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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (USGAAP) applicable to governmental entities. A summary of the City and County of Denver's significant accounting policies applied in the preparation of these financial statements follows.

Note A – Reporting Entity

The City and County of Denver (City) was incorporated in 1861 and became a Colorado Home Rule City on March 29, 1904, under the provisions of Article XX of the Constitution of Colorado, as amended, when the people of the City ratified a Charter providing for a Mayor-Council form of government. The City is operated by authority of the powers granted by its Charter. The City provides typical municipal services with the exception of education, public housing, and sewage treatment that are administered by other governmental entities.

As required by USGAAP, these financial statements present the City (primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14. Certain amounts reported in the individual component unit financial statements have been reclassified to conform to the City's accounting policies. Each component unit has a December 31 year-end, except for the Denver Art Museum, Inc., which has a September 30 year-end.

1. BLENDED COMPONENT UNIT.

Gateway Village General Improvement District – The City created the District as a separate legal entity pursuant to state law. The District's board of directors consists of the members of the City Council. The District is reported herein in the City's debt service and capital project funds because it is operated by City management and provides services entirely to the City.

2. DISCRETELY PRESENTED COMPONENT UNITS.

Cherry Creek Subarea, Old South Gaylord, Cherry Creek North, Colfax, West Colfax, and Downtown Denver Business Improvement Districts (BID) – Each BID is established by the City in accordance with state law for the purpose of maintaining public improvements and planning development activities within each BID's geographic boundaries. The City approves annual operating budgets for the BIDs and appoints the governing board of each BID.

Denver Art Museum, Inc. (DAM) – DAM operates the Denver Art Museum for the City. DAM is the Art Agency for the City. The City does not appoint a voting majority of the DAM's board. The City provides a material subsidy to the DAM, \$2,040,000 for the 2007 fiscal year, to be used for general operating expenses of the museum and DAM employees are subject to the rules of the City's personnel system. The nature and significance of the relationship between the City and DAM is such that it would be misleading to exclude the DAM from the City's financial statements.

Denver Convention Center Hotel Authority (DCCHA) – The DCCHA was organized by the City as a nonprofit corporation in accordance with state law for the purpose of owning, acquiring, constructing, equipping, operating and financing a convention center hotel. The Mayor appoints the board of the DCCHA subject to City Council confirmation. The City approves the budget of the DCCHA. Any excess revenues of the DCCHA are distributed to the City annually.

Denver Museum of Nature and Science (DMNS) – The DMNS serves as the Natural History Agency of the City. DMNS operates and manages the Museum of Nature and Science at Denver City Park. The City makes an annual appropriation to DMNS, \$1,574,000 for the 2007 fiscal year, as compensation for the care, control, maintenance, management, and development of the museum. DMNS must donate all of its right, title, and interest in

exhibits at the museum to the City for the benefit of the people of the City. The nature and significance of the relationship between the City and DMNS is such that it would be misleading to exclude the DMNS from the City's financial statements.

Denver Metro Convention and Visitor's Bureau, Inc. (Bureau) – The Bureau is a nonprofit corporation organized to solicit, induce, and persuade sundry organizations to hold their conventions in the City and to encourage tourists and other persons to visit the City and state. The Bureau is closely related to the City because the City makes a significant annual appropriation to the Bureau and the Bureau must incorporate City comments and suggested changes to its annual budget.

Denver Urban Renewal Authority (DURA) – The DURA was created as a separate legal entity by the City pursuant to the state Urban Renewal Law to acquire, clear, rehabilitate, conserve, develop or redevelop identified slum or blighted areas existing within the City. The Mayor appoints the DURA board of directors subject to City Council approval. DURA cannot undertake any urban renewal projects unless the City approves the urban renewal plan.

Water Board – The Water Board was created pursuant to the City Charter as a separate legal entity to oversee the City's water system. The Water Board's five-member governing body is appointed by the Mayor. Due to the significance of the relationship between the Water Board and the City, it would be misleading to exclude the Water Board financial statements from those of the City.

Complete financial statements of the following individual discretely presented component units can be obtained from their respective administrative offices:

Cherry Creek Subarea BID 10542 Jewell Ave. Aurora, Colorado 80012	Denver Art Museum, Inc. 100 W. 14 th Ave. Parkway Denver, Colorado 80204
Old South Gaylord BID 1040 S. Gaylord St., Suite 202 Denver, Colorado 80209	Denver Convention Center Hotel Authority 717 Seventeenth St., Suite 1435 Denver, Colorado 80202
Cherry Creek North BID 3003 E. 3rd Ave., Suite 104 Denver, Colorado 80206	Denver Museum of Nature and Science 2001 Colorado Blvd. - City Park Denver, Colorado 80205
Colfax BID P.O. Box 18853 Denver, Colorado 80218	Denver Metro Convention and Visitor's Bureau, Inc. 1555 California St., Suite 300 Denver, Colorado 80202
West Colfax BID 1700 Lincoln St., Suite 3800 Denver, Colorado 80203	Denver Urban Renewal Authority 1555 California St., Suite 200 Denver, Colorado 80202
Downtown Denver BID 511 16 th St., Suite 200 Denver, Colorado 80202	Water Board 1600 W. 12 th Ave. Denver, Colorado 80204

3. FIDUCIARY COMPONENT UNIT.

Denver Employees Retirement Plan (DERP) – The DERP is a separate legal entity established by City ordinance to provide pension benefits for substantially all City employees, except police officers and fire fighters. The Mayor appoints the members of the DERP governing board. The DERP is presented herein in the City's fiduciary funds as a Pension Trust Fund. The net assets of the DERP are held for the sole benefit of the participants and are not available for appropriation by the City.

4. RELATED ORGANIZATIONS.

The City appoints members to the boards of the following organizations. The City's accountability for the organizations does not extend beyond making these appointments and there is no fiscal dependency by these organizations on the City.

Denver Health and Hospital Authority (Authority) – The Authority is a political subdivision and body corporate of the State of Colorado. The Authority is governed by a nine member board, all appointed by the Mayor. The Authority entered into contractual agreements with the City to obtain and operate the City's existing hospital system. In accordance with the contractual agreements between the Authority and the City, the City paid the Authority \$51,199,000 for providing various health related services to the City and its residents during 2007. In addition, the Authority made payments in the amount of \$1,896,000 to the City for police, fire, legal and human resources services.

Denver Housing Authority (DHA) – The DHA was created by ordinance in accordance with U.S. Department of Housing and Urban Development (HUD) regulations. Its five member board controls the daily administration and operations of the DHA. The DHA is dependent on Federal funds from HUD and, as a result, is not financially dependent on the City. In addition, the City is not responsible for any deficits incurred and has no fiscal management control over the DHA.

Denver Public Library Trust (DPL Trust) – The DPL Trust is a charitable entity formed by the Library Commission and the DPL Friends Foundation to accept inherited interests through a bequest. All assets of the DPL Trust derive from a percentage of an interest in two real estate partnerships. The Library Commission appoints the trustees of the DPL Trust. All funds received by the DPL Trust are deposited into a bank account managed by the DPL Trust and quarterly transferred to the DPL Friends Foundation. The monies may be requested during the Denver Public Library's annual budget request from the DPL Friends Foundation.

