
Lowry Redevelopment Authority

**Financial Report
with Supplemental Information
December 31, 2019**

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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 years ended December 31, 2019 and 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2019 and 2018 and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 in 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 in 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 19, 2020 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 19, 2020

Year Ended December 31, 2019

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, 2018 and 2019. 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.

This 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 date. Intentional phasing out of the Authority as an entity, or "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. Bonds were issued to support the Authority's parks and open space program, demolition and abatement, and a small amount of remaining infrastructure. On May 1, 2012, the Authority refinanced its final Series 2008A variable rate refunding revenue bonds with a direct, fixed-interest bank loan in the amount of \$43.6 million. This refinance saved the Authority approximately \$3 million in interest expense and enabled payoff of the 2012 A and B loans in entirety on December 4, 2017. After that date, all property tax revenues generated from the Lowry project flow directly to the original taxing entities, enriching the community with an additional tax increment estimated over \$20 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 activities, capital and related financing, non-capital financing, and investing activities.

3. Net Position

Condensed Statements of Net Position (in Thousands)

	December 31		
	2019	2018	2017
Assets			
Current assets			
Unrestricted cash, investments and receivables	\$ 13,572	\$ 15,085	\$ 14,366
Restricted cash, investments and receivables	5,461	3,558	3,546
Total current assets	<u>19,033</u>	<u>18,643</u>	<u>17,912</u>
Non-current assets			
Restricted cash, investments and receivables	-	-	-
Property & equipment	28,021	31,519	31,008
Total non-current assets	<u>28,021</u>	<u>31,519</u>	<u>31,008</u>
Total assets	<u>\$ 47,054</u>	<u>\$ 50,162</u>	<u>\$ 48,920</u>
Liabilities			
Current liabilities	\$ 389	\$ 347	\$ 1,612
Total liabilities	<u>\$ 389</u>	<u>\$ 347</u>	<u>\$ 1,612</u>
Net Position			
Invested in capital assets, net of related debt	\$ 25,239	\$ 24,786	\$ 27,462
Restricted:			
Future Projects	4,968	3,546	3,546
Unrestricted	16,458	21,483	16,300
Total net position	<u>46,665</u>	<u>49,815</u>	<u>47,308</u>
Total liabilities and net position	<u>\$ 47,054</u>	<u>\$ 50,162</u>	<u>\$ 48,920</u>

The financial statements reported here reflect a minor 6% decrease in the Authority's net position from 2018 and a 1% decrease in the Authority's net position from 2017. Assets exceed liabilities by \$46.7 and \$49.8 million for 2019 and 2018 respectively, with the unrestricted portion of equity at \$16.4 and \$21.5 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, 2019

3. Net Position (continued)

The Authority has a ratio of current assets to current liabilities of 48.9:1 as of December 2019, 53.7:1 as of December 31, 2018 and 11.1 to 1 as of December 31, 2017. As of December 31, 2019, 2018 and 2017, restricted cash is designated for current development projects. The ratio of total assets to total liabilities is 121 to 1 for 2019, 144.6 for 2018 and 30.3 to 1 for 2017. 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, 2019 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	91%	\$ 26,005	\$ (21,356)	\$ (2,283)	\$ (23,639)	\$ 2,366
Parks and Open Space	42%	6,747		(2,831)	(2,831)	3,916
Demolition and Abatement	97%	7,233	(5,255)	(1,761)	(7,016)	217
Total Boulevard One Development		<u>39,985</u>	<u>(26,611)</u>	<u>(6,875)</u>	<u>(33,486)</u>	<u>6,499</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		<u>177,591</u>	<u>(60,063)</u>	<u>(89,507)</u>	<u>(149,570)</u>	<u>28,021</u>
Equipment and Improvements	100%	29	(29)		(29)	-
Total Property and Infrastructure		<u>\$ 177,620</u>	<u>\$ (60,092)</u>	<u>\$ (89,507)</u>	<u>\$ (149,599)</u>	<u>\$ 28,021</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.

