

MANAGEMENT'S DISCUSSION AND ANALYSIS



Management of the City and County of Denver (City) offers readers of the basic financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2010. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal. The focus of the information herein is on the primary government.

FINANCIAL HIGHLIGHTS

- The City's assets exceeded its liabilities at the close of the fiscal year by \$2,724,246,000 (net assets). Of this amount, \$544,711,000 (unrestricted net assets) may be used to meet the City's ongoing obligations.
- The City's total net assets increased by \$27,990,000, or 1.0% after the change in accounting principle - GASB 53, *Accounting and Financial Reporting for Derivative Instruments*.
- As of close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$798,383,000, an increase of \$281,093,000 from the prior year. Approximately 72.6% of the fund balance (unreserved fund balance) is available for spending at the government's discretion.
- At the end of the current fiscal year, unreserved/undesignated fund balance of the General Fund was \$115,586,000 which represents 13.7% of total General Fund expenditures, including transfers out.
- The City's total bonded debt increased by \$178,915,000 during the year. Increases occurred in general obligation bonds, while the revenue bonds decreased.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended as an introduction to the City's basic financial statements. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. In addition to the basic financial statements, also provided are required and other supplementary information.

Government-wide financial statements

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

The Statement of Net Assets presents information on all of the City'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 City is improving or deteriorating.

The Statement of Activities reports how the City's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick leave).

The governmental activities reflect the City's basic services, including police, fire, public works, sanitation, economic development, and culture and recreation. Sales and property taxes finance the majority of these services.

The business-type activities reflect private sector-type operations, such as Wastewater Management; the Denver Airport System, including Denver International Airport (DIA); and Golf Courses, where fees for services typically cover all or most of the cost of operations, including depreciation.

The government-wide financial statements include not only the City itself (referred to as the primary government), but also other legally separate entities for which the City is financially accountable. Financial information for most of these component units is reported separately from the financial information presented for the primary government itself. A few component units, although legally separate, function essentially as an agency of the City and, therefore are included as an integral part of the City.

Fund financial statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on the balances left at year-end that are available for spending. Consequently, the governmental fund financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the long-term focus of the government-wide statements, additional information is provided that reconciles the governmental fund financial statements to the government-wide statements explaining the relationship (or differences) between them.

The City maintains 22 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Human Services special revenue fund, and Bond Projects capital projects fund, each of which is considered to be a major fund. Data from the other 19 governmental funds are combined into a single aggregated presentation. Individual fund data for these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for the General Fund and Human Services special revenue fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets for the General Fund and Human Services fund in accordance with US GAAP.

The City maintains two different types of **proprietary funds**: enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Wastewater Management, Denver Airport System, Environmental Services, and Golf Course funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles, workers' compensation self-insurance, paper and printing supplies inventory, and asphalt plant operations. The internal service funds provide services which predominantly benefit governmental rather than business-type functions. They have been included within governmental activities with an adjustment to reflect the consolidation for internal service fund activities related to the enterprise funds in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for Wastewater Management and the Denver Airport System, both of which are considered to be major funds of the City. Data for the other two enterprise funds and all of the internal service funds are combined into their respective single aggregated presentations. Individual fund data for the nonmajor enterprise funds and all of the internal service funds is provided in the form of combining statements elsewhere in this report.

The City uses **fiduciary funds** to account for assets held on behalf of outside parties, including other governments. When these assets are held under the terms of a formal trust agreement, a private-purpose trust fund is used.

Agency funds generally are used to account for assets that the City holds on behalf of others as their agent. Pension trust funds account for the assets of the City's employee retirement plans.

Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The *notes to basic financial statements* provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information in addition to the basic financial statements and accompanying notes is presented in the form of certain required supplementary information concerning the City's budgetary comparison schedules.

The combining statements supplementary information referred to earlier in connection with nonmajor funds, internal service funds, and nonmajor component units are presented immediately following the budgetary comparison required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by approximately \$2,724,246,000 at the close of the most recent fiscal year.

A portion of the City's net assets, \$544,711,000 (20.0%), is unrestricted and may be used to meet the City's ongoing financial obligations. These are net assets that are not restricted by external requirements nor invested in capital assets.

