

City of Colorado Springs Cottonwood
General Improvement District

(A Component Unit of the City of Colorado Springs, Colorado)

2015

Financial Statements

For the year ended December 31, 2015



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Independent Auditor's Report

Honorable Mayor and Members of City Council
and City Auditor
City of Colorado Springs
Colorado Springs, Colorado

We have audited the accompanying financial statements of the governmental activities and the major fund of the City of Colorado Springs Cottonwood General Improvement District (the District), a component unit of the City of Colorado Springs, Colorado, as of and for the year ended December 31, 2015 and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Honorable Mayor and Members of City Council
and City Auditor
City of Colorado Springs

Opinions

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 major fund of the District as of December 31, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes A1 and D2 to the financial statements, subsequent to December 31, 2015, the District dissolved and transferred all remaining net position to the City of Colorado Springs in accordance with the District's organization documents. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that 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 a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinions on the basic financial statements are not affected by the missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements of the District's basic financial statements. The Schedule of Revenues, Expenditures and Change in Fund Balance – Budget and Actual – Debt Service Fund listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

BKD, LLP

Colorado Springs, Colorado
June 8, 2016

City of Colorado Springs Cottonwood
General Improvement District
STATEMENT OF NET POSITION
December 31, 2015

	<u>Governmental Activities</u>
ASSETS	
Due from other governments	<u>\$ 14,035</u>
Total assets	<u> 14,035</u>
NET POSITION	
Unrestricted	<u> 14,035</u>
Total net position	<u><u>\$ 14,035</u></u>

The accompanying notes are an integral part of this statement.

City of Colorado Springs Cottonwood
 General Improvement District
 STATEMENT OF ACTIVITIES
 For the year ended December 31, 2015

Function/Programs	Expenses	Net (Expense) Revenue and Changes in Net Position Governmental Activities
Governmental activities		
General government	\$ 6,166	
Interest on long-term debt	3,817	\$ (9,983)
General revenues		
Investment earnings		5,311
Total general revenues		5,311
Change in net position		(4,672)
Net position - beginning of year		18,707
Net position - end of year		\$ 14,035

The accompanying notes are an integral part of this statement.

City of Colorado Springs Cottonwood
 General Improvement District
 GOVERNMENTAL FUND BALANCE SHEET
 December 31, 2015

	Debt Service Fund
	<u> </u>
ASSETS	
Due from other governments	\$ 14,035
	<u> </u>
Total assets	<u> </u> <u> </u>
 FUND BALANCE	
Fund balance	
Restricted for debt service	14,035
	<u> </u>
Total fund balance	\$ 14,035
	<u> </u> <u> </u>

As disclosed below, there are no differences in amounts reported for governmental activities in the statement of net position:

<i>Fund balance - governmental fund</i>	<u>\$ 14,035</u>
<i>Net position - governmental activities</i>	<u>\$ 14,035</u>

The accompanying notes are an integral part of this statement.

City of Colorado Springs Cottonwood
 General Improvement District
 GOVERNMENTAL FUND STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGE IN FUND BALANCE
 For the year ended December 31, 2015

	<u>Debt Service Fund</u>
Revenues	
Investment earnings	5,311
Total revenues	<u>5,311</u>
Expenditures	
Current:	
Miscellaneous	6,166
Debt service:	
Interest	27,800
Principal	695,000
Total expenditures	<u>728,966</u>
Net change in fund balance	(723,655)
Fund balance - beginning of year	<u>737,690</u>
Fund balance - end of year	<u>\$ 14,035</u>

The accompanying notes are an integral part of this statement.

City of Colorado Springs Cottonwood
 General Improvement District
 RECONCILIATION OF THE GOVERNMENTAL
 FUND STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGE IN FUND BALANCE
 TO THE STATEMENT OF ACTIVITIES
 For the year ended December 31, 2015

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

Net change in fund balance - governmental fund \$ (723,655)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of bond premium and loss on refunding when debt is first issued, whereas these amounts are amortized in the statement of activities.

