

DRAFT

DENVER UNION STATION PROJECT AUTHORITY

A Component Unit of the City and County of Denver

ACCOUNTANTS' REPORTS AND FINANCIAL STATEMENTS

December 31, 2009

DENVER UNION STATION PROJECT AUTHORITY
A Component Unit of the City and County of Denver

TABLE OF CONTENTS
December 31, 2009

	<u>PAGE(S)</u>
Independent Accountants' Report on Financial Statements and Supplementary Information	1
Management's Discussion and Analysis (Unaudited)	3
 <i>Basic Financial Statements:</i>	
Governmental Fund Balance Sheet/Statement of Net Assets	7
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets	8
Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities	9
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities	10
Notes to Financial Statements	11
Independent Accountants' 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 <i>Government Auditing Standards</i>	20
Schedule of Findings and Questioned Responses	22

Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
Denver Union Station Project Authority
Denver, Colorado

We have audited the accompanying financial statements of the governmental activities and major fund of Denver Union Station Project Authority (the Authority), a component unit of the City and County of Denver, as of and for the year ended December 31, 2009, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Denver Union Station Project Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those requirements require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of Denver Union Station Project Authority as of December 31, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated _____, on our consideration of the 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* and should be considered in assessing the results of our audit.

Board of Directors
Denver Union Station Project Authority

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

May __, 2010

DENVER UNION STATION PROJECT AUTHORITY
A Component Unit of the City and County of Denver

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
December 31, 2009

As management of the Denver Union Station Project Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2009.

Financial Highlights

The Authority was incorporated by the City and County of Denver, Colorado, in 2008 as a separate and distinct corporate entity for the limited purpose of financing, acquiring equipment, constructing and maintaining the Denver Union Station Project. The year ended December 31, 2009 was the first year of activities for the Authority.

Project improvements are funded in part by debt the Authority has incurred or will incur but are not considered assets of the Authority. As such, the liabilities of the Authority exceeded its assets at the close of the most recent fiscal year by \$31,845,986.

During the fiscal year, the Authority's revenues were comprised of interest income of \$1,268. Expenses, including project expenses of \$31,691,955, totaled \$31,847,254.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34 and consist of (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements.

Government-wide financial statements. The financial statements are designed to provide readers with a broad overview of the Authority's finances in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of activities* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as an underlying event giving rise to the change occurs, *regardless of when cash is received or paid*.

Fund financial statements. 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. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *current inflows*

DENVER UNION STATION PROJECT AUTHORITY
A Component Unit of the City and County of Denver

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

December 31, 2009

and outflows of available resources, as well as on *balances of unrestricted resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to financial statements can be found immediately following the basic financial statements.

Government-Wide Financial Analysis

Condensed Statement of Net Assets. As noted earlier, net assets may, over time, serve as a useful indicator of the Authority's financial position. Liabilities exceeded assets by \$31,845,986 at the close of the most recent fiscal year. (See Table 1)

Other liabilities of \$37,179,373 reflect \$23,492,308 of advances and loans from governmental entities to fund project expenses until other financing resources are received. These liabilities become due upon the Authority receiving other financing resources.

(Table 1)
Condensed Statement of Net Assets
December 31, 2009

Current and other assets	\$ 5,333,387
Total assets	5,333,387
Other liabilities	37,179,373
Total liabilities	37,179,373
Unrestricted (deficit)	(31,845,986)
Total net assets (deficit)	\$ (31,845,986)

DENVER UNION STATION PROJECT AUTHORITY
A Component Unit of the City and County of Denver

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
December 31, 2009

Condensed Statement of Activities and Changes in Net Assets. The Authority's total revenues reflect interest income of \$1,268. The cost of all programs and services relate to professional fees, insurance, general and administrative expenses and project expenses. (See Table 2)

(Table 2)
**Condensed Statement of Activities
and Changes in Net Assets
For the Year Ended December 31, 2009**

