

Castle Rock Downtown Development Authority
FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
December 31, 2015

Table of Contents

	<i>Page</i>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	3
FINANCIAL STATEMENTS	
GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET POSITION	6
STATEMENT OF GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE/ STATEMENT OF ACTIVITIES	7
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND	8
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – RINK AT THE ROCK FUND	9
NOTES TO FINANCIAL STATEMENTS	10



REPORT OF INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS

Board of Directors
Castle Rock Downtown Development Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Castle Rock Downtown Development Authority (the "Authority"), as of and for the year ended December 31, 2015, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants ("US GAAS").

We conducted our audit in accordance with US GAAS. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether these financial statements are free of material misstatement.

An audit includes 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 Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Castle Rock Downtown Development Authority, as of December 31, 2015, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund and the Rink at the Rock Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Management's Discussion and Analysis

The Board of Directors has not presented the Management's Discussion and Analysis information that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Marc, James and Associates, PC

Highlands Ranch, Colorado
April 7, 2016

FINANCIAL STATEMENTS

Castle Rock Downtown Development Authority

GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET POSITION

December 31, 2015

	Governmental Funds			Adjustments	Statement of Net Position
	General	Rink at the Rock	Total		
ASSETS					
Cash and cash equivalents	\$ 135,605	\$ 34,542	\$ 170,147	\$ -	\$ 170,147
Accounts receivable	1,082	46,327	47,409	-	47,409
Property taxes receivable	140,549	-	140,549	-	140,549
Due from other funds	45,148	-	45,148	(45,148)	-
Capital assets	-	-	-	258,906	258,906
Total assets	\$ 322,384	\$ 80,869	\$ 403,253	213,758	617,011
LIABILITIES					
Accounts payable	\$ 928	\$ 8,921	9,849	\$ -	\$ 9,849
Accrued liabilities	3,060	-	3,060	-	3,060
Due to other funds	-	45,148	45,148	(45,148)	-
Total liabilities	3,988	54,069	58,057	(45,148)	12,909
DEFERRED INFLOWS OF RESOURCES					
Property taxes	140,549	-	140,549	-	140,549
Sponsorships	-	26,800	26,800	-	26,800
Total deferred inflows of resources	140,549	26,800	167,349	-	167,349
FUND BALANCE					
Restricted	12,350	-	12,350	(12,350)	-
Unassigned	165,497	-	165,497	(165,497)	-
Total fund balance	177,847	-	177,847	(177,847)	-
Total liabilities, deferred inflows of resources and fund balance	\$ 322,384	\$ 80,869	\$ 403,253		
NET POSITION					
Investment in capital assets				258,906	258,906
Restricted				12,350	12,350
Unrestricted				165,497	165,497
Total net position				\$ 436,753	\$ 436,753

Castle Rock Downtown Development Authority

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES/
STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS

Year ended December 31, 2015

	Governmental Funds				Statement of Activities
	General	Rink at the Rock	Total	Adjustments	
Expenditures/program expenses					
Operations					
Personnel	\$ 162,692	\$ -	\$ 162,692	\$ -	\$ 162,692
Administration	11,509	2,123	13,632	(29)	13,603
Professional services	17,308	-	17,308	-	17,308
Programs	33,485	121,677	155,162	(13,175)	141,987
Marketing	6,026	4,152	10,178	-	10,178
Occupancy	15,263	-	15,263	-	15,263
Depreciation	-	-	-	39,927	39,927
Capital outlay	-	1,018	1,018	-	1,018
Total expenditures/ program expenses	246,283	128,970	375,253	26,723	401,976
Revenues					
Program revenues					
Charges for services	12,708	117,675	130,383	-	130,383
Grants and donations	137,633	14,833	152,466	-	152,466
Total program revenues	150,341	132,508	282,849	-	282,849
Net expenditures/program expenses	(95,942)	3,538	(92,404)	(26,723)	(119,127)
General revenues					
Property taxes	125,374	-	125,374	-	125,374
Specific ownership taxes	5,999	-	5,999	-	5,999
Forgiveness of debt	-	-	-	234,175	234,175
Total general revenues	131,373	-	131,373	234,175	365,548
Transfers	(16,160)	16,160	-	-	-
Change in fund balance	19,271	19,698	38,969	(38,969)	-
Change in net position	-	-	-	246,421	246,421
Fund balance (deficit)/net position					
Beginning of the year	158,576	(19,698)	138,878	51,454	190,332
End of the year	\$ 177,847	\$ -	\$ 177,847	\$ 258,906	\$ 436,753

