

Arvada Urban Renewal Authority

Independent Auditor's Reports and Financial Statements

December 31, 2016

Arvada Urban Renewal Authority
December 31, 2016

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Independent Auditor's Report

Board of Commissioners
Arvada Urban Renewal Authority
Arvada, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Arvada Urban Renewal Authority, a component unit of the City of Arvada, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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 Arvada Urban Renewal Authority as of December 31, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Arvada Urban Renewal Authority's basic financial statements. The budgetary comparison schedule supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Board of Commissioners
Arvada Urban Renewal Authority

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2017, on our consideration of the Arvada Urban Renewal Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Arvada Urban Renewal Authority's internal control over financial reporting and compliance.

BKD, LLP

Denver, Colorado
June 7, 2017

Management's Discussion and Analysis

Arvada Urban Renewal Authority

Management's Discussion and Analysis (Unaudited)

December 31, 2016

This section of the Arvada Urban Renewal Authority (the Authority) Annual Financial Report provides readers with a narrative overview and analysis of the Authority's financial performance during the fiscal year that ended on December 31, 2016. We encourage readers to consider the information presented here in conjunction with the Authority's basic financial statements and notes to the financial statements to enhance their understanding of the activities and financial health of the Arvada Urban Renewal Authority.

Financial Highlights

- Government-wide total net position decreased \$3,615,860 during the current year resulting in a deficit net position of \$1,004,590.
- Government-wide expenses decreased by \$913,749. This decrease was largely caused by the write-down of property held for sale in 2016 not being as large as the 2015 write-down.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements consist of the following two components:

- Government-wide and Fund Financial Statements
- Notes to the Financial Statements

Government-wide Financial Statements. The government-wide statements are designed to provide readers with a broad overview of the Authority's finances using the accrual basis of accounting, the basis of accounting used by most private-sector businesses.

The statement of net position presents information on all of the Authority's assets, liabilities and deferred inflows of resources. The difference between assets, liabilities and deferred inflows of resources is reported as net position. Over time, increases and decreases in net position may provide an indication of whether the Authority's financial position is improving or deteriorating.

The statement of activities presents information reflecting how the Authority's net position has changed during the fiscal year just ended. All changes in net position are reported as soon as the underlying activity occurs. Thus, revenues and expenses are reported in these statements for some items that will result in cash flows only in future periods (*e.g.*, uncollected taxes and earned but unused vacation leave).

The government-wide financial statements report information on all of the activities of the Authority.

Arvada Urban Renewal Authority
Management's Discussion and Analysis (Unaudited)
December 31, 2016

Fund Financial Statements. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Traditional users of the Authority's financial statements will find the fund financial statement presentation more familiar. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Of the three possible fund types, the Authority presents only governmental funds. The focus is on major funds rather than fund types.

Governmental Funds. Governmental funds are used to report those same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide statements, the fund financial statements are prepared on the modified accrual basis. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred, with the exception of long-term debt and similar long-term items, which are recorded when due. Therefore, the focus of the governmental fund financial statements is on near-term inflows and outflows of spendable resources as well as on the balance of spendable resources available at the end of the fiscal year.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for all funds. The General Fund, Jefferson Center District (JCD) Fund, Ralston Fields Fund, and Northwest Arvada Fund are required to be shown as major funds. The Olde Town Fund is not required to be presented as a major fund; yet, management elects to present it as major for emphasis of all renewal areas.

The Authority adopts an annual appropriated budget for all of its governmental funds. A budgetary comparison schedule has been provided for the Authority's funds to demonstrate compliance with this budget.

Notes to the Financial Statements. The notes to the basic financial statements are considered an integral part of the financial statements since they provide additional information needed to gain a full understanding of the data provided in both the government-wide and fund financial statements.

Government-wide Financial Analysis

At the close of December 31, 2016, the Authority's liabilities exceeded assets by \$1,004,590. The following summaries of net position and changes in net position are presented for the current year and the previous year for comparative purposes.

Arvada Urban Renewal Authority
Management's Discussion and Analysis (Unaudited)
December 31, 2016

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

	Total Primary Government 2016	Total Primary Government 2015
Assets		
Current and other assets	\$ 14,578,418	\$ 14,899,492
Property available for sale	2,300,010	1,332,694
Capital assets, net of accumulated depreciation	-	387
Total assets	16,878,428	16,232,573
Liabilities, Deferred Inflows of Resources and Net Position		
Other liabilities	2,480,300	2,425,427
Due in more than one year	6,976,654	2,115,112
Total liabilities	9,456,954	4,540,539
Deferred Inflows of Resources	8,426,064	9,080,764
Net Position		
Net investment in capital assets	-	387
Restricted for capital projects	44,295	16,813
Unrestricted (deficit)	(1,048,885)	2,594,070
Total deficit net position	\$ (1,004,590)	\$ 2,611,270

Total assets as of December 31, 2016, increased by \$645,855 when compared to prior year-end. This change was primarily due to an increase in property held for resale of \$967,316 and a decrease in cash, investments, and taxes receivable of \$321,074. The increase in cash and investments was the result of an increase in the fund balance in Ralston Fields. The decrease in taxes receivable was due to a decrease in personal property tax in Jefferson Center District. The increase in property held for resale was from the purchase of property in the Ralston Creek project area that will be sold to a developer.

Total liabilities increased by \$4,916,415. This increase was primarily due to a new note payable to the City of Arvada.

In summary, these variances resulted in a decrease of net position for the Authority in 2016 of \$3,615,860.

Arvada Urban Renewal Authority
Management's Discussion and Analysis (Unaudited)
December 31, 2016

Changes in Net Position

The following table reflects a summary of activities and changes in net position:

	Total Primary Government 2016	Total Primary Government 2015
Revenues		
Program revenues		
Charges for services	\$ 219,080	\$ 118,352
General revenues		
Incremental property taxes	7,931,581	6,971,429
Public improvement fees	739,253	783,058
Sales taxes	66,554	53,761
Investment income	26,668	9,725
Miscellaneous revenues	1,029	-
Gain (loss) on sale of investments	80,000	(500,000)
	<u>9,064,165</u>	<u>7,436,325</u>
Expenses		
General government	1,231,562	923,619
Redevelopment costs	11,353,277	12,514,080
Interest expense	95,186	156,075
	<u>12,680,025</u>	<u>13,593,774</u>
Change in Net Position	(3,615,860)	(6,157,449)
Net Position, Beginning of Year	<u>2,611,270</u>	<u>8,768,719</u>
Deficit Net Position, End of Year	<u>\$ (1,004,590)</u>	<u>\$ 2,611,270</u>

