

FINANCIAL STATEMENTS



# PIKES PEAK REGIONAL COMMUNICATIONS NETWORK

2022



A COMPONENT UNIT OF THE CITY OF COLORADO SPRINGS, COLORADO

FOR YEAR ENDED DECEMBER 31, 2022



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## Independent Auditor's Report

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

### **Opinion**

We have audited the financial statements of the Pikes Peak Regional Communications Network (the Agency), a component unit of the City of Colorado Springs, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Agency, as of December 31, 2022, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Emphasis of Matter**

As discussed in Note C.4., the Agency adopted GASB Statement No. 87, *Leases* in fiscal year 2022. Our opinion is not modified with respect to this matter.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

***Required Supplementary Information***

Management has omitted 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 this missing information.

**FORVIS, LLP**

Colorado Springs, Colorado  
June 9, 2023

Pikes Peak Regional Communications Network  
STATEMENT OF NET POSITION  
December 31, 2022

ASSETS

CURRENT ASSETS

Due from other governments	\$	5,583,516
User fees and other receivables		403,934
		5,987,450
Total current assets		5,987,450

NONCURRENT ASSETS

Capital and lease assets		
Right-to-use lease assets		
Tower space		216,254
Land		275,369
Machinery and equipment		35,510
Less accumulated depreciation and amortization		(91,829)
		435,304
Total capital and lease assets, net		435,304
Total noncurrent assets		435,304
Total assets	\$	6,422,754

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable	\$	41,711
Lease liabilities		81,407
Due to other governments		2,917
Customer deposits		3,417,403
		3,543,438
Total current liabilities		3,543,438

NONCURRENT LIABILITIES

Lease liabilities		346,745
		346,745
Total liabilities		3,890,183

NET POSITION

Net investment in capital assets		7,152
Unrestricted net position		2,525,419
		2,532,571
Total net position		2,532,571
Total liabilities and net position	\$	6,422,754

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, 2022

Operating revenues	
User fees	\$ 1,665,048
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Total operating revenues	1,665,048
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Operating expenses	
System maintenance	441,741
System enhancement	91,034
System update/upgrade	653,695
Contract services	346,007
Tower site maintenance	191,842
Rent	1,115
Office expenses	858
Professional services	5,201
Communications	8,579
Utilities	45,306
Depreciation and amortization	88,298
Other	11,486
	<hr/>
Total operating expenses	1,885,162
	<hr/>
Operating loss	(220,114)
Nonoperating revenues (expenses)	
Investment earnings	43,539
Interest expense	(9,537)
	<hr/>
Total nonoperating revenues	34,002
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Change in net position	(186,112)
Total net position - beginning of year	2,718,683
	<hr/>
Total net position - end of year	\$ 2,532,571
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The accompanying notes are an integral part of this statement.

Pikes Peak Regional Communications Network  
STATEMENT OF CASH FLOWS  
Year ended December 31, 2022

Cash flows from operating activities:	
Receipts from customers and users	\$ 1,831,509
Payments to suppliers	<u>(1,794,137)</u>
Net cash provided by operating activities	<u>37,372</u>
Cash flows from capital and related financing activities:	
Lease liability principal payments	(71,374)
Lease liability interest payments	<u>(9,537)</u>
Net cash used by financing activities	<u>(80,911)</u>
Cash flows from investing activities:	
Interest received	<u>43,539</u>
Net cash provided by investing activities	<u>43,539</u>
Net change in cash and cash equivalents	—
Cash and cash equivalents - beginning of year	<u>—</u>
Cash and cash equivalents - end of year	<u><u>\$ —</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (220,114)
Adjustments to reconcile operating loss to net cash provided in operating activities:	
Depreciation and amortization	88,298
Increase in user fee receivables and other assets	166,461
Increase in accounts payable and other liabilities	<u>2,727</u>
Net cash provided by operating activities	<u><u>\$ 37,372</u></u>

The accompanying notes are an integral part of this statement.

Pikes Peak Regional Communications Network  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022

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 (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.

Pikes Peak Regional Communications Network  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022

3. *Assets, liabilities and net position*

Deposits and investments

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.

Capital and lease assets

Capital assets are carried at historical cost. The Agency capitalizes acquired property that is of a tangible nature, has an estimated useful life of one year or more, and has a value of at least \$5,000. Right-to-use lease assets are capitalized at the present value of all future lease payments at the commencement of the lease. The presentation of capital assets has changed to incorporate lease assets as per Governmental Accounting Standards Board Statement No. 87 (GASB 87) *Leases* requirements that took effect January 1, 2022. See Leases footnote for additional information.

Depreciation and amortization is computed using the straight-line method over the following useful lives:

Machinery and equipment	3 - 15 years
Right-to-use lease assets	Varies*

\*The shorter of the lease term or useful life of the underlying asset.

