

2023

PIKES PEAK REGIONAL COMMUNICATIONS NETWORK

(A COMPONENT UNIT OF THE CITY OF COLORADO SPRINGS, COLORADO)

FINANCIAL STATEMENTS FOR YEAR ENDED DECEMBER 31, 2023

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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, 2023, 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, 2023, 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.

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 opinions. 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 statement is not affected by this missing information.

Forvis Mazars, LLP

Colorado Springs, Colorado
June 7, 2024

Pikes Peak Regional Communications Network
STATEMENT OF NET POSITION
December 31, 2023

ASSETS

CURRENT ASSETS

Due from other governments	\$	4,009,607
User fees and other receivables		217,033
		4,226,640
Total current assets		4,226,640

NONCURRENT ASSETS

Capital assets		
Right-to-use lease assets		
Tower space		216,254
Land		275,369
Machinery and equipment		95,707
Less accumulated depreciation and amortization		(181,430)
		405,900
Total capital assets, net		405,900
Total noncurrent assets		405,900
Total assets	\$	4,632,540

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable	\$	51,142
Lease liabilities		56,471
Customer deposits		1,474,207
		1,581,820
Total current liabilities		1,581,820

NONCURRENT LIABILITIES

Lease liabilities		290,274
		290,274
Total liabilities		1,872,094

NET POSITION

Net investment in capital assets		59,155
Unrestricted net position		2,701,291
		2,760,446
Total net position		2,760,446
Total liabilities and net position	\$	4,632,540

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, 2023

Operating revenues	
User fees	\$ 1,771,092
Total operating revenues	<u>1,771,092</u>
Operating expenses	
System maintenance	456,944
System enhancement	82,278
System update/upgrade	324,636
Contract services	361,804
Tower site maintenance	201,902
Rent	1,429
Office expenses	599
Professional services	9,041
Communications	9,930
Utilities	44,545
Depreciation and amortization	89,601
Training	15,138
Other	10,611
Total operating expenses	<u>1,608,458</u>
Operating profit	162,634
Nonoperating revenues (expenses)	
Investment earnings	61,714
Proceeds from sale of scrap	12,340
Interest expense	(8,813)
Total nonoperating revenues	<u>65,241</u>
Change in net position	227,875
Total net position - beginning of year	<u>2,532,571</u>
Total net position - end of year	<u><u>\$ 2,760,446</u></u>

The accompanying notes are an integral part of this statement.

Pikes Peak Regional Communications Network
STATEMENT OF CASH FLOWS
Year ended December 31, 2023

Cash flows from operating activities:	
Receipts from customers and users	\$ 1,588,706
Payments to suppliers	<u>(1,512,343)</u>
Net cash provided by operating activities	<u>76,363</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	(60,197)
Proceeds from sale of scrap	12,340
Lease liability principal payments	(81,407)
Lease liability interest payments	<u>(8,813)</u>
Net cash used by financing activities	<u>(138,077)</u>
Cash flows from investing activities:	
Interest received	<u>61,714</u>
Net cash provided by investing activities	<u>61,714</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 profit to net cash provided by operating activities:	
Operating profit	\$ 162,634
Adjustments to reconcile operating profit to net cash provided in operating activities:	
Depreciation and amortization	89,601
Decrease in user fee receivables and other assets	(182,386)
Increase in accounts payable and other liabilities	6,514
Net cash provided by operating activities	<u><u>\$ 76,363</u></u>

The accompanying notes are an integral part of this statement.

Pikes Peak Regional Communications Network
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

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, 2023

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 assets

Capital assets include tangible and lease assets. 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.

Depreciation and amortization are computed using the straight-line method over the following estimated 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, 2023.

Pikes Peak Regional Communications Network
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

Net position

Net investment in capital assets - This component of net position consists of capital 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, 2023

3. *Capital assets*

Capital asset activity for the year ended December 31, 2023 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets being depreciated and amortized:				
Right-to-use lease assets				
Tower space	\$ 216,254	\$ —	\$ —	\$ 216,254
Land	275,369	—	—	275,369
Machinery and equipment	35,510	60,197	—	95,707
Total capital assets being depreciated and amortized	527,133	60,197	—	587,330
Less accumulated depreciation and amortization:				
Right-to-use lease assets				
Tower space	(69,202)	(70,337)	—	(139,539)
Land	(9,495)	(9,495)	—	(18,990)
Machinery and equipment	(13,132)	(9,769)	—	(22,901)
Total accumulated depreciation and amortization	(91,829)	(89,601)	—	(181,430)
Total capital assets being depreciated and amortized, net	\$ 435,304	\$ (29,404)	\$ —	\$ 405,900

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, 2023

Lease liability activity for the year ended December 31, 2023 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Amounts Due within One Year
Lease liabilities	\$ 428,152	\$ —	\$ (81,407)	\$ 346,745	\$ 56,471

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	2024	\$ 49,143	\$ 1,665	\$ 50,808
	2025	36,449	421	36,870
		<u>85,592</u>	<u>2,086</u>	<u>87,678</u>
Land	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	7,951	4,498	12,449
	2029-2033	42,278	19,969	62,247
	2034-2038	46,813	15,434	62,247
	2039-2043	51,836	10,411	62,247
	2044-2048	57,397	4,850	62,247
2049-2050	24,648	253	24,901	
		<u>261,153</u>	<u>74,981</u>	<u>336,134</u>
Total lease liabilities		<u>\$ 346,745</u>	<u>\$ 77,067</u>	<u>\$ 423,812</u>

5. System maintenance

The Agency paid Motorola for radio and microwave system maintenance services during December 31, 2023 in the amount of \$456,944.

Pikes Peak Regional Communications Network
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE D - OTHER INFORMATION

1. *Related party transactions*

User fees from related parties are as follows for the year ended and as of December 31, 2023:

	<u>Revenue</u>
City of Colorado Springs	\$ 668,453
Colorado Springs Utilities	305,326
El Paso County	360,391

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