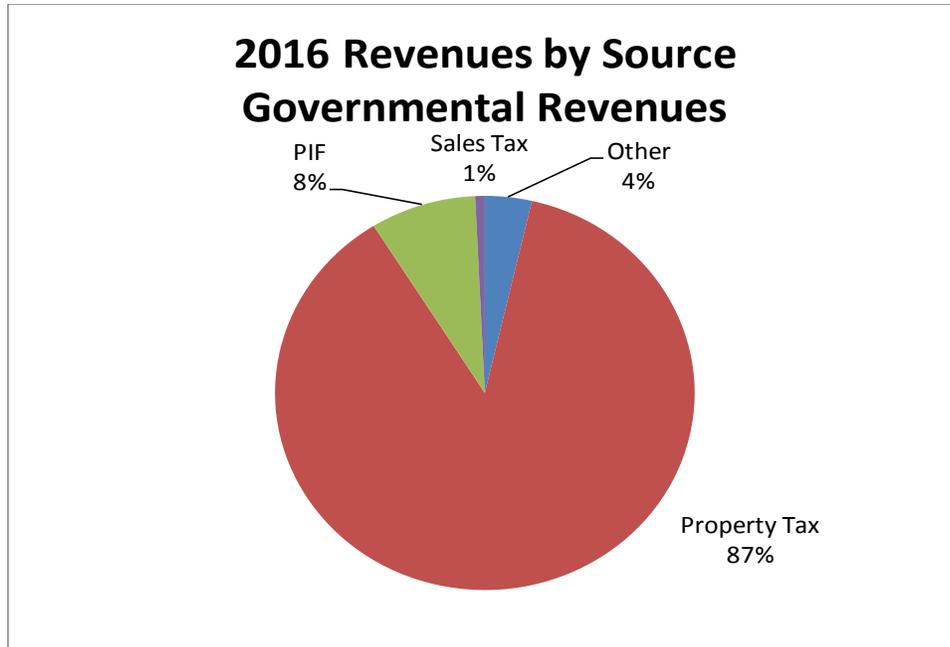
The above condensed summary of the Authority's government-wide activities for the year ended December 31, 2016, reflects a deficit net position of \$1,004,590, which was the result of a decrease in net position of \$3,615,860. Revenues were up in 2016 primarily due to an increase in property tax revenues of \$960,152, and no \$500,000 loss on the sale of an investment in 2016 as there was in 2015.

The decrease in expenses was primarily due to a decrease in redevelopment costs from fiscal year 2015 to fiscal year 2016 of \$1,160,803. This was primarily due to the write-down of property held for sale in 2015.

Arvada Urban Renewal Authority
Management's Discussion and Analysis (Unaudited)
December 31, 2016

Governmental Activities

Governmental activities decreased the Authority's net position by \$3,615,860.



Financial Analysis of the Authority's Funds

As noted previously, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of year.

At the end of December 31, 2016, the Authority's governmental funds reported combined ending fund balances of \$8,078,921, an increase of \$1,366,294 from the prior year. Unassigned fund balance is \$2,396,074 (30%). The remainder of the fund balance is nonspendable to indicate that it is not available for new spending because it has already been committed to prepaid items (\$4,533), property held for resale (\$2,300,010), restricted by external legal purposes (\$44,295), or assigned for an intended use (\$3,334,009).

The General Fund is the main operating fund of the Authority. At December 31, 2016, the unassigned fund balance of the General Fund was \$2,396,074, while the total fund balance was \$4,700,617. The fund balance of the General Fund increased \$748,320.

The Jefferson Center District Fund is another major fund of the Authority. At December 31, 2016, the total fund balance of the JCD Fund was \$44,295, an increase of \$27,482. This money is restricted to be used by the JCD Corporation in the upcoming years for redevelopment of the JCD Urban Renewal Area.

Arvada Urban Renewal Authority
Management’s Discussion and Analysis (Unaudited)
December 31, 2016

The Ralston Fields Fund is used to account for the activities in the Kipling Ridge area and is considered a major fund. At December 31, 2016, the total fund balance was \$3,334,009, an increase of \$644,253 over 2015. This fund balance is assigned and will be used for future redevelopment projects.

The Northwest Arvada Fund is used to account for activities in the Northwest Arvada Urban Renewal areas. At December 31, 2016, the total fund balance was \$0. At the end of the year, revenue from this fund is transferred to the JCD Fund and will be used by the JCMD Corporation in the upcoming years for redevelopment of the JCMD Urban Renewal Area.

Lastly, the Olde Town Arvada Fund is used to account for activities in the Olde Town Arvada area. At December 31, 2016, the total fund balance was \$0, a decrease of \$53,761 from 2015.

Budgetary Highlights

General Fund. There were no changes to the original revenue budget of \$291,518. There were also no changes to the original expenditure budget of \$4,456,375 to the final expenditure budget.

Debt Administration

Long-term Debt. At the end of December 31, 2016, the Authority had total debt outstanding of \$9,109,496. This debt is made up of three notes with the City of Arvada. See Notes to the Financial Statements for more information.

	Total Primary Government 2016	Total Primary Government 2015
Notes payable	\$ 9,109,496	\$ 4,245,000

Current Economic Factors

The Authority and the City continue to work on the redevelopment plans for the Northwest Arvada, Ralston Fields, Olde Town Arvada Station, Village Commons and Jefferson Center urban renewal project areas.

Northwest Arvada

The Northwest Arvada urban renewal area is the site of a 1,451 acre mixed-use development now called Candelas. In 2007 the infrastructure of the area, including roads, water, sewer and stormwater lines, was constructed. The first building permits were issued in 2013, with steady growth each year. There were 214 single family permits issued in 2016 which accounted for 29% of the building permits issued in the City. Plans for the first grocery store in this area have been approved with an expected opening in 2018. When completed, this area is estimated to have 1,489 single-family detached homes, 2,200-3,100 single-family attached homes, 425 acres of commercial development and 269 acres of retail development.

Arvada Urban Renewal Authority
Management's Discussion and Analysis (Unaudited)
December 31, 2016

Ralston Fields

Within the Ralston Fields urban renewal area is the “triangle area”, now called Ralston Creek. This area consists of three shopping centers that were built in the 1960s which are old and outdated. One shopping center will be anchored by Walmart, which is expected to open August of 2017. The Authority is working with a developer on the second and third shopping centers. The Authority purchased additional property in this area in 2016, which will also be included in future redevelopment. Development plans include phase one which will bring small and mid-sized retail and new streetscape to bring a fresh new look and encourage pedestrian walkability to this area, and phase two which will add multi-family residential to the area.