Net assets of \$1,325,558,000 (48.7%) reflects investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net assets of the City also include \$853,977,000 (31.3%) of restricted net assets. These are net assets representing resources subject to external restrictions as to how they may be used by the City.

Table 1 reflects the City's net assets (dollars in thousands) as of December 31, 2010 and 2009:

Table 1

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009 ¹	2010	2009 ¹	2010	2009 ¹
Current and other assets	\$ 1,337,978	\$ 1,044,798	\$ 1,667,431	\$ 1,722,631	\$ 3,005,409	\$ 2,767,429
Capital assets	2,654,619	2,517,316	3,739,142	3,848,560	6,393,761	6,365,876
Total assets	3,992,597	3,562,114	5,406,573	5,571,191	9,399,170	9,133,305
Deferred outflows	16,764	-	1,814	-	18,578	-
Noncurrent liabilities	1,931,731	1,584,027	3,858,742	4,056,717	5,790,473	5,640,744
Other liabilities	453,360	412,271	436,880	209,465	890,240	621,736
Total liabilities	2,385,091	1,996,298	4,295,622	4,266,182	6,680,713	6,262,480
Deferred inflows	-	-	12,789	-	12,789	-
Net assets						
Invested in capital assets, net of related debt	1,211,215	1,188,810	114,343	212,129	1,325,558	1,400,939
Restricted	184,460	257,699	669,517	661,383	853,977	919,082
Unrestricted	228,595	119,307	316,116	431,497	544,711	550,804
Total net assets	\$ 1,624,270	\$ 1,565,816	\$ 1,099,976	\$ 1,305,009	\$ 2,724,246	\$ 2,870,825

¹Amounts do not reflect the change in accounting principle - GASB 53 because it was not practical to do so.

At December 31, 2010, the City reported positive balances in all three categories of net assets for both the government as a whole and the separate governmental and business-type activities.

Table 2 reflects the City's changes in net assets (dollars in thousands) for the years ended December 31, 2010 and 2009:

Table 2

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009 ¹	2010	2009 ¹	2010	2009 ¹
Revenues						
Program revenues:						
Charges for services	\$ 273,445	\$ 282,522	\$ 796,125	\$ 752,315	\$ 1,069,570	\$ 1,034,837
Operating grants and contributions	210,226	192,447	-	-	210,226	192,447
Capital grants and contributions	37,756	21,325	44,584	53,639	82,340	74,964
General revenues:						
Facilities development admissions tax	7,160	7,082	-	-	7,160	7,082
Lodgers tax	49,136	43,982	-	-	49,136	43,982
Motor vehicle ownership fee	17,004	17,907	-	-	17,004	17,907
Occupational privilege tax	41,818	39,551	-	-	41,818	39,551
Property tax	295,381	259,963	-	-	295,381	259,963
Sales and use tax	447,071	421,838	-	-	447,071	421,838
Specific ownership tax	84	47	-	-	84	47
Telephone tax	9,653	9,596	-	-	9,653	9,596
Special assessments	1,397	1,342	-	-	1,397	1,342
Investment income	21,730	11,826	50,424	15,828	72,154	27,654
Convention Center revenue	17,852	14,857	-	-	17,852	14,857
Other revenues	40,170	32,002	102	56	40,272	32,058
Total revenues	1,469,883	1,356,287	891,235	821,838	2,361,118	2,178,125
Expenses						
General government	249,106	243,518	-	-	249,106	243,518
Public safety	526,007	506,887	-	-	526,007	506,887
Public works	144,211	159,657	-	-	144,211	159,657
Human services	119,530	128,946	-	-	119,530	128,946
Health	53,499	52,961	-	-	53,499	52,961
Parks and recreation	67,709	100,253	-	-	67,709	100,253
Cultural activities	100,190	63,646	-	-	100,190	63,646
Community development	47,501	40,480	-	-	47,501	40,480
Economic opportunity	25,905	31,803	-	-	25,905	31,803
Interest on long-term debt	70,453	62,670	-	-	70,453	62,670
Wastewater management	-	-	84,752	80,865	84,752	80,865
Denver airport system	-	-	830,243	787,914	830,243	787,914
Other enterprise funds	-	-	14,022	13,788	14,022	13,788
Total expenses	1,404,111	1,390,821	929,017	882,567	2,333,128	2,273,388
Change in net assets before transfers	65,772	(34,534)	(37,782)	(60,729)	27,990	(95,263)
Transfers	275	(931)	(275)	931	-	-
Change in net assets	66,047	(35,465)	(38,057)	(59,798)	27,990	(95,263)
Net assets - January, as previously reported	1,565,816	1,601,281	1,305,009	1,364,807	2,870,825	2,966,088
Change in accounting principle - GASB 53	(7,593)	-	(166,976)	-	(174,569)	-
Net assets - January 1, as restated	1,558,223	1,601,281	1,138,033	1,364,807	2,696,256	2,966,088
Net assets - December 31	\$ 1,624,270	\$ 1,565,816	\$ 1,099,976	\$ 1,305,009	\$ 2,724,246	\$ 2,870,825

