

# **ANNUAL FINANCIAL REPORT**

**ENGLEWOOD URBAN RENEWAL AUTHORITY**



**CITY OF ENGLEWOOD, COLORADO  
FISCAL YEAR ENDED DECEMBER 31, 2006**

# **ANNUAL FINANCIAL REPORT**

## **ENGLEWOOD URBAN RENEWAL AUTHORITY**

**Year Ended December 31, 2006**

### **Board of Commissioners**

Eric Bertoluzzi, Chairperson  
Donald Roth, Vice Chairperson

Thomas J. Burns  
Anthony Gallardo

Laura Rogers  
Robin Weddle

James Weeks

Jim Woodward, City Council Liaison

# ENGLEWOOD URBAN RENEWAL AUTHORITY

## ANNUAL FINANCIAL REPORT

*Year Ended December 31, 2006*

### Table of Contents

#### Independent Auditor's Report

Page

#### Basic Financial Statements:

##### Government-Wide Financial Statements:

|                               |   |
|-------------------------------|---|
| Statement of Net Assets.....  | 2 |
| Statement of Activities ..... | 3 |

##### Fund Financial Statements:

##### Governmental Funds

|  |   |
|--|---|
| Balance Sheet.....   | 4 |
| Statement of Revenues, Expenditures, and Changes in<br>Fund Balances (Deficit) .....                       | 5 |
| Statement of Revenues, Expenditures and Changes<br>in Fund Balance – Budget and Actual – General Fund..... | 6 |

|  |      |
|--|------|
| Notes to the Financial Statements..... | 7-14 |
|--|------|

#### Individual Fund Schedules

|  |    |
|--|----|
| Schedule of Revenues, Expenditures and Changes in Fund Balance<br>(Deficit) – Budget and Actual – Debt Service Fund..... | 15 |
|--|----|

## **INDEPENDENT AUDITOR'S REPORT**

Board of Commissioners  
Englewood Urban Renewal Authority  
City of Englewood, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Englewood Urban Renewal Authority (the "Authority"), a component unit of the City of Englewood, Colorado, as of and for the year ended December 31, 2006, which collectively comprise the Englewood Urban Renewal Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 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 each major fund of the Englewood Urban Renewal Authority as of December 31, 2006, and the respective changes in financial position, and the respective budgetary comparison of the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying basic financial statements have been prepared assuming the Authority will continue as an economic going concern. As disclosed in the notes to the financial statements, the Authority is in default on its Tax Increment Revenue Refunding and Improvement Bonds Series 1985A and Tax Increment Revenue Refunding Bonds Series 1985B. This condition raises substantial doubt about the Authority's continuation as an economic going concern. The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Englewood Urban Renewal Authority's basic financial statements. The individual fund schedule listed in the table of contents is presented for purposes of additional analysis and legal compliance and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Englewood Urban Renewal Authority has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be a part of, the basic financial statements.

*Johnson, Holman & Company, P.C.*

Centennial, Colorado  
April 27, 2007

## **BASIC FINANCIAL STATEMENTS**

**ENGLEWOOD URBAN RENEWAL AUTHORITY**

**Statement of Net Assets**

**December 31, 2006**

**(With Comparative Totals for December 31, 2005)**

| <b>Assets</b>                          | <b>2006</b>            | <b>2005</b>            |
|--|------------------------|------------------------|
| Cash and investments                   | \$ 205,756             | \$ 151,451             |
| Cash and investments - held by trustee | 30,975                 | 41,970                 |
| Property taxes receivable              | 1,800,000              | 1,809,000              |
| Interest receivable                    | 5,464                  | 3,979                  |
| Intergovernmental                      | -                      | 80                     |
| Capital assets                         | 476,000                | 476,000                |
| Total assets                           | <u>2,518,195</u>       | <u>2,482,480</u>       |
| <br>                                   |                        |                        |
| <b>Liabilities</b>                     |                        |                        |
| Accounts payable                       | 106                    | -                      |
| Deferred property tax revenue          | 1,800,000              | 1,809,000              |
| Tax increment debt payable             | <u>46,667,645</u>      | <u>44,566,992</u>      |
| Total liabilities                      | <u>48,467,751</u>      | <u>46,375,992</u>      |
| <br>                                   |                        |                        |
| <b>Net assets</b>                      |                        |                        |
| Invested in capital assets             | 476,000                | 476,000                |
| Restricted for debt service            | 30,975                 | 41,970                 |
| Unrestricted                           | <u>(46,456,531)</u>    | <u>(44,411,482)</u>    |
| Total net assets                       | <u>\$ (45,949,556)</u> | <u>\$ (43,893,512)</u> |

