net operating income components as compared to the Authority's annual budgets (in thousands):

	2018		2017		2016	
	Actual	Budget*	Actual	Budget*	Actual	Budget*
Operating revenues						
Real estate sales	\$ 6,554	\$ 7,779	\$ 14,415	\$ 17,086	\$ 4,797	\$ 9,261
Cost of real estate sales	(3,873)	(6,530)	(6,153)	(9,247)	(3,243) #	(8,990)
Net real estate income	2,681	1,249	8,262	7,839	1,554	271
Property tax increments	-	-	13,627	12,998	12,998 ^	11,846
Other revenues	1,380	1,492	3,641	3,124	2,721	1,769
Total other revenues	1,380	1,492	17,268	16,122	15,719	13,615
Total operating revenues	4,061	2,741	25,530	23,961	17,273	13,886
Operating expenses by function						
General, administrative, and finance	1,562	2,566	1,619	2,456	1,528	2,460
Internal property maintenance	24	166	55	204	59	81
Marketing and public relations	88	133	66	183	100	157
Utilities	8	34	45	88	57	106
Total operating expenses by function	1,682	2,899	1,785	2,931	1,744	2,804
Operating income	\$ 2,379	\$ (158)	\$ 23,745	\$ 21,030	\$ 15,529	\$ 11,082

* Budgets assume accrual basis equals cash basis without provision for depreciation; actual amounts are on an accrual basis.

^ Property tax increments budgeted to equal prior-year collections. Cash-based budget shows only TIF expended upon TIF-eligible projects.

Budget assumes cost of real estate sales is cash outflow associated with capital lot preparation and infrastructure expenditures, actual represents costs of lot preparation, and infrastructure prorated by acreage of saleable land.

Comments on Major Variances from Budget

Real estate sales and cost of sales: In some cases, lots scheduled to close by the end of each year did not close until the next year. While this created a variance in sales, it also created a corresponding variance in costs of sales, resulting in a positive actual net sales over budget variance during 2017 and 2018.

5. Operations (continued)

Comments on Major Variances from Budget (continued)

Real estate costs of sales: For cash-based budgeting purposes, costs of sales shown as charges against sales are the capital costs of lot preparation and infrastructure for the year. Infrastructure development costs are typically spent in a different cash cycle than sales; however, those capital expenditures are reported for budgetary purposes as incurred when the cash is expended. These accumulated capitalized costs are allocated against sales on a pro-rated basis by lot and acreage for the purpose of meeting generally accepted accounting principles in accrual-based actual reporting.

Property tax increments: The property tax increment reflects collections as expected, consistent with the prior year, as the final development of Legacy Lowry and the phase one buildout of Boulevard One begins to appear on the tax rolls. No tax increments are budgeted after prepayment of the 2012A and B loans at the end of 2017.

Other revenues: Actual revenues during 2016 and 2017 exceeded budgeted due to higher than expected equity sharing revenue, which was a reflection of the increasing Denver market prices. Housing prices stabilized by 2018.

Operating expenses: Marketing expenses were lower than budgeted, and certain outdoor identity and mobility projects that were budgeted to occur during 2017 did not take place until 2018. Utilities were decreased due to reduction of charges on demolished property and handover of costs to the HOA. Lastly, general and administrative expenses declined due to workforce reductions and reduced legal, insurance and contingency and expenses in addition to community projects intended for future implementation.

6. Cash Flows

The statements of cash flows show cash receipts and cash payments during the year. This information helps analyze the stability of the Authority's cash sources as well as its ability to meet obligations as they come due.

Condensed Statements of Cash Flows (in Thousands)

	December 31,		
	2018	2017	2016
Cash flows from operating activities			
Cash received from real estate sales	\$ 6,547	\$ 13,843	\$ 4,788
Cash paid to suppliers and employees	(1,874)	(2,227)	(2,148)
Cash paid for development costs	(2,431)	(7,894)	(1,933)
Cash provided by property tax increment	-	13,627	12,998
Cash provided by other operating activities	1,380	3,641	2,721
Net cash provided by operating activities	3,621	20,660	16,426
Investing activities	128	90	38
Capital and related financing activities	(2,531)	(15,013)	(13,304)
Non-capital financing activities	-	(6,221)	(1,258)
Net increase in cash and cash equivalents	1,218	(484)	1,902
Cash and cash equivalents, beginning of year	13,403	13,887	11,985
Cash and cash equivalents, end of year	<u>\$ 14,621</u>	<u>\$ 13,403</u>	<u>\$ 13,887</u>