¹Amounts do not reflect the change in accounting principle - GASB 53 because it was not practical to do so.

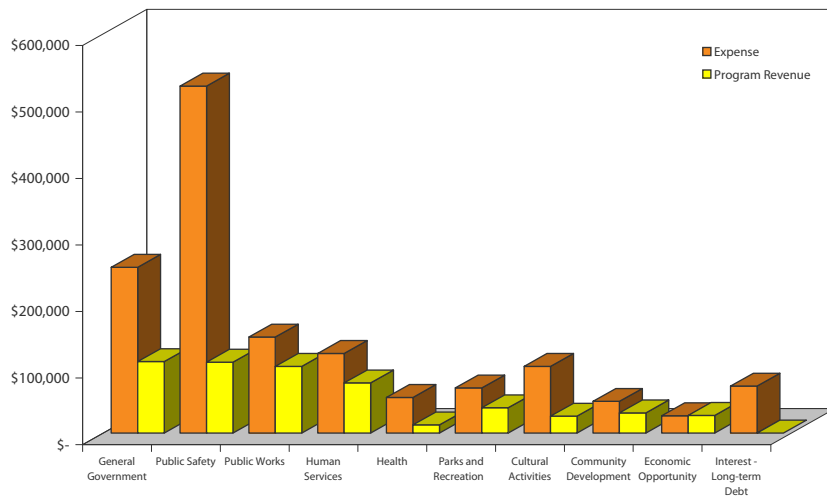
Governmental activities increased the City's net assets by \$66,047,000 for the year ended December 31, 2010. Key elements of the increase are as follows:

- Property tax and sales and use taxes totaled 85.6% of all tax revenues and 50.5% of all governmental activities' revenues. Property tax recorded in the governmental funds totaled \$295,381,000 for an increase of \$35,418,000 (13.6%). Sales and use tax revenues of \$447,071,000 were up \$25,233,000 (6.0%) compared to 2009, reflecting a slight growth in the 2010 economy.
- Investment income increased by \$9,904,000, due to the gradual increase in interest rates nationally.

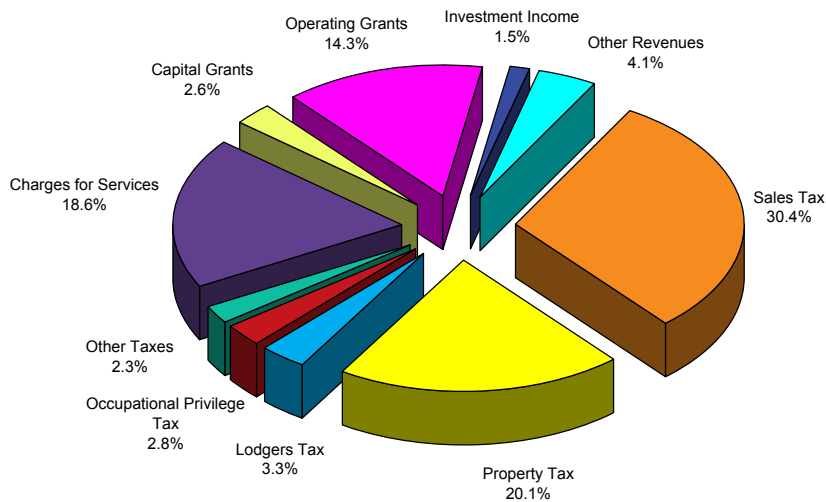
- The City received \$17,779,000 more in operating grants and contributions in 2010 compared to 2009.
- Due to the slow growth in revenues, total expenses increased only slightly, by \$13,290,000.