Year Ended December 31, 2019**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,		
	2019	2018	2017
Parks and open space	\$ 841	\$ 1,493	\$ 2,721
Demolition - Boulevard One	2	438	1,093
Infrastructure - Boulevard One	851	3,873	5,240
Total investment	<u>\$ 1,694</u>	<u>\$ 5,804</u>	<u>\$ 9,054</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,

	<u>2019</u>	<u>2018</u>	<u>2017</u>
	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>
Operating Revenues			
Real estate sales	\$ 3,150	\$ 6,554	\$ 14,415
Cost of real estate sales	(4,791)	(3,873)	(6,153)
Net real estate income	(1,641)	2,681	8,262
Property tax increment	-	-	13,627
Other revenues	871	1,380	3,641
	<u>(770)</u>	<u>4,061</u>	<u>25,530</u>
Operating Expenses	<u>1,605</u>	<u>1,682</u>	<u>1,785</u>
Operating Income	<u>(2,375)</u>	<u>2,379</u>	<u>23,745</u>
Nonoperating Revenues (Expenses)			
Interest income	266	128	90
Interest expense & debt related fees	(1)	-	(1,115)
Donations of property of organizations	(640)	-	(1,991)
Transfers of property deeded to BOCA	(400)	-	(4,484)
Transfers of property to the City of Denver	-	-	(5,107)
	<u>(775)</u>	<u>128</u>	<u>(12,607)</u>
Total Increase in Net Position	<u>(3,150)</u>	<u>2,507</u>	<u>11,138</u>
Net Position Beginning of Year	<u>49,815</u>	<u>47,308</u>	<u>36,170</u>
Net Position, End of Year	<u>\$ 46,665</u>	<u>\$ 49,815</u>	<u>\$ 47,308</u>

Year Ended December 31, 2019

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.

The Intergovernmental Agreement specifies that the Authority maintain a cash-based budget, however for audit reporting purposes, actual reflects accrual based accounting revenue and expenditures. For cash-based budgeting purposes, costs of sales shown represent the capital costs of lot preparation and infrastructure cash-based expenditure for the year. Infrastructure development costs are typically spent in a different cash cycle than sales; however, capital expenditures are accumulated and allocated against sales on a pro-rated basis by lot type and acreage for the purpose of meeting generally accepted accounting principles for accrual-based actual reporting. Therefore, this budget comparison to actual will always reflect an accrual versus cash basis accounting variance.

Additionally, lot pricing is tied to use as opposed to allocated cost of infrastructure, which may result in a variable gross margin from year to year, based on the blend of parcel sales for any given year.

Historically, property tax increment 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 a restricted asset of the LRA until expended during construction.

Operating income from real estate sales at Boulevard One commenced during 2014, continuing through 2019 as the Authority sold finished commercial, single and multifamily lots at Boulevard One. Operating expenses declined slightly as a result of staff reductions from 2017 through 2019.

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.

As part of its operations, the Authority continues the formal transfers of residual and publicly funded property and infrastructure to CCD, although no property transfers occurred during 2018 and 2019. The total value of the property deeded to CCD as of December 31, 2019 is estimated to cost \$82.63 million. Additionally, the Authority transfers publicly funded property and infrastructure to the Boulevard One Homeowner's Association (BOCA). The total value of the property deeded to BOCA as of December 31, 2019 is estimated to cost \$6.9 million. These transfers are expected to continue while development of Boulevard One takes place.

Year Ended December 31, 2019

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)
For the Years Ended December 31,**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Function (including salaries and benefits)			
General, Administrative & Finance	\$ 1,495	\$ 1,562	\$ 1,619
Internal Property Maintenance	16	24	55
Marketing & Public Relations	83	88	66
Utilities	11	8	45
	<u>1,605</u>	<u>1,682</u>	<u>1,785</u>
Total operating expenses	<u>\$ 1,605</u>	<u>\$ 1,682</u>	<u>\$ 1,785</u>
Classification	<u>2019</u>	<u>2018</u>	<u>2017</u>
Salaries & Benefits	\$ 762	\$ 845	\$ 929
Purchased Services	234	340	353
Supplies & Materials	16	24	55
Utilities	11	8	45
Depreciation & Amortization	-	1	2
Advertising and Public Relations	83	88	66
Insurance	164	128	142
Other	335	248	193
	<u>1,605</u>	<u>1,682</u>	<u>1,785</u>
Total operating expenses	<u>\$ 1,605</u>	<u>\$ 1,682</u>	<u>\$ 1,785</u>

General and administrative decreased from 2017 to 2019 primarily due to reductions in employed workforce. 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 2018 to 2019, as all residential lots were sold or under contract by the end of 2018. During 2017 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 dramatically as the main office moved to a leased building at the end of 2017, and increased slightly during 2019 with the installation of more parks in Boulevard One.

