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Office of the Controller

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May 29, 2009

Citizens of the City and County of Denver,
Honorable Mayor,
Honorable Auditor,
Honorable Members of City Council, and
Audit Committee



Claude Pumilia
Chief Financial Officer

State law requires the City and County of Denver (City) to publish, within seven months of the close of the fiscal year, a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (US GAAP) and audited in accordance with auditing standards generally accepted in the United States of America, by a firm of licensed certified public accountants. This report is prepared by the Controller's Office under the Department of Finance according to Article 2, Part 5 of the City's Charter. Pursuant to the requirements, I hereby issue the comprehensive annual financial report (CAFR) of the City for the fiscal year ended December 31, 2008.

This report consists of management's representations concerning the finances of the City. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the City. To provide a reasonable basis for making those representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with US GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

BKD, LLP, a firm of licensed certified public accountants, has audited the City's financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City, as of and for the fiscal year ended December 31, 2008, are free of material misstatement. The audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent accountants concluded, based upon the audit, that there was a reasonable basis for rendering an

unqualified opinion on the City's basic financial statements as of and for the year ended December 31, 2008. The independent accountants' report is presented as the first component of the financial section of this report.

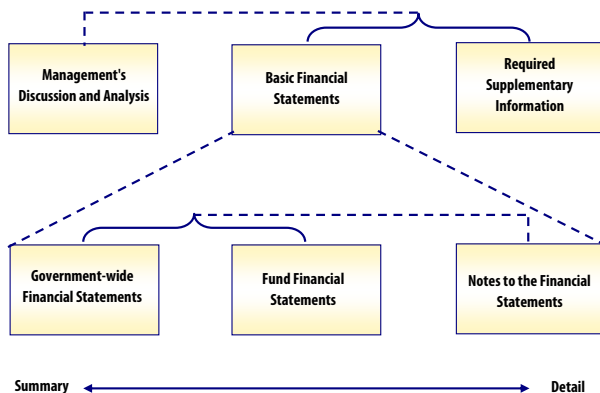
THE REPORT

The CAFR is presented in three sections:

The **Introduction** section includes this transmittal letter, Mayor, Auditor, Clerk and Recorder, City Council, and Court System introductions, the City's organization chart, and certificates of achievement.

The **Financial** section includes the report of the independent accountants, Management's Discussion and Analysis (MD&A), the basic financial statements, including the government-wide financial statements, and the accompanying notes to the financial statements. The Financial Section also includes the fund financial statements including the governmental funds financial statements, the proprietary funds financial statements, the fiduciary fund financial statements, component unit financial statements, and combining individual funds financial statements for the nonmajor governmental funds and internal service funds. The Financial section also includes certain required and other supplementary information and schedules.

The **Statistical** section includes selected financial and demographic information, on a multi-year basis. This transmittal letter is designed to complement and should be read in conjunction with the MD&A.



This CAFR includes all funds of the City. The City provides a full range of services including: police and fire protection; the construction and maintenance of highways, streets and other infrastructure; and recreational activities and cultural events.

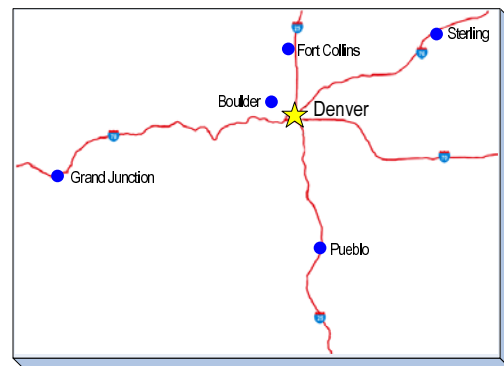
The City maintains budgetary controls that have the objective of ensuring compliance with legal provisions embodied in the annual appropriated budget submitted by the Mayor

and adopted by the City Council. All activities of the General Fund and Human Services special revenue fund are included in the annual appropriated budget. Project-length budgets are adopted for the remaining special revenue funds and capital project funds. Budgetary control (the level at which expenditures and encumbrances cannot legally exceed the appropriated amount) is established at the department level within individual funds, except for special revenue and capital project funds, which are at the funded project level. Disbursements that would result in an overrun of funded project balances (budgets) are not released until additional appropriations are made available. At year-end, if additional monies have not been appropriated where needed, expenditures are properly reflected in the current period causing an over budget condition to exist.