General government expenses in 2010 were \$249,106,000 (17.7%) of total expenses. Public safety expenses were \$526,007,000 (37.5%) of total expenses. Public works' expenses were \$144,211,000 (10.3%) of total expenses. Human services' expenses were \$119,530,000 (8.5%) of total expenses. The remainder of the governmental activities expenses is comprised of health with \$53,449,000 (3.8%), parks and recreation with \$67,709,000 (4.8%), cultural activities with \$100,190,000 (7.1%), community development with \$47,501,000 (3.4%), economic opportunity with \$25,905,000 (1.9%), and interest on long-term debt of \$70,453,000 (5.0%).

Expenses and Program Revenues - Governmental Activities
expressed in millions



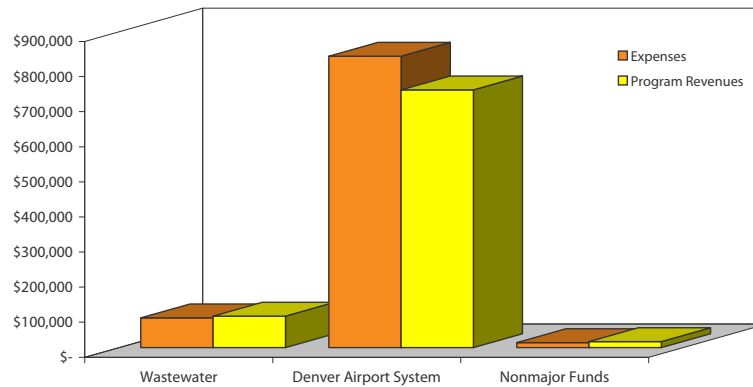
Revenues by Source - Governmental Activities



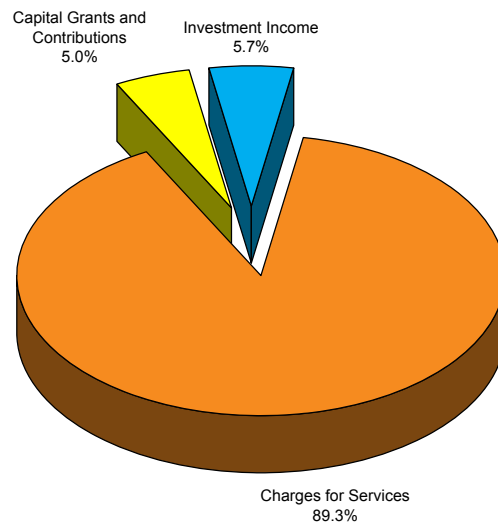
Business-type activities decreased the City's net assets by \$38,057,000. Key elements of this decrease are as follows:

- Total revenues of \$891,235,000 were \$69,397,000 (8.4%) higher compared to prior year amounts primarily due to increases in investment income of \$34,596,000 and charges for services of \$43,810,000. These increases were partially offset by a decrease in capital grants and contributions of \$9,055,000.
- Total expenses of \$929,017,000 increased by \$46,450,000 (5.3%) when compared to the prior year, primarily due to higher expenses in the Denver Airport System fund of \$42,329,000 during 2010. Wastewater Management expenses in 2010 totaled \$84,752,000 (9.1%) of total business-type activities. Denver Airport System expenses totaled \$830,243,000 (89.4%) of business-type activities. The remaining \$14,022,000 (1.5%) of expenses in business-type activities were related to Environmental Services and Golf activities.