Lowry Redevelopment Authority

Management's Discussion and Analysis (Continued)

Year Ended December 31, 2019

5. Operations (continued)

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

	2019		2018		2017	
	Actual	Budget*	Actual	Budget*	Actual	Budget*
Operating revenues						
Real estate sales	\$ 3,150	\$ 5,280	\$ 6,554	\$ 7,779	\$ 14,415	\$ 17,086
Cost of real estate sales	(4,791)	(7,323)	(3,873)	(6,530)	(6,153) #	(9,247)
Net real estate income	(1,641)	(2,043)	2,681	1,249	8,262	7,839
Property tax increments	-	-	-	-	13,627 ^	12,998
Other revenues	871	895	1,380	1,492	3,641	3,124
Total other revenues	871	895	1,380	1,492	17,268	16,122
Total operating revenues	(770)	(1,148)	4,061	2,741	25,530	23,961
Operating expenses by function						
General, administrative, and finance	1,495	2,284	1,562	2,566	1,619	2,456
Internal property maintenance	16	20	24	166	55	204
Marketing and public relations	83	165	88	133	66	183
Utilities	11	38	8	34	45	88
Total operating expenses by function	1,605	2,507	1,682	2,899	1,785	2,931
Operating income	\$ (2,375)	\$ (3,655)	\$ 2,379	\$ (158)	\$ 23,745	\$ 21,030

* 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 for years 2017 through 2019.

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 type 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 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 and 2019 thus variances are smaller.

Operating expenses: General and administrative expenses declined due to workforce reductions and reduced legal, insurance and contingency expenses in addition to deferral of community projects intended for future implementation. Internal property maintenance variance was due to lack of contingent projects in 2017 and 2018. Marketing expenses were lower than budgeted, as certain outdoor identity and mobility projects that were budgeted were ultimately deferred until 2020. Utilities were decreased due to reduction of charges on demolished property and handover of costs to the HOA.

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)

	2019	2018	2017
Cash flows from operating activities			
Cash received from real estate sales	\$ 3,150	\$ 6,547	\$ 13,843
Cash paid to suppliers and employees	(1,834)	(1,874)	(2,227)
Cash paid for development costs	(3,049)	(2,431)	(7,894)
Cash provided by property tax increment	-	-	13,627
Cash provided by other operating activities	871	1,380	3,641
Net cash provided (used) by operating activities	(862)	3,621	20,660
Investing activities	266	128	90
Capital and related financing activities	(453)	(2,531)	(15,013)
Non-capital financing activities	-	-	(6,221)
Net increase (decrease) in cash and cash equivalents	(1,049)	1,218	(484)
Cash and cash equivalents, beginning of year	14,621	13,403	13,887
Cash and cash equivalents, end of year	<u>\$ 13,572</u>	<u>\$ 14,621</u>	<u>\$ 13,403</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 non-capital or financing activity during 2018 or 2019, 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, 2019, a total of 227 single family residential lots had been sold to developers with 161 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. During 2019, one parcel was sold for retail and commercial use. 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). Following is a summary of current general development:

Boulevard One Residence Type	Total Residences at Full Build-Out	Residences Developed as of 6/19/2020
<i>Single Family</i>	130	127
<i>Row Homes</i>	104	49
<i>Condos</i>	90	45
<i>Market Rate Apartments</i>	347	347
<i>Affordable Apts./ Land Trust Homes</i>	86	86
Total	771	654