Castle Rock Downtown Development Authority

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND

Year ended December 31, 2015

	<u>Original Budget</u>	<u>Amended and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Property taxes	\$ 124,235	\$ 124,235	\$ 125,374	\$ 1,139
Specific ownership taxes	8,000	8,000	5,999	(2,001)
Grant and donations	124,235	124,235	137,633	13,398
Charges for services	<u>5,000</u>	<u>12,396</u>	<u>12,708</u>	<u>312</u>
Total revenues	261,470	268,866	281,714	12,848
Expenditures				
Operations				
Personnel	145,000	165,000	162,692	(2,308)
Administration	25,000	25,000	11,509	(13,491)
Professional services	18,000	18,000	17,308	(692)
Programs	33,000	28,500	33,485	4,985
Marketing	-	6,000	6,026	26
Occupancy	<u>13,000</u>	<u>13,000</u>	<u>15,263</u>	<u>2,263</u>
Total expenditures	<u>234,000</u>	<u>255,500</u>	<u>246,283</u>	<u>(9,217)</u>
Revenues over expenditures	27,470	13,366	35,431	22,065
Transfer out	<u>(19,500)</u>	<u>(30,000)</u>	<u>(16,160)</u>	<u>13,840</u>
Change in fund balance	<u>\$ 7,970</u>	<u>\$ (16,634)</u>	19,271	<u>\$ 35,905</u>
Fund balance				
Beginning of the year			<u>158,576</u>	
End of the year			<u>\$ 177,847</u>	

Castle Rock Downtown Development Authority

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - RINK AT THE ROCK FUND

Year ended December 31, 2015

	<u>Original Budget</u>	<u>Amended and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Admissions and sponsorships	\$ 117,000	\$ 120,000	\$ 117,675	\$ (2,325)
Grants and donations	-	-	14,833	14,833
Total revenues	<u>117,000</u>	<u>120,000</u>	<u>132,508</u>	<u>12,508</u>
Expenditures				
Operations				
Administration	3,000	3,000	2,123	(877)
Programs	80,000	80,000	121,677	41,677
Marketing	3,500	3,500	4,152	652
Debt service	28,000	28,000	-	(28,000)
Capital outlay	<u>22,000</u>	<u>22,000</u>	<u>1,018</u>	<u>(20,982)</u>
Total expenditures	<u>136,500</u>	<u>136,500</u>	<u>128,970</u>	<u>(7,530)</u>
Revenue over (under) expenditures	(19,500)	(16,500)	3,538	20,038
Transfer in	<u>19,500</u>	<u>30,000</u>	<u>16,160</u>	<u>(13,840)</u>
Change in fund balance	<u>\$ -</u>	<u>\$ 13,500</u>	19,698	<u>\$ 6,198</u>
Fund balance (deficit)				
Beginning of the year			<u>(19,698)</u>	
End of the year			<u>\$ -</u>	

Castle Rock Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Castle Rock Downtown Development Authority (the “Authority”) conform to the accounting principles generally accepted in the United States of America (“US GAAP”) as applicable to governmental entities. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of the basic financial statements of the Authority.

1. *Reporting Entity*

The Authority was formed in 2008, under State of Colorado statutes as a quasi-municipal corporation, by the voters of downtown Castle Rock, Colorado (“Castle Rock”). The Authority is governed by a seven-member elected Board of Directors pursuant to the provisions of the Colorado Special District Act and consists of property owners, business owners and other representatives of downtown Castle Rock. The Authority was created to finance, construct and on occasion operate various public improvements including streetscape projects, sidewalks, street lighting, street furniture, public parks and places.

