



Department of Finance
Office of the Controller

201 W Colfax Avenue, Dept 1109
Denver, CO 80202
p: 720.913.5500
f: 720.913.5245
www.denvergov.org/controller

June 7, 2011

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



Edward Scholz
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 (U.S. GAAP) and audited in accordance with generally accepted auditing standards 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, 2010.

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 U.S. 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.

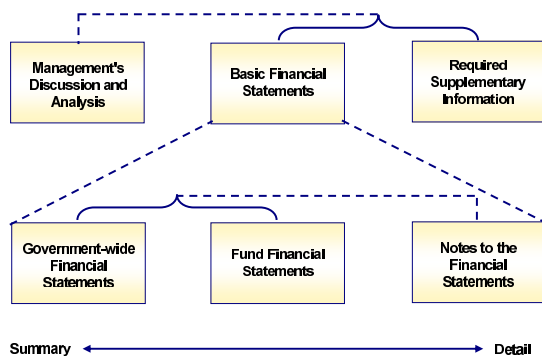
BKD, LLP, a firm of licensed certified public accountants, has audited the City's financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended December 31, 2010, are free of material misstatement. The audit 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, 2010. 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 letter of transmittal, Mayor, Auditor, District Attorney, Clerk and Recorder, and City Council 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 comprised of the Statement of Net Assets and the Statement of Activities 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 funds financial statements, and the combining individual funds financial statements for the nonmajor governmental funds and the internal service funds. Required supplementary information other than the MD&A is also included in the financial section.



- The **Statistical** section includes selected financial and demographic information, on a multi-year basis.

This transmittal letter is designed to complement the MD&A 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 CAFR also includes the City's component units, which are legally separate organizations whose relationship with the City is of a nature and significance that would cause the City's financial statements to be incomplete were they not included.

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 except for capital outlay. 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 overbudget 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 report.

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 capitol of the state, and it is also the cultural, distribution,

and heightened uncertainty. However, there are economic conditions that continue to be favorable, such as strong manufacturing activity, sustained export growth, and the financial conditions of many businesses, especially larger corporations, are solid overall. Due to these positive trends and because of the economy's resiliency, the economy is expected to continue to grow despite its headwinds. The employment situation continues to be a large concern. While the state added jobs in 2010, state unemployment was 9.1 percent in January 2011, up from 7.3 percent in 2009. Colorado's unemployment rate is above the national average of 8.9 percent for February 2011, according to the OSPB.

Construction

The March 2011 OSPB Colorado Economic Perspective report states that nonresidential construction value will continue to decline until 2012 when it is expected to increase slightly. The OSPB also reports that despite increasing in 2010, housing permits issued in the state remain at very low levels.

Personal Income and Wages

The March 2011 OSPB Colorado Economic Perspective report shows that personal income growth has remained modest but steady in 2010. According to the OSPB, due to continuing modest job growth, personal income is forecast to increase 3.0 percent in 2011.

Consumer Spending

Overall, despite challenges in the economy, consumer spending continues to increase according to the OSPB. Colorado retail trade sales are expected to increase 5.0 percent in 2011, though this could be partially due to higher fuel and food prices and not necessarily higher sales volume. Sales tax revenue, which makes up half of the City's General Fund revenue stream, increased by 5.7 percent in 2010. The City anticipates that sales tax revenue will continue to grow approximately 3.0 percent in 2011.

CITY FINANCIAL POLICIES AND PLANNING

The City, as with the rest of the nation and most of the world, experienced a significant recession in 2009, causing the largest decline in revenues since the 1930's. Formal financial policies, as well as informal operating practices, have helped the City maintain core services and minimize the impact to citizens and employees wherever possible. Formal

policies exist on areas such as balanced budgets, revenue diversification, use of one-time and unpredictable revenues, operating expenditures, and reserves.

Revenue Administration

The City's main source of revenue for operating expenditures is sales and use tax, which makes up 50% of total revenues of the General Fund. This is less than the 70% average for most local governments in the region. In addition, the City carefully reviews all fees, fines, and charges for services on a rotating basis to ensure they are covering cost recovery goals and driving behaviors in desired manners. One-time and unpredictable revenues are spent on one-time costs, such as equipment replacement, or transferred to capital improvement funds for repair and rehabilitation projects.

Expenditure Administration

Expenditure budgets are carefully reviewed by both the implementing departments and the Budget and Management Office. Careful attention is paid to ensure departments are meeting projected vacancy savings and that excess budget is not transferred to non-personnel line items. For 2010, selective hiring of only critical vacancies, abolishment of positions, and reduced spending on supplies and equipment all contributed to \$31 million in additional savings beyond the original budget by year-end.

Reserves

The City's policy around balanced budgets and reserves states that use of fund balance is appropriate in a severe economic downturn, but that it should be limited and combined with structural changes to bring the budget back into balance. In accordance with reserve policies, the City temporarily added \$23 million in reserves in anticipation of spending additional reserves in 2011. The balance at the end of 2011 is projected to be 10.5% of expenditures.

Debt Administration

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, 2010, the City's general obligation bonded debt of \$969,229,000, subject to this restriction was 38.9% of the \$2,494,539,000 three-percent limitation amount, not including compound interest of the general obligation mini-bonds or commercial

paper notes. 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 manageable in comparison with similarly sized cities.

On May 3, 2010, the City became the first Colorado City or County to have its debt rated triple-A (AAA) by all three of the major rating agencies: Standard & Poor's, Fitch, and Moody's Investors Service.

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 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

The City has a six-year long-range capital planning process and document that is updated each year and helps drive annual capital funding decisions as well as periodic general obligation bond issues for larger investments. For operations, revenues are forecasted out for twenty years to account for planned changes to existing revenues, such as sunseting revenues, and to project any future deficits between revenues and expenditures.

Awards and Acknowledgements

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, 2009. 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 thirtieth consecutive year that the City has received this award. A Certificate of Achievement is valid for one year only. We believe this 2010 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 2010 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.

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 in the CAFR's completion. Their cooperation and continued assistance is necessary and appreciated. I would like to thank all personnel who 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,



Edward Scholz
Chief Financial Officer