

Castle Rock Downtown Development Authority
FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
December 31, 2011

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REPORT OF INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS

Board of Directors
Castle Rock Downtown Development Authority

We have audited the accompanying financial statements of the governmental activities and the governmental funds of the Castle Rock Downtown Development Authority (the "Authority"), as of and for the year ended December 31, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management and Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the governmental funds of the Castle Rock Downtown Development Authority, as of December 31, 2011, and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund and the special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted with the purpose of forming an opinion on the basic financial statements of the Castle Rock Downtown Development Authority taken as a whole. The other supplementary information on page 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to our auditing procedures applied in the audit of the financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Authority management has elected to not present the Management's Discussion and Analysis information that the Government Accounting Standards Board has determined is required to supplement, although not required to be part of, the basic financial statements.

Marc, James and Associates, PC

Highlands Ranch, Colorado
September 10, 2012

FINANCIAL STATEMENTS

Castle Rock Downtown Development Authority

GOVERNMENTAL FUNDS BALANCE SHEETS/STATEMENT OF NET ASSETS

December 31, 2011

Governmental Funds

	General	TIF Fund	Wedding District Fund	Total	Adjustments	Statement of Net Assets
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 282,956	\$ 55,299	\$ 166,734	\$ 504,989	\$ -	\$ 504,989
Accounts receivable	5,398	-	-	5,398	-	5,398
Property taxes receivable	124,902	-	-	124,902	-	124,902
Due from other funds	17,244	-	-	17,244	(17,244)	-
Total current assets	430,500	55,299	166,734	652,533	(17,244)	635,289
NON-CURRENT ASSETS						
Capital assets	-	-	-	-	31,495	31,495
Total assets	<u>\$ 430,500</u>	<u>\$ 55,299</u>	<u>\$ 166,734</u>	<u>\$ 652,533</u>	<u>\$ 14,251</u>	<u>\$ 666,784</u>
LIABILITIES						
Accounts payable	\$ 11,839	\$ -	\$ -	\$ 11,839	\$ -	\$ 11,839
Accrued liabilities	-	-	-	-	-	-
Due in one year					25,000	25,000
Due beyond one year					43,167	43,167
Deferred revenue	124,902	-	-	124,902	-	124,902
Due to other funds	-	17,244	-	17,244	(17,244)	-
Total liabilities	136,741	17,244	-	153,985	50,923	204,908
FUND BALANCE						
Restricted	12,350	-	-	12,350	(12,350)	-
Committed	83,750	-	166,734	250,484	(250,484)	-
Assigned	78,171	25,000	-	103,171	(103,171)	-
Unassigned	119,488	13,055	-	132,543	(132,543)	-
Total fund balance	293,759	38,055	166,734	498,548	(498,548)	-
Total liabilities and fund balance	<u>\$ 430,500</u>	<u>\$ 55,299</u>	<u>\$ 166,734</u>	<u>\$ 652,533</u>		
NET ASSETS						
Investment in capital assets					31,495	31,495
Restricted					12,350	12,350
Unrestricted					418,031	418,031
					<u>\$ 461,876</u>	<u>\$ 461,876</u>

Castle Rock Downtown Development Authority

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE/
STATEMENT OF ACTIVITIES

Year Ended December 31, 2011

	Governmental Funds			Total	Adjustments	Statement of Activities
	General	TIF Fund	Wedding District Fund			
Expenditures/program expenses						
Current						
Personnel	\$ 110,792	\$ -	\$ -	\$ 110,792	\$ -	\$ 110,792
Administration	9,450	288	-	9,738	-	9,738
Professional services	25,785	-	-	25,785	-	25,785
Marketing	20,457	-	-	20,457	-	20,457
Rent	11,169	-	13,375	24,544	-	24,544
Depreciation	-	-	-	-	6,426	6,426
Debt service	-	26,400	-	26,400	(25,000)	1,400
Capital outlay - general	54,147	-	-	54,147	-	54,147
Capital outlay - TIF	-	93,167	-	93,167	-	93,167
Capital outlay - Wedding District	16,000	-	-	16,000	(16,000)	-
Total expenditures/ program expenses	247,800	119,855	13,375	381,030	(34,574)	346,456
Revenues						
Program revenues						
Grants and donations	261,200	-	180,000	441,200		441,200
Net expenditures/program expenses	13,400	(119,855)	166,625	60,170	34,574	94,744
General revenues						
Property taxes	147,729	69,868	-	217,597	-	217,597
Specific ownership taxes	10,105	-	-	10,105	-	10,105
Other	800	459	109	1,368	-	1,368
Total general revenues	158,634	70,327	109	229,070	-	229,070
Proceeds from borrowing	-	93,167	-	93,167	(93,167)	-
Change in fund balance	172,034	43,639	166,734	382,407	(382,407)	323,814
Change in net assets	-	-	-	-	323,814	323,814
Fund balance (deficit)/net assets						
Beginning of the year	121,725	(5,584)	-	116,141	21,921	138,062
End of the year	\$ 293,759	\$ 38,055	\$ 166,734	\$ 498,548	\$ (36,672)	\$ 461,876

