

LOVELAND URBAN RENEWAL AUTHORITY

2009 City of Loveland Audit Report



Table of Contents

Transmittal Letter	3
Compliance Report	6
LURA Financial Statements	8
Notes to Financial Statements	10

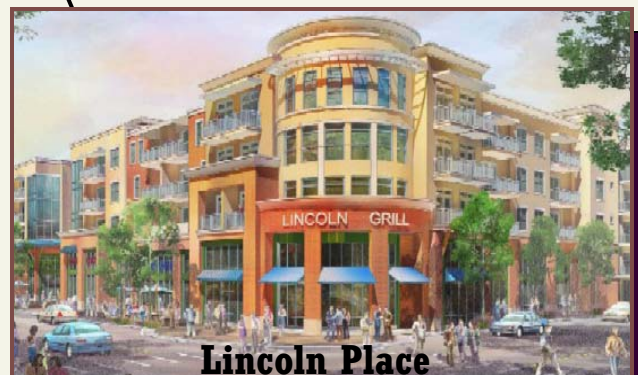
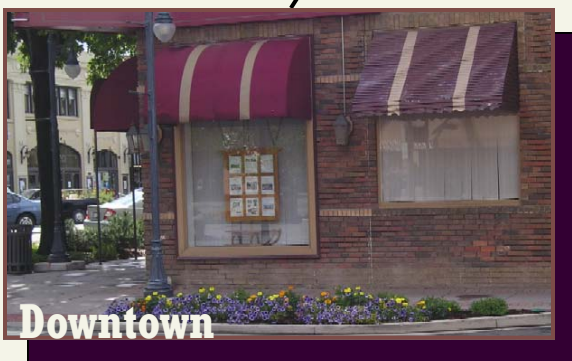
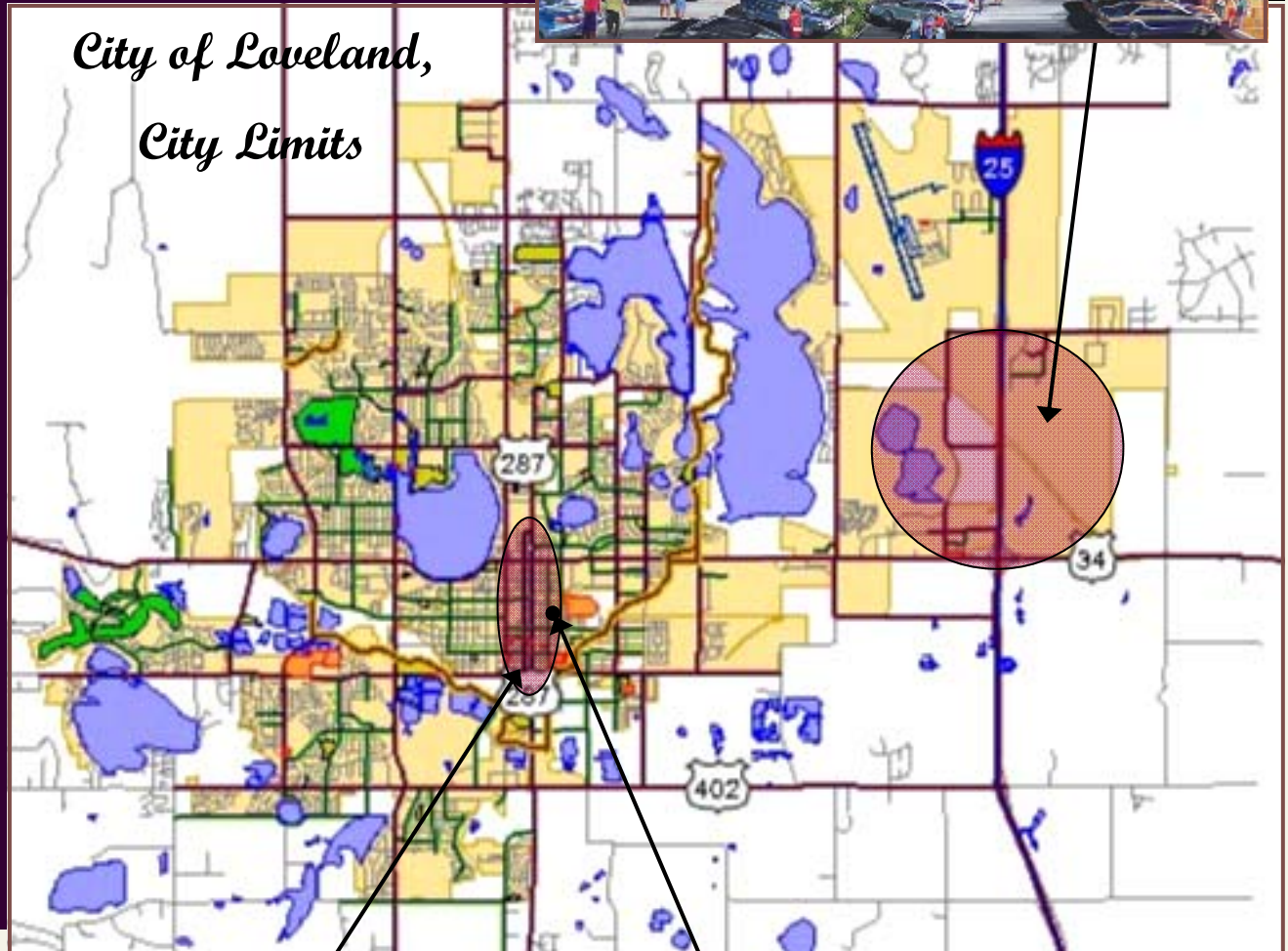