Olde Town Arvada Station

The Olde Town Arvada Station area surrounds the Regional Transportation District's future commuter rail transit line stop, called the Gold Line, in Olde Town. The Gold Line will connect Arvada to Denver Union Station. Although the G line did not open as expected in 2016, Park Place, an upscale multi-family apartment project with 153 units, is now fully leased. Another apartment project across the street from the Olde Town Station started construction at the end of 2015 and will add 352 units. A portion of the units will be available for lease in May 2017. Both apartment projects are close to the retail shops and services in Olde Town and will have access to the Denver metro area when the Gold Line is operational in 2017. This area also has an existing movie theater. The current owner is negotiating the sale of the property to a new theater with the goal of completely renovating the theater with upgraded amenities including leather reclining seats, reserved and paperless ticketing, in-lobby bar, an expanded concession stand with hot food offerings and laser projection. The City and the Authority are also working with a developer for a transit-oriented development on the nine acre site just south of Olde Town. The developer anticipates submitting plans to the City in 2017.

Village Commons

The Village Commons project area lies within a quarter mile of the G Line. In 2015, the Authority sold a parcel of land in this project area for the first hotel in the Olde Town area. Hilton Garden Inn opened in March of 2017 and has 136 rooms and a small conference center.

Jefferson Center

The Jefferson Center urban renewal area was established in 2003 and generates property tax revenues to support Northwest Arvada.

Arvada Urban Renewal Authority
Management's Discussion and Analysis (Unaudited)
December 31, 2016

Financial Contact

The Authority's financial statements are designed to provide users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Authority's finances and to demonstrate the Authority's accountability. Questions concerning any of the information presented in this report or requests for additional information should be sent in care of the Executive Director at the following address:

Arvada Urban Renewal Authority
Attention: Executive Director
5601 Olde Wadsworth Blvd., Suite 210
Arvada, Colorado 80002

Financial Statements

Arvada Urban Renewal Authority
Statement of Net Position
December 31, 2016

Assets

Cash and investments	\$ 5,964,321
Fees receivable	134,372
Taxes receivable	8,426,064
Prepaid expenses	4,533
Loan receivable	49,128
Property held for resale	<u>2,300,010</u>
Total assets	<u>16,878,428</u>

Liabilities, Deferred Inflows of Resources and Net Position

Liabilities

Accounts payable	135,772
Accrued liabilities	27,374
Security deposits	161,169
Due in one year	2,155,985
Due in more than one year	<u>6,976,654</u>
Total liabilities	<u>9,456,954</u>

Deferred Inflows of Resources

Unavailable revenue - property taxes	<u>8,426,064</u>
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Net Position

Restricted for capital projects	44,295
Unrestricted deficit	<u>(1,048,885)</u>
Total deficit net position	<u>\$ (1,004,590)</u>

Arvada Urban Renewal Authority
Statement of Activities
Year Ended December 31, 2016

	Expenses	Program Revenues Charges for Services	Net Revenue (Expense) and Change in Net Position Governmental Activities 2016
Functions/Programs			
Primary government			
Governmental activities			
General government	\$ 1,231,562	\$ -	\$ (1,231,562)
Redevelopment projects	11,353,277	219,080	(11,134,197)
Interest expense	95,186	-	(95,186)
	<u>\$ 12,680,025</u>	<u>\$ 219,080</u>	<u>(12,460,945)</u>
General Revenues			
Incremental property taxes			7,931,581
Public improvement fees			739,253
Sales taxes			66,554
Investment income			26,668
Gain on sale of property held for resale			80,000
Miscellaneous revenues			1,029
			<u>8,845,085</u>
			Change in Net Position
			(3,615,860)
			Net Position, Beginning of Year
			<u>2,611,270</u>
			Deficit Net Position, End of Year
			<u><u>\$ (1,004,590)</u></u>

Arvada Urban Renewal Authority
Balance Sheet
Governmental Funds
December 31, 2016

	General	Jefferson Center District	Ralston Fields	Northwest Arvada	Olde Town	Total
Assets						
Cash and investments	\$ 2,691,646	\$ 44,295	\$ 3,228,380	\$ -	\$ -	\$ 5,964,321
Fees receivable	28,743	-	105,629	-	-	134,372
Taxes receivable	-	1,932,234	1,061,025	5,319,562	113,243	8,426,064
Prepaid expenses	4,533	-	-	-	-	4,533
Loans receivable	49,128	-	-	-	-	49,128
Property held for resale	2,300,010	-	-	-	-	2,300,010
Total assets	<u>5,074,060</u>	<u>1,976,529</u>	<u>4,395,034</u>	<u>5,319,562</u>	<u>113,243</u>	<u>16,878,428</u>
Liabilities, Deferred Inflows of Resources and Fund Balances						
Liabilities						
Accounts payable	135,772	-	-	-	-	135,772
Accrued liabilities	27,374	-	-	-	-	27,374
Security deposits	161,169	-	-	-	-	161,169
Total liabilities	<u>324,315</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>324,315</u>
Deferred Inflows of Resources						
Unavailable revenue - property taxes	-	1,932,234	1,061,025	5,319,562	113,243	8,426,064
Unavailable revenue - loan revenues	49,128	-	-	-	-	49,128
Total deferred inflows of resources	<u>49,128</u>	<u>1,932,234</u>	<u>1,061,025</u>	<u>5,319,562</u>	<u>113,243</u>	<u>8,475,192</u>
Fund Balances						
Nonspendable for prepaid items	4,533	-	-	-	-	4,533
Nonspendable for property held for sale	2,300,010	-	-	-	-	2,300,010
Restricted	-	44,295	-	-	-	44,295
Assigned	-	-	3,334,009	-	-	3,334,009
Unassigned	2,396,074	-	-	-	-	2,396,074
Total fund balances	<u>\$ 4,700,617</u>	<u>\$ 44,295</u>	<u>\$ 3,334,009</u>	<u>\$ -</u>	<u>\$ -</u>	<u>8,078,921</u>

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

Long-term receivable, net of allowance for doubtful accounts, is not available to pay for current period expenditures and, therefore, is deferred in the funds. 49,128

Long-term liabilities including notes payable (\$9,109,496) and compensated absences (\$23,143) are not due and payable with current economic resources and, therefore, are not reported in the funds. (9,132,639)

Deficit net position of governmental activities \$ (1,004,590)

Arvada Urban Renewal Authority
Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Funds
Year Ended December 31, 2016