As required by US GAAP, these financial statements present the activities of the Authority, which is legally separate and financially independent of other state and local government entities. The Authority has no component units as defined by GASB Statement No. 14, *The Reporting Entity* and GASB No. 39, *Determining Whether Certain Organizations are Component Units*.

2. *Financial Statement Presentation*

The accompanying financial statements are presented per GASB Statement No. 34 – Special Purpose Governments.

The Governmental Funds Balance Sheet/Statement of Net Position and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities, report information on all of the governmental activities of the Authority. The Statement of Net Position reports all financial and capital resources of the Authority. The difference between the assets and liabilities of the Authority is reported as net position.

The Statement of Activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues. For the most part, the effect of any interfund activity has been eliminated from these statements. The Statement of Activities also demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and donations that may be restricted for meeting the operational or capital requirements of a given function or segment.

Taxes and other items not included among program revenues are reported instead as *general revenues*.

The major individual governmental funds are reported as separate columns in the governmental funds portion of the financial statements. As permitted under GASB No. 34, for 2015, the Authority considers all of the Authority’s funds to be major.

Castle Rock Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

3. *Measurement Focus and Financial Reporting Framework*

The government-wide financial statements (Statement of Net Position and Statement of Activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligible requirements, if any, imposed by the provider have been met. Property taxes are recognized as revenues in the year for which the property taxes are collected.

The governmental fund financial statements are reported using the *current financial measurement focus*, whereby only current assets and liabilities generally are included in the balance sheet, and the statement of revenues, expenditures and changes in fund balance present increases and decreases in those current assets and liabilities. These funds use the *modified accrual basis* of accounting whereby revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if the revenues are collectible within the current period or soon thereafter to pay liabilities of the current period. For that purpose, the Authority considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recognized when a liability is incurred, as under accrual accounting. However, debt service expenditures are recognized only when payment is due (matured).

The Authority reports the following governmental funds:

For 2015, the Authority maintained two individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance.

General Fund - The General Fund is the general operating fund of the Authority. It is used to account for all financial resources not accounted for and reported in another fund.

The *Special Revenue Funds* account for the proceeds of specific revenue sources that are restricted or committed for specific purposes other than debt service or capital projects.

Rink at the Rock Fund – During 2012, the Authority created the Rink at the Rock Fund to develop, operate and maintain a seasonal outdoor ice skating rink in the downtown area. The revenues associated with the operation of the seasonal ice skating rink include admissions, skate rental and facility sponsorships.

4. *Cash and Cash Equivalents*

The Authority considers cash and cash equivalents to include cash on hand and demand deposits.

5. *Fair Value of Financial Instruments*

The Authority's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and deferred inflows of resources. The Authority estimates that the fair value of these financial instruments as of December 31, 2015, do not differ materially from the aggregate carrying values used in the accompanying financial statements. The carrying amount of these financial instruments approximates the fair value due to the short maturity of these financial instruments.

Castle Rock Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

6. *Interfund Balances*

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are reflected as “due to/from other funds”. These amounts are eliminated in the Statement of Net Position.

7. *Use of Estimates*

The preparation of financial statements in conformity with US GAAP involves the use of management’s estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. These estimates are based upon management’s best judgment, after considering past events and assumptions about future events. Actual results could differ from those estimates. The Authority has estimated the useful lives of its depreciable capital assets as reflected in the Statement of Net Position.

8. *Property Taxes Receivable*

Property taxes are levied on December 15 of each year, and attach as an enforceable lien on subject property as of January 1 of the following year. The property taxes are payable in full on April 30 or if paid in two installments, due on February 28 and June 15. Property taxes are considered to be delinquent as of August 1. Douglas County bills and collects the property taxes on behalf of the Authority and remits the collections, less the Treasurer’s fees, to the Authority on a monthly basis.

As the property taxes result in an enforceable lien on the subject property, in the event the property taxes are not paid, the subject property will be sold at public auction to collect the delinquent property taxes. Accordingly, no provision is deemed necessary for uncollected property taxes. As of December 31, the Authority has recorded the levied property taxes and the related deferred inflow of resources.