In addition to the financial audit, the City undertakes a single audit in conformance with the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The results of this single audit, including a schedule of expenditures of federal awards, and the independent accountants' reports on the City's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards, are available in the City's separately issued single audit reports.

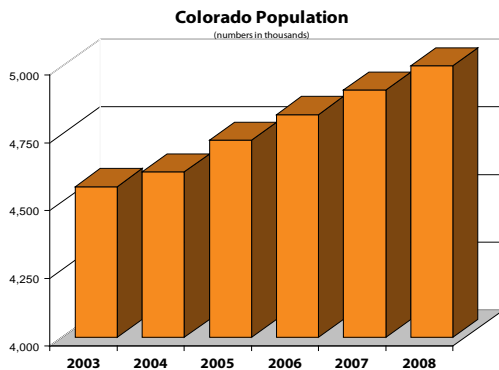
CITY PROFILE

The City is located at the eastern base of the Rocky Mountains in the north-central part of Colorado, encompassing 154.63 square miles. The City is the capital of the state, and it is also the cultural, distribution,



entertainment, financial, service and transportation hub of the Rocky Mountain region. With an elevation of 5,280 feet the "Mile High City" has a cool, dry, sunny climate that makes it a magnet for health seekers and those enjoying outdoor recreation all year round. Denver had a 2000 U.S. Census population of 554,636 for the core City and County. In 2008,

the population was estimated to be 598,707. Another 2.7 million people are estimated to reside in the metro area's



suburban counties (Adams, Arapahoe, Boulder, Broomfield, Douglas and Jefferson). Denver was founded November 22, 1858, after a gold discovery at the confluence of Cherry Creek and the South Platte River. Town founder William H. Larimer, Jr. named the city for James W. Denver, Governor of Kansas Territory, of which east central Colorado was then a part.

Numerous gold discoveries sparked a mass migration of some 100,000 in 1859-1861, leading the federal government to establish Colorado Territory in 1861. The City was incorporated on November 7, 1861 by a special act of the first session of the Legislative Assembly of Colorado Territory. In 1867 the City became the Capital of Colorado Territory and remained the capital after Colorado became a state on August 1, 1876. Denver became a City and County with home rule when Article XX was added to the Colorado Constitution in 1902. The City's charter was enacted on March 29, 1904 establishing a strong mayor/city council form of government and an independent, elected city auditor.

The mayor and thirteen-member council, elected in non-partisan elections govern the City. The Mayor is the chief executive, exercising all administrative and executive powers granted to the City, except as otherwise delegated by the City Charter. The legislative powers of the City are vested in the City Council. The City has an elected Auditor and an elected Clerk and Recorder. In November of 2006 the voters approved a Charter amendment to change the financial structure of the City. Effective January 1, 2008 the accounting functions, including the preparation of the CAFR, were transferred from the elected Auditor to a Chief Financial Officer reportable to the Mayor. In addition, the Charter enhanced the role of the Auditor to provide for performance audits. All elected officials' terms are concurrent and last four years and each position is subject to term limits of twelve years.

The Charter change also established an audit committee consisting of seven members; two members appointed by the Mayor, two members appointed by the City Council and

two members appointed by the Auditor, with the Auditor as the Chair. The audit committee, among other things, is responsible for the selection and management of the external auditor. During the course of the annual city-wide audit, the audit committee monitors the progress of the audit and discusses with the external auditor any matters related to the audit. The audit committee also accepts the results of the audit.