	General	Jefferson Center District	Ralston Fields	Northwest Arvada	Olde Town	Total
Revenues						
Incremental property taxes	\$ -	\$ 1,966,130	\$ 1,149,834	\$ 4,815,617	\$ -	\$ 7,931,581
Public improvement fees	-	-	739,253	-	-	739,253
Sales taxes	-	-	-	-	66,554	66,554
Rent	219,080	-	-	-	-	219,080
Investment income	13,973	16	12,679	-	-	26,668
Recovered costs	154,563	-	-	-	-	154,563
Miscellaneous revenues	1,029	-	-	-	-	1,029
Total revenues	388,645	1,966,146	1,901,766	4,815,617	66,554	9,138,728
Expenditures						
Current						
General government	1,136,305	4,877	17,560	72,234	-	1,230,976
Redevelopment projects	4,284,137	6,316,678	789,953	-	-	11,390,768
Debt service						
Principal payments	135,504	-	-	-	-	135,504
Interest and fiscal charges	95,186	-	-	-	-	95,186
Total expenditures	5,651,132	6,321,555	807,513	72,234	-	12,852,434
Excess of revenues over (under) expenditures	(5,262,487)	(4,355,409)	1,094,253	4,743,383	66,554	(3,713,706)
Other Financing Sources (Uses)						
Transfers in	930,807	4,574,307	-	-	-	5,505,114
Transfers out	-	(191,416)	(450,000)	(4,743,383)	(120,315)	(5,505,114)
Gain on sale of property held for resale	80,000	-	-	-	-	80,000
Proceeds from issuance of term debt	5,000,000	-	-	-	-	5,000,000
Total other financing sources (uses)	6,010,807	4,382,891	(450,000)	(4,743,383)	(120,315)	5,080,000
Net Change in Fund Balances	748,320	27,482	644,253	-	(53,761)	1,366,294
Fund Balances, Beginning of Year	3,952,297	16,813	2,689,756	-	53,761	6,712,627
Fund Balances, End of Year	\$ 4,700,617	\$ 44,295	\$ 3,334,009	\$ -	\$ -	\$ 8,078,921

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as an annual depreciation expense in the statement of activities. This amount represents depreciation expense in the current year.	\$ (387)
Loan receivable is deferred in the governmental funds. This amount represents loan principal payments received (\$54,000) and a bad debt expense write-down (\$63,072).	(117,072)
Proceeds from long-term obligations are revenues in the governmental funds, but increases long-term liabilities in the statement of net position. This amount represents the increase in long-term debt.	(5,000,000)
Payment of long-term obligations is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net position. This amount represents the net increase in compensated absences (\$199) and decrease in notes payable (\$135,504).	135,305
Change in net position of governmental activities	<u>\$ (3,615,860)</u>

Arvada Urban Renewal Authority
Notes to Financial Statements
December 31, 2016

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Arvada Urban Renewal Authority (the Authority or AURA) was created in 1981 by the City of Arvada (the City) pursuant to the Urban Renewal Law of the State of Colorado. The Authority was created for the development, redevelopment and rehabilitation of identified blighted areas within the City, and to provide necessary, greater and reasonable economic utilization of such areas. Specifically, the Authority promotes adequate public facilities and improved traffic patterns to eliminate traffic and pedestrian hazards within the areas; ensures sound social, physical and economic growth within the City; and provides a sound economic base for the community. The Authority is governed by a seven-member Board of Commissioners whose members are appointed by the Mayor of the City.

The initial urban renewal area covered 433 acres of land on either side of Wadsworth Boulevard from downtown to U.S. Interstate 70. The debt and incremental revenues related to this area concluded during 2006.

During 2003, the City Council established two additional urban renewal areas known as Ralston Fields and Jefferson Center District. During 2008 and 2009, the City Council established the urban renewal areas known as Village Commons, Northwest Arvada, and Olde Town Station. Separate funds were established for the Northwest Arvada renewal area in 2011 and for Olde Town renewal area in 2013 for tax revenues levied during the year. A separate fund is not established for the Village Commons renewal area since no tax revenues have been received for this area as of December 31, 2016. The 25-year urban renewal plans intend to enhance, redevelop, and revitalize these areas.

Accounting Principles

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following is a summary of the more significant policies.

Reporting Entity

In accordance with governmental accounting standards, the Authority has considered the possibility of inclusion of additional entities in its financial statements. The definition of the reporting entity is based primarily on financial accountability. The Authority would be financially accountable for organizations that make up its legal entity. It would also be financially accountable for legally separate organizations if the Authority officials appoint a voting majority of the organization's governing body and is able to impose its will on that organization; or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Authority. The Authority may also be financially accountable for organizations that are fiscally dependent upon it.

Arvada Urban Renewal Authority

Notes to Financial Statements

December 31, 2016

Based on the application of the above criteria, the Authority does not include additional organizations in its reporting entity. For financial reporting purposes, the Authority is a component unit of the City.

Government-wide and Fund Financial Statements

The government-wide financial statements (*i.e.*, the statement of net position and the statement of activities) report information on all activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of the 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 a given function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the 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. Grants and similar items are recognized as revenue 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 collected within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current year.

Taxes and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the Authority.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Arvada Urban Renewal Authority

Notes to Financial Statements

December 31, 2016

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

In the fund financial statements, the Authority reports the following major governmental funds:

- General Fund – The General Fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.
- Jefferson Center District – The Jefferson Center District Fund is a capital projects fund used to account for the financial activities related to this urban renewal area.
- Ralston Fields – The Ralston Fields Fund is a capital projects fund used to account for the financial activities of this urban renewal area, which includes the Arvada Ridge public improvement area.
- Northwest Arvada – The Northwest Arvada Fund is a capital projects fund used to account for the financial activities of this urban renewal area.
- Olde Town – The Olde Town Fund is a capital projects fund used to account for the financial activities of this urban renewal area.

Assets, Liabilities, Deferred Inflows of Resources and Fund Balances/Net Position

Investments – Investments in money market funds are reported at fair value based upon quoted market prices.

Property Held for Resale – The Authority holds land and buildings that are available for resale. The property is reported at the lower of cost or net realizable value. In the fund financial statements, property held for resale is offset by an unspendable fund balance to indicate that it is not available for appropriation and is not an expendable available financial resource.

Capital Assets – Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Equipment of the Authority is depreciated using the straight-line method over the estimated useful lives of 10 years. Equipment was fully depreciated at December 31, 2016.

Deferred Inflows of Resources – In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues primarily from property taxes, loans receivable, grants and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Arvada Urban Renewal Authority

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December 31, 2016

Compensated Absences – Employees of the Authority are allowed to accumulate unused vacation and sick time. Upon termination of employment from the Authority, an employee will be compensated for accrued vacation time.

These compensated absences are recognized as current salary costs when paid in the governmental funds. A long-term liability has been reported in the government-wide financial statements for the accrued vacation time.

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities.