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, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,572,270	\$ 14,620,593
Accounts receivable	3,468,439	3,558,290
Prepaid expenses and other assets	160,819	181,111
Real estate deposits	1,651,800	207,641
Escrows	180,000	75,000
Total current assets	19,033,328	18,642,635
Noncurrent assets:		
Property held for development and infrastructure	2,781,706	6,732,596
Capital assets (Note 4)	25,239,100	24,786,347
Total noncurrent assets	28,020,806	31,518,943
Total assets	47,054,134	50,161,578
Liabilities		
Current liabilities:		
Accounts payable	159,045	176,847
Accrued liabilities and other	49,995	94,585
Unearned revenue	180,000	75,000
Total current liabilities	389,040	346,432
Net Position		
Net investment in capital assets	25,239,100	24,786,347
Restricted - Future projects	4,968,439	3,546,290
Unrestricted	16,457,555	21,482,509
Total net position	\$ 46,665,094	\$ 49,815,146

Lowry Redevelopment Authority

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenue		
Real estate sales	\$ 3,150,380	\$ 6,554,020
Equity-sharing revenue	806,189	1,248,906
Other revenue	65,460	130,554
Total operating revenue	4,022,029	7,933,480
Operating Expenses		
Cost of real estate sales	4,791,542	3,873,197
Internal property maintenance - Supplies and materials	16,206	24,046
Utilities - Purchased services	10,668	7,863
General and administrative:		
Salaries and benefits	762,432	844,533
Purchased services	233,789	340,130
Rent	163,202	185,181
Advertising and public relations	82,773	88,092
Insurance	163,813	128,000
Legal	85,999	7,071
Other	86,299	56,110
Total operating expenses	6,396,723	5,554,223
Operating (Loss) Income	(2,374,694)	2,379,257
Nonoperating Revenue (Expense)		
Investment income - Net	265,564	127,471
Contributions to other entities	(640,628)	-
Transfer of property to BOCA	(399,660)	-
Bank and debt-related fees	(634)	(13)
Total nonoperating (expense) revenue	(775,358)	127,458
Change in Net Position	(3,150,052)	2,506,715
Net Position - Beginning of year	49,815,146	47,308,431
Net Position - End of year	<u>\$ 46,665,094</u>	<u>\$ 49,815,146</u>

Lowry Redevelopment Authority

Statement of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Cash received from real estate sales	\$ 3,150,380	\$ 6,546,600
Cash paid to suppliers and for compensation	(1,833,810)	(1,874,415)
Cash paid for development costs	(3,049,353)	(2,430,799)
Cash provided by other operating activities	871,649	1,379,460
Net cash and cash equivalents (used in) provided by operating activities	(861,134)	3,620,846
Cash Flows Used in Noncapital Financing Activities - Payment of interest and debt-related fees	-	(13)
Cash Flows Used in Financing Activities - Investment in property held for development and infrastructure and capital assets	(452,753)	(2,531,066)
Cash Flows Provided by Investing Activities - Interest received on investments	265,564	127,471
Net (Decrease) Increase in Cash and Cash Equivalents	(1,048,323)	1,217,238
Cash and Cash Equivalents - Beginning of year	14,620,593	13,403,355
Cash and Cash Equivalents - End of year	<u>\$ 13,572,270</u>	<u>\$ 14,620,593</u>
Reconciliation of Operating Income to Net Cash and Cash Equivalents from Operating Activities		
Operating (loss) income	\$ (2,374,694)	\$ 2,379,257
Adjustments to reconcile operating (loss) income to net cash and cash equivalents from operating activities:		
Depreciation and amortization	-	577
Changes in assets and liabilities:		
Receivables	89,851	(12,000)
Prepaid and other assets	(1,528,867)	499,109
Property held for development and infrastructure	2,909,968	(511,630)
Accounts payable	(17,802)	693,083
Accrued and other liabilities	60,410	572,450
Total adjustments	1,513,560	1,241,589
Net cash and cash equivalents (used in) provided by operating activities	<u>\$ (861,134)</u>	<u>\$ 3,620,846</u>

December 31, 2019 and 2018

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 \$20 million 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, 2019 and 2018, 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, 2019 and 2018.