The notes to the financial statements are an integral part of this statement.

**ENGLEWOOD URBAN RENEWAL AUTHORITY**

**Statement of Activities  
For the Year Ended December 31, 2006  
(With Comparative Totals for the Year Ended December 31, 2005)**

| <b>Function/Program Activities</b> | <b>Expenses</b>     | <b>Program Revenues</b>     |   | <b>2006</b>                             | <b>2005</b>  |  |
|------------------------------------|---------------------|-----------------------------|---|---|--|--|
|                                    |                     | <b>Charges for Services</b> | <b>Operating Grants and Contributions</b> | <b>Capital Grants and Contributions</b> | <b>Net (Expense) Revenue and Changes in Net Assets</b> | <b>Net (Expense) Revenue and Changes in Net Assets</b> |
| <b>Primary government:</b>         |                     |                             |   |   |  |  |
| Governmental Activities:           |                     |                             |   |   |  |  |
| General Government                 | \$ 7,753            | \$ -                        | \$ 50,000                                 | \$ -                                    | \$ 42,247  | \$ -   |
| Interest and fiscal charges        | 4,873,654           | -                           | -   | -                                       | (4,873,654)  | (4,684,596)  |
| Total governmental activities:     | <u>\$ 4,881,407</u> | <u>\$ -</u>                 | <u>\$ 50,000</u>                          | <u>\$ -</u>                             | <u>(4,831,407)</u>                                     | <u>(4,684,596)</u>                                     |
|                                    |                     |                             | <b>General revenues:</b>                  |   |  |  |
|                                    |                     |                             | Property taxes                            | 1,608,383                               | 1,894,000  |  |
|                                    |                     |                             | Sales and use taxes                       | 1,129,433                               | 1,131,680  |  |
|                                    |                     |                             | Unrestricted investment earnings          | 37,547                                  | 23,856   |  |
|                                    |                     |                             | Total general revenues                    | <u>2,775,363</u>                        | <u>3,049,536</u>                                       |  |
|                                    |                     |                             | Change in net assets                      | (2,056,044)                             | (1,635,060)  |  |
|                                    |                     |                             | Net Assets - Beginning                    | (43,893,512)                            | (42,258,452)   |  |
|                                    |                     |                             | Net Assets - Ending                       | <u>\$ (45,949,556)</u>                  | <u>\$ (43,893,512)</u>                                 |  |

The notes to the financial statements are an integral part of this statement.