Lowry Economic Redevelopment Authority (Lowry) – Lowry was created as a public entity by contract between the City and another local government under the Colorado Governmental Immunity Act, C.R.S. Section 24-10-01. Lowry is a separate legal entity intended to maintain, manage, promote, and implement economic redevelopment of the former Lowry Air Force Base. The City is not fiscally accountable for Lowry. Lowry is governed by a nine member board of directors of which the Mayor appoints seven.

Stapleton Development Corporation (SDC) – The City and DURA created a nonprofit corporation whose objectives would include, but not be limited to, planning an orderly public purpose assessment and redevelopment program for the former Stapleton International Airport property and implementing the redevelopment plan for the property. The SDC board of directors is composed of 11 voting members; the Mayor appoints 9 and 2 are appointed by DURA. All 11 members are confirmed by the City Council. SDC is not financially accountable to either the City or DURA, as the City and DURA cannot impose their will on SDC, nor does a financial benefit or burden exist between the entities. SDC has entered into a contractual agreement with the City whereby the City paid SDC \$1,500,000 for management services during 2007.

Note B – Government-Wide And Fund Financial Statements

The government-wide financial statements, which include the statement of net assets and statement of activities, report information on all of the non-fiduciary activities of the primary government and its component units. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities, which generally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely generally on fees and charges to external parties. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of net assets reports all of the City's assets and liabilities, with the difference between the two presented as net assets.

The statement of activities demonstrates the extent to which the direct expenses of a given function or business-type activity is offset by program revenues. Direct expenses are clearly identifiable with a specific function. Program revenues include: 1) charges to customers who purchase, use, or directly benefit from goods, services provided by

the programs, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, fiduciary funds, even though the latter are excluded from the government-wide financial statements, and component units. The emphasis of fund financial statements is on major governmental funds, enterprise funds, and component units, each reported as a separate column. All remaining governmental funds, enterprise funds, and component units, are aggregated and reported as nonmajor funds.

Note C – Measurement Focus, Basis Of Accounting, And Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary, fiduciary, and component unit fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. On an accrual basis, property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they are measurable and available. Available means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period or when matured. The City considers all revenue as available, if collected within 60 days after year-end. Property taxes, sales and use taxes, franchise taxes, occupational privilege taxes, interest revenue, grant revenue, and charges for services are susceptible to accrual. Other receipts, fines, licenses, permits, and parking meter revenues become measurable and available when cash is received by the City and are recognized as revenue at that time. Grant revenue is considered available if it is expected to be collected within one year and all eligibility requirements are met. Expenditures are recorded when the related liability is incurred, except for debt service expenditures, and certain compensated absences and claims and judgments, which are recognized when the payment is due.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be reported in another fund.
- The Human Services special revenue fund is used to account for proceeds of restricted revenue to be used for public assistance and welfare activities.
- The Bond Projects capital projects fund is used to account for proceeds from the issuance of long-term debt to be used for paying the cost of projects as set forth in bond issuing ordinances.

The City reports the following major proprietary funds:

- The Wastewater Management fund accounts for the City's storm and sewer operations.
- The Denver Airport System fund accounts for the operation of the City's airport system which includes Denver International Airport.

The City reports the Denver Convention Center Hotel Authority, Denver Urban Renewal Authority, and Water Board component units as major component units.

Additionally, the City reports the following fund-types:

- Internal service funds account for the print shop, fleet maintenance, asphalt plant, and workers' compensation services provided to the various departments and agencies of the City on a cost reimbursement basis.
- The private-purpose trust funds are used to account for resources legally held in trust by the City for use by various organizations for various purposes, i.e., COBRA payments and unclaimed warrants. All resources of the funds, including any earnings on invested resources, may be used to support the various activities of the organizations. There is no requirement to preserve the resources as capital.

- Pension trust funds account for the Denver Employees Retirement Plan and Deferred Compensation Plan which accumulate resources for pension benefit payments to qualified City employees and amounts employees defer from their income.
- Agency funds account for the Employee Salary Redirect plan, clearing funds for payroll and benefit provider payments, and collected receipts being temporarily held for allocation to other entities. The agency funds are custodial in nature and do not involve measurement of results of operations.

The City reports its government-wide and enterprise fund financial statements following all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless the pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins. Governments are given the option whether or not to apply all FASB Statements and Interpretations issued after November 30, 1989, for their enterprise funds and business-type activities. The City has elected not to implement this option. However, certain component units, including the Denver Art Museum, Inc., Denver Museum of Nature and Science, and the Denver Metro Convention and Visitor's Bureau, Inc. have elected this option.

The effect of interfund activity generally has been eliminated from the government-wide financial statements. Exceptions to this practice include payments and other charges between the City's enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions affected.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services. Operating expenses for the enterprise and internal service funds include the administrative expenses, cost of sales and services, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, the City uses the restricted resources first, then unrestricted resources as needed.

Note D – Assets, Liabilities, and Net Assets or Equity

- 1. Cash and Investments.** For the primary government, except when prohibited by trust agreements, the operating cash in each fund is maintained in one of three pools in the City Treasury: the general, wastewater, and airport system pools. Cash in excess of operating requirements is invested by the City Treasurer. The City Charter, Section 2.5.3(C) and the Denver Revised Municipal Code, Section 20-21, authorize that investments may be made in U.S. Government obligations, prime commercial paper, prime bankers' acceptances, repurchase agreements, forward purchase agreements, securities lending, highly rated municipal securities, and other similar securities as may be authorized by ordinance. The pension trust funds and component units maintain deposits and investments outside of the City Treasurer's pools. These are primarily in demand deposits and U.S. Government obligations. Some pension trust funds have investments in real property.

Investments are stated at fair value, which is primarily determined based upon quoted market prices at year-end. Fair values of real estate and other investments are determined by independent periodic appraisals.

- 2. Cash Equivalents.** The City considers all investments held in the treasurer's general pool to be cash equivalents. For the treasurer's wastewater and airport system pools, the pension trust funds, and the component units, investments with maturities of three months or less from the date of purchase are considered cash equivalents.
- 3. Property Taxes Receivable.** Property taxes are reported as a receivable and as deferred revenue when the levy is certified by the City's Assessor on or before December 15 of each year, unless there is a special election. Property taxes receivable is reduced by an allowance for uncollectible taxes. Property taxes are due and considered earned on January 1 following the year levied. The first and second halves become delinquent on March 1 and June 16, respectively. Tax rate levy authority for the 2007 fiscal year was approved when Resolution 180, Series of 2007, was adopted by the City Council and approved by the Mayor.

- 4. Water and Wastewater Service Accounts.** Sanitary sewer accounts are maintained, billed, and collected by the Water Board component unit in connection with its water accounts. The Wastewater Management enterprise fund is responsible for billing and collecting storm drainage charges using a cycle billing system. Flat rate accounts and certain cycle billings are billed in advance on a monthly basis and revenues relating to future years are classified as deferred revenue. Metered accounts are billed in arrears and have been accrued.
- 5. Interfund Receivables/Payables.** During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. The balances from these transactions are classified as "interfund receivable" or "interfund payable" on the balance sheet. Other interfund receivables/payables between individual funds have occurred because some funds have overdrawn their equity share of pooled cash.
- 6. Due From Other Governments.** Due from other governments includes amounts due from grantors for grants for specific programs and capital projects. Program and capital grants for capital assets are recorded as receivables and revenues when all eligibility requirements are met. Revenues received in advance of project costs being incurred or for which eligibility requirements have not been met are deferred. In the governmental funds, revenue recognition depends on the timing of cash collections (availability).
- 7. Inventories and Prepaid Items.** The City values inventories at cost, which approximates market, and accounts for them using either the weighted average method or the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when purchased.