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 the 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, 2019 and 2018 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 omissions; 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 last 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 revenue received in advance. Earnest money received with obligations outstanding after closing are recorded as real estate deposits and are released once the obligations are met.

Note 2 - Significant Accounting Policies (Continued)

Cost of real estate 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 includes 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.

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 were originally effective for the Authority's financial statements for the year ended December 31, 2019 but were extended to December 31, 2020 with the issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*.

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, 2021.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including June 19, 2020, which is the date the financial statements were available to be issued.

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 of bank deposits 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, 2019 and 2018, the carrying value of the Authority's unrestricted deposits was \$13,572,270 and \$14,620,593, respectively. The bank balance as of December 31, 2019 and 2018, classified by custodial credit risk category, includes \$250,000 covered by federal depository insurance and \$13,470,982 and \$14,748,477 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 (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 of investments 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, 2019 and 2018

Note 4 - Capital Assets

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

	Balance January 1, 2019	Additions	Disposals and Adjustments	Balance December 31, 2019
Capital assets not being depreciated - Parks, open space, and demolition	\$ 24,786,347	\$ 852,413	\$ (399,660)	\$ 25,239,100
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	5,775	-	-	5,775
Office furnishings	4,522	-	-	4,522
Subtotal	19,338	-	-	19,338
Net capital assets	<u>\$ 24,786,347</u>	<u>\$ 852,413</u>	<u>\$ (399,660)</u>	<u>\$ 25,239,100</u>
	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	<u>577</u>	<u>(577)</u>	<u>-</u>	<u>-</u>
Net capital assets	<u>\$ 22,856,055</u>	<u>\$ 1,930,292</u>	<u>\$ -</u>	<u>\$ 24,786,347</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)

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, 2019	Additions	Disposals and Adjustments	Balance December 31, 2019
Development costs	\$ 5,194,644	\$ 840,652	\$ (4,791,542)	\$ 1,243,754
Capitalized bond interest	1,537,952	-	-	1,537,952
Total	<u>\$ 6,732,596</u>	<u>\$ 840,652</u>	<u>\$ (4,791,542)</u>	<u>\$ 2,781,706</u>
	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>

On May 31, 2012, the Authority acquired, by economic development conveyance from the U.S. Air Force, a property now known as Boulevard One (originally U.S. 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 U.S. 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, including repayment of loans, between the Authority and the U.S. Air Force in equal proportion.

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 \$31,288 and \$41,658 for the years ended December 31, 2019 and 2018, respectively.

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 \$7,973 and \$8,761 for the years ended December 31, 2019 and 2018, respectively.

Note 6 - 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.

December 31, 2019 and 2018

Note 6 - Environmental Remediation Liability (Continued)

According to the federal Comprehensive Environmental Response, Compensation, and Liability Act and federal base closure laws, the U.S. 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 7 - State Statutes

Colorado voters passed an amendment to the Colorado 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 8 - 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 provided \$100,000 and \$0 to the Foundation for the years ended December 31, 2019 and 2018, respectively.

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 9 - Colorado Community Land Trust

The Authority established the Colorado Community Land Trust (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 that clarified the total number of units required for the Lowry affordable housing program to be 200 units. The final 14 units are nearing completion. As of December 31, 2019, the Authority contributed land and infrastructure at an approximate cost of \$2.5 million to CCLT. Additionally, in 2019, the Authority contributed \$440,000. Together, with additional monetary support in prior years, the Authority has provided a total subsidy conservatively valued at over \$6.4 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.

Note 10 - Subsequent Events

On April 5, 2019, the Authority 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 included a specialty grocery store anchor and up to 200,000 square feet of retail and restaurant space. In January 2020, the specialty grocery store filed for bankruptcy and agreed to sell the parcel of land allocated to the grocery store back to the Authority. CK Lowry I LLC exercised their right of first offer for the land, and on June 16, 2020, the repurchase of the land by CK Lowry I LLC was completed under the terms of the contracted agreement.

In April 2020, pursuant to the sunset plan, the Authority transferred roads and rights of way located in Legacy Lowry with an allocated cost of \$4.5 million to the City and County of Denver.