Expenses and Program Revenues - Business-Type Activities
expressed in millions



Revenues by Source - Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental funds

The focus of the City's governmental funds is to provide information on current year revenues, expenditures, and balances of spendable resources. Such information is useful in assessing the City's near-term financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of December 31, 2010, the City's governmental funds reported combined ending fund balances of \$798,383,000, an increase of \$281,093,000 in comparison with the prior year. Approximately 72.6% (\$579,445,000) of the total fund balance amount constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to pay debt service (\$104,277,000), 2) for emergency use (\$32,998,000), 3) for notes receivable (\$75,298,000), and 4) for a variety of other purposes (\$6,365,000).

The General Fund is the chief operating fund of the City. As of December 31, 2010, unreserved/undesignated fund balance of the General Fund was \$115,586,000 while total fund balance was \$136,061,000. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved/undesignated fund balance represents 13.7% of total General Fund expenditures, including transfers out, of \$846,807,000, while total fund balance represents 16.1% of the same amount.

The total fund balance of the City's General Fund increased by \$22,841,000 (20.2%) during the year ended December 31, 2010. This was directly due to recovering revenues following the 2009 recession as well as cost savings measures implemented in 2010 to reduce overall expenditures.

Almost every revenue source increased slightly to moderately in 2010 due to a slow recovery of the economy. Total General Fund revenues, including transfers in, of \$867,058,000 increased by \$60,613,000 or 7.5%. Certain revenues in the General Fund that increased from 2009 to 2010 include:

- Sales and use taxes earned were higher by \$21,979,000. The increase in sales and use tax is directly related to the recovering economy.
- Property tax revenues increased by \$16,517,000 due to the one-time use of fire mill levy funds for pension and other safety operating costs in the General Fund.
- Occupational privilege tax revenues increased by \$2,116,000 due to recovering economy.
- Lodgers tax revenue increased by \$1,395,000, again, due to the economic recovery.
- Licenses and permit revenues increased by \$5,342,000 largely due to an increase in construction activity.
- Investment income increased by \$1,964,000, due to a slight increase in interest rates nationally.
- Charges for services increased by \$7,104,000 to account for increased services provided to the Denver Airport System Enterprise Fund and other enterprise funds by General Fund agencies.
- Fines and forfeitures increased by \$2,933,000 primarily due to increases in activity for traffic court fines and parking fines.

Some revenues in the General Fund decreased from 2009 to 2010, including:

- Intergovernmental Revenues decreased by \$3,577,000 due to the portion of Highway Users Trust Fund revenue that supports Capital Improvements being deposited directly into the Capital Improvements Fund instead of being transferred from the General Fund.
- The motor vehicle ownership fee and registration tax collections were lower by \$903,000 due to consumer buying habits related to the economy.

The national and local economies began to slowly recover in 2010 following the Great Recession of 2009. At the end of 2009, the City moved to reduce 2010 expenditures to respond to rapidly declining revenues. The result is that almost every agency saw a decrease in expenditures in 2010 from 2009. Some of the decrease was achieved through reductions in programs and operating expenditures, including supplies and equipment, and some of it was achieved through across the board personnel savings, including wage freezes, furlough days, and concessions from collective bargaining groups. Total General Fund expenditures, including transfers out, decreased by \$19,461,000, or 2.2%.

The Human Services special revenue fund had a total fund balance of \$10,830,000, of which \$2,000,000 is reserved for the Human Services share of the TABOR reserve. The net increase in fund balance of \$656,000 during the current year was mainly due to a decrease of \$9,505,000 in Human Services current expenditures that was offset by a decrease in revenues, including transfers in, of \$7,680,000.

An increase in fund balance in the Bond Projects fund of \$240,448,000 primarily reflects the issuance of \$302,610,000 in general obligation bonds.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Total net assets of Wastewater Management were \$508,631,000 and those for the Denver Airport System were \$555,023,000. Net assets for all enterprise funds decreased \$37,420,000. Other significant factors concerning the finances of the enterprise funds can be found in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the General Fund original budget and the final amended budget include a revision to both the projected revenues and expenditures.