Interest income	\$ 1,268
Total revenues	1,268
Expenses	
Project expenses	31,691,955
Professional fees	116,651
Other	38,648
Total Expenses	31,847,254
Change in Net Assets	(31,845,986)
Net assets - beginning of year	-
Net assets - end of year	\$ (31,845,986)

Project Expenses and Debt Administration

The Denver Union Station Project Authority (Authority) was incorporated in 2008, by the City and County of Denver, Colorado, (City) as a separate and distinct corporate entity for the limited purpose of financing, acquiring equipment, constructing and maintaining the Denver Union Station Project (Project). The Authority is organized as a Colorado non-profit corporation. The Authority is governed by a 13-member board of directors appointed as follows: six directors are appointed by the mayor of the City, two directors are appointed by the Regional Transportation District (RTD), one is appointed by the Colorado Department of Transportation (CDOT), one is appointed by the Denver Regional Council of Governments (DRCOG), one is appointed by the Denver Union Station Metropolitan District (DUSMD), and two are City employees who serve as non-voting directors.

DENVER UNION STATION PROJECT AUTHORITY
A Component Unit of the City and County of Denver

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
December 31, 2009

The Project is a multi-model transportation hub project in Denver, Colorado which includes light rail, commuter rail and regional bus facility improvements and renovation of the Denver downtown train station that in total is expected to cost approximately \$500 million to complete. Four governmental entities have been involved in the planning of the project and creation of the Authority; City and County of Denver (CCD), Regional Transportation District (RTD), Colorado Department of Transportation (CDOT) and Denver Regional Council of Governments (DRCOG). The Project's improvements will be owned principally by RTD who will maintain and operate the improvements once the Project is completed. CCD will own certain Project infrastructure. Because the improvements are not owned by the Authority, costs of the improvements are reported as project expenses by the Authority.

Funding for the Project is planned to include approximately \$210 million provided by RTD with the remainder of funds to be provided by grants from CDOT, the Federal Transportation Authority, Colorado Senate Bill 1, DRCOG and the American Recovery and Reinvestment Act (ARRA), and the Federal Highway Administration (FHWA). Additionally, the Project is seeking loans from the Federal Railroad Administration (FRA) and the U.S. Department of Transportation. It is anticipated that debt service on loans will be funded through tax increment revenues generated within the boundaries of the newly created Denver Downtown Development Authority, and through RTD's commitment as mentioned above.

Long-term debt. At the end of the year, the Authority has no long-term debt.

Economic Factors

The Authority is working to secure loans from Railroad Rehabilitation and Improvement Financing (RRIF) in the amount of \$152,000,000 and the Transportation Infrastructure Finance and Innovative Act (TIFIA) for \$146,000,000. The loans are anticipated to be completed in the second quarter of 2010. These funds, along with other financing sources, will be used to finance the Denver Union Station Project and repay the advances and loans received from the other government entities in 2009.

Request for Information

This financial report is designed to provide an overview of the Authority's finances for all interested parties. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to the Finance Administrator, Rob Andrews, Trammel Crow Company, 1225 17th Street, Suite 3050, Denver, Colorado, 80202.

DENVER UNION STATION PROJECT AUTHORITY
A Component Unit of the City and County of Denver

GOVERNMENTAL FUND BALANCE SHEET/
 STATEMENT OF NET ASSETS
 December 31, 2009

	General Fund	Adjustments	Statement of Net Assets
<u>ASSETS</u>			
Cash	\$ 3,977,303	\$ -	\$ 3,977,303
Prepaid items	19,156	-	19,156
Due from Denver Downtown Development Authority	397,133	-	397,133
Debt issuance costs	-	939,795	939,795
Total assets	<u>\$ 4,393,592</u>	<u>939,795</u>	<u>5,333,387</u>
<u>LIABILITIES</u>			
Accounts payable and accrued liabilities	\$ 13,289,932	-	13,289,932
Deferred revenue	397,133	-	397,133
Due to other government	-	22,492,308	22,492,308
Due to City and County of Denver	1,000,000	-	1,000,000
Total liabilities	<u>14,687,065</u>	<u>22,492,308</u>	<u>37,179,373</u>
<u>FUND BALANCE/NET ASSETS (DEFICIT)</u>			
Total fund balance - deficit - Unreserved	<u>(10,293,473)</u>	<u>10,293,473</u>	<u>-</u>
Total liabilities and fund balance (deficit)	<u>\$ 4,393,592</u>		
Net assets (deficit):			
Unrestricted (deficit)		<u>(31,845,986)</u>	<u>(31,845,986)</u>
Total net assets (deficit)		<u>\$ (31,845,986)</u>	<u>\$ (31,845,986)</u>

See accompanying notes to financial statements.