Castle Rock Downtown Development Authority

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

Year ended December 31, 2011

	<u>Original Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Property taxes	\$ 157,349	\$ 147,729	\$ (9,620)
Specific ownership taxes	9,986	10,105	119
Grant and donations	158,929	261,200	102,271
Other	<u>1,342</u>	<u>800</u>	<u>(542)</u>
Total revenues	327,606	419,834	92,228
Expenditures			
Current			
Personnel	108,600	110,792	2,192
Administration	10,600	9,450	(1,150)
Professional services and fees	23,080	25,785	2,705
Marketing	46,550	20,457	(26,093)
Rent	11,169	11,169	-
Other	17,000	-	(17,000)
Capital Outlay	<u>122,000</u>	<u>70,147</u>	<u>(51,853)</u>
Total expenditures	<u>338,999</u>	<u>247,800</u>	<u>(91,199)</u>
Change in fund balance	<u>\$ (11,393)</u>	172,034	<u>\$ 183,427</u>
Fund balance			
Beginning of the year		<u>121,725</u>	
End of the year		<u>\$ 293,759</u>	

Castle Rock Downtown Development Authority

STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL - WEDDING DISTRICT FUND

Year ended December 31, 2011

	<u>Original Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Grants and donations	\$ -	\$ 180,000	\$ 180,000
Other	<u>-</u>	<u>109</u>	<u>109</u>
Total revenues	-	180,109	180,109
Expenditures			
Current			
Rent	<u>-</u>	<u>13,375</u>	<u>13,375</u>
Total expenditures	<u>-</u>	<u>13,375</u>	<u>13,375</u>
Change in fund balance	<u>\$ -</u>	166,734	<u>\$ 166,734</u>
Fund balance			
Beginning of the year		<u>-</u>	
End of the year		<u>\$ 166,734</u>	

Castle Rock Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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 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 November 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 Authority Act and consists of property owners, business owners and representatives of downtown Castle Rock. The Authority was created to finance and construct 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 Governmental Accounting Standards Board (“GASB”), Statement No. 14, *The Reporting Entity* and GASB No. 39, *Determining Whether Certain Organizations are Component Units*.

2. *Financial Statement Presentation*

The government-wide financial statements, the Statement of Net Assets and the Statement of Activities, report information on the *governmental-type activities* of the Authority, which rely to a significant extent on property taxes, grants and donations, and intergovernmental payments for support. The Statement of Activities demonstrates the degree to which expenses of the *governmental-type activities* are supported by property taxes, grants and donations, and intergovernmental payments.

3. *Measurement Focus and Financial Reporting Framework*

The governmental fund financial statements are prepared using the current financial measurement focus and the modified accrual basis of accounting. 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.

Governmental Funds

The Authority maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheets and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the Authority’s governmental funds, all which the Authority considers to be major funds,

The *General Fund* is the Authority’s primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

Castle Rock Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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

3. *Measurement Focus and Financial Reporting Framework - continued*

The *Tax Increment Financing* (“TIF”) *Fund* was established by the Authority to provide financing of certain public improvements.

The *Special Revenue Fund* accounts for the proceeds of specific revenue sources that are restricted or committed for specific purposes other than debt service or capital projects. For 2011, the Authority had one special revenue fund:

Wedding District Fund – During 2011, in collaboration with the Town of Castle Rock and other community partners, the Authority created the Wedding District Fund to help promote and finance the expansion of new retail sales and strengthen a variety of existing downtown Castle Rock businesses through the creation of a regional draw related to the wedding industry.

4. *Cash and Cash Equivalents*

The Authority considers cash and cash equivalents to include cash on hand, demand deposits and money market accounts.