9. *Restricted Net Position*

The restriction of the Authority's net position represents amounts that may not be appropriated or are legally segregated for a specific purpose.

10. *Long-Term Obligations*

In the government-wide financial statements, long-term obligations are reported as liabilities for the applicable governmental activities. As of December 31, 2015, the Authority had no long-term obligations.

11. *Capital Assets*

The Authority’s capital assets are recorded at cost if purchased or constructed. The Authority’s capital assets consist of office furniture and equipment, downtown improvements and various ice rink equipment and components.

The Authority has a capitalization policy of \$5,000. Management of the Authority may opt to capitalize certain items under the \$5,000 threshold. Depreciation is provided in amounts sufficient to relate the cost of depreciable capital assets to operations over the estimated useful lives of the assets. Depreciation is provided under the straight-line method, with estimated service lives of five

Castle Rock Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

11. Capital Assets - continued

years to eight years for the office furniture and equipment, 10 years for the ice rink equipment and components, 5 to 10 years for the downtown improvements.

The cost of normal maintenance and repairs that do not add to the value of or materially extend the life of the related capital asset, are charged to expense as incurred.

NOTE B – BUDGETARY ACCOUNTING

An annual budget, an appropriation resolution and a mill levy resolution are adopted by the Authority's Board of Directors in accordance with Colorado State Statutes. Budgets are adopted on a non-GAAP basis for all the governmental funds. The Authority's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The Authority appropriates by total expenditures. The Authority's Board of Directors can modify the budget by line item within the total appropriations without notification. The total appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated. The appropriation is at the total fund expenditures level and lapses at year end.

State of Colorado Statutes requires a balanced budget. For 2015, the amended budget for the Authority's General Fund, budgeted expenditures plus transfers exceeded budgeted revenues by \$16,634. The excess expenditures were anticipated to be funded by the use of prior year surpluses. The amended budget for the Rink at the Rock Fund, budgeted revenue plus transfers exceeded expenditures by \$13,500.

In 2015, the Authority amended the 2015 total appropriation for the General Fund.

NOTE C – CASH AND INVESTMENTS

The Colorado Public Deposit Protection Act ("PDPA") requires that all units of local government deposit cash in eligible public depositories. State regulators determine the eligibility. Amounts on deposit in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance levels must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows institutions 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 uninsured public deposits. The market value of the collateral must be equal to 102% of the aggregate uninsured public deposits.

As of December 31, 2015, the Authority has not adopted a formal investment policy; however, all of the Authority's deposits were either insured by the FDIC or held in eligible depositories.

Castle Rock Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE D – CAPITAL ASSETS

The changes in the Authority’s capital assets for the year ended December 31, 2015 are as follows:

	Balance December 31, 2014	Additions	Disposals	Balance December 31, 2015
Capital assets				
Furniture and equipment	\$ 26,324	\$ -	\$ -	\$ 26,324
Downtown improvements	85,328	13,175	-	98,503
Ice rink site improvements	103,065	-	-	103,065
Ice rink equipment	146,563	-	-	146,563
Total	361,280	13,175	-	374,455
Accumulated depreciation				
Furniture and equipment	(22,995)	(1,541)	-	(24,536)
Downtown improvements	(23,268)	(13,424)	-	(36,692)
Ice rink site improvements	(17,495)	(10,306)	-	(27,801)
Ice rink equipment	(11,864)	(14,656)	-	(26,520)
Total	(75,622)	(39,927)	-	(115,549)
Net capital assets	\$ 285,658	\$ (26,752)	\$ -	\$ 258,906

The depreciation expense for 2015 is considered to be all associated with the operation of the Authority and the Authority's programs and was allocated \$14,965 to the General Fund and \$24,962 to the Rink at the Rock Fund.

NOTE E – FUND BALANCE/NET POSITION

Fund Balance

The Authority utilizes the fund balance presentation as required under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balances are categorized as non-spendable, restricted, committed, assigned or unassigned.