Capital and financing activities comprise TIF related demolition and infrastructure on Boulevard One, in addition to transactions pertaining to changes in principal. Principal payments on the 2012A and B loans were \$7.8 million and \$4.8 million, respectively, during 2017. \$3.9 million of the 2012A principal payments was funded by a return of excess surplus TIF revenue, which was then applied as a prepayment on the 2012A loan. Principal payments on the lot development and infrastructure collateralized loan in the form of release totaled \$1.1 million during 2017. There was no capital or financing activity during 2018, as all TIF related activity was completed during 2017.

7. Factors Impacting Future Periods

The Authority is in the process of continued infrastructure installation, lot development, and active residential and commercial lot sales of its last developable property, Boulevard One. As of December 31, 2018, a total of 227 single family residential lots had been sold to developers with 140 of these lots completed and sold to homeowners. One multifamily residential lot was sold during 2017 for the development of 347 apartments, with another two during 2018 for 92 condominiums. The master plan for this 70-acre parcel provides for up to 800 residential units and includes up to 200,000 square feet of commercial buildings (office and retail).

Combinations of previous and continued lot sales, in addition to the \$1M line of credit, should provide sufficient working capital for the Authority to successfully complete its development program while meeting all financial obligations.

Lowry Redevelopment Authority

Statement of Net Position

December 31, 2018 and 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 14,620,593	\$ 13,403,355
Accounts receivable	3,558,290	3,546,290
Prepaid expenses and other assets	181,111	158,511
Real estate deposits	282,641	804,350
Total current assets	18,642,635	17,912,506
Noncurrent assets:		
Property held for development and infrastructure	6,732,596	8,151,835
Capital assets: (Note 4)		
Assets not subject to depreciation	24,786,347	22,855,478
Assets subject to depreciation - Net	-	577
Total noncurrent assets	31,518,943	31,007,890
Total assets	50,161,578	48,920,396
Liabilities		
Current liabilities:		
Accounts payable	176,847	869,930
Accrued liabilities and other	94,585	74,485
Unearned revenue	75,000	667,550
Total current liabilities	346,432	1,611,965
Net Position		
Net investment in capital assets	24,786,347	22,856,055
Restricted - Future projects	3,546,290	3,546,290
Unrestricted	21,482,509	20,906,086
Total net position	\$ 49,815,146	\$ 47,308,431

Lowry Redevelopment Authority

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended December 31, 2018 and 2017

	2018	2017
Operating Revenue		
Real estate sales	\$ 6,554,020	\$ 14,414,936
Property tax increments	-	13,626,797
Equity-sharing revenue	1,248,906	3,597,423
Other revenue	130,554	43,456
Total operating revenue	7,933,480	31,682,612
Operating Expenses		
Cost of real estate sales	3,873,197	6,152,950
Internal property maintenance - Supplies and materials	24,046	55,523
Utilities - Purchased services	7,863	44,986
General and administrative:		
Salaries and benefits	844,533	929,177
Purchased services	340,130	353,247
Depreciation and amortization	577	1,427
Advertising and public relations	88,092	66,142
Insurance	128,000	141,799
Other	247,785	192,597
Total operating expenses	5,554,223	7,937,848
Operating Income	2,379,257	23,744,764
Nonoperating Revenue (Expense)		
Investment income - Net	127,471	89,964
Transfers to other governments	-	(5,106,858)
Transfer of property to BOCA	-	(4,483,616)
Donations of property to organizations	-	(1,991,308)
Interest and fiscal charges	-	(139,541)
Bank and debt-related fees	(13)	(974,681)
Total nonoperating revenue (expense)	127,458	(12,606,040)
Change in Net Position	2,506,715	11,138,724
Net Position - Beginning of year	47,308,431	36,169,707
Net Position - End of year	<u>\$ 49,815,146</u>	<u>\$ 47,308,431</u>