The details of these differences are as follows:

Repayment of bond principal	695,000
Amortization of premium costs included in interest on long-term debt	33,592
Amortization of loss included in interest on long-term debt	(11,926)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The detail of this difference is as follows:

Change in accrued interest payable	<u>2,317</u>
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Change in net position - governmental activities	<u><u>\$ (4,672)</u></u>
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The accompanying notes are an integral part of this statement.

City of Colorado Springs Cottonwood General Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows:

1. *Reporting entity*

The Colorado Springs Cottonwood General Improvement District (the District) is a quasi-municipal political subdivision and body corporate of the State of Colorado established pursuant to Title 31, Article 25, Part 6, of the Colorado Revised Statutes, as amended. The District, located northwest of downtown Colorado Springs, is governed by a Board of Directors comprised of the members of the City Council of the City of Colorado Springs (City), and was established to provide for the construction and installation of street improvements, water distribution and transmission system improvements, sanitary sewer transmission and collection system improvements, and storm drainage improvements within the District. Under accounting principles generally accepted in the United States of America (US GAAP), the District is considered to be a component unit of the City. Accordingly, the District's financial data is included in the City's financial statements.

The financial statements of the District consist only of the fund of the District. There are no legally separate organizations for which the governing officials of the District are financially accountable or for which the nature and significance of their relationship with the District are such that exclusion of their financial data would cause the District's financial statements to be misleading or incomplete.

The Board of Directors adopted Resolution No. 132-14 on November 25, 2014, setting the 2014 mill levy at zero (0.000) mills and certifying such mill levy for the debt service fund to the El Paso County Board of County Commissioners. This was a decrease from the 2013 mill levy of 6.500 mills as the district had sufficient fund balance at the end of 2014. The final debt service payment was made in 2015. As this District was formed to issue debt to fund infrastructure improvements and the outstanding bonds were retired in December 2015, the District will be dissolved in 2016.

City of Colorado Springs Cottonwood General Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

2. *Government-wide and fund financial statements*

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the District. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District has only *governmental activities*.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Indirect expenses have not been allocated. *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 contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. The District only has *general revenues*.

Separate financial statements are provided for the governmental fund.

3. *Measurement focus, basis of accounting and financial statement presentation*

The government-wide financial statements 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 related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the *current financial resources 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* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

City of Colorado Springs Cottonwood General Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

Property taxes are recognized as revenues in the year for which the property taxes were levied as an enforceable lien on property. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

Debt service fund accounts for the servicing of long-term debt.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

4. *Assets, deferred outflows of resources, liabilities and equity*

Deposits and investments

The City of Colorado Springs holds all cash and cash equivalents for the District. The amount held by the City on behalf of the District is included in due from other governments on the governmental fund balance sheet/statement of net position in the amount of \$14,035.

Property taxes

The El Paso County Assessor certifies property valuations to the District on November 25 of each year. By December 15, the District sets and certifies its mill levy rate with El Paso County, which then bills and collects the property taxes due. These property taxes attach as an enforceable lien on January 1. The taxes are payable in two installments on February 28 and June 15, or in one installment due April 30. Revenue is recorded in the year for which the property tax was levied as an enforceable legal claim at this time. The District had sufficient funds to extinguish its outstanding debt in 2015 and therefore has certified a zero (0.000) mill levy rate for taxes payable in 2016.

Deferred inflows of resources

Property tax revenues are levied and recorded as an asset in the current year but attached as an enforceable lien on the property in the immediately subsequent year. As such, these revenues are reported as a deferred inflow of resources.

City of Colorado Springs Cottonwood General Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

Long-term obligations

For long-term obligations, only that portion financed from expendable available financial resources is reported as a fund liability. The current and non-current portions are recorded in the government-wide financial statements.

Fund balance

In the fund financial statements, the governmental fund reports the following classification of fund balances:

Restricted fund balances indicate amounts subject to externally enforceable legal restrictions. Such restrictions are typically imposed by parties altogether outside the District such as creditors, grantors, contributors or other governments. The restricted amount noted in the financial statements is for debt service.