DENVER UNION STATION PROJECT AUTHORITY
A Component Unit of the City and County of Denver

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
December 31, 2009

Fund balance (deficit) - governmental fund	\$ (10,293,473)
--	-----------------

Debt issuance costs are reported in the governmental fund, whereas these amounts are deferred and amortized in the statement of activities.	939,795
---	---------

Advances, loans, and amounts due to primary governments are not payable out of current financial resources and, as a result, are not shown in the fund balance sheet. They are, however, reported in the statement of net assets.

Advances and loans from other government	<u>(22,492,308)</u>
--	---------------------

Net assets (deficit) of the governmental activities	<u>\$ (31,845,986)</u>
---	------------------------

See accompanying notes to financial statements.

DENVER UNION STATION PROJECT AUTHORITY
A Component Unit of the City and County of Denver

STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
 For the Year Ended December 31, 2009

	General Fund	Adjustments	Statement of Activities
EXPENDITURES/EXPENSES:			
Current			
Professional fees	\$ 116,651	\$ -	\$ 116,651
Insurance	38,000	-	38,000
General and administrative	648	-	648
Project expenditures/expenses	31,691,955	-	31,691,955
Debt service	1,000,000	(1,000,000)	-
Debt issuance costs	939,795	(939,795)	-
Total expenditures/expenses	<u>33,787,049</u>	<u>(1,939,795)</u>	<u>31,847,254</u>
NET PROGRAM EXPENSES:		-	<u>31,847,254</u>
GENERAL REVENUES:			
Interest income	<u>1,268</u>	-	<u>1,268</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(33,785,781)	33,785,781	
OTHER FINANCING SOURCES:			
Advances and loan proceeds	<u>23,492,308</u>	<u>(23,492,308)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(10,293,473)	10,293,473	-
CHANGE IN NET ASSETS		(31,845,986)	(31,845,986)
FUND BALANCE/NET ASSETS - beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE/NET ASSETS (deficit) - end of year	<u><u>\$ (10,293,473)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (31,845,986)</u></u>

See accompanying notes to financial statements.

DENVER UNION STATION PROJECT AUTHORITY
A Component Unit of the City and County of Denver

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2009

Net change in fund balance - total governmental fund	\$ (10,293,473)
Governmental funds report payment of currently due principal on debt as an expenditure, but this amount has no effect on net assets.	1,000,000
Debt issuance costs are reported in the governmental fund, whereas these amounts are deferred and amortized in the statement of activities.	939,795
Advances, loans, and amounts due from primary government proceeds provide current financial resources to governmental funds, but do not have any effect on net assets.	<u>(23,492,308)</u>
Change in net assets of governmental activities	<u><u>\$ (31,845,986)</u></u>
See accompanying notes to financial statements.	

DENVER UNION STATION PROJECT AUTHORITY
A Component Unit of the City and County of Denver

NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Denver Union Station Project Authority (Authority) was incorporated in 2008, by the City and County of Denver, Colorado, (City) as a separate and distinct corporate entity for the limited purpose of financing, acquiring equipment, constructing and maintaining the Denver Urban Station Project. The Authority is organized as a Colorado non-profit corporation. The Authority is governed by a 13-member board of directors appointed as follows: six directors are appointed by the mayor of the City, two directors are appointed by the Regional Transportation District (RTD), one is appointed by the Colorado Department of Transportation (CDOT), one is appointed by the Denver Regional Council of Governments (DRCOG), one is appointed by the Denver Union Station Metropolitan District (DUSMD), and two are City employees who serve as non-voting directors. The Authority neither leases or owns any physical facilities nor does it have any employees. Administrative functions are performed by personnel of TC Denver Development, Inc., the owner's representative for the Project (Note 6).