Lowry Redevelopment Authority

Statement of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Cash received from real estate sales	\$ 6,546,600	\$ 13,843,317
Cash paid to suppliers and for compensation	(1,874,415)	(2,556,369)
Cash paid for development costs	(2,430,799)	(7,894,729)
Cash provided by property tax increment	-	13,626,797
Cash provided by other operating activities	1,379,460	3,640,879
	<u>3,620,846</u>	<u>20,659,895</u>
Net cash and cash equivalents provided by operating activities	3,620,846	20,659,895
Cash Flows from Noncapital Financing Activities		
Payment of interest and debt-related fees	(13)	(1,114,222)
Return of TIF to City of Denver, Colorado	-	(5,106,858)
	<u>(13)</u>	<u>(6,221,080)</u>
Net cash and cash equivalents used in noncapital financing activities	(13)	(6,221,080)
Cash Flows from Capital and Related Financing Activities		
Investment in property held for development and infrastructure and capital assets	(2,531,066)	(3,546,130)
Principal payments on notes payable	-	(11,466,875)
	<u>(2,531,066)</u>	<u>(15,013,005)</u>
Net cash and cash equivalents used in capital and related financing activities	(2,531,066)	(15,013,005)
Cash Flows Provided by Investing Activities - Interest received on investments	127,471	89,964
	<u>127,471</u>	<u>89,964</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,217,238	(484,226)
Cash and Cash Equivalents - Beginning of year	13,403,355	13,887,581
Cash and Cash Equivalents - End of year	<u>\$ 14,620,593</u>	<u>\$ 13,403,355</u>
Classification of Cash and Cash Equivalents - Cash and investments	<u>\$ 14,620,593</u>	<u>\$ 13,403,355</u>
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ 2,379,257	\$ 23,744,764
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	577	1,427
Changes in assets and liabilities:		
Receivables	(12,000)	(3,509,711)
Prepaid and other assets	499,109	798,849
Property held for development and infrastructure	(511,630)	379,395
Accounts payable	693,083	227,628
Accrued and other liabilities	572,450	(982,457)
	<u>1,241,589</u>	<u>(3,084,869)</u>
Total adjustments	1,241,589	(3,084,869)
Net cash and cash equivalents provided by operating activities	<u>\$ 3,620,846</u>	<u>\$ 20,659,895</u>

December 31, 2018 and 2017

Note 1 - Nature of Business

Lowry Redevelopment Authority (the "Authority") is a quasi-governmental entity established by the City and County of Denver (CCD) and the City of Aurora, Colorado. The Authority was established and began operations in August 1994. The purpose of the Authority is to provide ownership, management, maintenance, and economic redevelopment services for the former Lowry Air Force Base site. The Authority earns revenue predominantly from real estate sales of residential and commercial properties and property tax increment financing (TIF) revenue on what was the Lowry Air Force Base. The July 15, 1996 Cooperation Agreement, as amended and restated on December 1, 2002 between Denver Urban Renewal Authority (DURA) and CCD, designated the Lowry Tax Increment Area and established the repayment of revenue bonds from property taxes collected from this area. During 2017, the Authority prepaid the remaining balance of all loans three years earlier than anticipated. As a result of this advance payment, all property tax revenue generated from the Lowry project flows directly to the original taxing entities, enriching the community with the additional tax increment of over \$14 million dollars annually.

The governing body of the Authority is a nine-member board of directors. CCD appoints seven members, and the City of Aurora, Colorado appoints two members.

Note 2 - Significant Accounting Policies

Basis of Accounting

The Authority follows the Governmental Accounting Standards Board's (GASB) 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 appointed 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 Authority'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, nor is the Authority included in the financial statements of any other primary government entity.

The financial statements of the Authority have been prepared on the economic resources measurement focus and the accrual basis of accounting. Revenue, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated, nonexchange transactions are recognized when all applicable eligibility requirements are met. Internal activity and balances are eliminated in preparation of the financial statements unless they relate to services provided and used internally. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

The Authority is a business-type activity that reports as an enterprise fund, which records activity in a manner similar to private business. Enterprise funds are intended to be self-supporting; that is, costs are to be financed primarily through user charges on a continuing basis. The Authority operates one major enterprise fund.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Significant Accounting Policies (Continued)

Specific Balances and Transactions

Cash and Cash Equivalents

The Authority considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents. As of December 31, 2018 and 2017, cash equivalents consisted of money market mutual funds.

Receivables

Accounts receivable represent amounts due from DURA for amounts held on deposit for supplemental projects. The Authority provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. Based on the Authority's review of accounts receivable, all amounts are considered fully collectible, and no allowance for doubtful accounts has been established as of December 31, 2018 and 2017.

Property Held for Development and Infrastructure

The property owned by the Authority is presented in the financial statements as property held for development and infrastructure, includes development costs incurred, and is recorded at lower of cost or market.