Report Completed By:
Bonnie J. Steele, City of Loveland
Compliance & Payroll Manager
(970) 962-2313 steelb@ci.loveland.co.us

LOVELAND URBAN RENEWAL AUTHORITY

2009 City of Loveland Audit Report

Page 2



LOVELAND URBAN RENEWAL AUTHORITY

2009 City of Loveland Audit Report

Page 3

TRANSMITTAL LETTER

June 30, 2010

Mr. Don Williams, City Manager
City of Loveland
Loveland, CO

Dear Mr. Williams:

In the following pages of this report is the Internal Audit Division's assertion on the contract compliance audit of the Urban Renewal Authority including Centerra Metropolitan District No. 1, with regards to the financing agreements between the metropolitan districts and the City of Loveland. The audit period was for January 1, 2009 to December 31, 2009.

The purpose of this annual audit is to determine whether the metropolitan districts complied with the administrative conditions regarding expenses, contracts, revenue collections, and reporting as required in the financing agreements.

At the conclusion of the audit, we found no instances of non-compliance. If you have any questions, please contact me at 970-962-2313.

Sincerely,

Bonnie J. Steele

Bonnie J. Steele, MBA
Internal Auditor, Internal Audit Division

LOVELAND URBAN RENEWAL AUTHORITY

2009 City of Loveland Audit Report

Page 4

BACKGROUND, SCOPE, OBJECTIVE AND METHODOLOGY

Background

The Loveland Urban Renewal Authority (LURA) was established by the City Council in July 2002. LURA is responsible for conducting urban revitalization activities in designated project areas and is charged with rehabilitating blighted areas. The LURA has three project areas to date: Downtown Loveland, US 34/Crossroads Corridor and Block 41-Finley's Addition.

The Downtown Loveland project does not have an active agreement which stipulates conditions required for financing. During the time period under audit, the Downtown Loveland project did not incur activities that require compliance according to the Master Financing Agreements.

The Lincoln Place Metropolitan District established for the project Block 41-Finley's Addition on April 26, 2005. The district was dissolved on February 20, 2007. Compliance review did not occur due to the dissolution of the district.