Payments made to vendors for services representing costs applicable to future accounting periods are recorded as prepaid items in both the government-wide and fund financial statements.

- 8. Restricted and Designated Assets.** Certain assets of the General Fund, General Government special revenue fund and certain component units are classified as restricted assets because their use is completely restricted by State statute (see Note IV-E-8)

In the General Fund and Human Services special revenue fund, certain monies related to capital leases (see Note III-E-1) are classified as restricted in accordance with lease requirements.

Certain resources of the governmental activities and the Denver Airport System enterprise fund are classified as restricted assets because their use is limited by applicable bond covenants. These covenants require the accumulation of resources for current principal and interest on both bonds and subordinate bonds, principal and redemption price on term bonds subject to mandatory redemption, principal and interest emergency reserve, and operating and maintenance emergency reserve.

Certain assets of the Environmental Services enterprise fund have been restricted by external parties to be used for future plant and equipment expenditures and payment of certain liabilities.

Resources received through donor-restricted endowments are classified as restricted assets in the Denver Art Museum, Inc and Denver Museum of Nature and Science component units. The net appreciation on donor investments is not restricted, and for 2007, the amounts are \$19,000 and \$37,000 respectively.

- 9. Capital Assets.** Land, collections, construction in progress, buildings, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities, or component unit columns of the government-wide financial statements. Such assets are recorded at cost or estimated cost if purchased or constructed. Donated capital assets are recorded at their estimated fair value at the date of donation. The capitalization threshold of the City is \$5,000. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Assets under capital leases are recorded at the present value of future minimum lease payments and are amortized on a straight-line basis over the shorter of the lease term or the estimated useful life of the asset.

Capital assets of the City and certain component units are depreciated on a straight-line basis over the following estimated useful lives:

Buildings and improvements	5 to 100 years
Motor vehicles and motorized equipment	5 to 20 years
Furniture, machinery, and equipment	3 to 20 years
Collections	15 years
Infrastructure	6 to 50 years

Collections primarily include library books which are depreciated over a 15-year life using the composite method. The Western History artwork collection, valued at \$13,540,000 is not capitalized because these assets are held for public exhibition rather than financial gain. They are protected and preserved and proceeds from any sales must be used to acquire other items for collection.

Assets held for disposition consist primarily of the net book value of the Stapleton International Airport, which ceased aviation operations on February 27, 1995 and are recorded in the Denver Airport System enterprise fund. No depreciation is recorded for assets held for disposition. In addition, assets held for disposition in governmental funds consist of foreclosed property pending future sale.

10. Long-term Obligations. The City records long-term debt and other long-term obligations as liabilities in the government-wide and proprietary fund financial statements. Bond premiums, discounts, deferred refunding gains (losses), and issuance costs, are deferred and amortized over the life of the bonds using the effective interest method or the straight-line method over the term of the debt, except for deferred refunding gains (losses) which are amortized using the same methods over the shorter of the term of either the new or old debt. Bond premiums, discounts, and deferred refunding gains (losses) are presented as an addition or reduction (net) of the face amount of the bond payable. Bond issuance costs are recorded as deferred charges.

In the fund financial statements for governmental fund-types, bond premiums, discounts, and issuance costs are recognized as expenditures during the current period. Bond proceeds and bond premiums are reported as an other financing source. Bond discounts are reported as an other financing use. Issuance costs, even if withheld from actual net proceeds received, are reported as debt service expenditures.

11. Compensated Absences. The City has vacation and sick leave policies covering substantially all of its employees, as follows:

Career Service Authority
 Fire and Police Departments' Classified Service
 Undersheriff
 District Attorney and Judges

Employees may accumulate earned but unused benefits up to a specified maximum. The City has recorded an accrued liability for compensated absences in the government-wide and proprietary fund financial statements that was calculated using the vesting method. A liability is recorded for these compensated absences in the governmental funds only if they have matured as a result of employee resignations or retirements.

12. Net Assets. In the government-wide and fund financial statements, net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, less accumulated depreciation less any outstanding debt related to the acquisition, construction, or improvement of those assets. Certain net assets are restricted for capital projects, emergency use, debt service, and by donor restrictions.

13. Fund Equity. In the fund financial statements, governmental funds report reservations of fund balance representing amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

14. Encumbrances. In 2007 the City discontinued maintaining contracts and purchase orders in the budget year that they were established and reappropriated the encumbrances against the 2008 budget. As a result, the City no longer reports encumbrances as a reserve of fund balance on the balance sheet. As of December 31, 2007, \$9,821,000 was reappropriated against the general fund 2008 budget for remaining prior year encumbrances.

Note E – Implementation of New Accounting Principles

- 1. Governmental Accounting Standards Board Statement No. 45.** In 2007, the City implemented the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB)*, which establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and required supplementary information, where applicable, in the financial reports of state and local governmental employers.
- 2. Governmental Accounting Standards Board Statement No. 48.** In 2007, the City implemented the provisions of GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which establishes criteria that governments will use to ascertain whether transactions should be regarded as sales or as collateralized borrowings. The statement also includes disclosure requirements for future revenues that are pledged or sold. The implementation had no impact on the financial statements or note disclosures.
- 3. Governmental Accounting Standards Board Statement No. 50.** In 2007, the City implemented the provisions of GASB Statement No. 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27)*, which amended the financial note disclosures for pension plans.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Note A – Deficit Fund Equity

At December 31, 2007, the Workers' Compensation internal service fund (see Note IV-B), and the DURA and Denver Convention Center Hotel Authority component units had deficit fund balances or net assets in the amounts of \$12,812,000, \$257,612,000 and \$19,563,000, respectively.

The City closely monitors the situation in the internal service funds and deficits are funded through unreserved fund balance/unrestricted net assets of other funds.

The DURA component unit uses Tax Increment Financing (TIF), which is additional incremental property and sales taxes generated by redevelopment projects, to fund its deficit net assets. The Denver Convention Center Hotel Authority component unit will use revenue from its hotel facility to fund its deficit net assets.

Note B – Excess Expenditures Over Appropriations

Budget basis expenditures exceeded appropriations for certain funded projects shown in **Table 1**.

Table 1

Excess Expenditures Over Appropriations

For the Year Ended December 31, 2007 (dollars in thousands)

	Appropriation	Budget Basis Expenditures	Excess over Appropriation
Mayor's Office	\$ 1,768	\$ 1,770	\$ 2
Auditor - Airport Office	913	927	14
Department of Finance	32,376	32,810	434
DOF Adams Mark Tax Increment	762	1,049	287
District Attorney	16,309	16,347	38
Fire	95,811	96,096	285
Police Airport	3,445	3,506	61
Safety Administration	3,648	3,761	113
Art, Culture, Film	1,209	1,220	11

The expenditures, which resulted in excess of appropriations, were recorded because a liability had been incurred before year-end.