Additionally, the Authority capitalizes development interest costs as a component of property held for development and capital assets, based on the weighted-average rates paid for long-term borrowing. Prior cumulative capitalized interest as of December 31, 2018 and 2017 was \$1,537,952.

Capital Assets

Capital assets are defined by the Authority as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from 5 to 39½ years. Maintenance and repairs are expensed as incurred.

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omission; injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance is purchased for claims arising from such matters. Settled claims have not exceeded commercial coverage during the past three years.

Net Position

Net position of the Authority is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Revenue and Cost Recognition

The Authority recognizes revenue from real estate sales at the time the transaction is closed. Earnest money received from sales of properties in advance of closing is recorded as real estate deposits and revenue received in advance.

December 31, 2018 and 2017

Note 2 - Significant Accounting Policies (Continued)

Cost of sales includes the cost of the land, interest capitalized during the development phase, all direct costs to develop the land, closing costs, and an allocation of costs to the lots and parcels sold. Infrastructure costs are allocated to saleable lots and parcels based on acreage and character of expenditure.

Budgeting Requirements

The Authority's board of directors meets in the fall of each year to approve the budget for the ensuing year. The board of directors can modify the budget by line items at any time. The budget does not transfer at year end.

Classification of Revenue

The Authority has classified its revenue as either operating or nonoperating revenue according to the following criteria:

Operating revenue include activities that have the characteristics of exchange transactions, such as real estate sales and property tax increment income.

Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, as defined by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended, such as investment income.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including June 25, 2019, which is the date the financial statements were available to be issued.

On April 5, 2019, the LRA closed on a commercial parcel of land with CK Lowry I LLC, a joint venture between Kelmore and Confluent Development. The plans for this parcel include a specialty grocery store anchor and up to 200,000 square feet of retail and restaurant space. The Authority committed \$1.5 million to be escrowed from the proceeds of this sale for use in a public benefit facility located on this parcel. An additional \$3.5 million of excess surplus TIF funds approved for this use by CCD and DURA, for future development of this public benefit facility, are classified as restricted net position and accounts receivable as of December 31, 2018.

Upcoming Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Authority's financial statements for the year ending December 31, 2019.

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Authority's financial statements for the year ending December 31, 2020.

Note 2 - Significant Accounting Policies (Continued)

Reclassification

Certain 2017 amounts have been reclassified to conform to the 2018 presentation in relation to net position classification. Balances previously reported as net investment in capital assets have been reclassified to unrestricted net position.

Note 3 - Deposits and Investments

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. Deposits are carried at cost. Accrued interest is recorded as a receivable. Deposits include operating accounts and escrow accounts. As of December 31, 2018 and 2017, the carrying value of the Authority's unrestricted deposits was \$14,620,593 and \$13,403,355, respectively. The bank balance as of December 31, 2018 and 2017, classified by custodial credit risk category, includes \$250,000 covered by federal depository insurance and \$14,748,477 and \$14,396,554 in uninsured balances, respectively. The latter category represents deposits for which collateral has been pledged but is held by the pledging bank or its trust department or agent in other than the Authority's name.

The Colorado Public Deposit Protection Act (the "CPDPA") 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 by the public depositories. The eligible collateral is determined by the CPDPA. The CPDPA allows the 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 public deposits as a group. The market value of the collateral must be at least equal to 102 percent of the uninsured deposits. The Authority's cash and investments meet these collateral requirements.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The bylaws of the Authority state that investments must be made in accordance with the laws of the State of Colorado. The Authority follows the Colorado statutes with respect to its investment policy. The Colorado statutes specify that units of local government may invest in the following instruments:

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

December 31, 2018 and 2017

Note 4 - Capital Assets

Capital asset activity of the Authority's business-type activities was as follows:

	Balance January 1, 2018	Additions	Disposals and Adjustments	Balance December 31, 2018
Capital assets not being depreciated - Parks, open space, and demolition	\$ 22,855,478	\$ 1,930,869	\$ -	\$ 24,786,347
Capital assets being depreciated:				
Office equipment	9,041	-	-	9,041
Vehicles	5,775	-	-	5,775
Office furnishings	4,522	-	-	4,522
Subtotal	19,338	-	-	19,338
Accumulated depreciation:				
Office equipment	9,041	-	-	9,041
Vehicles	5,198	577	-	5,775
Office furnishings	4,522	-	-	4,522
Subtotal	18,761	577	-	19,338
Net capital assets being depreciated	577	(577)	-	-
Net capital assets	<u>\$ 22,856,055</u>	<u>\$ 1,930,292</u>	<u>\$ -</u>	<u>\$ 24,786,347</u>
	Balance January 1, 2017	Additions	Disposals and Adjustments	Balance December 31, 2017
Capital assets not being depreciated - Parks, open space, and demolition	\$ 25,516,322	\$ 3,814,080	\$ (6,474,924)	\$ 22,855,478
Capital assets being depreciated:				
Office equipment	9,190	-	-	9,190
Vehicles	5,775	-	-	5,775
Furniture and fixtures	4,522	-	-	4,522
Subtotal	19,487	-	-	19,487
Accumulated depreciation:				
Office equipment	8,919	271	-	9,190
Vehicles	4,042	1,156	-	5,198
Office furnishings	4,522	-	-	4,522
Subtotal	17,483	1,427	-	18,910
Net capital assets being depreciated	2,004	(1,427)	-	577
Net capital assets	<u>\$ 25,518,326</u>	<u>\$ 3,812,653</u>	<u>\$ (6,474,924)</u>	<u>\$ 22,856,055</u>

The Authority periodically transfers infrastructure assets to CCD as a part of its governmental agreement. All related infrastructure assets, including streets, roads, parks, and water and sewer lines, are to be transferred.

Note 4 - Capital Assets (Continued)

During 2016, the Authority signed an agreement with DHA/VOA providing for 1.5 acres of land to be transferred for development of no more than 80 for-rent residential units. The plan included 20 units dedicated to homeless assistance for families and up to a maximum of 60 additional units for families at or below 60 percent of AMI. The 1.5 acres of land was transferred in 2017 with a basis of \$1,238,688 and is included in the donations of property to organizations on the statement of revenue, expenses, and changes in net position.

During 2016, the Authority signed a resolution with the Colorado Community Land Trust (CCLT) intending to transfer one acre of property to CCLT for the development of 14 affordable for-sale residential units fulfilling the Authority's obligation to provide 200 affordable housing units to the Lowry community. The property was transferred in 2017 with a basis of \$752,620, which is included in the donations of property to organizations on the statement of revenue, expenses, and changes in net position.

Property Held for Redevelopment and Infrastructure

A summary of acquisitions and dispositions for the Authority's property held for development and infrastructure is as follows:

	Balance January 1, 2018	Additions	Disposals and Adjustments	Balance December 31, 2018
Development costs	\$ 6,613,883	\$ 2,453,958	\$ (3,873,197)	\$ 5,194,644
Capitalized bond interest	1,537,952	-	-	1,537,952
Total	<u>\$ 8,151,835</u>	<u>\$ 2,453,958</u>	<u>\$ (3,873,197)</u>	<u>\$ 6,732,596</u>

	Balance January 1, 2017	Additions	Disposals and Adjustments	Balance December 31, 2017
Development costs	\$ 7,261,228	\$ 5,239,875	\$ (5,887,220)	\$ 6,613,883
Capitalized bond interest	1,537,952	-	-	1,537,952
Total	<u>\$ 8,799,180</u>	<u>\$ 5,239,875</u>	<u>\$ (5,887,220)</u>	<u>\$ 8,151,835</u>

On May 31, 2012, the Authority acquired, by Economic Development Conveyance from the Air Force, a property now known as Boulevard One (originally Department of Defense property, west of Quebec). A master plan for this 70-acre parcel includes 200,000 square feet of commercial buildings (office and retail) and approximately 800 residential units.

This parcel was acquired pursuant to a revenue sharing agreement between the Air Force and the Authority and required no initial investment. There will be a final accounting to split the net revenue pursuant to a formula that includes allowable, nonreimbursable items of income and expense between the Authority and the Air Force in equal proportion after repayment of all loans.

Note 5 - Retirement Plans

Section 457 Deferred Compensation Plan

The Authority offers a deferred compensation plan to all employees. The plan, administered by Nationwide Financial, provides for the Authority's employees to defer a portion of their salary until future years. The Authority is required under the plan agreement to make its 5 percent contribution based upon eligible salaries. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseen emergency. Contributions to the plan totaled \$41,658 and \$33,537 for the years ended December 31, 2018 and 2017, respectively.