The Centerra Metropolitan District No. 1 was established to manage funds associated with US 34/Crossroads Corridor. The purpose of the District is to acquire and construct local and regional improvements that qualify as metropolitan district improvements. These improvements will be financed through bonds and developer advances. The City of Loveland agreed to a sales tax collection credit (PIF) of 1.25% to the developer at Centerra, so long as the District Mill Levy is greater than 35 mills. The 1.25% PIF is collected by the Public Improvement Collection Corporation (PIC). The City also granted certain credits and deferrals for development fees. According to the Financing Agreement, the Developer received a credit of \$423,600 for Water System Impact Fee and \$7,374,800 for Street Capital Expansion Fee.

Scope

Our audit of the Centerra Metropolitan District No 1 was for the period January 1, 2009 to December 31, 2009. The scope of our audit was limited to determining compliance with the contracts between the City and Centerra Metropolitan District No. 1.

LOVELAND URBAN RENEWAL AUTHORITY

2009 City of Loveland Audit Report

Page 5

BACKGROUND, SCOPE, OBJECTIVE AND METHODOLOGY, *continued*

Objective

The objective of our audit was to determine if Centerra Metropolitan District No. 1 complied with the administrative requirement for revenue collections, distribution of funds, contract negotiations, payment of appropriate taxes and fees, and adequate accounting records and reports in accordance with the financing agreements.

Methodology

To meet the audit objective the following evidence gathering and analytical approaches were used including, but not limited to:

- Interviews with City and District staff;
- Traced contracts through awarding process;
- Traced projects through notification process;
- Vouched disbursements to appropriate documentation; and,
- Review of financial statements.

LOVELAND URBAN RENEWAL AUTHORITY

2009 City of Loveland Audit Report

Page 6

COMPLIANCE REPORT

Downtown Project

The Downtown Project does not have an active financing agreement. As of December 31, 2009, the project has collected a small amount of tax increment financing which is held in a cash account. No expenditures have occurred during the time of review.

Lincoln Place Project

Council and the URA Board authorized the developer to dissolve the metro district associated with the project in February, 2007.

Centerra Project

Performance Requirements

A Public Improvement Fee of 1.25% of sales is collected to the developer at Centerra, so long as the 1.25% PIF is collected by the Public Improvement Collection Corporation (PIC).

PIF shall be distributed as follows:

- a. Administrative expenses.
- b. District debt.
- c. Debt service district reserve.
- d. Constructor and/or development fees for expenses that qualify as local and / or regional improvements.
- e. SID Debt incurred after 2003.
- f. Centerra Public Improvement Collection Corporation (PIC) Reserve Fund, not to exceed \$1 million.
- g. Remaining funds disbursed to the Service District.

All development fees and use tax not specifically deferred or credited will be paid by the contractor.

(As of December 31, 2009)

Performance Results

- √ For 2009 PIF collections were \$2,346,000 per the City of Loveland Finance Department. The mill levy remained at 42.6 mills per the Larimer County Assessor.
- √ (a) For 2009, there were no administrative expenses paid from PIF funds.
- √ (b) Payments on District debt during 2009 total \$6,783,078
- √ (c) District reserved \$9,230,394 from bond proceeds.
- √ (d-f) At this time the PIC has not spent, nor required to spend funds for construction or development fees on regional improvements, SID Debt or PIC reserve. As of December 31, 2009, one regional improvement (Centerra Parkway North) has been completed and two regional improvements (I-25/Crossroads and I-25/US34) are in construction.
- √ (g) The District disbursed funds in 2009 to the Service District in the amount of \$1,145,000 related to costs associated with the Crossroads Interchange regional improvement project. In accordance with the MFA, the PIC Board released the funds on June 22, 2009 to be repaid by the Service District no later than January 20, 2029. In addition to the review of this transaction, the audit included a review of PIC expenses. A random sample of 24 disbursements were audited noting no exceptions.
- √ Use tax and fees are audited by the City of Loveland Revenue Division. All use tax audits are current on occupied retail businesses within the Centerra project area.