**ENGLEWOOD URBAN RENEWAL AUTHORITY**

**Balance Sheet  
Governmental Funds  
December 31, 2006**

**(With Comparative Totals for December 31, 2005)**

|  | <u>General</u>   | <u>Debt<br/>Service</u> | <u>Total<br/>Governmental<br/>Funds</u> | <u>2005<br/>Total</u>  |
|--|------------------|-------------------------|---|------------------------|
| <b>Assets</b>  |                  |                         |   |                        |
| Cash and investments   | \$ 42,836        | \$ 162,920              | \$ 205,756                              | \$ 151,451             |
| Cash and investments - held by trustee   | -                | 30,975                  | 30,975                                  | 41,970                 |
| Property taxes receivable  | -                | 1,800,000               | 1,800,000                               | 1,809,000              |
| Interest receivable  | -                | 5,464                   | 5,464                                   | 3,979                  |
| Due from other governments   | -                | -                       | -                                       | 80                     |
| Total assets   | <u>\$ 42,836</u> | <u>\$ 1,999,359</u>     | <u>\$ 2,042,195</u>                     | <u>\$ 2,006,480</u>    |
| <b>Liabilities</b>   |                  |                         |   |                        |
| Accounts payable   | \$ -             | \$ 106                  | \$ 106                                  | \$ -                   |
| Deferred property tax revenue  | -                | 1,800,000               | 1,800,000                               | 1,809,000              |
| Tax increment debt payable   | -                | 46,667,645              | 46,667,645                              | 44,566,992             |
| Total liabilities  | <u>-</u>         | <u>48,467,751</u>       | <u>48,467,751</u>                       | <u>46,375,992</u>      |
| <b>Fund balances (deficit)/net assets</b>  |                  |                         |   |                        |
| Reserved for debt service  | -                | 30,975                  | 30,975                                  | 41,970                 |
| Unreserved:  |                  |                         |   |                        |
| Designated for subsequent year's<br>expenditures   | 9,403            | -                       | 9,403                                   | 403                    |
| Undesignated   | 33,433           | (46,499,367)            | (46,465,934)                            | (44,411,885)           |
| Total fund balances  | <u>42,836</u>    | <u>(46,468,392)</u>     | <u>(46,425,556)</u>                     | <u>(44,369,512)</u>    |
| Total liabilities and fund balances  | <u>\$ 42,836</u> | <u>\$ 1,999,359</u>     |   |                        |
| Amounts reported for governmental activities in the statement of net assets are different because capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds |                  |                         | <u>476,000</u>                          | <u>476,000</u>         |
| Net assets of governmental activities  |                  |                         | <u>\$ (45,949,556)</u>                  | <u>\$ (43,893,512)</u> |

The notes to the financial statements are an integral part of this statement.

**ENGLEWOOD URBAN RENEWAL AUTHORITY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)  
Governmental Funds**

**For the Year Ended December 31, 2006**

**(With Comparative Totals for the Year Ended December 31, 2005)**

|  | <b>General</b>   | <b>Debt<br/>Service</b> | <b>Total<br/>Governmental<br/>Funds</b> | <b>2005<br/>Total</b>  |
|--|------------------|-------------------------|---|------------------------|
| <b>Revenues</b>                            |                  |                         |   |                        |
| Property taxes                             | \$ -             | \$ 1,608,383            | \$ 1,608,383                            | \$ 1,894,000           |
| Sales taxes                                | -                | 1,129,433               | 1,129,433                               | 1,131,680              |
| Net investment income                      | -                | 37,547                  | 37,547                                  | 23,856                 |
| Total revenues                             | <u>-</u>         | <u>2,775,363</u>        | <u>2,775,363</u>                        | <u>3,049,536</u>       |
| <b>Expenditures</b>                        |                  |                         |   |                        |
| Current:                                   |                  |                         |   |                        |
| General government                         | 7,753            | 17,998                  | 25,751                                  | 19,043                 |
| Debt service - Tax increment debt          | -                | 4,855,656               | 4,855,656                               | 4,665,553              |
| Total expenditures                         | <u>7,753</u>     | <u>4,873,654</u>        | <u>4,881,407</u>                        | <u>4,684,596</u>       |
| Excess expenditures over revenues          | (7,753)          | (2,098,291)             | (2,106,044)                             | (1,635,060)            |
| <b>Other financing sources</b>             |                  |                         |   |                        |
| Transfers in                               | <u>50,000</u>    | -                       | <u>50,000</u>                           | -                      |
| Net change in fund balances                | 42,247           | (2,098,291)             | (2,056,044)                             | (1,635,060)            |
| <b>Fund balances (deficit) - beginning</b> | 589              | (44,370,101)            | (44,369,512)                            | (42,734,452)           |
| <b>Fund balances (deficit) - ending</b>    | <u>\$ 42,836</u> | <u>\$ (46,468,392)</u>  | <u>\$ (46,425,556)</u>                  | <u>\$ (44,369,512)</u> |

The notes to the financial statements are an integral part of this statement.