5. *Fair Value of Financial Instruments*

The Authority’s financial instruments include cash and cash equivalents, accounts receivable, and deferred revenue. The Authority estimates that the fair value of these financial instruments as of December 31, 2011, 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.

6. *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.

7. *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.

Castle Rock Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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

7. *Property Taxes Receivable - continued*

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 revenue.

8. *Restricted Net Assets*

The restriction of net assets represents amounts that may not be appropriated or are legally segregated for a specific purpose.

9. *Capital Assets*

The Authority's capital assets are recorded at cost if purchased or constructed. The Authority's capital assets consist of retail space leasehold improvements and office furniture and equipment. The Authority has a capitalization policy of \$500. Management of the Authority may opt to capitalize certain items under the \$500 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 years to eight years for the office furniture and equipment. Depreciation of the retail space leasehold improvements is provided for over the initial term of the respective lease.

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 – BUDGET INFORMATION

The Authority's annual budget is prepared on a Non-GAAP basis for the Authority's General Fund and Debt Service Fund. An annual appropriated budget is adopted for the Funds. All annual appropriations lapse at the end of the Authority's fiscal year.

The Authority conforms to the following procedures, in accordance with the State of Colorado revised Statutes, in the establishment of the budgetary information reflected in the accompanying financial statements:

- Prior to October 15, the Authority's Treasurer submits a proposed operating budget for the subsequent fiscal year to the Authority's Board of Directors. The Board of Directors may change the proposed budget prior to the publication of the notice of budget. Within ten days of the submission, a notice of the proposed budget is published. The operating budget includes proposed expenditures and the means of financing the expenditures.
- Public hearings are held at the regular Authority Board of Director's meetings to obtain taxpayer input on the proposed operating budget.
- On or before December 15, the operating budget is legally adopted through passage of a budget resolution. Upon adoption, the Authority's Treasurer is authorized to transfer the budgeted amounts within the function and objects of the Fund(s). The Authority's Board of Directors must approve revisions that change the total expenditures of the Fund(s). Appropriations are controlled and the budget can be only amended in accordance with the State of Colorado Revised Statutes that allows the Authority to amend the budget and adopt a supplemental appropriation, if funds for a specific purpose, other than ad valorem taxes, become available.

Castle Rock Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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, 2011, all of the Authority’s deposits were either insured by the FDIC or held in eligible depositories.

NOTE D – 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 E – CAPITAL ASSETS

The changes in the Authority’s capital assets for the year ended December 31, 2011 are as follows:

	Balance December 31, 2010	Additions	Disposals	Balance December 31, 2011
Capital Assets				
Furniture and equipment	\$ 26,324	\$ -	\$ -	\$ 26,324
Retail space leasehold improvements	-	16,000	-	16,000
Total	26,324	16,000	-	42,324
Accumulated depreciation				
Furniture and equipment	(4,403)	(4,648)	-	(9,051)
Retail space leasehold improvements	-	(1,778)	-	(1,778)
Total	(4,403)	(6,426)	-	(10,829)
Net capital assets	\$ 21,921	\$ 9,574	\$ -	\$ 31,495

The depreciation expense for 2011 is considered to be all associated with the operation of the Authority and its programs.

Castle Rock Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE F – 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,

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, 2011, the Authority’s governmental funds fund balances consisted of the following:

	<u>General Fund</u>	<u>TIF Fund</u>	<u>Wedding District Fund</u>	<u>Total</u>
Fund balances:				
Restricted				
TABOR reserve	\$ 12,350	-	-	12,350
Committed				
Rink at the Rock	83,750	-	-	83,750
Retail space leases			166,734	166,734
Assigned				
Debt service	-	25,000	-	25,000
2012 budget	78,171	-	-	78,171
Unassigned	119,488	13,055	-	132,543
Total fund balances	\$ 293,759	38,055	167,734	498,548

In the 2012 budget, the Authority’s projected expenses exceed the projected revenues by \$78,711 which is anticipated to be funded by the use of prior year surpluses. As required under GASB No. 54, the use of a portion of the fund balance, in an amount no greater than is necessary to eliminate the excess of budgeted expenditures over revenue, should be classified as assigned. The assignment expires at the end of the subsequent year.