LOVELAND URBAN RENEWAL AUTHORITY

2009 City of Loveland Audit Report

Page 7

COMPLIANCE REPORT, *continued*

Construction contracts after January 20, 2004, shall comply with the procurement policy, except the general contractor. This includes but is not limited to:

- Invitation for bids published 14 days prior to bid date and published in 4 local newspapers;
- Bids are open to the public;
- Contract shall be awarded to the *lowest responsible bidder*; and,
- The bids are properly prepared with applicable information.

Construction request for payment must include:

- Itemized statement of costs and expenses;
- Signed certificate from President affirming statement is correct; and
- Documentation of reimbursable expenses.

Contractors must maintain proper books and account for costs, expenses, development fees, and be available for inspection for the next seven years.

Annual audit shall be performed and a copy provided to the City within 30 days after the annual audit is accepted by the District board.

Regional improvements must be approved by the City Manager, required to be constructed by CDOT, the IGA, or the City as a precondition of construction.

Annually on June 30th, after the First District Debt and Second District Debt payments are made, the payment for the Regional Allocation is made to the LURA.

The District shall submit an annual report to the City no later than March 1st of each year of existence.

√ During 2009 the District had one project that required a bidding process. An audit of the construction contracts complied with the terms of the Master Financing Agreement. No exceptions were noted.

√ A random sample of 45 accounts payable checks revealed no material exceptions. Each transaction tested had an itemized statement of costs and expenses, and were signed by the President of representative of the District approving that the statement was accurate and correct. Reimbursable expenses were documented in detail.

√ During the 2009 audit, the contractor affirmed that all contract files are current.

√ The audit report as been issued with an unqualified opinion and was received by the City in August 2, 2010.

√ Two regional improvement projects were approved in 2009 by the City Manager, City Council, and CDOT. An IGA was signed for each of these projects and work has commenced. Projects:

- Interchange at I-25 and US34, and
- Interchange at I-25 and Crossroads

√ The first Regional Allocation is expected to be funded in the year 2013 per the project's initial finance plan, once the supplemental debt reserve is funded to \$18 million by net annual revenues; to date the debt reserve has not been funded and no updated estimates have been performed.

√ The annual report for the district has been received by the City on August 4, 2010.

LOVELAND URBAN RENEWAL AUTHORITY

2009 City of Loveland Audit Report

Page 8

Financial Statements

Financial Statements Overview

The Loveland Urban Renewal Authority Fund (LURA Fund) is considered for accounting purposes to be a component unit of the City of Loveland's financial statements and Comprehensive Annual Financial Report (CAFR). The last complete year for financial reporting purposes is 2009 and the statements below reflect that fiscal year. For the 2009 fiscal year, the Finance Department expects that the required annual reports from the metropolitan districts will be completed by the statutory deadline of July 31, 2010. The Finance Department anticipates that this report will be updated by August of each year and forwarded to the City Council in its role as the Board of Directors for the LURA. As each of the projects mature, it is expected that there will be considerably more information to include in the financial statements.

Loveland Urban Renewal Authority Balance Sheet December 31, 2009

	PROJECT AREAS					
	<u>Centerra</u>	<u>School</u>	<u>Downtown</u>	<u>Façade</u>	<u>Lincoln Place</u>	<u>Total</u>
ASSETS						
Equity in Pooled Cash and Investments	\$ 55,564	\$ 1,104,323	\$ -	\$ 106,733	\$ 2,378	\$ 1,268,998
Accrued Interest	916	5,132	-	797	37	6,882
Taxes Receivable	11,284,341	-	49,367	-	156,976	11,490,684
TOTAL ASSETS	11,340,821	1,109,455	49,367	107,530	159,391	12,766,564
LIABILITIES						
Accounts Payable	967	1,107,577	-	-	-	1,108,544
Deferred Revenue	11,283,374	-	49,367	-	156,976	11,489,717
TOTAL LIABILITIES	11,284,341	1,107,577	49,367	-	156,976	12,598,261
FUND BALANCE						
Unreserved	20,053	38,303	-	107,532	2,415	168,303
TOTAL LIABILITIES AND FUND BALANCE	\$11,304,394	\$ 1,145,880	\$ 49,367	\$ 107,532	\$ 159,391	\$12,766,564