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on its use, either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. *Budgetary information*

Annual budgets are adopted on a basis consistent with US GAAP for the debt service fund. All annual appropriations lapse at fiscal year-end.

A budget is required by state law. The Board of Directors holds public hearings and adopts a budget resolution to legally enact the budget. Any revisions that alter total expenditures of the debt service fund must be approved by the Board of Directors.

City of Colorado Springs Cottonwood General Improvement District
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

NOTE C – DETAILED NOTES

1. *Long-term debt*

On October 21, 2010, the District issued \$3,900,000 general obligation refunding bonds. The 2010 bonds carried interest rates ranging from 2.5% to 4.0%. As of December 31, 2015, the principal outstanding balance is \$0.

As of December 31, 2015, the outstanding bonds have been retired and the principal amount of long-term debt is \$0. The proceeds from the sale of the 2010 bonds were used to refund the District’s outstanding General Obligation Variable Rate Bonds, Series 1998. The 2010 bonds were a general obligation of the District and were not an obligation of the City. There was no obligation for the City to levy taxes with respect to the bonds.

Proceeds of the 2010 bonds were used to refund the District’s General Obligation Bonds, Series 1998, in the aggregate principal amount of \$4,150,000 and paying the costs of the issuance of the bonds. The 2010 refunding bond proceeds were held in escrow and used to redeem in full the 1998 bonds on October 21, 2010. The reacquisition price exceeded the net carrying amount of the old debt by \$71,551. This amount was recorded in deferred outflows of resources and amortized over the old debt’s life of 5 years.

The changes in long-term debt for the year ended December 31, 2015 were as follows:

	Balance January 1, 2015	Additions	Reductions	Balance December 31, 2015	Amounts due within one year
Series 2010 refunding					
general obligation bonds	\$ 695,000	\$ -	\$ 695,000	\$ -	\$ -
For issuance premium	33,592	-	33,592	-	-
	<u>\$ 728,592</u>	<u>\$ -</u>	<u>\$ 728,592</u>	<u>\$ -</u>	<u>\$ -</u>

City of Colorado Springs Cottonwood General Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE D – OTHER INFORMATION

1. *TABOR*

In November 1992, the voters of Colorado approved Amendment 1, commonly known as the Taxpayer's Bill of Rights (TABOR) which added a new Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue and debt limitations that apply to the State of Colorado and all local governments.

The District's financial activity for 1992 provides the basis for calculation of future limitations adjusted for allowable increases tied to inflation and local growth. Subsequent to 1992, revenue in excess of the District's "spending limit" must be refunded, unless voters approve the retainage of such excess revenue. TABOR generally requires voter approval for any new tax, tax increases and new debt.

TABOR is complex and subject to interpretation. Ultimate interpretation may depend upon litigation and legislative guidance. The District does not believe it is subject to the provisions of TABOR because of the nature of its operations; however, it believes it has complied with all aspects of the TABOR amendment.

2. *SUBSEQUENT EVENTS*

On February 23, 2016, the Board of Directors of the Colorado Springs Cottonwood General Improvement District, which is comprised of members of the Colorado Springs City Council, passed Ordinance 16-20, dissolving the District. This followed a public hearing held on February 9, 2016. Cash and cash equivalents of \$14,035 that are held by the City for the District will be transferred to the City's General Fund, net of any final expenses, as required by the District's organization documents.

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SUPPLEMENTARY INFORMATION

City of Colorado Springs Cottonwood
 General Improvement District
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN
 FUND BALANCE - BUDGET AND ACTUAL - DEBT SERVICE FUND
 For the year ended December 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Investment earnings	8,000	8,000	5,311	(2,689)
Total revenues	8,000	8,000	5,311	(2,689)
Expenditures				
Current				
Miscellaneous	7,000	7,000	6,166	834
Debt service				
Principal	695,000	695,000	695,000	-
Interest	27,800	27,800	27,800	-
Total expenditures	729,800	729,800	728,966	834
Net change in fund balance	\$ (721,800)	\$ (721,800)	(723,655)	\$ (1,855)
Fund balance - beginning of year			737,690	
Fund balance - end of year			\$ 14,035	