**ENGLEWOOD URBAN RENEWAL AUTHORITY**

**General Fund  
Statement of Revenues, Expenditures  
and Changes in Fund Balance - Budget and Actual  
For the Year Ended December 31, 2006  
(With Comparative Totals for the Year Ended December 31, 2005)**

|   | <u>Budgeted Amounts</u> |                  | <u>Actual<br/>Amounts</u> | <u>Variance with<br/>Final Budget -</u> | <u>2005<br/>Actual</u> |
|---|-------------------------|------------------|---------------------------|---|------------------------|
|   | <u>Original</u>         | <u>Final</u>     |                           | <u>Positive<br/>(Negative)</u>          |                        |
| <b>Revenues</b>                         |                         |                  |                           |   |                        |
| Net investment income                   | \$ -                    | \$ -             | \$ -                      | \$ -                                    | \$ -                   |
| Other                                   | 9,000                   | 9,000            | -                         | (9,000)                                 | -                      |
| Total revenues                          | <u>9,000</u>            | <u>9,000</u>     | <u>-</u>                  | <u>(9,000)</u>                          | <u>-</u>               |
| <b>Expenditures</b>                     |                         |                  |                           |   |                        |
| General government                      | 9,403                   | 9,403            | 7,753                     | 1,650                                   | -                      |
| Excess revenues (under)<br>expenditures | (403)                   | (403)            | (7,753)                   | (7,350)                                 | -                      |
| <b>Other financing sources</b>          |                         |                  |                           |   |                        |
| Transfers in                            | -                       | 50,000           | 50,000                    | -                                       | -                      |
| Net change in fund balance              | (403)                   | 49,597           | 42,247                    | (7,350)                                 | -                      |
| <b>Fund balance - beginning</b>         | <u>589</u>              | <u>589</u>       | <u>589</u>                | <u>-</u>                                | <u>589</u>             |
| <b>Fund balance - ending</b>            | <u>\$ 186</u>           | <u>\$ 50,186</u> | <u>\$ 42,836</u>          | <u>\$ (7,350)</u>                       | <u>\$ 589</u>          |

The notes to the financial statements are an integral part of this statement.

**ENGLEWOOD URBAN RENEWAL AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**Note 1 - Summary of Significant Accounting Policies**

**A. Definition of Reporting Entity**

The Englewood Urban Renewal Authority (Authority) was created by resolution passed September 18, 1972, by the City Council of the City of Englewood, Colorado (the "City") under authorization of State Statutes. The purpose of the Authority is to acquire and develop or redevelop certain blighted areas in the City to maintain the public welfare.

The Authority follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The Authority is considered a component unit of the City since the Authority's tax increment financing indicates financial accountability with the City, the City Council appoints the Authority board members and the City Council reviews the Urban Renewal Plan and any changes thereto. Legal counsel is of the opinion that under state statutes, the City is not liable with respect to the bonds issued by the Authority.

The City provides certain administrative services at no cost to the Authority.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Authority. All interfund activity has been removed from these statements.

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. *Program revenues* include: charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by given function or segment; fines and forfeitures; and 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*.

Separate financial statements are provided for governmental funds. Major individual funds are reported in separate columns in the fund financial statements.

### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and 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. Other items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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 Authority considers revenues to be available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, sales and use taxes and interest are susceptible to accrual and so have been recognized as revenues in the current period. All other revenue items are considered to be measurable and available when cash is received by the Authority and are recognized as revenue at that time.

The Authority reports the following major governmental funds:

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

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all Authority levied taxes.

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

### **D. Assets, liabilities, and equity**

#### *1. Deposits and investments*

The Authority maintains separate cash and investments and also participates in the City of Englewood's pooled cash and investment funds. Earnings from the combined funds are allocated monthly on a pro-rata basis. The City's investment policy authorizes investment in the following:

- U.S. Treasury Obligations (T-Bills, T-Notes, T-Bonds) with maturities not exceeding 5 years from the date of purchase.
- U.S. Treasury Strips (book-entry U.S. Treasury securities whose coupon has been removed) with maturities not exceeding 5 years from the date of purchase.
- Federal Instrumentalities-Debentures, Discount Notes, Medium Term Notes or Callable Securities issued by the following only: Federal National Mortgage Association, Federal Home Loan Bank,

Federal Home Loan Mortgage Corporation, Federal Farm Credit Banks and Student Loan Marketing Association with maturities not exceeding 5 years from the date of purchase.