The accompanying notes are an integral part of the financial statements.

LOVELAND URBAN RENEWAL AUTHORITY

2009 City of Loveland Audit Report

Page 9

Financial Statements, *continued*

Loveland Urban Renewal Authority Statement of Revenues, Expenditures and Changes in Fund Balance December 31, 2009

	PROJECT AREAS					
	<u>Centerra</u>		<u>Downtown</u>		<u>Lincoln Place</u>	<u>Total</u>
	<u>Centerra</u>	<u>School</u>	<u>Downtown</u>	<u>Façade</u>		
REVENUES						
Taxes	\$ 9,748,265	\$ -	\$ 6,090	\$ -	\$ 151,970	\$ 9,906,325
Interest on Investments	5,038	1,878	(114)	4,387	203	11,392
Miscellaneous	-	-	8,155	-	-	8,155
TOTAL REVENUES	<u>9,753,303</u>	<u>1,878</u>	<u>14,131</u>	<u>4,387</u>	<u>152,173</u>	<u>9,925,872</u>
EXPENDITURES						
Services	150,000	-	5,976	-	-	155,976
School District Fund	845,312	-	-	-	-	845,312
Distribution on Tax Increment Financing	8,852,953	-	-	-	159,727	9,012,680
Capital	-	-	-	59,000	-	59,000
TOTAL EXPENDITURES	<u>9,848,265</u>	<u>-</u>	<u>5,976</u>	<u>59,000</u>	<u>159,727</u>	<u>10,072,968</u>
Excess of Revenues over Expenditures	<u>(94,962)</u>	<u>1,878</u>	<u>8,155</u>	<u>(54,613)</u>	<u>(7,554)</u>	<u>(147,096)</u>
Fund Balance--Beginning	<u>115,015</u>	<u>36,425</u>	<u>(8,155)</u>	<u>162,145</u>	<u>9,969</u>	<u>315,399</u>
Fund Balance--Ending	<u>\$ 20,053</u>	<u>\$ 38,303</u>	<u>\$ -</u>	<u>\$ 107,532</u>	<u>\$ 2,415</u>	<u>\$ 168,303</u>

The accompanying notes are an integral part of the financial statements.

LOVELAND URBAN RENEWAL AUTHORITY

2009 City of Loveland Audit Report

Page 10

Notes to the Financial Statements

Note 1: Summary of Significant Accounting Policies

The Loveland Urban Renewal Authority (LURA) was created in 2002 by the City of Loveland (the "City") pursuant to the Urban Renewal Law of the State of Colorado. LURA was created for the development, redevelopment and rehabilitation of identified blighted areas within the City. The Loveland City Council serves as the governing board of LURA.

Since 2002, the City Council has established three urban renewal areas. Downtown Loveland was the original focus of LURA and the location of its first project area. Since that first project area in 2002, LURA has added two additional project areas – one at the City's eastern boundary (U.S. 34/Crossroads Boulevard Corridor, aka Centerra) and a second downtown area (Lincoln Place). The 25-year urban renewal plans intend to enhance, redevelop and revitalize these areas.

The accounting policies of LURA conform to generally accepted accounting principles as applicable to governments. However, to date, LURA has had minimal financial transactions. Therefore, some of the financial statements and related data normally included in a governmental financial report are not meaningful at this time. The following is a summary of the more significant policies.