III. DETAILED NOTES FOR ALL FUNDS

Note A – Deposits and Investments

- 1. Deposits.** The City's deposits, except for the Denver Employees Retirement Plan (DERP) pension trust fund, and certain component units' deposits are subject to, and in accordance with, the State of Colorado's Public Deposit Protection Act (PDPA). In addition, the City's investment policy requires that certificates of deposit be purchased from institutions that are certified as Eligible Public Depositories by the appropriate state regulatory agency. Under the PDPA, all deposits exceeding the amount insured by the FDIC are to be fully collateralized with specific approved securities identified in the act valued at least 102% of the deposits. The eligible collateral pledged must be held in custody by any Federal Reserve Bank, or branch thereof, or held in escrow by some other bank in a manner as the banking commissioner shall prescribe by rule and regulation, or may be segregated from the other assets of the eligible public depository and held in its own trust department. All collateral so held must be clearly identified as being security maintained or pledged for the aggregate amount of public deposits accepted and held on deposit by the eligible public depository. Deposits collateralized under the PDPA are considered collateralized with securities held by the pledging financial institutions' trust department or agent in the "City's name."

At December 31, 2007, the bank balance and carrying amounts of accounts managed by the City Treasurer were \$20,369,000 and \$24,802,000 respectively. The carrying amount includes outstanding warrants of (\$40,682,000), and DERP deposits of \$40,536,000.

Custodial credit risk is the risk that, in the event of a failure of a financial institution or counterparty, the City would not be able to recover its deposits, investments or collateral securities. St. Paul/Travelers Insurance manages an owner-controlled insurance plan on behalf of the Denver Airport System. St. Paul pays claims from an escrow account held in the Denver Airport System's name that is uninsured, uncollateralized, and subject to custodial credit risk. The balance of the account at December 31, 2007 was \$186,000. All other City deposits, except for the DERP pension trust fund, and certain component units are not subject to custodial credit risk since they are deposited in certified eligible public depositories under the PDPA.

The DERP has no formal policy for custodial credit risk for deposits. At December 31, 2007, the DERP had \$3,321,000 in uninsured and uncollateralized deposits.

- 2. Investments.** It is the policy of the City to invest its funds in a manner which will provide for the highest investment return consistent with the preservation of principal and provision of the liquidity necessary for daily cash flow demands. The City's investment policy applies to all investment activity of the City under the control of the Manager of Finance (the Manager), including investments of certain monies related to all governmental and business-type activities, and trust and agency funds. The City's investment policy does not apply to the investments of the deferred compensation plan or component units. Other monies that may from time to time be deposited with the Manager for investment shall also be administered in accordance with the investment policy.

The City Charter, Section 2.5.3(c), and Revised Municipal Code, Section 20-21, authorize the investments that the City can hold. The investment policy requires that investments shall be managed in accordance with portfolio theory management principles to compensate for actual or anticipated changes in market interest rates. To the extent possible, investment maturity will be matched with anticipated cash flow requirements of each investment portfolio. Additionally, to the extent possible, investments will be diversified by security type and institution. This diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. Deviations from expectations shall be reported in a timely fashion and appropriate action taken to control adverse developments.

The City has retained Dominion Capital Group, Inc. (DCG) to perform quarterly reviews of the investment portfolio to ensure that the investments are authorized by the Denver City Charter and are in compliance with the City's Investment Policy. DCG also reviews investment market prices for accuracy as well as the accuracy of the portfolio performance as reported by the City.

At December 31, 2007, the City's investment balances were as shown in **Table 2**.

Table 2**City Investment Balances**

December 31, 2007 (dollars in thousands)

	Fair Value
Repurchase agreements	\$ 2,149
Money market funds	47,046
Local government investment pool	211
Commercial paper	703,909
Common stock	1,226,839
Mutual funds	313,258
State and local government securities	15,291
U.S. Treasury securities	258,608
U.S. agency securities	1,202,838
Corporate and mortgage bonds	383,143
Annuity contracts	155,935
Real estate	238,387
Other	123,631
Total Investments	\$ 4,671,245

The DERP pension trust fund had securities lending collateral of \$279,711,000 at December 31, 2007; see Note III-A-4 for additional discussion related to this balance.

At December 31, 2007, the investment balances of the discretely presented component units were as shown in **Table 3**.

Table 3**Component Units Investment Balances**

December 31, 2007 (dollars in thousands)

	Fair Value
Money market funds	\$ 108,022
Local government investment pool	19,400
Commercial paper	51,906
Mutual funds	4,473
U.S. Treasury securities	73,591
U.S. agency securities	67,923
Investment contracts	40,499
Corporate bonds	10,690
Other	532
Total Investments	\$ 377,036

A reconciliation of cash and investments as shown in the basic financial statements as of December 31, 2007, is shown in **Table 4**.

Table 4**Reconciliation of Cash and Investments**

December 31, 2007 (dollars in thousands)

	Primary Government	Component Units	Total
Governmental and Business-type Activities			
Cash on hand	\$ 4,456	\$ 54	\$ 4,510
Cash and cash equivalents	603,176	52,329	655,505
Investments	302,979	210,759	513,738
Restricted cash and cash equivalents	390,917	10,087	401,004
Restricted investments	759,381	123,462	882,843
Total Governmental and Business-type Activities	2,060,909	396,691	2,457,600
Fiduciary			
Cash on hand	4,810	-	4,810
Cash and cash equivalents	54,069	-	54,069
Investments	2,585,525	-	2,585,525
Total Fiduciary	2,644,404	-	2,644,404
Total	4,705,313	396,691	5,102,004
Less deposit balance	(34,068)	(19,655)	(53,723)
Total Investments	\$ 4,671,245	\$ 377,036	\$ 5,048,281

Interest Rate Risk - Interest rate risk is the risk that changes in the financial market rates of interest will adversely affect the value of an investment. The City's investment policy limits interest rate risk for investments under the control of the Manager by limiting the maximum maturity of investments. Investments in commercial paper have a maximum maturity of 270 days. At December 31, 2007, the City's commercial paper maturity dates ranged from January 2, 2008 to August 1, 2008. Bond reserve proceeds that are invested in U.S. Treasury and agency securities have a maximum maturity of ten years. All other U.S. Treasury and agency securities can have a maximum maturity of five years.

At December 31, 2007, the City's investment balances and maturities for those investments subject to interest rate risk (excluding the DERP) is shown in **Table 5** (dollars in thousands):

Table 5

Investment Type	Fair Value	Investment Maturities in Years			
		Less than 1	1 - 5	6 - 10	Greater than 10
Commercial Paper	\$ 703,909	\$ 703,909	\$ -	\$ -	\$ -
U.S. Treasury securities	101,980	25,152	51,310	25,518	-
U.S. agency securities	1,200,772	555,504	365,959	230,044	49,265
Total	\$ 2,006,661	\$ 1,284,565	\$ 417,269	\$ 255,562	\$ 49,265

The City's portfolio of U.S. agency securities includes callable securities and securities with scheduled interest changes. If a callable investment is purchased at a discount the maturity date is assumed to be the maturity date of the investment. If the investment is bought at a premium, the maturity date is assumed to be the call date. As of December 31, 2007, the City owned callable securities with a fair value of \$310,713,000. Of these, securities with scheduled changes to predetermined interest rates had a fair value of \$45,953,000.

The Manager is authorized to waive certain portfolio constraints when such action is deemed to be in the best interest of the City. The Manager has waived the maximum maturity for certain investments in U.S. agency securities that are part of the Denver Airport System structured pool created to facilitate an economic defeasance of a portion of the future debt service payments due on certain airport system bonds and also the investments held for the Cable Land Trust.