FACTORS AFFECTING FINANCIAL CONDITIONS

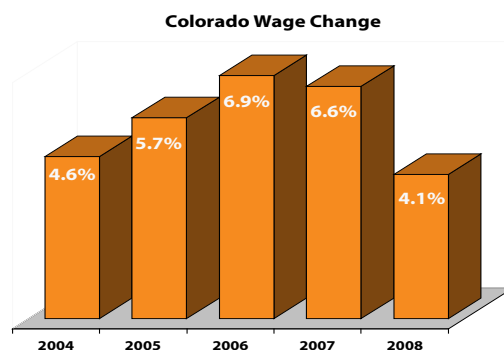
The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

The City is the center of economic activity of the region, serving as a business, recreational, higher educational and cultural hub. Major features of the economy include the central business district, state capitol, Denver International Airport, extensive library facilities, several professional sports teams, institutions of higher learning, and numerous museums and other cultural facilities. By the end of 2008, the national and local economies had entered a recession. According to Colorado's Office of State Planning and Budgeting (OSPB), the economy of the metropolitan area generally mirrors that of the state. State unemployment increased to 4.6 percent in 2008, up from 3.8 percent in 2007. Colorado's labor market conditions correspond with those of the national labor market, which experienced a reduction of employment by 2.2 percent.

Construction

While construction activity remains an integral component of the metropolitan area's economic condition, housing permits dropped 37.3 percent in 2008. The area has seen declining rates since 2005, however it is anticipated that the bottom of the declining trend has been reached and calendar year 2009 will show a level number of permits issued from 2008 and an increase in permits for years beyond that.

Personal Income and Wages



The March 2009 OSPB Colorado Economic Perspective report states that personal income grew 4.5 percent in 2008. Wages reflected an increase of 4.1 percent for this same period. It is anticipated that in 2009 personal income growth will slow to 0.5 percent and wage and salary income will decrease by 1.3 percent. According to the OSPB, the decline in wage and salary reflects a distressed labor market where unemployment forces competition for jobs, which in turn lowers salaries.

Consumer Spending

According to the OSPB, retail sales statewide did not grow in 2008 and are not anticipated to grow in 2009 as negative job growth and high unemployment are anticipated to continue to diminish consumer confidence.

Debt Administration

As of December 31, 2008, the City had \$551,679,000 of general obligation bonds and \$38,000,000 of general obligation commercial paper outstanding. In addition to this amount, the cumulative compound interest on the 1999A and 2007A general obligation mini-bonds totaled \$2,536,000. In November, 2007 voters approved almost \$550 million in Better Denver general obligation bonds to be issued to address a wide variety of infrastructure improvements. Commercial paper notes outstanding in the amount of \$38,000,000 were issued against the Better Denver Bonds Projects authorization; the notes will be redeemed with proceeds of the Better Denver general obligation bonds as they are issued, beginning in 2009. In 2000, Denver voters approved the issuance of \$62,500,000 of general obligation bonds for the purpose of improving the Denver Zoological Gardens. There remains \$26,500,000 from this authorization for general obligation bonds for the Zoo Project. In 2005, Denver voters approved the issuance of \$378,000,000 of general obligation bonds for the purpose of financing new Justice System Facilities for the City, of which the remaining \$174,135,000 was issued in February 2008. There are also \$42,725,000 of general obligation water bonds issued by the Denver Board of Water Commissioners, payable from revenues derived from the City's water system, that were outstanding at year-end.

The City's Charter restricts general obligation bonded debt to three percent of the actual value of the taxable property within the City. General obligation water bonds are excluded from this limitation. At December 31, 2008, the City's general obligation bonded debt, including compound interest of the general obligation mini-bonds, subject to this restriction was 24% of the \$2,356,914,246 three-percent limitation amount. By standard measures used by the primary credit rating agencies to assess debt (e.g. fund balance as a percent of

operating revenues, debt-to-assessed ratios, debt per capital, etc.), the City's debt is considered moderate in comparison with similarly sized cities.

The City has issued revenue bonds that the sole source of repayment are from four primary sources of pledged revenues. Approximately \$4.1 billion of airport system revenue bonds issued for and on behalf of Denver International Airport were outstanding at year-end. The repayment of these obligations is solely from the revenues of the airport enterprise fund. In addition, there are approximately \$290,930,000 of excise tax revenue bonds outstanding at December 31, 2008. The revenues pledged towards the repayment of these bonds are specific excise taxes of the City. At December 31, 2008 there were \$24,250,000 of wastewater revenue bonds outstanding that financed storm system capital projects. Annual storm water and sanitary sewer fees are the pledged revenues for the repayment of these bonds. In 2006 the City issued golf enterprise revenue bonds for the purpose of constructing and improving certain golf facilities within the City. As of December 31, 2008, there were \$6,110,000 of golf enterprise revenue bonds outstanding, payable solely from the revenues of the golf enterprise fund.