Original revenue estimates for 2010, prepared in the summer of 2009, were based on a slow recovery with minimal growth in the economy. The original projection was for sales and use tax growth of 4.3% above 2009 amounts and an overall growth rate in the General Fund of 4.2% over 2009 revised figures. The revenue forecast, including transfers in, was revised upward by \$13,540,000 or 1.6% during 2010 to primarily to account for actions taken to further respond to the impacts of the recession. The major revisions by individual revenue type are listed below.

- The sales and use tax estimate was revised down by \$7,086,000 or 1.7% to account for the recession having a greater impact on collections than originally anticipated.
- The occupational privilege tax estimate was revised down by \$2,763,000 or 6.5%, again due to the lingering effects of the recession on job growth.
- Investment income projections were revised down by \$3,189,000 or 51.4% to account for continued low interest rates and the use of fund balance.

- Licenses and permitting revenues projections were revised up by \$4,918,700 or 30.7% due to an increase in construction activity and the introduction of the medical marijuana business in Colorado.
- Fines and forfeit revenues estimates were revised up by \$2,932,000 or 6.2% due primarily to the elimination of an early payment discount for traffic violations.
- Transfers in was revised up by \$8,950,000 or 29.3% due to the one-time transfer of excess fire pension mill levy into the General Fund for pension-related costs.

In 2010, the original budget anticipated a use of fund balance of \$8,759,000, not accounting for contingency and projected appropriations that would be unspent at the end of the year. It was later anticipated that reserves would increase by \$25,782,000 due to savings and revenue measures enacted throughout 2010. Though the final approved expenditure budget was not formally reduced, an additional \$22,754,000 in unspent appropriations was projected to be realized as savings by year-end. In the end, reserves increased by \$22,264,000.

Differences between the final amended budget and actual revenues and expenditures are briefly summarized in the following paragraph. The national and local economies slowly improved throughout 2010, though revenues were still far below historical levels.

General Fund revenues, including transfers in, were approximately \$1,592,000 higher than the revised budget for 2010, or 0.2%, primarily due to various revenues performing better than expected. General Fund budget basis expenditures were approximately \$31,932,000 less than the final budget. This is due to achieving expected unspent appropriations, due in large part of savings measures put in place to respond to the recession, including furloughs, program reductions, compensation savings, and equipment replacement deferrals.

CAPITAL ASSETS AND BONDED DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities as of December 31, 2010, were \$6,393,761,000 (net of accumulated depreciation). This investment in capital assets includes land and land rights, collections, buildings and improvements, equipment and other, park facilities, and, for governmental activities, infrastructure (including streets, alleys, traffic signals and signs, and bridges). Infrastructure-type assets of business-type activities are reported as buildings and improvements. The City's capital assets by activity at December 31, 2010 and 2009 are shown in **Table 3** (dollars in thousands):

Table 3

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Land and construction in progress	\$ 385,292	\$ 638,857	\$ 352,624	\$ 430,721	\$ 737,916	\$ 1,069,578
Buildings and Improvements	2,016,542	1,594,623	4,983,853	4,851,911	7,000,395	6,446,534
Equipment and other	274,372	269,831	740,973	710,037	1,015,345	979,868
Collections	73,702	68,356	-	-	73,702	68,356
Infrastructure	1,155,277	1,103,623	-	-	1,155,277	1,103,623
Less accumulated depreciation	(1,250,566)	(1,157,974)	(2,338,308)	(2,144,109)	(3,588,874)	(3,302,083)
Total	\$ 2,654,619	\$ 2,517,316	\$ 3,739,142	\$ 3,848,560	\$ 6,393,761	\$ 6,365,876

Major capital asset activity for the year ended December 31, 2010 included the following:

Governmental Activities:

- The Justice Center was completed and placed in service in July 2010.
- Approximately \$36,493,000 in Better Denver Bonds projects were completed and placed in service. Additionally, there was approximately \$60,500,000 of construction in progress on Better Denver Bond projects that construct or improve City buildings and facilities.

Business-type Activities:

- Additions to the Wastewater Storm Collection system of \$21,700,000.
- Additions to the Wastewater Sanitary Collection system of \$6,300,000.
- The Denver Airport System began construction on a 4.4 megawatt facility solar-energy installation.