Note 5 - Retirement Plans (Continued)

401(a) Savings Plan

The Authority provides a 401(a) savings plan for all employees. The plan, administered by Nationwide Financial, provides for the Authority to make a required 1 percent contribution based on eligible salaries. Contributions to the plan amounted to \$8,761 and \$10,083 for the years ended December 31, 2018 and 2017, respectively.

Note 6 - Long-term Debt

Long-term debt activity for the year ended December 31, 2017 can be summarized as follows:

	January 1, 2017	Additions	Reductions	December 31, 2017
Series 2012A Refunding Loan	\$ 7,833,272	\$ -	\$ (7,833,272)	\$ -
Series 2012B Advancing Improvement Loan	2,437,504	769,190	(3,206,694)	-
Infrastructure/Development Loan	1,196,099	-	(1,196,099)	-
Total business-type activities long-term debt	<u>\$ 11,466,875</u>	<u>\$ 769,190</u>	<u>\$ (12,236,065)</u>	<u>\$ -</u>

Bond Refunding

On May 1, 2012, the Authority refunded the Series 2008A Bonds in their entirety and replaced them with the Series 2012A Refunding Loan. This loan carried a fixed interest rate of 2.16 percent annually, was secured by the Authority's TIF revenue, and was scheduled to mature on December 1, 2020. Principal was due on December 1 of each year. Interest was payable on June 1 and December 1 of each year. The Authority prepaid the full balance of the loan during 2017.

In connection with the Series 2012A Loan, the Authority also acquired a Series 2012B Advancing Improvement Loan in the amount of \$6.5 million to be used for demolition on the Boulevard One property. This loan was provided at variable tax-exempt rates, was secured by TIF revenue, and was to mature on December 1, 2020. Pursuant to subsequent amendment signed on March 16, 2015, principal payments of \$801,672 were due on December 1 of each year beginning on December 1, 2015, which was the amount equal to one-sixth of the outstanding balance as of May 1, 2015 plus the unfunded portion of the \$6.5 million loan. Interest payments were due monthly. The Authority prepaid the remaining balance during 2017, three years earlier than anticipated. After this prepayment, all property tax revenue generated from the Lowry project flows directly to the original taxing entities.

Note 7 - Environmental Remediation Liability

The Lowry Air Force Base property, like most other former military bases, was used at various times for activity that had adverse environmental impacts. Substantial environmental investigations and remediation have been conducted. Environmental issues do arise during the normal course of business. In the event this occurs, there are processes established to manage these issues.

According the Federal Comprehensive Environmental Response, Compensation, and Liability Act and federal base closure laws, the Air Force remains responsible for environmental contamination caused by its activities in perpetuity.

Additionally, environmental insurance and other financial instruments are in place under the various privatization agreements between Lowry Assumption, LLC (an unrelated third party) and the Authority, first established in 2002, to address corrective measures.

Note 8 - State Statutes

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which limits certain activities of state and local governmental agencies, including revenue raising, spending abilities, and other specific requirements of state and local governments. The amendment is complex and subject to judicial interpretation. The Authority is classified as an enterprise under the amendment and is exempt from its provisions. The Authority has made certain interpretations of the amendment's language in order to determine its status.

Note 9 - DURA Priority Fees

As part of the Series 2008A Variable Rate Refunding Revenue Bonds, the Authority pays an annual administrative priority fee to DURA. These fees were to be paid monthly until the debt maturity date of December 1, 2020 and increase by 4 percent each year. During 2017, the bonds were fully paid, and no further DURA priority fees will be due. During the year ended December 31, 2017, the Authority paid \$974,642 in administrative priority fees.

Note 10 - The Lowry Foundation

The Lowry Foundation (the "Foundation") was established in 1997 as a separate corporation existing for the benefit of the Authority in fulfilling its purposes, including but not limited to raising revenue for the purpose of constructing public improvements, including parks and recreational and athletic facilities, within or for the benefit of the Lowry community. The Authority had no financial transactions with the Foundation for the years ended December 31, 2018 and 2017.

The Foundation is a separate legal entity with its own board of directors. The Foundation is not a component unit of the Authority; thus, it is not reflected in the accompanying financial statements.