Reporting Entity

In accordance with governmental accounting standards, LURA 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. LURA is financially accountable for organizations that make up its legal entity. It is also 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 LURA. LURA may also be financially accountable for organizations that are fiscally dependent upon it.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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 period or soon enough thereafter to pay liabilities of the current period. For this purpose, LURA considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Property taxes and investment earnings associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues in the current fiscal period. Expenditures generally are recorded when a liability is incurred.

Cash and Investments

LURA's cash and investments are pooled with those of the City. Investments are recorded at fair value. Because the investments are part of a pool, the underlying securities cannot be determined.

LOVELAND URBAN RENEWAL AUTHORITY

2009 City of Loveland Audit Report

Page 11

Notes to the Financial Statements, *continued*

Incremental Taxes

As allowed by State statute, LURA will receive revenue from incremental sales and property taxes that are collected from the designated geographical areas as defined in the urban renewal plans for the Downtown and Lincoln Place project areas and incremental property taxes from the designated geographical area as defined in the Centerra project area. Incremental sales taxes represent the increase in municipal sales taxes collected within the same area for each twelve-month period beginning on the date the urban renewal plan is approved. Property tax revenue is earned from the geographical areas based upon the increase in assessed valuation of taxable property within the area. Sales taxes are collected by the City and remitted to LURA.

Property Taxes

Property taxes attach as an enforceable lien on property on January 1 and are levied on November 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15. Property taxes will be collected by the Larimer County Treasurer and remitted to LURA on a monthly basis.

Note 2: Commitments and Contingencies

Economic Development Agreements

Once tax increment revenues become available for the Centerra and Lincoln Place project areas, LURA has agreed to remit the related revenues to organizations formed to construct improvements within the project areas. Incremental property taxes generated from the Centerra area will be remitted to the Centerra Metropolitan District No. 1. Incremental property taxes within the Lincoln Place project area will be remitted to the developer.

The Centerra School Fund (School Fund), established by the Master Financing Agreement, denotes that LURA collects the school increment on behalf of the School District and is deposited into a School Fund. Distributions from the School Fund are made by the LURA upon written request and approved by the Centerra Metropolitan District and LURA. The sole purpose of the reimbursement is for costs, expenses and/or indebtedness incurred for the construction of schools within the LURA boundaries. The reimbursement is not for the purpose of paying school administrative or instructional expenses. During 2009, the School Fund reimbursed the Thompson School District of one million dollars for the expansion of Mountain View High School.

The Downtown project area of the LURA includes an economic incentive for the owners of Mercury Plaza LLC approved by Resolution in January 2009. Pursuant to the agreement, Mercury Plaza will receive Property TIF Revenues received by the LURA during the incentive period of four full tax years not to exceed a total amount of \$210,000 in Property TIF Revenue, whichever comes first. The conditions of the agreement specifically state that Mercury Plaza must obtain a Certificate of Occupancy by December 31, 2010. It is anticipated that Mercury Plaza will fulfill the agreement by the end of 2010.

TABOR Amendment

In November, 1992, Colorado voters passed Article X, Section 20 to the State Constitution, known as the TABOR Amendment, which limits government tax powers and imposes spending limits. LURA is not subject to the TABOR Amendment. See: *Marian L. Olson v. City of Golden, et. al.* 53 P.3d 747 (Co App.), certiorari denied.

Note 3: Capital

During August 2009, the City of Loveland Council acting as the Board of Commissioners of LURA approved a Downtown Façade easement of \$59,000 as part of a rehabilitation project included in a vacant building located on Fourth Street.

LOVELAND URBAN RENEWAL AUTHORITY

2009 City of Loveland Audit Report



*A vibrant community...
surrounded by natural beauty
where you belong.*

City of Loveland, Colorado

Finance Department
500 East Third Street
Loveland, CO 80537

Phone: 970.962.2313

Fax: 970.962.2918



City of Loveland