- Repurchase agreements with a termination date of 90 days or less utilizing U.S. Treasury and Federal Instrumentality Securities listed in the items above, collateralized initially at a minimum market value of 102 percent of the dollar value of the transaction with the accrued interest accumulated on the collateral included in the calculation. Repurchase agreements are entered into only with dealers who: 1) are recognized as primary dealers by the Market Reports Division of the Federal Reserve Board of New York, and 2) have executed a City approved Master Repurchase Agreement. Primary Dealers approved as Repurchase Agreement counterparties shall have a short-term credit rating of at least A-1 or the equivalent and a long-term credit rating of at least A or the equivalent. Collateral (purchased securities) shall be held by the City's custodian bank as safekeeping agent, and the market value of the collateral securities shall be marked-to-the-market daily.
- Reverse Repurchase Agreements with a maturity of 90 days or less executed only against securities owned by the City and collateralized by at least the same type of security reversed.
- Flexible repurchase agreements with a final maturity of ten years or less with approved counterparties subject to specific criteria.
- Time Certificates of Deposit with a maximum maturity of 5 years or savings accounts in state or national banks operating in Colorado that are state approved depositories (as evidenced by a certificate issued by the State Banking Board) and are insured by the FDIC. Certificates of deposit that exceed the FDIC insured amount shall be collateralized in accordance with the Colorado Public Deposit Protection Act. The collateral shall have a market value equal to or exceeding 102 percent of the difference between the insured amount and the City's total deposits for all funds within the institution.
- Time Certificates of Deposit with a maximum maturity of 5 years or savings accounts in state or federally chartered savings and loans operating in Colorado that are insured by the FDIC. Deposits that exceed the FDIC insured amount shall be collateralized in accordance with the Colorado Public Deposit Protection Act. This collateral shall have a market value equal to or exceeding 102 percent of the difference between the insured amount and the City's total deposit for all funds within the institution.
- Colorado Local Government Liquid Asset Trust (COLOTRUST). COLOTRUST is an investment vehicle established for local governmental entities in Colorado to pool surplus funds. Investments of COLOTRUST consist of U.S. Treasury Bills, notes and note strips and repurchase agreements collateralized by U.S. Treasury Securities. The State Securities Commissioner administers and enforces all State statutes governing the Trust. COLOTRUST operates similarly to a money market fund and each share is equal in value to \$1.00.
- Prime Bankers Acceptance rated at least A-1 by Standard & Poors's, P-1 by Moody's and F1 by Fitch at the time of purchase, with a maturity of six months or less issued on domestic banks or branches or foreign banks domiciled in the U.S. and operating under U.S. banking laws. Accepting banks must have a senior debt rating of A2 by Moodys and/or A by Standard and Poors.
- Prime Commercial Paper with a maturity of 180 days or less which, at the time of purchase, is rated at least A-1 by Standard and Poors, P-1 by Moodys, and F-1 by Fitch. At the time of purchase, the commercial paper must be rated by at least two of the above stated rating agencies at the stated minimum rating. If more than two of the above stated agencies rates an issuer, all of those rating agencies must rate the issuer in accordance with above stated minimum credit criteria. If the commercial paper issuer has senior debt outstanding, the senior debt must be rated by each service that publishes a rating on the issuer as at least A2 by Moody's, A by Standard and Poor's and A by Fitch.
- Corporate Bonds issued by a corporation or bank with a final maturity not exceeding three years from the date of purchase, rated at least AA- by Standard & Poor's, Aa3 by Moody's, or AA by Fitch at the time of purchase by each service that rates the debt. Authorized corporate bonds shall

be U.S. dollar denominated, and limited to corporations organized and operated within the United States with a net worth in excess of \$250 million.