Maintenance, repairs and renewals, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expenses as incurred.

Long-term obligations

The Agency reports lease liabilities at the net present value of remaining lease payments as of the Statement of Net Position reporting date. The liability is reduced as lease payments are applied to the principal.

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 December 31, 2022.

Pikes Peak Regional Communications Network  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022

Net position

Net investment in capital assets - This component of net position consists of capital and lease assets net of accumulated depreciation and amortization.

Unrestricted - This component of net position consists of amounts that do not meet the definition of "net investment in capital assets".

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.

Pikes Peak Regional Communications Network  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022

3. *Capital and lease assets*

Capital and lease asset activity for the year ended December 31, 2022 was as follows:

	Beginning Balance *	Increase	Decrease	Ending Balance
Capital assets being depreciated and amortized:				
Right-to-use lease assets				
Tower space	\$ 191,747	\$ 29,668	\$ (5,161)	\$ 216,254
Land	275,369	—	—	275,369
Machinery and equipment	35,510	—	—	35,510
Total capital and lease assets being depreciated and amortized	502,626	29,668	(5,161)	527,133
Less accumulated depreciation and amortization:				
Right-to-use lease assets				
Tower space	—	(74,363)	5,161	(69,202)
Land	—	(9,495)	—	(9,495)
Machinery and equipment	(8,693)	(4,439)	—	(13,132)
Total accumulated depreciation and amortization	(8,693)	(88,297)	5,161	(91,829)
Total capital and lease assets being depreciated and amortized, net	\$ 493,933	\$ (58,629)	\$ —	\$ 435,304

\*Due to implementation of GASB 87 lease reporting in the current fiscal year, the beginning balance is restated.

Note: Immaterial differences may occur due to rounding.

4. Leases

The Agency has lease agreements for tower space and land, having original lease periods expiring between 2024 and 2050, some of which contain multi-year renewal options that may be exercised. These lease agreements contain no material residual value guarantees or variable lease payment requirements based on usage or performance.

During fiscal year 2022, the Agency implemented GASB Statement No. 87. For leases having a greater than twelve month lease term, right-to-use assets and lease liabilities are recognized on the Statement of Net Position for the present value of all future lease payments at the commencement of the lease. As the Agency's leases do not provide an implicit rate, the incremental borrowing rate from the City is used to calculate the present value of lease payments as it approximates what the Agency's borrowing rate would be in a similar economic environment.

Pikes Peak Regional Communications Network  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022

Lease liability activity for the year ended December 31, 2022 was as follows:

	Beginning Balance *	Increase	Decrease	Ending Balance	Amounts Due within One Year
Lease liabilities	\$ 467,116	\$ 29,668	\$ (68,632)	\$ 428,152	\$ 81,407

\*Due to implementation of GASB 87 lease reporting in the current fiscal year, the beginning balance is restated.

Note: Immaterial differences may occur due to rounding.

The following are the future principal and interest payments over the remaining lease terms:

	Year Ending December 31,	Principal	Interest	Total
Tower space	2023	\$ 74,227	\$ 3,544	\$ 77,771
	2024	49,143	1,665	50,808
	2025	36,449	421	36,870
		<u>159,819</u>	<u>5,630</u>	<u>165,449</u>
Land	2023	7,180	5,269	12,449
	2024	7,328	5,121	12,449
	2025	7,479	4,970	12,449
	2026	7,633	4,816	12,449
	2027	7,790	4,659	12,449
	2028-2032	41,425	20,823	62,248
	2033-2037	45,869	16,378	62,247
	2038-2042	50,790	11,457	62,247
	2043-2047	56,239	6,008	62,247
	2048-2050	36,600	748	37,348
	<u>268,333</u>	<u>80,249</u>	<u>348,582</u>	
Total lease liabilities		<u>\$ 428,152</u>	<u>\$ 85,879</u>	<u>\$ 514,031</u>

5. *System maintenance*

The Agency paid Motorola for radio and microwave system maintenance services during December 31, 2022 in the amount of \$441,741.

Pikes Peak Regional Communications Network  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022

NOTE D - OTHER INFORMATION

1. *Accounting changes*

GASB 87 for leases was implemented during 2022. This statement establishes a single model for lease accounting based on the principle that leases are financings of the right-to-use underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and a right-to-use lease asset for the present value of all future lease payments at the commencement of the lease. For contracts that have been entered into that did not specify an interest rate, the incremental borrowing rate for the City was used to approximate the incremental borrowing rate for the Agency. The implementation did not have an impact on beginning net position.

2. *Related party transactions*

User fees from related parties are as follows for the year ended and as of December 31, 2022:

	<u>Revenue</u>
City of Colorado Springs	\$ 651,922
Colorado Springs Utilities	284,837
El Paso County	304,220

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