The DERP limits its exposure to fair value losses due to rising interest rates by limiting investment duration as the primary measure of interest rate risk within some of its fixed income investments: intermediate – one to eight years and high yield – between (+) or (-) 10% of the duration of the Merrill Lynch High yield Cash Pay Index. At December 31, 2007, the DERP pension trust fund investment balances and maturities for those investments subject to interest rate risk are shown in **Table 6** (dollars in thousands).

Table 6

Investment Type	Fair Value	Investment Maturities in Years			
		Less than 1	1 - 5	6 - 10	Greater than 10
U.S. Treasury securities	\$ 156,628	\$ 11,745	\$ 59,175	\$ 54,280	\$ 31,428
U.S. agency securities	2,066	-	-	-	2,066
Asset backed	8,342	-	3,424	1,957	2,961
Corporate backed	239,079	7,409	69,510	126,268	35,892
Mortgage backed	135,722	12,876	39,712	19,172	63,962
Total	\$ 541,837	\$ 32,030	\$ 171,821	\$ 201,677	\$ 136,309

Credit Quality Risk - Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations to the City. National rating agencies assess this risk and assign a credit quality rating for most investments. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not assigned credit quality ratings. Credit quality ratings are reported on obligations of U.S. Government agencies that are not explicitly guaranteed by the U.S. Government. The City's investment policy requires that commercial paper and bankers acceptances be rated by at least two of the recognized rating agencies and have a minimum rating of A-1, P-1, or F1 from Standard & Poor's, Moody's, and Fitch, respectively, at the time of purchase. As of December 31, 2007, the City owned commercial paper with a fair value of \$703,909,000 that had two ratings of at least A-1 as rated by Standard & Poor's, P-1 as rated by Moody's, or F1 as rated by Fitch.

The DERP pension trust fund investment policy states that the DERP fixed income investment managers, excluding the DERP high yield manger, invest only in securities that are rated at BBB- or higher by one of the three established rating agencies. The DERP investment policy is less stringent for the DERP single high yield investment manger who is permitted to invest in securities rated B- or higher. The high yield manger is also permitted to invest 5% of its portfolio temporarily in bonds rated CCC or lower.

Information on the credit ratings associated with the DERP investments in debt securities at December 31, 2007, is shown in **Table 7** (dollars in thousands).

Table 7

S&P	Moody's	Asset Backed	Corporate Bonds	Mortgage Bonds	Total
AAA	Aaa	\$ 7,790	\$ 7,414	\$ 103,628	\$ 118,832
AAA	NR	-	-	8,141	8,141
AA+ to AA-	A1 to Aa3	-	47,136	3,582	50,718
A+ to A-	A1 to Baa2	-	45,307	-	45,307
A-1+	P-1	-	-	12,857	12,857
BBB+ to BBB-	A3 to Baa3	-	30,626	-	30,626
BB+ to BB-	B1 to Ba3	545	37,227	1,521	39,293
B+ to B-	B1 to Caa1	-	56,823	-	56,823
CCC+ to CCC	B3	-	2,283	-	2,283
NR	Aaa to Baa2	7	9,393	5,993	15,393
NR	NR	-	2,870	-	2,870
Total		\$ 8,342	\$ 239,079	\$ 135,722	\$ 383,143

NR - no rating.

Custodial Credit Risk - Custodial credit risk for investments is the risk that, in the event of a failure, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if they are uninsured, are not registered in the City's name, and are held by either the counterparty to the investment purchase or are held by the counterparty's trust department or agent but not held in the City's name. None of the City's investments owned at December 31, 2007, were subject to custodial credit risk.

In accordance with the City's investment policy, all of the City's repurchase agreements are collateralized at 102% of the market value of the portfolio by U.S. agency securities at the time of purchase. Collateral valuation is calculated and adjusted at least once per week, and adjusted on an as needed basis. Collateral for all investments, including repurchase agreements, are held in the City's name by the City's custodian, J.P. Morgan. The City did not own any repurchase agreements in its investment portfolio on December 31, 2007.

The Office of Economic Development has several accounts at Vectra Bank in relation to its HUD Section 108 programs. The amounts in these accounts are held in the City's name, protected by the PDPA. In addition, Vectra pledges securities that are direct obligation of the U.S. Government, at a minimum collateralized value of 102% in compliance with HUD's investment requirements.

Concentration of Credit Risk - The City's investment policy states that a maximum of 5% of the portfolio may be invested in commercial paper or certificates of deposit issued by any one provider. As of December 31, 2007, all investments in commercial paper and certificates of deposit are in compliance with this policy.

The DERP investment policy mandates that no managed account may invest more than 5% of managed assets in the securities of a single issuer. As of December 31, 2007, all DERP investments were in compliance with this policy.

Foreign Currency Risk - Foreign Currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The City's investment policy, excluding the DERP pension trust fund, does not allow for investments in foreign currency. The DERP pension trust fund investment policy allows 15% to 19% of total investments to be invested in international equities. The DERP pension trust fund exposure to foreign currency risk as of December 31, 2007, is reflected in **Table 8** (dollars in thousands):

Table 8

Foreign Currency	U.S. Dollars
Equities:	
Euro	\$ 144,861
British Pound	83,154
Japanese Yen	58,512
Swiss Franc	24,869
Australian Dollar	15,643
Hong Kong Dollar	10,462
Sedish Krona	8,259
Singapore Dollar	7,441
Norwegian Krone	5,718
Danish Krone	2,942
Canadian Dollar	699
New Zealand Dollar	105
Subtotal	362,665
Cash:	
British Pound	6
Subtotal	6
Total Foreign Deposits and Investments	\$ 362,671

- 3. Discrete Component Units.** To limit exposure to interest rate risk, the Water Board's investment policy limits investments to 270 days for commercial paper, 3 years for corporate fixed income securities, 4 years for U.S. agency securities, 5 years for U.S. Treasury securities, and 7 business days for repurchase agreements.

At December 31, 2007, the Water Board's investment balances and maturities are shown in **Table 9** (dollars in thousands):

Table 9

Investment Type	Fair Value	Investment Maturities in Years		
		Less than 1	1 - 5	6 - 10
U.S. Treasury securities	\$ 73,591	\$ 58,464	\$ 15,127	\$ -
U.S. agency securities	67,923	50,569	17,354	-
Commercial paper	51,906	51,906	-	-
Corporate obligations	2,438	1,532	906	-
Total	\$ 195,858	\$ 162,471	\$ 33,387	\$ -

The Water Board limits the purchase of investments in commercial paper to those rated either A1 or better by Standard & Poor's or P1 by Moody's. Corporate bonds must have an investment grade rating by either Standard & Poor's or Moody's. As of December 31, 2007, all of the Water Board's investments in commercial paper were rated A1 or better by Standard & Poor's or P-1 by Moody's. All corporate bonds held by the Water Board on December 31, 2007, were rated AA- or better by Standard & Poor's or Aa3 or better by Moody's.

- 4. Securities Lending.** The City participates in a securities lending program with certain qualified dealers. The securities are loaned to the dealer up to a maximum of up to one year in exchange for a predetermined fee. The City continues to receive interest earnings on the loaned securities. The securities are collateralized by the dealer. The collateral is held in the City's name by J.P. Morgan, the City's custodian. Collateral is limited to U.S. Government and/or its Agencies' securities with a maximum maturity of 10 years. Only those securities issued by Agencies approved for purchase under the City's investment policy are acceptable as collateral for these agreements. The initial market value of the collateral for each investment position maintained with a dealer shall be 102% of the market value of the securities being collateralized. Market value includes

investment principal plus accrued interest. Collateral valuation levels with each dealer must be determined on at least a weekly basis, and deficiencies from the required 102% level must be cured no later than the following business day. The loans can be terminated at the request of either party on demand. The City had no securities on loan as of December 31, 2007.