In the fund financial statements, governmental funds recognize the face amount of debt issued as other financing sources. Premiums are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

Fund Balances – GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), defines the different types of fund balances that a governmental entity must use for financial reporting purposes. Per GASB 54, as of December 31, 2016 fund balances of governmental funds are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are not spendable in form or because they are legally or contractually required to be maintained intact. The Authority had \$4,533 in nonspendable resources related to prepaid items, and \$2,300,010 for property held for sale.

Restricted – Amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation. As of December 31, 2016, \$44,295 has been classified as restricted, based on the restricted use of property taxes, for redevelopment activity in the Jefferson Center urban renewal area.

Committed – Amounts that are subject to a purpose constraint imposed by a formal action of the Board of Commissioners. The Board is the highest level of decision-making authority for the Authority. Commitments may be established, modified or rescinded only through resolutions approved by the Board. The Authority does not have any committed fund balance.

Assigned – Amounts that are subject to a purpose constraint that represents an intended use established by the Authority, but are not considered restricted or committed. The purpose of the assignment must be narrower than the purpose of the General Fund. As of December 31, 2016, \$3,334,009 has been classified as assigned for redevelopment activity in the Ralston Fields urban renewal area.

Unassigned – Represents the residual classification for the Authority's General Fund, which could report a surplus or deficit, and any other fund deficits. The Authority has \$2,396,074 of unassigned fund balance in the General Fund.

Arvada Urban Renewal Authority
Notes to Financial Statements
December 31, 2016

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, restricted fund balance is considered expended. For expenditures in which any unrestricted fund balance classification could be used, committed fund balance is considered first expended, then assigned, then unassigned.

Incremental Property Taxes

As allowed by state statute, the Authority receives revenue from incremental property taxes that are collected from a designated geographical area as defined in the urban renewal plan by the City. Property tax revenue is earned from the geographical area based upon the increase in assessed valuation of taxable property within the area.

Property Taxes

Property taxes attach as an enforceable lien on property on January 1 and are levied the following January 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15. The County Treasurer’s Office collects property taxes and remits them to the Authority on a monthly basis. Since property tax revenues are collected in arrears during the succeeding year, a receivable and corresponding deferred inflows of resources are reported at year-end.

Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For these risks of loss, the Authority participates in the City’s risk programs.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows of resources at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Note 2: Cash and Investments

Cash and investments of the Authority as of December 31, 2016, are as follows:

Petty cash	\$	250
Cash deposits		1,259,392
Certificates of deposit, short-term		4,363,642
Money market funds		341,037
		341,037
	\$	5,964,321

Arvada Urban Renewal Authority

Notes to Financial Statements

December 31, 2016

The Authority considers investments described above as being held at cost. At December 31, 2016, there were no restricted cash or investments reflected on the statement of net position.

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all local government entities deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At December 31, 2016, the Authority had bank deposits with a carrying balance of \$5,963,981. The bank balances were \$5,971,105, of which \$850,078 was covered by the federal deposit insurance and \$5,121,027 was collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.

Investments

The Authority is required to comply with state statutes that specify instruments, meeting defined rating, maturity, and concentration risk criteria in which units of local government may invest. In addition, the Authority has an investment policy that seeks to ensure the preservation of capital in the overall portfolio.

Per the Authority's investment policy, funds of the Authority may be invested in:

- U.S. Treasury Securities.
- Obligations of U.S. government agencies (including FDIC and FSLIC insured transactions up to \$100,000).
- Certificates of deposit and other evidences of deposit or investment at banks, savings and loan associations, and other state or federally regulated financial institutions subject to PDPA (5%) and a minimum net worth of any bank of \$10,000,000 and a minimum net worth of any savings and loan association of \$15,000,000.
- Repurchase agreements made in compliance with Revised Colorado State Statute 24-36-113. Repurchase collateral will be perfected and delivered to the Trustee.
- Repurchase agreements must be collateralized at a minimum of 100% of the purchase price of the repurchase agreement and market-to-market on a weekly basis. All repurchase agreements shall be evidenced by a master repurchase agreement between the Authority and securities dealer.
- Money market funds – Investments with any financial institutions that have appeared in any published watch list during a 12-month period preceding the investment date in an amount greater than \$100,000 are specifically prohibited.

The Authority's investment policy follows state statutes, but places additional limits on investment maturities and custodial credit risk.

Arvada Urban Renewal Authority
Notes to Financial Statements
December 31, 2016

Interest Rate Risk – The Authority’s investment policy limits the maturity of investment instruments or fixed-income securities to a maximum of three years, except for reserve funds, which are invested subject to agreements tailored to bond indentures, when applicable.

Investments in the Dreyfus Government Cash Management money market fund of \$341,037 have a weighted average maturity of less than one year.

Credit Risk – State statutes limit investments in money market funds to those that maintain a constant share price, with a maximum remaining maturity in accordance with Rule 2a-7, and have either assets of one billion dollars or the highest rating issued by a nationally recognized organization that regularly rates such obligations. At December 31, 2016, the Authority’s investment in the Dreyfus Government Cash Management money market fund of \$341,037 was rated Aaa by Moody’s.

Custodial Credit Risk – The Authority’s investment policy requires that investments be placed with two or more financial institutions and in such amounts or proportions of total investments or assets as may be reasonable and prudent.

Concentration of Credit Risk – State statutes generally do not limit the amount the Authority may invest in one issuer.

Note 3: Capital Assets

Changes in capital assets for the year ended December 31, 2016, are summarized below:

	Balance December 31, 2015	Additions	Deletions	Balance December 31, 2016
Equipment	\$ 6,626	\$ -	\$ -	\$ 6,626
Accumulated depreciation	(6,239)	(387)	-	(6,626)
	<u>\$ 387</u>	<u>\$ (387)</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense was charged to the general government program.

Note 4: Property Held for Resale

The Authority owned certain property held for resale containing asbestos. Management believed that the Authority was compelled to take action due to the imminent public endangerment posed by the property and has obligated itself to commence the remediation effort. As a result, the Authority recorded a pollution remediation obligation of \$29,941 in the 2015 statement of net position for the estimated remediation costs expected to be incurred. This obligation was recorded in both property held for resale and accrued liabilities in the statement of net position. During 2016, the related property was demolished and remediation was completed. No future obligation remains at December 31, 2016.

Arvada Urban Renewal Authority
Notes to Financial Statements
December 31, 2016

Note 5: Loan Receivable

Following is a summary of the loan receivable for the year ended December 31, 2016.