Cash Management

The City's Charter regulates investment securities the City may acquire with idle cash. Permissible investments under the Charter are obligations of the United States Government, its agencies, and sponsored corporations, prime bankers' acceptances, prime commercial paper, certificates of deposit issued by banks and savings and loan institutions, repurchase agreements, security lending agreements, highly rated municipal securities, money market funds that purchased only the types of securities specified herein, and other similar securities as may be authorized by ordinance. The City Council has adopted an ordinance authorizing the investment of City moneys in Resolution Funding Corporation (REFCORP) Securities, Forward Purchase Agreements, and Debt Service Reserve Fund Put Agreements, all of which are either issued by a U.S. Government Corporation or are collateralized by surety types already authorized by the Charter. The City is not permitted to leverage its investment portfolio. The size of the investment portfolio managed by the City Treasurer ended the year with a fair value of \$2,061,165,000 compared to \$2,021,952,000 for the prior year. The size of the portfolio not managed by the City Treasurer ended the year with a market value of \$1,937,373,000 compared to \$2,649,293,000 for the prior year.

The objectives of the City's investment policy, in order of priority, are to maintain principal, to ensure the availability of funds to meet obligations promptly, and to maximize

yield on the investment portfolio. Bank deposits are either insured by federal deposit insurance or collateralized according to state law. Investments are held at a third-party bank in a safekeeping account in the City's name.

Long-Term Financial Planning

In 2007, the voters approved an increase in the mill levy for capital maintenance. This increase added \$25 million per year to annual capital funding streams, allowing the City to maintain infrastructure at a preventative level and reduce future replacement costs. The City is also investing more in technology infrastructure to strengthen core systems, such as the sales tax collection system, but also to allow greater efficiencies in operations. This was evident in the payroll time reporting project, which installed an electronic tool for employees to report their time, as well as centralized payroll operations in the City, resulting in a savings of over \$1,500,000 per year in on-going operating costs.

Pension Plan Operations

Employees of the City are generally covered by one of two retirement plans. The State of Colorado - Fire and Police Pension Plan (State Plan) covers firefighters and police officers. This plan is a cost sharing, multiple-employer public employee retirement system. The State Plan is affiliated with the Fire and Police Pension Association (FPPA). The rest of the City's employees are covered primarily by the Denver Employees Retirement Plan (DERP), a cost-sharing multiple-employer defined benefit plan.

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the year ended December 31, 2007. The Certificate of Achievement is a national award recognizing conformance with the highest standards for preparation of state and local government financial reports. To be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized CAFR. This report must satisfy both US GAAP and applicable legal requirements. This was the twenty-eighth consecutive year that the City has received this award. A Certificate of Achievement is valid for one year only. We believe this 2008 CAFR continues to conform to the Certificate of Achievement program requirements and will submit it to the GFOA to determine its eligibility for another certificate.

The City also received the GFOA's Award for Distinguished Budget Presentation for its fiscal year 2008 annual budget document. The annual budget document is prepared by the City's Budget and Management Office. To qualify for the Distinguished Budget Presentation Award, the City's budget

document was judged to be proficient in several categories including policy documentation, financial planning, operational guidance, and communication.

Additionally, the City was awarded GFOA's Award for Excellence in Government Finance for a project that established two task forces to address the maintenance of the city's assets. This award recognizes contributions to the practice of government finance that exemplifies outstanding financial management and is given for practical, documented work that offers leadership to the profession and promotes improved public finance.

The preparation of this CAFR could not have been accomplished without the efficient and dedicated service of a highly qualified staff in the Controller's Office. The Treasury Division and the Budget and Management Office were also instrumental. Their cooperation and continued assistance is necessary and appreciated. I would like to thank all personnel that helped and contributed to the preparation of this report. I also want to acknowledge the thorough and professional manner in which our independent auditors, BKD, LLP, conducted their audit.

Respectfully submitted,



Claude Pumilia
Chief Financial Officer