The DERP pension trust fund participates in a securities lending program to augment income. The program is administered by the DERP custodial agent bank, which lends certain securities for a predetermined period of time, to an independent broker/dealer (borrower) in exchange for collateral. Collateral may be cash, U.S. Government securities, defined letters of credit or other collateral approved by the DERP. Loans of domestic securities are initially collateralized at 102% of the fair value of securities lent. Loans of international securities are initially collateralized at 105% of the fair value of securities lent. The DERP continues to receive interest and dividends during the loan period as well as a fee from the borrower. There are no restrictions on the amount of securities that can be lent at one time. At December 31, 2007, the fair value of underlying securities lent was \$321,539,000. The fair value of associated collateral was \$329,565,000; of this amount, \$279,711,000 represents the fair value of cash collateral and \$49,855,000 is the fair value of non-cash collateral.

Note B – Receivables

- 1. Accounts and Notes Receivable Allowances.** The City reviews its accounts receivables periodically and allowances for doubtful accounts are established based upon management's assessment of collection. **Table 10** represents the allowances for doubtful accounts at December 31, 2007:

Table 10

Allowances for Doubtful Accounts

December 31, 2007 (dollars in thousands)

	Governmental Activities	Business-type Activities	Fiduciary Funds
General Fund	\$ 24,795	\$ -	\$ -
Human Services	1,039	-	-
Other Governmental Funds	45,965	-	-
Wastewater Management	-	974	-
Denver Airport System	-	677	-
Agency	-	-	5,987
Total	\$ 71,799	\$ 1,651	\$ 5,987

- 2. Notes Receivable.** The special revenue funds' and general fund notes receivable balance at December 31, 2007, is shown in **Table 11** (dollars in thousands):

Table 11

Neighborhood Development Loans	\$ 4,608
Economic Development Loans	43,979
Housing Development Loans	73,335
Total Office of Economic Development	121,922
Less allowances for delinquent loans	(895)
Less allowances for forgivable loans	(40,456)
Notes Receivable, Net	\$ 80,571

Allowance for uncollectibles for notes receivable of \$41,351,000 is included in the accounts receivable allowance of \$71,799,000 above.

The Neighborhood, Economic and Housing Development loans are funded from both federal U.S. Housing and Urban Development grants and City monies designated for affordable housing. Recipients of affordable housing loans target low and moderate income households, special needs and the homeless. Rental and Occupancy Covenants are recorded on these properties for affordability periods of 20 years or more. Housing loans may be

fully deferred and forgivable at the end of the affordability period, due and payable in full, or due and payable based on occupancy rates or other conditions. The Economic Development loans are made to qualified program recipients under the Community Development Block Grant to provide business owners with funds to promote job creation and growth in targeted areas. Loans are collateralized by the underlying properties.

3. **Long-Term Receivables Allowance.** Included in long-term receivables are amounts related to reimbursement for construction costs, parking fines, court fines, and library fines. The City recorded an allowance for uncollectible accounts for governmental activities of \$23,653,000. The DURA component unit recorded an allowance of \$4,214,000.
4. **Operating Leases.** The Denver Airport System leases portions of its Denver International Airport buildings and improvements to airline and concession tenants under non-cancelable operating leases. Lease terms vary from 1 to 30 years. The operating leases require retail concessions to pay a minimum guarantee or percentage of gross receipts, whichever is greater. Revenue from these operating leases of \$69,412,000 was recognized in the Denver Airport System enterprise fund during the year ended December 31, 2007. Minimum future rentals due from concessions under operating leases are shown in **Table 12** (dollars in thousands):

Table 12

Year	
2008	\$ 45,383
2009	44,554
2010	43,641
2011	41,588
2012	39,704
2013 - 2017	46,357
2018 - 2022	-
Total	\$ 261,227

Leases with airlines with terms of 10 years and 30 years are terminable by the airline if the airline's cost per enplaned passenger exceeds \$25 and \$20 (in 1990 dollars), respectively. Rental rates for airlines are established using the rate making methodology whereby a compensatory method is used to set terminal rental rates and a residual method is used to set landing fees. Rentals, fees, and charges must generate gross revenues together with other available funds sufficient to meet rate maintenance covenants per governing bond ordinances.

Note C – Interfund Receivables, Payables, and Transfers

Tables 13 and 14 reflect the City's interfund balances as of December 31, 2007 (dollars in thousands):

1. Interfund Payables/Receivables.

Table 13

Receivable Fund	Payable Fund								
	General Fund	Human Services	Bond Projects	Non-major Governmental	Wastewater Management	Denver Airport System	Non-major Business-type	Internal Service	Total
General Fund	\$ -	\$ 1,965	\$ 56	\$ 4,017	\$ 5,188	\$ 17,764	\$ 1,052	\$ 935	\$ 30,977
Human Services	-	-	-	56	-	-	-	-	56
Non-major Governmental	281	3,653	-	68	1	4	213	91	4,311
Wastewater Management	-	-	339	-	-	452	-	-	791
Denver Airport System	-	-	-	415	-	-	-	-	415
Internal Service Funds	2,493	75	-	85	488	21	18	13	3,193
Total	\$ 2,774	\$ 5,693	\$ 395	\$ 4,641	\$ 5,677	\$ 18,241	\$ 1,283	\$ 1,039	\$ 39,743

These balances result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. In addition, some balances result from the overdraft of cash balances in the payable funds.

Table 14

Transfers In	Transfers Out					Total
	General Fund	Human Services	Non-major Governmental	Wastewater Management	Non-major Business-type	
General Fund	\$ -	\$ -	\$ 32,333	\$ -	\$ -	\$ 32,333
Non-major Governmental	44,163	32	6,557	11	2,250	53,013
Total	\$ 44,163	\$ 32	\$ 38,890	\$ 11	\$ 2,250	\$ 85,346

2. Transfers.

Transfers are used to move revenues from the fund in which the City budget requires collection to the fund required to expend the monies, and to move unrestricted revenues collected in the General Fund to finance various activities accounted for in other funds.