	Balance December 31, 2015	Additions	Deletions	Balance December 31, 2016
UDI's development loan	\$ 266,200	\$ -	\$ (217,072)	\$ 49,128
Allowance for uncollectible	(100,000)	-	100,000	-
	<u>\$ 166,200</u>	<u>\$ -</u>	<u>\$ (117,072)</u>	<u>\$ 49,128</u>

During 2016, payments of \$54,000 were received. Subsequent to year-end, the Authority was notified of the closure of the UDI's restaurant. The Authority believes that the facts and circumstances leading to the closure of the restaurant in 2017 existed at December 31, 2016. As a result, the Authority eliminated the allowance and wrote-down the balance of the loan to the estimated net realizable amount. Negotiations ensued upon notification; as such, actual results may vary from amounts recorded.

Note 6: Long-term Debt

Following is a summary of long-term debt transactions for the year ended December 31, 2016:

	Balance December 31, 2015	Additions	Deletions	Balance December 31, 2016	Due Within One Year
City of Arvada notes payable	\$ 4,245,000	\$ 5,000,000	\$ (135,504)	\$ 9,109,496	\$ 2,137,551
Compensated absences	22,944	15,585	(15,386)	23,143	18,434
	<u>\$ 4,267,944</u>	<u>\$ 5,015,585</u>	<u>\$ (150,890)</u>	<u>\$ 9,132,639</u>	<u>\$ 2,155,985</u>

City of Arvada Notes Payable

In February 2010, the City and the Authority entered into an intergovernmental agreement in which the City loaned the Authority \$2,745,000 at a simple interest rate of 3.5% through April 2012. Interest payments are due monthly with the principal balance due upon maturity. The agreement required that upon the sale of the related property held for resale, the note would become due and payable in full. The Authority obtained previous one-year amendments extending the maturity date through April 2015. During 2015, the property was sold and the note with the City was amended. Under the amended note, the Authority made a lump sum payment of \$500,000 at the time of the sale and the remaining balance of \$2,245,000 will be paid in monthly installments beginning January 2016 and continuing through November 2030 at a simple interest rate of 1.5%. The loan is unsecured, though the City shall be authorized to withhold payment to the Authority derived from incremental sales tax or public improvement fees in the event of default.

Arvada Urban Renewal Authority
Notes to Financial Statements
December 31, 2016

In November 2013, the City and the Authority entered into a second intergovernmental agreement in which the City loaned the Authority \$2,000,000 at a simple interest rate of 3.0% through November 2016. In October 2016 the Authority exercised its option to extend the term of the loan to November 2017. Interest payments are due monthly. The loan is collateralized with a parcel of land. This loan was paid in full subsequent to year-end.

In June 2016, the City and the Authority entered into a third intergovernmental agreement in which the City loaned the Authority \$5,000,000 at a simple interest rate of 3.0% through June 2028. Interest payments are due monthly beginning in June 2017 through 2018. Principal and interest will be payable monthly thereafter until maturity. The loan is unsecured, though the City shall be authorized to withhold payment to the Authority derived from incremental sales tax or public improvement fees in the event of default.

The following schedule reflects the debt service requirements of the Authority's long-term debt payable to the City of Arvada as of December 31, 2016:

Date	Amount
2017	\$ 2,137,551
2018	139,628
2019	391,737
2020	600,988
2021	563,264
2022-2026	3,340,557
2027-2031	1,935,771
	\$ 9,109,496

Compensated Absences

Compensated absences are expected to be liquidated with revenues of the General Fund.

Note 7: Interfund Transfers

Interfund transfers for the year ended December 31, 2016, were as follows:

Transfers In	Transfers Out	Balance
General	Jefferson Center District	\$ 191,416
General	Ralston Fields	450,000
General	Olde Town	120,315
General	Northwest Arvada	169,076
Jefferson Center District	Northwest Arvada	4,574,307
		\$ 5,505,114

Arvada Urban Renewal Authority
Notes to Financial Statements
December 31, 2016

During the year ended December 31, 2016, the Jefferson Center District, Ralston Fields, Olde Town and Northwest Arvada Funds transferred funds to the General Fund to help cover operations and administrative costs. See Note 11 regarding the redevelopment agreement with Jefferson Center District, the City and the Authority.

Note 8: Related-party Transactions

The City provides legal services to the Authority. During the year ended December 31, 2016, the Authority incurred \$34,050 for these services, which includes a payable due to the City related to fourth quarter legal fees of \$6,300. Additionally, the Authority incurred \$507,023 for other expenses paid by the City on behalf of the Authority.

The Authority is also indebted to the City in the amount of \$9,109,496 (see Note 6). During the year ended December 31, 2016, the total interest expense incurred to the City was \$95,186, all of which was paid in 2016.

Note 9: Retirement Plans

Employees of the Authority are eligible to participate in the City's retirement plans. The City has adopted separate retirement plans (Plans) covering all employees, except those hired on a temporary basis.

Although it has not expressed any intention to do so, the City has the right under the Plans to discontinue its contribution or to terminate the Plans. Should the Plans terminate at some future date, their net assets will be used to provide participants' benefits. Upon such termination, the assets of the Plans are to be allocated for the benefit of each participant and the beneficiary in a manner approved by the Internal Revenue Service. The plan applicable to Authority employees is detailed in the following section.

City of Arvada Retirement Plan – Defined Contribution Plan

Effective January 1, 1993, all eligible City employees participate in the City of Arvada Retirement Plan (CARP), a defined contribution plan.

All full-time and part-time City employees are eligible to participate in CARP, except for uniformed police officers, the City Manager and his staff, the City Attorney, and department heads (who elect to participate in the Executive Retirement Plan). Three employees of the Authority were participants in CARP as of December 31, 2016.

Arvada Urban Renewal Authority
Notes to Financial Statements
December 31, 2016

Employer contributions vest with the employee according to the following:

Years of Service	Vesting Percentages
Less than 1 year	0%
1 year	20%
2 years	40%
3 years	60%
4 years	80%
5 or more years	100%

The plan requires covered employees to contribute 8% of their salary to the plan and the City to contribute 10% of the compensation of all participants hired after April 2, 2004. Employees hired on or before April 2, 2004 had a choice of receiving a flat rate 10% contribution or receiving an age-weighted, graduated retirement contribution up to a maximum of 15%. The maximum permissible contribution is the lesser of \$53,000, or 100%, of the participant's earnings for the plan year.

Benefit payments are based upon the participant account balance as of the valuation date immediately preceding the date of distribution. The participant may elect to receive distribution in a lump sum; in substantially equal annual, semiannual, quarterly or monthly installments; through the purchase of an immediate or deferred single payment, non-transferable annuity contract; or by a combination of the above. Plan provisions and contribution requirements are established and may be amended by the City Council.

The required Authority contribution of \$21,894 and employee contributions of \$17,515 were paid during 2016. These contributions represent 11% of total covered payroll. The administration of the plan is provided by Empower Retirement.