- Money Market Mutual Funds registered under the Investment Company Act of 1940 which are “no load” (i.e. no commission fee shall be charged on purchases or sales of shares); have a constant daily net asset value per share of \$1.00; limit assets of the fund to securities which are authorized by this Investment Policy; have a maximum stated maturity in accordance with Federal Securities Regulation 2A-7; and have a rating of AAA by Standard and Poor’s or AAAM by Moody’s.

At December 31, 2006 investments are reported at fair value, based on quoted market prices on that date.

## *2. Receivables and payables*

Property taxes are levied by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the Authority, less a 1% collection fee.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred revenue in the year they are levied and measurable. The deferred property tax revenues are recorded as revenue in the year they are available or collected.

## *3. Capital assets*

Capital assets are reported within the government-wide financial statements. The Authority currently capitalizes expenditures that cost more than \$5,000 and have a life of one year or more. Such capital assets are recorded at historical cost or at estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

## *4. Fund equity*

The fund balances have been reserved in the fund financial statements for that portion of the fund balance that is legally segregated or is not subject to future appropriation. Designations of unreserved fund balances indicate management’s intention for future utilization of such funds and are subject to change by management.

### **Reserved for Debt Service**

The reserve for debt service represents the amounts reserved for payment of principal and interest on the tax increment revenue bonds.

**Designated Fund Balance**

The amount classified as “designated for subsequent year’s expenditures” at December 31, 2006 represents the amount appropriated for use in the budget for the year ending December 31, 2007.

The Authority has a deficit fund balance at December 31, 2006 due to the bond default (see Note 3D).

**E. Comparative Data**

Comparative total data for the prior year have been presented in the government-wide and fund financial statements in order to provide an understanding of the changes in financial position and operations. Also, certain data may have been reclassified to be consistent with the current year’s presentation.

**Note 2 - Stewardship, compliance and accountability**

In accordance with the State Budget Law, the Authority's Board of Commissioners holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year-end. The Board can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements.

**Note 3 – Detailed notes on all funds**

**A. Cash and Investments**

At December 31, 2006, the Authority had cash and investments of \$236,731, as follows:

|  |                          |
|--|--------------------------|
| <b>Unrestricted:</b>   |                          |
| Deposits and investments with the City of Englewood internal investment pool | \$ 205,756               |
| <b>Restricted:</b>   |                          |
| Investments outside the City of Englewood internal investment pool           | <u>30,975</u>            |
| Total deposits and investments   | <u><u>\$ 236,731</u></u> |

Disclosures relating to **credit risk**, the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment; **interest rate risk**, the risk that changes in market interest rates will adversely affect the fair value of an investment; and **concentration of credit risk** of Englewood’s internal investment pool is disclosed in the City’s Comprehensive Annual Financial Report. This report may be obtained by calling the City of Englewood’s Department of Finance and Administrative Services at 303-762-2300 or by visiting Englewood’s website at [www.Englewoodgov.org](http://www.Englewoodgov.org).

Cash and investments are restricted under the Tax Increment Revenue Bond indenture of trust which requires that during the period over which the bonds are outstanding, the Authority must maintain certain separate accounts and funds to account for the proceeds from the issuance of the bonds and for the debt service deposits made from pledged revenues (as defined by the indenture of trust). These restricted assets can only be used to pay the debt service payments on the bonds. The investment,

amounting to \$30,975 at December 31, 2006, is a money market fund consisting of U.S. Treasury Bonds, U.S. Treasury Notes and Repurchase Agreements collateralized entirely of U.S. government securities that are explicitly guaranteed by the U.S. Government and has a weighted average maturity of six days.

**B. Tax Revenues**

The Authority consists of two areas within the City from which the Authority receives property tax and sales tax revenues.

**Sales tax** is generated from the City’s 3.5% sales tax on retail sales from the two areas in excess of defined base year revenues. The base amount for Area 1 is \$725,669, as was determined on December 31, 1981. The base amount for Area 2 is \$58,239, as was determined on July 31, 1985. 2006 and 2005 incremental sales tax revenues amounted to \$1,129,433 and \$1,131,680 respectively.