Note D – Capital Assets

Capital asset activity for the year ended December 31, 2007, are shown in **Tables 15 and 16**:

Table 15

Governmental Activities

For the Year Ended December 31, 2007 (dollars in thousands)

	January 1	Additions	Deletions	December 31
Capital assets not being depreciated:				
Land and land rights	\$ 245,403	\$ 1,009	\$ (139)	\$ 246,273
Construction in progress	46,487	99,200	(43,950)	101,737
Total capital assets not being depreciated	291,890	100,209	(44,089)	348,010
Capital assets being depreciated:				
Buildings and improvements	1,495,345	46,075	(7,927)	1,533,493
Equipment and other	224,135	33,935	(16,690)	241,380
Collections	75,422	4,808	(5,136)	75,094
Infrastructure	956,679	53,626	(2,896)	1,007,409
Total capital assets being depreciated	2,751,581	138,444	(32,649)	2,857,376
Less accumulated depreciation for:				
Buildings and improvements	(310,179)	(42,788)	1,918	(351,049)
Equipment and other	(157,503)	(24,732)	9,749	(172,486)
Collections	(40,489)	(4,263)	5,159	(39,593)
Infrastructure	(400,452)	(38,170)	2,895	(435,727)
Total accumulated depreciation	(908,623)	(109,953)	19,721	(998,855)
Total capital assets being depreciated, net	1,842,958	28,491	(12,928)	1,858,521
Governmental Activities Capital Assets, net	\$ 2,134,848	\$ 128,700	\$ (57,017)	\$ 2,206,531

1. Governmental Activities.

2. Business-type Activities.

Table 16

Business-type Activities

For the Year Ended December 31, 2007 (dollars in thousands)

	January 1 As Restated	Additions	Deletions	December 31
Capital assets not being depreciated:				
Land and land rights	\$ 305,139	\$ 12,727	\$ -	\$ 317,866
Construction in progress	188,459	208,266	(153,267)	243,458
Total capital assets not being depreciated	493,598	220,993	(153,267)	561,324
Capital assets being depreciated:				
Buildings and improvements	1,936,449	73,769	(14,277)	1,995,941
Improvements other than buildings	2,505,160	76,071	(2,761)	2,578,470
Machinery and equipment	600,478	31,291	(11,393)	620,376
Total capital assets being depreciated	5,042,087	181,131	(28,431)	5,194,787
Less accumulated depreciation for:				
Buildings and improvements	(608,572)	(56,511)	6,495	(658,588)
Improvements other than buildings	(722,031)	(65,298)	1,031	(786,298)
Machinery and equipment	(311,273)	(49,083)	9,497	(350,859)
Total accumulated depreciation	(1,641,876)	(170,892)	17,023	(1,795,745)
Total capital assets being depreciated, net	3,400,211	10,239	(11,408)	3,399,042
Business-type Activities Capital Assets, net	\$ 3,893,809	\$ 231,232	\$ (164,675)	\$ 3,960,366

3. Discretely Presented Component Units.

Capital Asset activity for the Water Board and Denver Convention Hotel Authority component units for the year ended December 31, 2007, is shown in Table 17:

Table 17

Discretely Presented Component Units

For the Year Ended December 31, 2007 (dollars in thousands)

	January 1	Additions	Deletions	December 31
Capital assets not being depreciated:				
Land and land rights	\$ 177,147	\$ 3,263	\$ (714)	\$ 179,696
Construction in progress	119,506	43,180	(6,873)	155,813
Total capital assets not being depreciated	296,653	46,443	(7,587)	335,509
Capital assets being depreciated:				
Buildings and improvements	388,862	48,829	(42)	437,649
Improvements other than buildings	1,502,893	(2,474)	(1,132)	1,499,287
Machinery and equipment	196,065	13,365	(8,974)	200,456
Total capital assets being depreciated	2,087,820	59,720	(10,148)	2,137,392
Less accumulated depreciation for:				
Buildings and improvements	(50,511)	(10,563)	37	(61,037)
Improvements other than buildings	(415,353)	6,449	562	(408,342)
Machinery and equipment	(51,661)	(43,415)	7,263	(87,813)
Total accumulated depreciation	(517,525)	(47,529)	7,862	(557,192)
Total capital assets being depreciated, net	1,570,295	12,191	(2,286)	1,580,200
Discretely Presented Component	\$ 1,866,948	\$ 58,634	\$ (9,873)	\$ 1,915,709 ¹

¹Excludes net capital assets of \$18,957 of Other Component Units.

- 4. Depreciation Expense.** Depreciation expense that was charged to governmental activities' functions is shown in **Table 18** (dollars in thousands):

Table 18

General government	\$ 16,392
Public safety	11,592
Public works, including depreciation of infrastructure	45,569
Human services	767
Health	176
Parks and recreation	7,865
Cultural activities	26,703
Community development	56
Economic opportunity	5
Capital assets held by internal service funds	828
Total	<u>\$ 109,953</u>

- 5. Construction Commitments.** The City's governmental and business-type activities and component units have entered into construction and professional services contracts having remaining commitments under contract as of December 31, 2007, as shown in **Table 19** (dollars in thousands):

Table 19**Governmental Activities:**

Bond Projects	\$ 121,634
Entertainment and Culture	3,050
Total Governmental Activities	<u>\$ 124,684</u>

Business-type Activities:

Wastewater Management	\$ 19,000
Denver Airport System	135,486
Total Business-type Activities	<u>\$ 154,486</u>

Component Units:

Denver Convention Center Hotel Authority	\$ 78
Water Board	135,500
Total Component Units	<u>\$ 135,578</u>

The commitments for these funds are not reflected in the accompanying financial statements. Only the unpaid amounts incurred to date for these contracts are included as liabilities in the financial statements.

Note E – Lease Obligations

- 1. Capitalized Leases.** The governmental activity capital leases are for various properties including the Wellington Webb Municipal Office Building, 2000 West Third Avenue, the Blair-Caldwell Research Library, the Buell Theatre, the 5440 Roslyn maintenance facility property, a jail dorm building, three fire stations, portions of two parking garages, and an internal service fund building. The capital leases also include certain computer and safety equipment, PeopleSoft accounting software, the Figaro simultext system, and a production press. The Water Board leases are for 40% of the storage capacity and 40% of the water rights of Ritschard Dam and Wolford Mountain Reservoir, and leases of certain facilities.

The related net book values of plant and equipment under capital lease obligations as of December 31, 2007, are shown in **Table 20** (dollars in thousands):

Table 20

	Governmental Activities	Component Unit Water Board
Buildings	\$ 351,316	\$ 31,149
Land	17,314	-
Improvements other than buildings	-	90,854
Equipment	31,609	-
Less accumulated depreciation	(75,662)	(28,778)
Net Book Value	<u>\$ 324,577</u>	<u>\$ 93,225</u>

Table 21 is a schedule by year of future minimum lease obligations together with the present value of the net minimum lease payments as of December 31, 2007 (dollars in thousands):

Table 21

	Governmental Activities	Component Unit Water Board
2008	\$ 29,758	\$ 10,578
2009	30,279	10,599
2010	30,903	10,582
2011	32,557	16,113
2012	33,522	5,211
2013 - 2017	176,882	23,842
2018 - 2022	145,705	7,500
2023 - 2027	101,741	-
2028 - 2031	38,136	-
Total minimum lease payments	619,483	84,425
Less amounts representing interest	(202,569)	(19,849)
Present Value of Minimum Lease Payments	<u>\$ 416,914</u>	<u>\$ 64,576</u>

- 2. Operating Leases.** The City is committed under various cancelable leases for property and equipment. These leases are considered for accounting purposes to be operating leases. Lease expenses for the year-ended December 31, 2007 were approximately \$7,104,000, \$458,000, and \$2,322,000 for the governmental activities, business-type activities, and component units, respectively. The City expects these leases to be replaced in the ordinary course of business with similar leases. Future minimum lease payments should be approximately the same amount.

Note F – Other Liabilities

The Denver Airport System establishes annually, as adjusted semi-annually, airline facility rentals, landing fees, and other charges sufficient to recover the costs of operations, maintenance, and debt service related to the airfield and space utilized by the airlines. Any differences between amounts collected and actual costs allocated to the airline's leased space are credited or billed to the airlines. As of December 31, 2007, the Denver Airport System has accrued a liability of \$1,489,000 for such amounts due to the airlines.