Additional information on the City's capital asset activity for the year can be found in Note III-D in the notes to basic financial statements.

Bonded Debt

At December 31, 2010, the City had total bonded indebtedness of \$5,238,454,000 (excluding GID Bond of \$5,955,000). Of this amount, \$969,229,000 comprises debt backed by the full faith and credit of the City. The remainder of the City's debt, \$4,269,225,000, represents bonds and commercial paper notes secured by specified revenue sources (i.e., revenue bonds of the Denver Airport System, Wastewater Management, and excise tax revenue bonds). The City has no outstanding commercial paper notes as of December 31, 2010.

As of December 31, 2010, the City's general obligation debt is rated AAA by Standard & Poor's rating agency, Fitch Ratings, and Moody's Investors Service.

In June 2010, the City issued \$37,910,000 of Series 2010A Tax-Exempt General Obligation Better Denver Bonds and \$312,055,000 of Series 2010B Taxable General Obligation Better Denver Bonds (Direct Pay Build America Bonds).

In October 2010, the City issued \$44,650,000 of Series 2010D General Obligation Better Denver Bonds to provide new money for the Better Denver Bond Projects.

The Airport System's senior lien debt is currently rated at A+ with stable outlooks by Standard & Poor's and Fitch Ratings as of December 2010. Moody's Investors Service rated it A1 with a negative outlook as of December 31, 2010.

In January 2010, the Airport System terminated the 1999 and 2002 Swap Agreements with RFPC Ltd, due to deterioration in the credit ratings of AMBAC, the credit support provider for those swaps. The Airport System simultaneously entered into an interest rate swap agreement with Loop Financial Products I LLC to replace the 1999 swap agreement. The Airport System received \$10,570,000 from Loop Financial Products I LLC to assist in paying the settlement amount of \$11,460,000 due to RFPC, Ltd. As a result of receiving \$10,570,000 from Loop Financial Products I LLC, the fixed rate to be paid by the Airport System to Loop Financials Products I LLC will take into account such payments and will be above the market rate. The 2002 swap agreement was not replaced.

In February 2010, the Airport System terminated the 2007A swaps to monetize the economic value of those agreements. The airport system received \$11,092,000 from the counterparties for the settlement of the agreements.

On March 9, 2010, the Airport System issued \$171,360,000 of the Series 2010A Airport System Revenue Bonds in a fixed-rate mode. The proceeds of the Series 2010A bonds were used together with other Airport monies to current refund all of the Airport System Revenue Bonds, Subseries 2008A2 Term Rate Bonds, and to purchase and retire portions of the Airport System Revenue Bonds Subseries 2008A3 and Subseries 2008A4.

Outstanding bonded debt at December 31, 2010, and 2009, is reflected in **Table 4** (dollars in thousands):

Table 4

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$ 969,229	\$ 616,209	\$ -	\$ -	\$ 969,229	\$ 616,209
Revenue bonds	266,640	278,450	4,002,585	4,164,880	4,269,225	4,443,330
Total	\$ 1,235,869	\$ 894,659	\$ 4,002,585	\$ 4,164,880	\$ 5,238,454	\$ 5,059,539

Additional information on the City's bonded debt for the year can be found in **Note III-G** in the notes to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The original 2011 budget assumed moderate growth in the local economy. By the last quarter of 2010 the economy was continuing to improve in many areas. The 2011 General Fund original revenues, including transfers in, are projected to be \$871,498,000, which is an increase of 0.5% from actual 2010 revenues. It is anticipated that 2011 revenues will be revised upward to reflect better than expected performance in 2010 and the early part of 2011. Measures have been taken to have expenditures be in line with anticipated revenues.

It is anticipated that unreserved-undesignated fund balance will decrease to approximately 10.5% of expenditures during 2011 as was originally budgeted for 2011. This is appropriate during an economic downturn according to our financial policies.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to the Controller's Office, 201 West Colfax Avenue, Department 1109, Denver, CO 80202. The report is available online at www.denvergov.org/controller.

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