December 31, 2019 and 2018

Note 10 - Subsequent Events (Continued)

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations. As of the date of issuance of the financial statements, the Authority's activities have not been significantly impacted, but the Authority continues to monitor the situation. No impairments were recorded as of the statement of net position date; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. In addition, while the Authority's activities, cash flows, and financial condition could be negatively impacted, the extent of the impact cannot be reasonably estimated at this time.

Other Supplemental Information

Lowry Redevelopment Authority

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

**Years Ended December 31, 2019 and 2018
(Amounts in Thousands)**

	2019 Actual	2019 Original Budget (Unaudited)	2018 Actual	2018 Original Budget (Unaudited)
Revenue				
Operating revenue:				
Real estate sales	\$ 3,150	\$ 5,280	\$ 6,554	\$ 7,779
Cost of real estate sales	(4,791)	(7,323)	(3,873)	(6,530)
Other revenue	871	895	1,379	1,492
Total operating revenue	(770)	(1,148)	4,060	2,741
Expenditures - Current services				
General, administrative, and finance	1,495	2,284	1,561	2,566
Internal property maintenance	16	20	24	166
Marketing and public relations	83	165	88	133
Utilities	11	38	8	34
Total operating expenses by function	1,605	2,507	1,681	2,899
Operating (Loss) Income	\$ (2,375)	\$ (3,655)	\$ 2,379	\$ (158)

The intergovernmental agreement specifies that the Authority maintain a cash-based budget; however, for audit reporting purposes, actual reflects accrual-based accounting revenue and expenditures. For cash-based budgeting purposes, costs of sales shown represent the capital costs of lot preparation and infrastructure cash-based expenditure for the year. Infrastructure development costs typically are spent in a different cash cycle than sales; however, capital expenditures are accumulated and allocated against sales on a prorated basis by lot type and acreage for the purpose of meeting generally accepted accounting principles for accrual-based actual reporting. Therefore, this budget comparison to actual will always reflect an accrual-versus cash-basis accounting variance.

Additionally, lot pricing is tied to use as opposed to allocated cost of infrastructure, which may result in a variable gross margin from year to year, based on the blend of parcel sales for any given year.

Year Ended December 31, 2019

On May 31, 2012, 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, 2019**

Assets	
Current assets	
Cash and cash equivalents	\$ 9,269,484
Prepaid expenses	160,819
Due to/from Legacy Lowry	572,411
Real estate deposits	1,831,800
Total current assets	<u>11,834,514</u>
Non-current assets	
Infrastructure	5,652,621
Real property	846,251
Total non-current assets	<u>6,498,872</u>
Total assets	<u>\$ 18,333,386</u>
Liabilities	
Current liabilities	
Accounts payable	\$ 154,911
Accrued expenses	48,995
Tenant security deposit	1,000
Deferred real estate revenue	180,000
Total current liabilities	<u>384,906</u>
Non-current liabilities	
Interco TIF demo	<u>6,500,000</u>
Total liabilities	<u>6,884,906</u>
Net Position	
Net investment in capital assets	6,498,872
Unrestricted	4,949,608
Total net position	<u>11,448,480</u>
Total liabilities and net position	<u>\$ 18,333,386</u>

Year Ended December 31, 2019

**Statement of Revenues, Expenses, and Changes in Net Position – Boulevard One
For the Year Ended December 31, 2019**

Operating revenues		
Rent income	\$	24,300
Real estate sales		2,758,196
Real estate sales - Taps		340,704
Equity sharing revenue		806,189
Contract and utility income		40,640
Investment and miscellaneous income		193,374
Cost of real estate sales		<u>(4,830,021)</u>
Net real estate income		(666,618)
Operating expenses		
Purchased services		270,940
General and administrative		617,790
Salaries and benefits		<u>436,371</u>
		1,325,101
Operating Income		<u>(1,991,719)</u>
Nonoperating revenues (expenses)		
Contributions and transfers to other entities		(862,437)
Total increase in net position		(2,854,156)
Net position, beginning of year		<u>14,302,636</u>
Net position, end of year	\$	<u><u>11,448,480</u></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, 2019 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 19, 2020.

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 Authority'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 19, 2020