Castle Rock Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE G - COMMITMENTS

Commercial Lease

On September 1, 2011, the Authority entered into a lease for retail space associated with the operations of the Wedding District Fund. The lease commencement date was September 1, 2011 for a period of 36 months, terminating August 31, 2014. Under the terms of the lease, the lease requires monthly base lease payments as follows:

September 1, 2011 to August 31, 2012	\$	3,343
September 1, 2012 to August 31, 2013		3,403
September 1, 2013 to August 31, 2014		3,462

In addition to the base lease payment, the Authority shall pay in monthly installments, an "Additional Rent", amount equal to the pro-rata share of the Lessor's operating expenses as defined in the lease agreement. It is estimated that the cost of the Additional Rent during the initial rental year will equal \$2,035 per month.

Based upon the stated monthly base lease rental payment and the estimated initial year Additional Rent, the future minimum lease rental payments are as follows:

<u>Year ended December 31,</u>		
2012	\$	64,783
2013		65,493
2014		<u>43,978</u>
	\$	<u>174,254</u>

The future minimum lease rental payments may vary in future years depending on the actual Additional Rent.

Sublease

On September 1, 2011, the Authority subsequently entered into a sublease for the retail space for term equal to the primary lease. Under the terms of the sublease, the sublessee shall pay to the Authority an annual lease rent of \$1 and the Additional Rent. The future minimum sublease rental payments are as follows:

<u>Year ended December 31,</u>		
2012	\$	24,421
2013		24,421
2014		<u>16,281</u>
	\$	<u>65,123</u>

Castle Rock Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE G – COMMITMENTS - *continued*

Staff Services Agreement

The Authority entered into an agreement with the Castle Rock Economic Development Council (“CREDC”) on September 1, 2011 under which the CREDC agrees to provide staff services, including the function of the position of Executive Director of the Authority. The term of the agreement is for 12 months from the date of execution of the agreement and may be terminated earlier by either party upon sixty days notice. Subject to an appropriation, the agreement renews automatically on January 1 of each calendar year. Under the terms of the agreement, the Authority shall pay the CREDC \$6,250 per month.

Office Space Lease

In 2010, the Authority and the CREDC agreed to mutually negotiate and enter into a commercial office lease (“Mutual Lease”) as joint tenants. The office space lease is for the period March 1, 2010 through December 31, 2014, subject to annual appropriation and Authority Board of Directors approval. Under the Mutual Lease, the monthly lease payment is to be allocated 60% to the CREDC and 40% to the Authority. Assuming an annual appropriation and Authority Board of Director approval, the future minimum lease payments to be allocated to the Authority are as follows:

<u>Year ended December 31,</u>	
2012	\$ 11,577
2013	13,974
2014	<u>16,600</u>
	\$ <u>42,151</u>

Rink at the Rock Donation Agreement

During 2011, the Authority received an anonymous donation in the amount of \$100,000 to sponsor a planned seasonal ice skating rink located in downtown Castle Rock being organized by the Downtown Merchants Association (“DMA”). In November 2011, the Authority and the DMA entered into an agreement whereby the Authority would transfer the remaining balance of the donation, \$83,750, to the DMA to be spent exclusively on the Rink at the Rock. Under the agreement, the funds will continue to be held by the Authority until such time the Rink at the Rock is deemed a certainty, with the exception of targeted transfers for specific expenditures. The term of the agreement is through February 2013.

NOTE H – RELATED PARTY TRANSACTIONS

Commercial Lease

The company serving as the lessor of the retail space discussed in NOTE F is owned by a member of the Authority’s Board of Directors. The owner resigned his position as a member of the Board of Directors effective March 2, 2012.

Payments for Tenant Finish

During 2011, the Authority paid \$16,000 to the company owned by a member of the Authority’s Board of Directors for tenant finish related to the retail space leased by the Authority referred to NOTE G.

Castle Rock Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE H – RELATED PARTY TRANSACTIONS - *continued*

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 agreement under which the Town provided a matching grant in 2011 to the Authority equal to the Authority’s 3-mill property tax up to \$153,000. The Authority is allowed to use the Town matching grant for the realization of the Downtown Plan of Development through its programs and priorities as defined in the agreement.

For 2012, the Authority and Town entered into a similar agreement under which the Town will provide a matching grant of approximately \$131,000. The 2012 agreement expires on December 31, 2012.

Wedding District Funding Agreement

In 2011, the Authority and the Town entered into an intergovernmental agreement under which the Town agreed to provide the initial funding for the creation of the Wedding District in an amount not to exceed of \$180,000 for 2011. The funding is to be used exclusively for retail space lease payments.