**Property tax** is generated based on the total mill levy adopted by all taxing entities within the Authority applied to the incremental increase in assessed valuation.

The assessed valuation of the Authority, as allocated by the County Assessor between the base and increment for the current and prior three years is as follows:

|                          | Tax Year      |              |              |              |
|--------------------------|---------------|--------------|--------------|--------------|
|                          | 2006          | 2005         | 2004         | 2003         |
| Total Assessed Valuation | \$53,987,940  | \$54,611,260 | \$55,100,910 | \$47,194,280 |
| Less: Base Valuation     | 26,477,910    | 26,477,910   | 27,398,950   | 28,310,390   |
| Net Increment Valuation  | \$ 27,510,030 | \$28,133,350 | \$27,701,960 | \$18,883,890 |

|                    | Collection Year |             |             |             |
|--------------------|-----------------|-------------|-------------|-------------|
|                    | 2007            | 2006        | 2005        | 2004        |
| Combined Mill Levy | 65.445          | 64.259      | 68.737      | 63.414      |
| Tax Levy           | \$1,800,000     | \$1,615,609 | \$1,904,150 | \$1,197,503 |
| Actual collections | ---             | \$1,608,383 | \$1,894,000 | \$1,378,375 |

**C. Capital assets**

A summary of changes in capital assets follows:

|                       | Balance         |           | Balance   |                   |
|-----------------------|-----------------|-----------|-----------|-------------------|
|                       | January 1, 2006 | Additions | Deletions | December 31, 2006 |
| Land and improvements | \$ 476,000      | \$ -      | \$ -      | \$ 476,000        |

It is the policy of the City of Englewood to accept maintenance responsibilities for certain improvements created by the Authority upon completion and conveyance of such improvements provided they meet the City's specifications. Upon acceptance by the City, the cost of the improvements is removed from the Authority's fixed assets. The remaining Authority capital asset of \$476,000 represents the Acoma parking lot (approximately 1.7 acres). The Authority leases the property to the City for a nominal amount.

#### **D. Tax Increment Debt Payable**

Tax increment debt at December 31, 2006 is as follows:

| <u>Interest Rate</u> | <u>Balance<br/>January 1, 2006</u> | <u>Accrual of<br/>Interest</u> | <u>Payments<br/>To<br/>Bondholders</u> | <u>Balance<br/>December 31, 2006</u> |
|----------------------|------------------------------------|--------------------------------|--|--------------------------------------|
| 9.25%-11.0%          | <u>\$ 44,566,992</u>               | <u>\$ 4,855,656</u>            | <u>\$ 2,755,003</u>                    | <u>\$ 46,667,645</u>                 |

As of June 1, 1991, the Authority was unable to make its full debt service payment and therefore defaulted on the \$26,740,000 of Tax Increment Revenue Refunding and Improvement Bonds Series 1985 A and Tax Increment Revenue Refunding Bonds Series 1985 B. Due to the default, all principal and interest outstanding at June 1, 1991 was accelerated by the trustee per provisions in the trust indenture, and became immediately due. Per the trust indenture, once the debt is accelerated no delineation is made between the principal and interest amounts outstanding. Interest then accrues on this total unpaid balance at the bond rates. Subsequent payments are to be applied ratably to the balance due without preference for principal or interest. At December 31, 2006 the trustee holds \$41,970 for the benefit of the bondholders.

The bonds are secured by pledged revenue, which include incremental sales and property tax revenue in the redeveloped area.

At December 31, 2006 the Authority is not in compliance with the restrictive covenants and provisions of the bond resolutions (see Note 4B).

#### **Note 4 – Other information**

##### **A. Risk Management**

The Authority is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors or omissions; and natural disasters.

In order to reduce insurance costs, the Authority participates in the City's Risk Management insurance program. Amounts payable to the City are based on historical claims experience. Settled claims have not exceeded insurance coverage in any of the last three years. Please refer to the City's Comprehensive Annual Financial Report for complete descriptions of the City's risk management activities.