Non-spendable – represents amounts that cannot be spent because they are either in non-spendable form or legally required to remain intact,

Restricted – represents amounts with external constraints placed on the use of these resources or imposed by enabling legislation,

Committed – represents amounts that can only be used for specific purposes imposed by a formal action of the Authority’s highest level of decision-making authority, the Authority’s Board of Directors. Committed resources cannot be used for any other purpose unless the Authority’s Board of Directors removes or changes the specific use by the same type of action used to commit those amounts, either by resolution or by ordinance,

Assigned – represents amounts that the Authority intends to use for specific purposes as expressed by the Authority’s Board of Directors or an Authority official delegated the authority to assign amounts,

Castle Rock Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE E – FUND BALANCE/NET POSITION - *continued*

Fund Balance - continued

Unassigned – represents the residual classification for the general fund or deficit balances in other funds, as applicable.

Amounts are considered to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Unrestricted amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of these unrestricted fund balances classifications could be used.

As of December 31, 2015, the Authority’s governmental funds fund balances consisted of the following:

	<u>General Fund</u>	<u>Rink at the Rock Fund</u>	<u>Total</u>
Fund balances:			
Restricted			
TABOR reserve	\$ 12,350	\$ -	\$ 12,350
Unassigned	<u>165,497</u>	<u>-</u>	<u>165,497</u>
Total fund balance	<u>\$ 177,847</u>	<u>\$ -</u>	<u>\$ 177,847</u>

Net Position

Net Position represents the difference between assets and liabilities. The Authority reports three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any *related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement* of those assets and increased by balances of deferred outflows or resources related to those assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the Authority.

When an expense is incurred for purposes for which both restricted and unrestricted net positions are available, the Authority will use the most restrictive net position first.

Castle Rock Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE F - COMMITMENTS

Staff Services Agreement

The Authority entered into an agreement with the Castle Rock Economic Development Council ("CREDC") under which the CREDC provides staff services, including the function of the position of Executive Director of the Authority. The agreement may be terminated earlier by either party upon sixty days notice. Subject to annual appropriation, the agreement renews automatically on January 1 of each calendar year. Under the terms of the agreement, the Authority reimburses the CREDC for the actual expenses incurred each month.

Office Sublease

In January 2015, the Authority and the CREDC entered into a commercial office sublease under which the Authority will sublease from the CREDC not less than two offices. The office sublease is for the period January 2015 through December 2019, subject to annual appropriation and Authority's Board of Directors approval. Under the sublease, the monthly lease payment and related expenses is to be allocated 60% to the CREDC and 40% to the Authority.

Under the terms of the sublease, the future minimum lease payments for the Authority are as follows:

<u>Years</u>		
2016	\$	15,912
2017		16,218
2018		16,524
2019		<u>17,262</u>
	\$	<u>65,916</u>

Rink at the Rock Management Agreement

In November 2014, the Authority entered into a Management Services Agreement ("Services Agreement") to operate and maintain the seasonal ice rink. The initial term of Services Agreement was for the 2014/2015 season. The Services Agreement shall renew automatically for an additional season unless either party to the Services Agreement provides written notice not to renew prior to August 1.

Under the terms of the Services Agreement, the contractor is responsible for all repairs, maintenance and equipment servicing related to the operation of the seasonal ice rink.

For the services provided under the Services Agreement, the contractor is to receive \$2.33 per skater admission and an incentive/performance bonus of 40% of all sponsorships sold by the contractor.

Rink at the Rock Chiller Lease

In November 2014, the Authority entered into a one-year lease agreement with two one year automatic renewals for an Ice Rink Chiller and related equipment for the seasonal ice skating rink. The lease agreement requires total rental payments for each season, approximately mid December through mid February, in the amount of \$17,000 and expires at the conclusion of the 2016/2017 season.

Castle Rock Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE G – RELATED PARTY TRANSACTIONS

Intergovernmental Agreements – Town of Castle Rock, Colorado (“the “Town”)

Board of Directors

A member of the Town Council of the Town serves as a member of the Authority’s Board of Directors.