The Project is a multi-model transportation hub project in Denver, Colorado, which includes light rail, commuter rail and regional bus facility improvements and renovation of the Denver downtown train station that in total is expected to cost approximately \$500 million to complete. Four governmental entities have been involved in the planning of the project and creation of the Authority; City and County of Denver (CCD), Regional Transportation District (RTD), Colorado Department of Transportation (CDOT) and Denver Regional Council of Governments (DRCOG). The Project's improvements will be owned principally by RTD who will maintain and operate the improvements once the Project is completed. CCD will own certain Project infrastructure. Because the improvements are not owned by the Authority, costs of the improvements are reported as project expenses by the Authority.

Funding for the Project is planned to include approximately \$210 million provided by RTD with the remainder of funds to be provided by grants from CDOT, the Federal Transportation Authority, Colorado Senate Bill 1, DRCOG, the American Recovery and Reinvestment Act (ARRA), and the Federal Highway Administration (FHWA). Additionally, the Project is seeking loans from the Federal Railroad Administration (FRA) and the U.S. Department of Transportation. It is anticipated that debt service on loans will be funded through tax increment revenues generated within the boundaries of the newly created Denver Downtown Development Authority (DDDA) and through RTD's commitment as mentioned above.

Calendar year 2009 was the first year of activity for the Authority.

DENVER UNION STATION PROJECT AUTHORITY
A Component Unit of the City and County of Denver

NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The Authority's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Per the criteria set forth in generally accepted accounting principles, the Authority's financial statements are included in the City's comprehensive annual financial report (CAFR) as a component unit of the City.

Government-Wide and Fund Financial Statements

The government-wide financial statements (statement of net assets and statement of activities) report information on all activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment. Other items not properly included among program revenues are reported instead as general revenues.

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 a liability is incurred, regardless of the timing of related cash flows. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Nonexchange transactions, in which the Authority receives value without directly giving value in return, include taxes, grants, and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource is required to be used or the fiscal year when use is first permitted; matching requirements, in which the Authority must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis.

DENVER UNION STATION PROJECT AUTHORITY
A Component Unit of the City and County of Denver

NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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

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 for both exchange and nonexchange transactions. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

Fund Accounting

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Authority only uses governmental funds and has only one such fund, the general fund.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources of funds and uses the balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The Authority reports the following major governmental fund:

General Fund - The general fund is used to account for all financial resources of the Authority. The general fund balance is available to the Authority for any purpose, provided it is expended or transferred according to the general laws of Colorado and the bylaws of the Authority.

DENVER UNION STATION PROJECT AUTHORITY
A Component Unit of the City and County of Denver

NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net assets."

Generally, fund balance represents the difference between the current assets and current liabilities. The Authority reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available, spendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates the portion of fund balance that is available for appropriation in future periods. Designations are management's intent to set aside these resources for specific services.

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use, either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net assets are reported as unrestricted.

The Authority applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Because Project improvements being funded, in part, by debt the Authority has incurred or will incur are not the assets of the Authority, the Authority's net assets are in a deficit (Authority liabilities exceed its assets) position as of December 31, 2009 and it is anticipated that such deficit will increase in future periods until such time that tax increment revenues are sufficient to retire the Authority's debt.

Budgets

For fiscal year 2009, the Authority has adopted a budget for the Project, which represents the full activities of the Authority. However, because the Authority is not legally required to budget its activities, no budgetary statements are presented in the financial statements.