City of Arvada Retirement Plan – Executive Retirement Plan

The City provides retirement benefits for the City Manager, the City Attorney, the Municipal Judge and Department Heads through a separate defined contribution plan. Qualified employees are eligible to participate from the date of employment. One employee of the Authority was a participant in the Executive Plan as of December 31, 2016.

Under the plan, the City contributes an amount equal to 10.02% of the participant's base salary. The employee covered by this plan is required to make an 8% contribution in 2016. Employees covered under this plan are vested upon date of hire. Employees who leave employment with the City are entitled to all contributions and interest earnings. Plan provisions and contribution requirements are established and may be amended by City Council.

For the year ended December 31, 2016, the Authority contributed \$15,194 for the benefit of one participant in the Plan and the employee contributed \$12,130, as required. The plan is administered by Empower Retirement.

Arvada Urban Renewal Authority

Notes to Financial Statements

December 31, 2016

Note 10: Risk Management

The City has established a risk management program in which the Authority participates. The City is self-insured for medical coverage as well as occurrences of general liability and auto liability claims, which are subject to the Colorado Governmental Immunity Act, which limits recoveries to \$350,000 per person and \$990,000 per incident. Property damage is subject to a \$100,000 deductible and liability claims to a \$250,000 deductible. The workers' compensation program maintains a self-insured retention (SIR) limit of \$500,000. There have been no settlements that exceed the governmental immunity limits for general or auto liability in the last three years. No loss has been recorded in the last three years for the property program that exceeds the \$100,000 deductible. Additionally, no claim or settlement in workers' compensation has exceeded the SIR in the last three years. The City also provides dental insurance for employees. Dental claims are limited to \$1,500 per year per person. As the City commits itself to funding any deficiencies in the risk management programs, no liability is recorded in the Authority's financial statements.

Note 11: Commitments and Contingencies

General Litigation

The Authority is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the Authority.

Property Held for Resale

As of December 31, 2016, the Authority had entered into various Disposition and Development agreements (DDA) to sell all property held for resale.

As a result of these agreements, the Authority recognized an impairment loss on the properties of \$4,268,218. This loss is recorded in redevelopment projects on the statement of activities and statement of revenues, expenditures and changes in fund balance – governmental funds. Management expects the sales of the properties to close in 2017.

Included in one of the DDAs on a property that sold during 2015 was a commitment from the Authority to return approximately \$93,000 upon the redeveloper's receipt of a certificate of occupancy from the City of Arvada. This commitment was fulfilled in March 2017 and the related payment was remitted and recorded upon fulfillment.

Lessee Reporting

The Authority entered into an operating lease for office space. Monthly lease payments of \$4,390 are required through October 2018. Rent expense, including annual maintenance expenses, for the year ended December 31, 2016, was \$54,053.

Arvada Urban Renewal Authority
Notes to Financial Statements
December 31, 2016

Minimum rental commitments under this lease are as follows:

2017	\$	52,684
2018		43,903
		\$ 96,587

Lessor Reporting

The Authority generates a portion of its revenue from the leasing of various parcels of its property held for resale. The rental payments received are based on a minimum monthly rental amount, plus charges related to the operating expenses of the subject property.

Tabor Amendment

In November 1992, Colorado voters passed Article X, Section 20 to the State Constitution, known as the Tabor Amendment, which limits state and local government tax powers and imposes spending limitations. The Authority believes it is not subject to the Tabor Amendment based upon *Marian L. Olson v. City of Golden, et al.*, 53 P.3d 747 (Co. App.), certiorari denied.

Developer Agreements

The Authority, under the Urban Renewal Law of the State of Colorado, has entered into various Disposition and Development Agreements (DDAs) with certain developers, the terms of which are scoped into the requirements of Governmental Accounting Standards Board Statement No. 77, *Tax Abatements*. These agreements generally stipulate that the Authority will sell property held for resale, typically at a discount, and provide certain types of property and sales tax rebates (in excess of a set “base” amount and up to a set maximum dollar threshold and/or maturity date), lodging tax rebates, public improvement fee (PIF) rebates and/or PIF in lieu of sales taxes in exchange for a commitment from the developer to purchase, develop and otherwise rehabilitate the related property within a specified period of time.

As of December 31, 2016, the Authority had entered into eight DDAs expiring from 2025 to 2035. During the year ended December 31, 2016, the Authority rebated property tax of \$7,158,975 and PIF of \$1,108,880. These rebates are recorded in redevelopment project expenses/expenditures on the statement of activities and statement of revenues, expenditures and changes in fund balances – governmental funds.

Arvada Urban Renewal Authority

Notes to Financial Statements

December 31, 2016

Note 12: Deficit Net Position

As of December 31, 2016, the Authority was in a deficit net position for governmental activities. This deficit is primarily due to the Authority's purchase of property held for resale, using loan funds from the City of Arvada (see Note 6) and subsequent write-down of the value of the properties to estimated net realizable amounts. While the Authority anticipates that the sales of these properties will result in incremental property tax revenues in future years, the Authority recognized a loss on these properties held for resale of \$4,268,218 (which is reflected in redevelopment project expenses) during the year ended December 31, 2016. The Authority will continue to closely monitor and balance redevelopment activity and debt obligations.

Required Supplementary Information

Arvada Urban Renewal Authority
Budgetary Comparison Schedule (Non-GAAP Budgetary Basis)
General Fund and Related Note
Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance
Revenues				
Rent	\$ 221,268	\$ 221,268	\$ 219,080	\$ (2,188)
Investment income	16,250	16,250	13,973	(2,277)
Recovered costs	54,000	54,000	154,563	100,563
Miscellaneous revenues	-	-	1,029	1,029
	<u>291,518</u>	<u>291,518</u>	<u>388,645</u>	<u>97,127</u>
Expenditures				
Current				
General government	2,258,375	2,258,375	1,136,305	1,122,070
Redevelopment projects	-	-	4,878,984	(4,878,984)
Principal payments	2,135,000	2,135,000	135,504	1,999,496
Interest and fiscal charges	63,000	63,000	95,186	(32,186)
	<u>4,456,375</u>	<u>4,456,375</u>	<u>6,245,979</u>	<u>(1,789,604)</u>
Excess of revenues under expenditures	<u>(4,164,857)</u>	<u>(4,164,857)</u>	<u>(5,857,334)</u>	<u>(1,692,477)</u>
Other Financing Sources (Uses)				
Transfers in	2,286,000	2,286,000	930,807	(1,355,193)
Proceeds from note	5,000,000	5,000,000	5,000,000	-
	<u>3,121,143</u>	<u>3,121,143</u>	<u>73,473</u>	<u>(3,047,670)</u>
Net Change in Fund Balance	<u>3,121,143</u>	<u>3,121,143</u>	<u>73,473</u>	<u>(3,047,670)</u>
Fund Balance, Beginning of Year	<u>3,952,297</u>	<u>3,952,297</u>	<u>3,952,297</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 7,073,440</u>	<u>\$ 7,073,440</u>	<u>4,025,770</u>	<u>\$ (3,047,670)</u>
Reconciliation to GAAP basis:				
Add/(less):				
Addition to property held for resale			4,963,065	
Gain on sale of property held for resale			80,000	
Sale of property held for resale			(100,000)	
Write-down of property held for resale			<u>(4,268,218)</u>	
Fund balance, GAAP basis, end of year			<u>\$ 4,700,617</u>	

