Pikes Peak Regional Communications Network

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

2019

Financial Statements

For the year ended December 31, 2019

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Independent Auditor's Report

Pikes Peak Regional Communications
Network Board of Directors
Colorado Springs, Colorado

We have audited the accompanying financial statements of the Pikes Peak Regional Communications Network (the Agency) a component unit of the City of Colorado Springs, Colorado, as of and for the year ended December 31, 2019, and the related notes to the basic financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Agency'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 Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Network Board of Directors

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2019, and changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 opinion on the basic financial statements is not affected by the missing information.

BKD, LLP

Colorado Springs, Colorado
June 8, 2020

Pikes Peak Regional Communications Network
STATEMENT OF NET POSITION
December 31, 2019

ASSETS		
CURRENT ASSETS		
Due from other governments	$	6,721,217
User fees and other receivables		271,858
Total assets		6,993,075
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable		53,009
Due to other governments		1,492
Customer deposits		3,796,965
Total liabilities		3,851,466
NET POSITION		
Unrestricted		3,141,609
Total net position		3,141,609
Total liabilities and net position	$	6,993,075

The accompanying notes are an integral part of this statement.

Pikes Peak Regional Communications Network
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
Year ended December 31, 2019

Operating revenues		
User fees	$	1,509,384
Total operating revenues		1,509,384
Operating expenses		
System maintenance		437,503
System enhancement		36,845
Contract services		235,162
Tower site maintenance		75,367
Rent		72,026
Office expenses		890
Professional services		9,759
Communications		4,977
Utilities		35,803
Other		17,551
Total operating expenses		925,883
Operating profit		583,501
Nonoperating revenues		
Investment earnings		125,409
Total nonoperating revenues		125,409
Change in net position		708,910
Total net position, beginning of year		2,432,699
Total net position, end of year	$	3,141,609

The accompanying notes are an integral part of this statement.

Pikes Peak Regional Communications Network
STATEMENT OF CASH FLOWS
Year ended December 31, 2019

Cash flows from operating activities:		
Receipts from customers and users	$	858,040
Payments to suppliers		(983,449)
Net cash used by operating activities		(125,409)
Cash flows from investing activities:		
Interest received		125,409
Net cash provided by investing activities		125,409
Net change in cash and cash equivalents		—
Cash and cash equivalents, beginning of year		—
Cash and cash equivalents, end of year		—
Reconciliation of operating profit to net cash used by operating activities:		
Operating profit	$	583,501
Adjustments to reconcile operating profit to net cash used in operating activities:		
Net increase in user fee assets and liabilities		(651,344)
Decrease in accounts payable and other payables		(57,566)
Net cash used in operating activities	$	(125,409)

The accompanying notes are an integral part of this statement.

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 Pikes Peak Regional Communications Network (the Agency) was established by an intergovernmental agreement between the City of Colorado Springs, Colorado (City) and El Paso County, Colorado (County) on December 1, 1999. The Agency commenced operations during 2001. The Agency is governed by a five-member Board of Directors. Two Directors are appointed by the City, one is appointed by the Colorado Springs Utilities (Utilities) and two are appointed by the County. The Agency was established for the purpose of providing a modern, trunked radio system, available to the participating public safety and public service activities, throughout the City and the County. Capital assets used in providing these services are owned by the City and the County and are recorded in their respective financial statements. Under accounting principles generally accepted in the United States of America, the Agency is considered to be a component unit of the City. Accordingly, the Agency's financial data is included in the City's financial statements.

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

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

The Agency's funds are accounted for on the flow of economic resources measurement focus and use 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.

The Agency distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Agency's principal ongoing operations. The principal operating revenues of the Agency are charges to customers for services. Operating expenses include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

3. *Assets, liabilities and equity*

<u>Deposits and investments</u>

The City holds all cash and cash equivalents for the Agency. The amounts held by the City on behalf of the Agency are reported as due from other governments on the balance sheet. For purposes of the statement of cash flows, cash and cash equivalents include amounts on hand and in demand deposits.

Customer deposits

The Agency accrues a liability for amounts deposited by customers as security for the payment of bills. This liability specifically addresses the Progressive Upgrade Project account that was created in 2016 for the Agency to act as the fiduciary agent in this ongoing upgrade. The Agency collected funds from its customers (the City of Colorado Springs and El Paso County) and made upgrade related payments during the year. The balance in this account represents unspent collections at the end of 2019.

4. *Use of estimates*

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. *Budgetary information*

The Agency prepares an annual budget in compliance with the terms of its intergovernmental agreement with the City and the County. However, it is not legally required to prepare an annual budget. Accordingly, the Agency's budget is not presented herein.

NOTE C - DETAILED NOTES

1. *User fees revenues*

The Agency enters into participation agreements with users of the network that allow the users to use the trunked radio system. The user pays an annual fee per radio for services during the calendar year. Radios brought on the system during the year are charged a prorated annual fee. Revenues are recognized during the period to which the user fee relates.

2. *Contract services expenses*

The Agency has entered into a contract with the City to purchase employment services for the Agency.

3. *Operating leases*

The Agency leases tower space under five-year non-cancelable operating leases. At the end of the lease terms, the leases are renewable for three five-year terms. Two of the tower space leases require lease payments due to Utilities' share of the space. The Agency reports the reimbursement from Utilities for its share of the leases as a reduction of rent expense. Total future minimum reimbursements amount to $13,950 at December 31, 2019. The future minimum rental commitments, excluding Utilities' reimbursements, under operating leases are as follows:

Year ending December 31,		
2020	$	80,923
2021		48,415
2022		29,360
2023		24,411
2024		6,166
	$	189,275

Rental expense for all operating leases for the year ended December 31, 2019, is as follows:

Minimum rentals	$	83,721
Utilities' reimbursements		(11,695)
Total rental expense	$	72,026

4. *System maintenance*

The Agency paid Motorola for radio and microwave system maintenance services during 2019 in the amount of $437,503.

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NOTE D - OTHER INFORMATION

1. *Contributed facility*

In 2019, the Agency received, at no cost, office space from the City. No revenue or expenses associated with this contributed space has been recognized in the statement of revenues, expenses and changes in fund net position.

2. *Related party transactions*

Sales of services to and other receivables from related parties are as follows for the year ended and as of December 31, 2019:

	Revenue	Other receivables
City of Colorado Springs	$ 637,933	$ —
Colorado Springs Utilities	268,963	11,695
El Paso County	240,174	—

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