Cash and Cash Equivalents

The Authority considers highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

DENVER UNION STATION PROJECT AUTHORITY
A Component Unit of the City and County of Denver

NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Due from Denver Downtown Development Authority

The Denver Downtown Development Authority, a component unit of the City and County of Denver, collects certain tax incentive revenues (principally property taxes for the year ended December 31, 2009) on behalf of the Authority and subsequently remits those funds to the Authority. Property tax revenues are considered imposed nonexchange revenue transactions under GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Under GASB 33, an asset is recorded for property taxes when an enforceable legal claim to the assets arises (assessment date) which, for Colorado property taxes, occurs in the year preceding collection of the taxes. Revenues for such property taxes are deferred and recognized in the period for which the taxes are levied. Thus property taxes assessed in one reporting period that are for a subsequent levy year are recorded by the Authority as an asset and as deferred revenue.

Debt Issuance Costs

Cost associated with the issuance of debt is recognized as a debt service expenditure in the period incurred in fund financial statements and is deferred and amortized as an expense in the statement of activities in government-wide financial statements. Issuance cost is amortized over the life of the related debt using the straight-line method in the government-wide financial statements.

Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of these funds. However, loans are recognized as a liability in the governmental fund financial statements only when due.

Net Assets

Net assets present the difference between assets and liabilities in the statement of net assets. The Authority has deficit net assets of \$31,845,986 as of December 31, 2009. The deficit net assets results primarily from debt incurred by the Authority to fund the preliminary Project improvements that are not assets of the Authority. Management intends to eliminate the deficit net assets over time through the receipt of tax increment revenues.

DENVER UNION STATION PROJECT AUTHORITY
A Component Unit of the City and County of Denver

NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance

The Authority has a fund deficit of \$10,293,473 as of December 31, 2009.

Estimates

The presentation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

NOTE 2: CASH AND DEPOSITS

Custodial Credit Risk - Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Each eligible depository with deposits in excess of the insured levels must pledge a collateral pool of defined eligible assets maintained by another institution or held in trust for all of its local government depositors as a group with a market value at least equal to 102% of the uninsured deposits. The Authority does not have a formal deposit policy. The State Regulatory Commission for banks and savings and loan associations is required by statute to monitor the naming of eligible depositors.

Custodial credit risk for deposits and investments is the risk that, in the event of failure of the custodian, the Authority may not be able to recover the value of deposits that are in the possession of a third party. In October 2008, as part of the Economic Stabilization Act, Congress increased the Federal Deposit Insurance Corporation (FDIC) coverage to \$250,000 per depositor.

The Authority's bank participates in the FDIC's Transaction Account Guarantee Program (Guarantee Program) under which all non-interest bearing transaction accounts are fully guaranteed by the FDIC for the entire amount of the account. Funds automatically transferred to a non-deposit account or other account not subject to this program will void the FDIC's guarantee with respect to the transferred funds. Coverage under this program is in addition to, and separate from, the coverage available under the FDIC's general deposit insurance rules. The Authority's entire bank balance of \$3,989,303 is covered under the Guarantee Program. The full guarantee by the FDIC under this program is set to expire on June 30, 2010.

DENVER UNION STATION PROJECT AUTHORITY
A Component Unit of the City and County of Denver

NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009

NOTE 3: AMOUNTS DUE TO GOVERNMENTS

Amounts Due to Other Government

On March 5, 2009, RTD, as lender, entered into a loan agreement with the Authority to loan to the Authority \$1,500,000 to facilitate initial funding for the Project. At RTD's sole discretion, the Authority shall (1) re-pay the loan amount to RTD upon receipt by the Authority of bond or other financing sufficient to fund the Project or (2) credit the loan amount against other amounts to be paid to the Authority by RTD in furtherance of the Project.

If RTD elects to be repaid, the Authority shall make such payment within 30 days of closing on its first financing issued for the development of the Project, unless otherwise agreed in writing by RTD. As of December 31, 2009, the Authority owes RTD \$1,500,000.

On April 30, 2009, RTD entered into an Initial Funding Reimbursement and Project Coordination Agreement with the Authority to advance the Authority moneys for improvements for the Project which consist of certain transit improvements, which will be constructed on RTD-owned property, and will be owned, used and operated by RTD. The advance of funds is up to an aggregate amount of \$40,000,000. RTD will be receiving funds under the American Recovery and Reinvestment Act for application to the Project and from other federal grants. Instead of remitting such funds to the Authority, RTD and the Authority agree that RTD may elect to apply such funds as reimbursement of the advances made by RTD. The Authority shall apply various federal grants and other available moneys of the Authority to reimburse RTD for the remaining outstanding amount of the advance. As of December 31, 2009, RTD had advanced a total of \$20,992,308 to the Authority.