Arvada Urban Renewal Authority
Budgetary Comparison Schedule (Non-GAAP Budgetary Basis)
General Fund and Related Note (continued)
Year Ended December 31, 2016

Note 1: Budgets and Budgetary Accounting

Annual budgets are adopted by the Board of Commissioners (the Board) on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds, except that activity related to purchases and write-downs on property held for sale have no effect on budgetary accounting. All appropriations lapse at fiscal year-end.

Not less than 60 days prior to the first day of the next fiscal year, the City Council accepts the Authority's budget by resolution and the annual appropriation by ordinance.

Both the adopted budget and the level of appropriation (by fund) can be amended during the budget year. This action requires Board approval in the form of a resolution for a budgetary amendment.

Supplementary Information

Arvada Urban Renewal Authority
Budgetary Comparison Schedule
Jefferson Center District Fund
Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance
Revenues				
Incremental property taxes	\$ 2,950,000	\$ 2,000,000	\$ 1,966,130	\$ (33,870)
Investment income	5,000	100	16	(84)
Total revenues	<u>2,955,000</u>	<u>2,000,100</u>	<u>1,966,146</u>	<u>(33,954)</u>
Expenditures				
Current				
General government	52,000	5,000	4,877	123
Redevelopment projects	5,374,114	6,404,638	6,316,678	87,960
Total expenditures	<u>5,426,114</u>	<u>6,409,638</u>	<u>6,321,555</u>	<u>88,083</u>
Excess of revenues over (under) expenditures	<u>(2,471,114)</u>	<u>(4,409,538)</u>	<u>(4,355,409)</u>	<u>54,129</u>
Other Financing Sources (Uses)				
Transfers in	2,609,500	4,584,424	4,574,307	(10,117)
Transfers out	(155,000)	(191,500)	(191,416)	84
Total other financing sources (uses)	<u>2,454,500</u>	<u>4,392,924</u>	<u>4,382,891</u>	<u>(10,033)</u>
Net Change in Fund Balance	(16,614)	(16,614)	27,482	44,096
Fund Balance, Beginning of Year	<u>16,813</u>	<u>16,813</u>	<u>16,813</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 199</u>	<u>\$ 199</u>	<u>\$ 44,295</u>	<u>\$ 44,096</u>

Arvada Urban Renewal Authority
Budgetary Comparison Schedule
Ralston Fields Fund
Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance
Revenues				
Incremental property taxes	\$ 1,295,000	\$ 1,295,000	\$ 1,149,834	\$ (145,166)
Public improvement fee	705,000	705,000	739,253	34,253
Investment income	6,500	6,500	12,679	6,179
Total revenues	<u>2,006,500</u>	<u>2,006,500</u>	<u>1,901,766</u>	<u>(104,734)</u>
Expenditures				
Current				
General government	25,000	25,000	17,560	7,440
Redevelopment projects	890,000	890,000	789,953	100,047
Total expenditures	<u>915,000</u>	<u>915,000</u>	<u>807,513</u>	<u>107,487</u>
Excess of revenues over (under) expenditures	<u>1,091,500</u>	<u>1,091,500</u>	<u>1,094,253</u>	<u>2,753</u>
Other Financing Sources (Uses)				
Transfers out	<u>(1,950,000)</u>	<u>(1,950,000)</u>	<u>(450,000)</u>	<u>1,500,000</u>
Net Change in Fund Balance	(858,500)	(858,500)	644,253	1,502,753
Fund Balance, Beginning of Year	<u>2,689,756</u>	<u>2,689,756</u>	<u>2,689,756</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 1,831,256</u></u>	<u><u>\$ 1,831,256</u></u>	<u><u>\$ 3,334,009</u></u>	<u><u>\$ 1,502,753</u></u>

Arvada Urban Renewal Authority
Budgetary Comparison Schedule
Northwest Arvada Fund
Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance
Revenues				
Incremental property taxes	\$ 2,800,000	\$ 4,826,000	\$ 4,815,617	\$ (10,383)
Investment income	500	500	-	(500)
Total revenues	<u>2,800,500</u>	<u>4,826,500</u>	<u>4,815,617</u>	<u>(10,883)</u>
Expenditures				
Current				
General government	45,000	73,000	72,234	766
Total expenditures	<u>45,000</u>	<u>73,000</u>	<u>72,234</u>	<u>766</u>
Excess of revenues over (under) expenditures	<u>2,755,500</u>	<u>4,753,500</u>	<u>4,743,383</u>	<u>(10,117)</u>
Other Financing Sources (Uses)				
Transfers out	<u>(2,755,500)</u>	<u>(4,753,500)</u>	<u>(4,743,383)</u>	<u>10,117</u>
Net Change in Fund Balance	-	-	-	-
Fund Balance, Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Arvada Urban Renewal Authority
Budgetary Comparison Schedule
Olde Town Fund
Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance
Revenues				
Incremental sales taxes	\$ 35,000	\$ 101,555	\$ 66,554	\$ (35,001)
Investment income	-	-	-	-
Total revenues	<u>35,000</u>	<u>101,555</u>	<u>66,554</u>	<u>(35,001)</u>
Expenditures				
Excess of revenues over (under) expenditures	<u>35,000</u>	<u>101,555</u>	<u>66,554</u>	<u>(35,001)</u>
Other Financing Sources (Uses)				
Transfers out	<u>(35,000)</u>	<u>(101,555)</u>	<u>(120,315)</u>	<u>(18,760)</u>
Net Change in Fund Balance	-	-	(53,761)	(53,761)
Fund Balance, Beginning of Year	<u>53,761</u>	<u>53,761</u>	<u>53,761</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 53,761</u></u>	<u><u>\$ 53,761</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (53,761)</u></u>

**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements Performed
in Accordance with *Government Auditing Standards***

Board of Commissioners
Arvada Urban Renewal Authority
Arvada, Colorado

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Arvada Urban Renewal Authority (the Authority), a component unit of the City of Arvada, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 7, 2017.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Authority's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Commissioners
Arvada Urban Renewal Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this communication is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Denver, Colorado
June 7, 2017