Mid-Block Crossing Construction Repayment Agreement

In 2010, the Authority and the Town entered a Mid-Block Crosswalk Construction/Repayment Agreement (“Mid-Block Agreement”) under which the Town agreed to advance the Authority funds for the construction of a mid-block crossing on Wilcox Street in downtown Castle Rock. Under the terms of the Mid-Block Agreement, the Authority is to pay up to \$25,000, plus interest, to the Town on September 30 of each succeeding year based upon the availability of TIF revenues and subject to annual appropriation by the Authority Board of Directors. Notwithstanding the availability of TIF revenues, the advanced funds must be repaid, plus interest, to the Town no later than September 30, 2014.

As defined in the Mid-Block Agreement, the interest on each payment is to be calculated on the currently applicable interest rate charged by the Town for internal loan purposes. As the rate cannot be determined until such time a payment is made, accrued interest is not reflected as of December 31, 2011.

<u>Balance</u> <u>December 31,</u> <u>2010</u>	<u>Borrowings</u>	<u>Payments</u>	<u>Balance</u> <u>December 31,</u> <u>2011</u>	<u>Due in</u> <u>One Year</u>
\$ -	\$ 93,167	\$ 25,000	\$ 68,167	\$ 25,000

The anticipated future minimum payments, excluding interest, are as follows:

Year ended December 31,

2012	\$ 25,000
2013	25,000
2014	<u>18,167</u>
	<u>\$ 68,167</u>

Castle Rock Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE I - CONCENTRATIONS

During 2011, the Authority derived 57% of its revenue from grants and donations and 29% of its revenue from real estate property taxes, personal property taxes and specific ownership taxes (auto registrations).

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 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Capital assets reflected in the Statement of Net Assets are not financial resources in the governmental funds and accordingly are not reported in the governmental funds.	\$	31,495
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		68,167
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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 reflected on the Statement of Net Assets.	\$	16,000
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Governmental funds reflect the proceeds from borrowings as revenue. However, the borrowings are reflected as debt on the Statement of Net Assets.		93,167
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The principal repayment of debt is reflected as an expenditure for the governmental funds. However, the principal repayment is reflected as a reduction of the debt on the Statement of Net Assets.		25,000
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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		6,426
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Castle Rock Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE L – 2011 DEFICIT BUDGET

State of Colorado Statutes requires a balanced budget. For 2011, the Authority's budgeted expenditures exceeded budgeted revenues by \$24,519. The excess of budgeted expenditures over budgeted revenue was anticipated to be funded by the use of prior year surpluses.

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 September 10, 2012, which is the date the financial statements and accompanying footnotes were available for issuance.

- On January 5, 2012, the Authority entered into a lease for 1,743 square feet retail space located at 399 Perry Street in Castle Rock. The lease is for the period February 1, 2012 through January 31, 2015. The lease terms include a monthly base rent ranging from \$2,033 to \$2,178 and monthly additional rent payment of \$1,187. Subsequently, the Authority entered into a sublease agreement with an annual rental of \$1 per year through January 31, 2015. The sublease agreement requires an additional rent payment equal to the additional rent amount continued in the primary lease. In addition, the Authority received a promissory note from the sublessee in the amount of \$14,240 as security for the payment of the additional rent for the period of the sublease.
- In September 2012, the Authority and the Town entered an agreement under which the Town will loan to the Authority \$300,000 to enable the Authority to develop and seasonally operate and maintain a public ice rink in downtown Castle Rock, Colorado.

SUPPLEMENTARY INFORMATION

Castle Rock Downtown Development Authority

STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL - TIF FUND

Year ended December 31, 2011

	<u>Original Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Property taxes	\$ 12,262	\$ 69,868	\$ 57,606
Other	112	459	347
	<u>12,374</u>	<u>70,327</u>	<u>57,953</u>
Total revenues			
Expenditures			
Current			
Administration	-	288	288
Debit service	-	26,400	26,400
Capital Outlay	25,500	93,167	67,667
	<u>25,500</u>	<u>119,855</u>	<u>94,355</u>
Total expenditures			
Excess of expenses over revenues	(13,126)	(49,528)	(36,402)
Proceeds from borrowing	<u>-</u>	<u>93,167</u>	<u>93,167</u>
Change in fund balance	<u>\$(13,126)</u>	43,639	<u>\$ 56,765</u>
Fund balance (deficit)			
Beginning of the year		<u>(5,584)</u>	
End of the year		<u>\$ 38,055</u>	