Amounts Due to the City and County of Denver

On April 14, 2009, the City entered into the Denver Union Station Project Authority Services Agreement with the Authority to loan the Authority up to \$1,500,000, to facilitate initiation of the preliminary phase of the Project. The Authority shall, upon closing of funding, reimburse the City the full amount paid by the City, and without interest. The agreement called for such repayment to be made on or before December 31, 2009. Accordingly, the debt was deemed due in 2009 and has been recorded on the fund financial statements as well as on the government-wide financial statements. Subsequent to December 31, 2009, the City has provided for an extension of the due date until such time as other financing from loans and grants is obtained by the Authority.

DENVER UNION STATION PROJECT AUTHORITY
A Component Unit of the City and County of Denver

NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009

NOTE 3: AMOUNTS DUE TO GOVERNMENTS (Continued)

Amounts Due to the City and County of Denver (Continued)

The City paid the Authority \$1,000,000 of the \$1,500,000 as of December 31, 2009, and there has been no repayment of these funds. In the event of default by the City or the Authority, the remedy of the non-defaulting party shall be to require the specific performance of the defaulting party. Additionally, in the event of default by the Authority, the City may obtain any other remedy available at law or equity.

NOTE 4: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to others; and natural disasters. The Authority funds its outside insurance purchases, deductibles, and uninsured losses through the general fund. The Authority carries commercial insurance for all risks of loss, including errors, omissions, and property. Settled claims resulting from these risks have not exceeded coverage for 2009.

NOTE 5: TAXPAYERS BILL OF RIGHTS (TABOR)

In November 1992, the voters of Colorado approved Amendment I, commonly known as the Taxpayer's Bill of Rights (TABOR), which added a new Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue and debt limitations, which apply to the State of Colorado and all local governments.

The Authority's management believes the Authority is exempt from the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions may require further judicial review.

NOTE 6: COMMITMENTS AND CONTINGENCIES

In April 2009, the Authority signed a long-term construction contract for the design and construction of the Project with Kiewit Western Co., general contractor for the Project. The contract amount is \$338,373,482, which will be paid over the term of the Project. For 2009, \$15,078,547 was paid to Kiewit Western Co. and an additional \$9,973,983 is accrued at December 31, 2009 under the contract, which includes \$2,505,254 of retainage.

DENVER UNION STATION PROJECT AUTHORITY
A Component Unit of the City and County of Denver

NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009

NOTE 6: COMMITMENTS AND CONTINGENCIES (Continued)

In September 2009, the Authority entered into an agreement with owner's representative for the services of owner's representative related to the Project and for organizational management services. The contract amount to be paid to owner's representative is \$4,982,994, which is payable over the term of the Project. For 2009, \$270,000 was paid to owner's representative and an additional \$726,588 is accrued at December 31, 2009 under the agreement.

In 2009, the Authority entered into a Master Development Agreement with Union Station Neighborhood Company, LLC (USNC) for \$6,300,000. Under this agreement, USNC will assist the Authority in the design, construction and development of certain aspects of the Project.

Payment terms under the contract are as follows:

- \$700,000 paid within 15 days from the effective date of the agreement (August 2009)
- \$175,000 monthly from May 2009 through and including December 2009
- \$145,000 from January 2010 through and including December 2011
- \$40,000 from January 2012 through and including June 2013

For the year ended December 31, 2009, the Authority has paid USNC \$700,000, and has accrued an additional \$1,400,000, the amount earned by USNC from May 2009 through December 2009.

NOTE 7: ECONOMIC DEPENDENCY

The Authority has not yet established a revenue base sufficient to pay the Authority's operational expenditures. Until an independent revenue base is established, continuation of the Authority's operations is dependent upon funding from the City and RTD.