Note 11 - Colorado Community Land Trust

The Authority established CCLT as a separate legal entity in 2002 in order to market and sell affordable housing units. These units are mainly located within the Lowry development; however, other units may be acquired by CCLT in other areas. The agreement provides that the Authority may develop the units, assist with the marketing of the units, and contribute undeveloped land to CCLT. During 2015, the Authority executed a Second Lowry Redevelopment Authority Amended and Restated Affordable Housing Plan agreement dated May 6, 2015, which clarified the total number of units required for the Lowry affordable housing program to be 200 units. These units are currently under construction. As of December 31, 2018, the Authority contributed land and infrastructure at an approximate cost of \$2.5 million to CCLT together with additional monetary support for a total subsidy conservatively valued at over \$5.9 million.

CCLT is a separate legal entity with its own board of directors. CCLT is not a component unit of the Authority; thus, it is not reflected in the accompanying financial statements.

Other Supplemental Information

Lowry Redevelopment Authority

Other Supplemental Information Comparison of Operating Income Components against Budget (Unaudited)

Years Ended December 31, 2018 and 2017
(Amounts in Thousands)

	2018 Actual	2018 Original Budget (Unaudited)	2017 Actual	2017 Original Budget (Unaudited)
Revenue				
Operating revenue:				
Real estate sales	\$ 6,555	\$ 7,779	\$ 14,415	\$ 17,086
Cost of real estate sales	(3,874)	(6,530)	(6,153)	(9,247)
Property tax increments	-	-	13,627	12,998
Other revenue	1,379	1,492	3,641	3,124
Total operating revenue	4,060	2,741	25,530	23,961
Expenditures				
Current services:				
General, administrative, and finance	1,561	2,566	1,619	2,456
Internal property maintenance	24	166	55	204
Marketing and public relations	88	133	66	183
Utilities	8	34	45	88
Total operating expenses by function	1,681	2,899	1,785	2,931
Operating Income (Loss)	\$ 2,379	\$ (158)	\$ 23,745	\$ 21,030

Year Ended December 31, 2018

On May 31, 2002, the Authority acquired, by Economic Development Conveyance from the Air Force, a 70-acre parcel known as Boulevard One. This property was acquired pursuant to a revenue sharing agreement between the Air Force and the Authority and requires that all allowable, non-reimbursable items of income and expense be separately accounted for. Boulevard One is not a separate legal entity and the Authority has chosen to include the information in their report. Following are the schedules of net position and revenues, expenses, and changes in net position specific to the Boulevard One property.

**Schedule of Net Position – Boulevard One
December 31, 2018**

Assets	
Current assets	
Cash and cash equivalents	\$ 10,381,355
Prepaid expenses	193,110
Due to/from Legacy Lowry	294,953
Real estate deposits	282,641
Total current assets	<u>11,152,059</u>
Non-current assets	
Infrastructure	9,150,757
Real property	846,251
Total non-current assets	<u>9,997,008</u>
Total assets	<u>\$ 21,149,067</u>
Liabilities	
Current liabilities	
Accounts payable	\$ 210,551
Accrued expenses	58,380
Tenant security deposit	2,500
Deferred real estate revenue	75,000
Total current liabilities	<u>346,431</u>
Non-current liabilities	
Interco TIF demo	6,500,000
Total liabilities	<u>6,846,431</u>
Net Position	
Net investment in capital assets	9,997,008
Unrestricted	4,305,628
Total net position	<u>14,302,636</u>
Total liabilities and net position	<u>\$ 21,149,067</u>

Year Ended December 31, 2018

**Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2018**

Operating revenues	
Rent income	\$ 32,400
Real estate sales	6,554,020
Equity sharing revenue	1,248,906
Contract and utility income	174,379
Cost of real estate sales	<u>(3,873,197)</u>
Net real estate income	4,136,508
Operating expenses	
Purchased services	481,164
General and administrative	778,049
Salaries and benefits	<u>340,855</u>
	1,600,068
Operating Income	<u>2,536,440</u>
Nonoperating revenues (expenses)	
Interest income	98,622
Total increase in net position	2,635,062
Net position, beginning of year	<u>11,667,574</u>
Net position, end of year	<u>\$ 14,302,636</u>

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*

Independent Auditor's Report

To Management and the Board of Directors
Lowry Redevelopment Authority

We have audited, 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, the financial statements of the business-type activities of Lowry Redevelopment Authority (the "Authority") as of and for the year ended December 31, 2018 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 25, 2019.

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 Authority'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*.

To Management and the Board of Directors
Lowry Redevelopment Authority

Purpose of this Report

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

Plante & Moran, PLLC

June 25, 2019