##### **B. Contingencies**

The Authority is in default on its Tax Increment Revenue Refunding and Improvements Bonds Series 1985A and its Tax Increment Revenue Refunding Bonds Series 1985B. As a result, the potential for claims by bondholders and others may exist.

On August 23, 1982, the Englewood City Council approved the Englewood Downtown Redevelopment Plan (the Plan), which established the property and sales tax increments for the redevelopment area, also known as the Tax Increment Financing (TIF) District. The term of the TIF extends for a 25-year period from the date the Plan was adopted (CRS 31-25-107). At such time the TIF expires, the City will retain its proportionate share of revenues generated from the TIF.

On November 26, 1997, the Trustee, on behalf of the bondholders, filed a lawsuit against the Authority, the City and the County Assessor. The Trustee was seeking to require the City to extend

the life of the TIF beyond the statutory 25 year limit until the principal and interest on the bonds are paid in full. In October of 1999, the Court entered an Order determining that the City is not required to extend the life of the TIF.

The Authority's ability to generate revenue is primarily dependent on the taxes generated within its boundaries, which are currently not sufficient to meet its existing debt service requirements. The Authority will continue to pay the unpaid balance of the bonds as collections allow.

The effect of the above mentioned contingencies on the financial statements cannot be presently determined.

#### **Note 5 - 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, revenue and debt limitations which apply to the State of Colorado and all local governments.

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

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 interpretation of how to calculate Fiscal Year Spending limits, may require judicial interpretation.

**ENGLEWOOD URBAN RENEWAL AUTHORITY**

**Debt Service Fund  
Schedule of Revenues, Expenditures  
and Changes in Fund Balance (Deficit) - Budget and Actual  
For the Year Ended December 31, 2006  
(With Comparative Totals for the Year Ended December 31, 2005)**

|   | <u>Budgeted Amounts</u>       |                               | <u>Actual<br/>Amounts</u>     | <u>Variance with<br/>Final Budget -<br/>Positive<br/>(Negative)</u> | <u>2005<br/>Actual</u>        |
|---|-------------------------------|-------------------------------|-------------------------------|---|-------------------------------|
|   | <u>Original</u>               | <u>Final</u>                  |                               |   |                               |
| <b>Revenues</b>                               |                               |                               |                               |   |                               |
| Property taxes                                | \$ 1,809,000                  | \$ 1,809,000                  | \$ 1,608,383                  | \$ (200,617)  | \$ 1,894,000                  |
| Sales taxes                                   | 1,109,000                     | 1,109,000                     | 1,129,433                     | 20,433  | 1,131,680                     |
| Net investment income                         | 2,500                         | 2,500                         | 37,547                        | 35,047  | 23,856                        |
| Total revenues                                | <u>2,920,500</u>              | <u>2,920,500</u>              | <u>2,775,363</u>              | <u>(145,137)</u>  | <u>3,049,536</u>              |
| <b>Expenditures</b>                           |                               |                               |                               |   |                               |
| General government                            | 83,090                        | 83,090                        | 17,998                        | 65,092  | 19,043                        |
| Debt service - Tax<br>increment debt          | 4,600,000                     | 5,083,090                     | 4,855,656                     | 227,434   | 4,665,553                     |
| Total expenditures                            | <u>4,683,090</u>              | <u>5,166,180</u>              | <u>4,873,654</u>              | <u>292,526</u>  | <u>4,684,596</u>              |
| Net change in fund balance                    | (1,762,590)                   | (2,245,680)                   | (2,098,291)                   | 147,389   | (1,635,060)                   |
| <b>Fund balance (deficit) -<br/>Beginning</b> | <u>(44,135,963)</u>           | <u>(44,370,101)</u>           | <u>(44,370,101)</u>           | <u>-</u>  | <u>(42,735,041)</u>           |
| <b>Fund balance (deficit) -<br/>Ending</b>    | <u><u>\$ (45,898,553)</u></u> | <u><u>\$ (46,615,781)</u></u> | <u><u>\$ (46,468,392)</u></u> | <u><u>\$ 147,389</u></u>  | <u><u>\$ (44,370,101)</u></u> |

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