NOTE 8: SUBSEQUENT EVENT

The Authority is working to secure loans from Railroad Rehabilitation and Improvement Financing (RRIF) in the amount of approximately \$152,000,000 and Transportation Infrastructure Finance and Innovative Act (TIFIA) for approximately \$146,000,000. The loans are anticipated to be completed the second quarter of 2010.

RTD's Board has authorized an amendment to the Initial Funding Reimbursement and Project Coordination Agreement (see Note 3). The advance of funds under the agreement has been increased to \$49,000,000 from the original amount of \$40,000,000.

Independent Accountants' 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 Directors
Denver Union Station Project Authority
Denver, Colorado

We have audited the financial statements of the governmental activities and major fund of Denver Union Station Project Authority (the Authority), a component unit of the City and County of Denver, as of and for the year ended December 31, 2009, which collectively comprise its basic financial statements, and have issued our report thereon dated _____. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 09-01 to be a material weakness.

Board of Directors
Denver Union Station Project 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*.

We also noted certain matters that we reported to the Authority's management in a separate letter dated _____.

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the governing body, management and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

May __, 2010

DENVER UNION STATION PROJECT AUTHORITY
A Component Unit of the City and County of Denver

SCHEDULE OF FINDINGS AND RESPONSES
 Year Ended December 31, 2009

Reference Number	Finding
09-01	<p>Material Weakness – Lack of Executed Agreement</p> <p>Criteria or specific requirements – In order to achieve accurate and timely reporting of transactions in an entity’s financial statements, contracts and agreements that provide the terms and requirements related to the transactions need to be legally executed timely by all parties involved in the transaction.</p> <p>Condition – While the parties responsible for the formation of the Authority had reached verbal agreement regarding the ownership structure of the project’s improvements, such understanding had not been formalized in an agreement executed by all applicable parties. It was represented to us that it was the intent of the parties that the Authority would not have an ownership interest in the improvements.</p> <p>Context – The Authority initially capitalized project costs on its financial statements.</p> <p>Effect – An adjustment of approximately \$31.4 million was required to expense project costs initially capitalized by the Authority.</p> <p>Cause – The lack of an executed agreement that addressed the ownership structure of the project’s improvements.</p> <p>Recommendation – We recommend the Authority execute formal contracts/agreements with all applicable parties for all significant agreements between such parties and that execution of the documents be finalized prior to commencement of the transaction.</p> <p>Views of responsible officials and planned corrective actions – We concur with this finding. The Authority acknowledges that complete documentation was not available to provide accurate and timely reporting of the ownership of assets or project improvements on the Authority’s financial statements. The Authority was engaged in protracted negotiations regarding the financing structure for the project and ownership issues with two of its partner agencies, namely, the City and County of Denver (CCD) and Regional Transportation District (RTD). This protracted negotiation resulted in the initial capitalization of project costs on its financial statements and a resulting adjustment of approximately \$31 million required to expense project costs initially capitalized by the Authority. Although an understanding of project improvement ownership has eventually been reached, verbally, this understanding has not been formalized in an agreement executed by all applicable parties.</p>

DENVER UNION STATION PROJECT AUTHORITY
A Component Unit of the City and County of Denver

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2009

Reference Number	Finding
	<p>The Authority recognizes that the timely execution of a document that addresses the ownership structure of the project's improvements is a requirement that must be corrected. Immediate steps have been taken to prepare a tri-party agreement among those entities that will be involved in the ownership of project improvements, namely, the Authority, CCD and RTD. A draft agreement will be presented to the Authority's Finance Committee for recommendation and approval and to the full Board of Directors following the Finance Committee meeting at the late May or early June board meeting. The Authority will continue on the premise that it will not own the project improvements and that RTD and CCD will each be responsible for recording those project improvements as ultimately owned by the applicable entity. The Authority will present and enter into a formalized agreement (such as a memorandum of understanding) with the applicable parties that for all significant agreements between or among the applicable parties, execution of any documents regarding such issues shall be finalized prior to commencement of the related transaction.</p>