Operational Funding

The Authority and the Town entered into an annual agreement under which the Town provides a matching grant to the Authority equal to the Authority’s 3-mill property tax. The Authority is allowed to use the Town matching grant for the realization of the Authority’s Downtown Plan of Development through its programs and priorities as defined in the agreement.

Under the agreement for 2015, the Authority received a matching grant in the amount of \$123,309. The agreement was extended for 2016 and the Authority received a matching grant in January 2016 in the amount \$140,549.

Rink at the Rock Loan Agreement

In 2012, the Authority and the Town entered into a Loan Agreement under which the Town agreed to loan the Authority up to \$300,000 to develop, seasonally operate and maintain the seasonal ice skating rink in the downtown area. All disbursements under the Loan Agreement were completed in 2013 and totaled \$260,194.

Under the terms of the Loan Agreement, the loan was to be repaid in 10 equal annual principal installments beginning December 2014. Interest accrued on the outstanding balance of the loan at a variable rate per annum equal to the Town’s inter-fund borrowing rate as defined in the Loan Agreement, in effect on the anniversary date of the loan agreement plus 50 basis points, but not to exceed 3.0% per annum.

In 2015, the Authority and the Town entered into an agreement under which the Town agreed to forgive outstanding loan balance and the loan was considered to be paid in full. As the loan was satisfied in full, prior to the Town’s determination of the applicable interest for 2015, the Town did not charge the Authority interest for 2015.

The activity related to the Loan Agreement for the year ended December 31, 2015 is as follows:

<u>Balance December 31, 2014</u>	<u>Borrowings</u>	<u>Forgiveness</u>	<u>Balance December 31, 2015</u>	<u>Due in One Year</u>
\$ 234,175	\$ -	\$ 234,175	\$ -	\$ -

Castle Rock Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE H – TAX, SPENDING AND DEBT LIMITATIONS

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

TABOR requires local governments to establish emergency reserves. These reserves must be at least 3% of fiscal year spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The Authority’s management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the calculation of the fiscal year spending limits will require judicial interpretation.

NOTE I - CONCENTRATIONS

During 2015, the Authority derived 37% of its revenue from grants and donations, 32% of its revenue from real estate property taxes, personal property taxes and specific ownership taxes (auto registrations) and 31% of its revenue from admissions from the public ice skating rink as reflected in the governmental fund financial statements.

NOTE J – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft, damage to, or destruction of assets; errors or omissions; injuries to volunteers; or acts of God for which the Authority carries commercial insurance. The Authority’s claims have not exceeded its coverage during the preceding three years.

NOTE K - INTERFUND TRANSFERS

During 2015, The General Fund transferred \$16,160 to the Rink at the Rock Fund to cover operational shortages. It is anticipated that transfers will be necessary in future years to cover future operational shortages.

NOTE L – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Governmental Funds Balance Sheets/Statement of Net Position includes an adjustments column which reconciles the differences between the government-wide and fund financial statements as follows:

Capital assets, net of accumulated depreciation, reflected in the Statement of Net Position are not financial resources in the governmental funds and accordingly are not reported in the governmental funds.	\$	258,906
---	----	---------

Castle Rock Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE L – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - *continued*

The Statements of Governmental Funds Revenue, Expenditures and Changes in Fund Balance/Statement of Net Activities includes an adjustment column which reconciles the differences between the government-wide and fund financial statements as follows:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities these expenditures are not reflected and as described above, these expenditures are capitalized and reflected in the Statement of Net Position.	13,204
The forgiveness of debt is reflected as revenue in the Statement of Activities.	234,175
Depreciation expense on Capital Assets is reported in the Statement of Activities. However, it does not use current financial resources, as such, depreciation expense is not recorded as an expenditure in the governmental funds	39,927

NOTE M – MANAGEMENT’S EVALUATION OF SUBSEQUENT EVENTS

The preparation of the Authority’s financial statements and accompanying footnotes in conformity with US GAAP requires management of the Authority to evaluate transactions and events subsequent to the balance sheet date involving the Authority. Management has evaluated the subsequent transactions and events of the Authority through April 7, 2016, which is the date the financial statements and accompanying footnotes were available for issuance.