For the years ended December 31, 2000 through 2005, 75% of Net Revenues (as defined by bond ordinance) remaining at the end of each year is to be credited in the following year to the passenger airlines signatory to use and lease agreements; and thereafter it is 50%, capped at \$40,000,000. The Net Revenues credited to the airlines for the year-ended December 31, 2007 were \$40,000,000 and have been accrued as a liability at year-end.

Note G – Long-Term Debt

- 1. General Obligation Bonds.** The City issues general obligation bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are reported in the business-type funds if they are expected to be repaid from business-type fund revenues.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds are generally issued as 15-year serial bonds, except for refunding issues. General obligation bonds outstanding, excluding unamortized premium of \$21,911,597, at December 31, 2007 are shown in **Table 22** (dollars in thousands):

Table 22

Purpose	Net Interest Cost	Interest Rates	Amount
General government	3.14% to 4.90%	3.00% to 5.75%	\$ 422,924
Water Board component unit refunding	n/a	3.00% to 3.00%	61,545
Total			\$ 484,469

On December 31, 2007, the City had \$750,365,000 in authorized but unissued general obligation bonds. Of this amount, \$174,135,000 is for the new Justice System Facilities and \$26,500,000 is for improvements to the City Zoo, and \$549,730,000 is for the Better Denver Bond Projects authorized by the Denver voters in November 2007.

General obligation bonds have been issued by the Gateway Village General Improvement District; however, these bonds are solely the obligation of the District and not the primary government. These bonds are outstanding at December 31, 2007 in the amount of \$2,520,000.

Annual debt service requirements to maturity for general obligation bonds are shown in **Table 23** (dollars in thousands):

Table 23

	Governmental Activities				Component Unit-Water Board	
	General Government		General Improvement District		Principal ²	Interest
	Principal ¹	Interest	Principal	Interest		
2008	\$ 41,880	\$ 20,361	\$ 230	\$ 100	\$ 18,820	\$ 2,931
2009	35,305	18,100	415	92	11,555	2,006
2010	23,460	16,339	545	77	3,080	1,548
2011	24,380	15,184	565	59	4,265	1,391
2012	25,375	13,982	325	39	1,595	1,178
2013 - 2017	142,529	53,379	360	91	7,790	4,749
2018 - 2022	85,475	30,327	80	5	2,890	3,660
2023 - 2027	44,520	4,524	-	-	-	3,233
2028 - 2032	-	-	-	-	11,550	1,292
Total	\$ 422,924	\$ 172,196	\$ 2,520	\$ 463	\$ 61,545	\$ 21,988

¹Does not include \$1,578 and \$291 of compound interest on the series 1999A and 2007 mini-bonds respectively.

²Does not include unamortized premium of (\$32) and deferred amount on refunding of (\$62).

In April 2007, the City issued \$8,860,500 of General Obligation Mini-Bonds, Series 2007 for the purpose of financing a portion of the City's new Justice System Facilities. The bonds are compound interest bonds that were priced at \$500 per \$1,000 of principal and interest due at maturity in 2022.

2. **Revenue Bonds.** The City and component units issue bonds and notes where income derived from acquired or constructed assets is pledged to pay debt service. Certain Airport systems and Art Museum revenue bonds are subject to mandatory redemption requirements in 2008 and subsequent years. Revenue bonds outstanding, excluding unamortized premium (net of discount) of \$87,266,000 and deferred amount on refunding of (\$315,282,000), at December 31, 2007 are shown in **Table 24** (dollars in thousands):

Table 24

Purpose	Net Interest Cost	Interest Rates	Amount
Excise tax revenue	5.04% to 5.41%	4.00% to 5.50%	\$ 93,675
Excise tax refunding	3.40% to 5.11%	2.375% to 5.50%	210,430
Wastewater	4.98%	4.25% to 5.50%	25,430
Golf	4.80%	4.00% to 5.50%	6,480
Airport system	4.07% to 9.14%	3.41% to 14.00%	4,198,850
Total primary government			4,534,865
DCCHA component unit		4.125% to 5.25%	356,155
Water Board component unit		2.50% to 5.50%	280,080
Total			\$ 5,171,100

Revenue bonds' debt service requirements to maturity are shown in **Tables 25** and **26** (dollars in thousands):

Table 25

	Governmental Activities		Business-type Activities					
	Principal ¹	Interest	Golf Enterprise		Wastewater Management		Denver Airport System	
			Principal ²	Interest	Principal ³	Interest	Principal ⁴	Interest
2008	\$ 13,175	\$ 14,168	\$ 370	\$ 312	\$ 1,180	\$ 1,270	\$ 103,830	\$ 206,003
2009	14,490	13,623	385	297	1,235	1,220	104,695	199,589
2010	14,945	12,960	400	282	1,300	1,167	113,105	193,993
2011	16,085	12,200	425	260	1,365	1,109	137,490	187,741
2012	17,085	11,384	450	237	1,430	1,047	145,335	180,021
2013 - 2017	93,675	42,809	2,585	837	8,315	4,090	932,570	766,983
2018 - 2022	83,695	18,783	1,865	185	10,605	1,693	1,223,870	514,597
2023 - 2027	50,955	2,322	-	-	-	-	1,058,260	210,724
2028 - 2032	-	-	-	-	-	-	340,145	62,622
2033 - 2037	-	-	-	-	-	-	39,550	1,978
Total	\$ 304,105	\$ 128,249	\$ 6,480	\$ 2,410	\$ 25,430	\$ 11,596	\$ 4,198,850	\$ 2,524,251

¹Does not include unamortized premium of \$13,734 and deferred amount on refunding of (\$2,643).

²Does not include unamortized premium of \$59.

³Does not include unamortized premium of \$73.

⁴Does not include unamortized premium of \$58,422 and deferred amount on refunding of (\$303,121).

Table 26

	Component Units			
	DCCHA		Water Board	
	Principal ¹	Interest	Principal ²	Interest
2008	\$ 265	\$ 17,669	\$ 4,270	\$ 12,850
2009	1,960	17,655	12,345	12,656
2010	2,800	17,557	21,240	12,060
2011	3,100	17,417	5,985	10,974
2012	3,835	17,262	14,440	10,680
2013 - 2017	27,540	82,829	75,790	42,588
2018 - 2022	45,835	74,573	57,060	27,557
2023 - 2027	69,975	60,792	35,730	14,451
2028 - 2032	100,405	40,534	23,380	8,591
2033 - 2037	100,440	11,277	29,840	3,969
Total	\$ 356,155	\$ 357,565	\$ 280,080	\$ 156,376

¹Does not include unamortized premium of \$8,871 and deferred amount on refunding of (\$8,232).

²Does not include unamortized premium of \$6,107 and deferred amount on refunding of (\$1,286).

In April 2007, the Airport drew on the Airport System Subordinate Commercial Paper 2006A notes with an outstanding principal of \$30 million and was refunded on August 29, 2007, with 2007A and 2007B series.

In August 2007, the Airport issued \$188,350,000, \$24,250,000, \$34,635,000, and \$147,815,000 of Airport System Revenue Bonds, Series 2007A, 2007B, 2007C, and 2007D in fixed rate mode for the purposes of refunding Commercial Paper Notes, advance refunding the Series 2003B bonds and for new money for capital improvements.

In October 2007, the Airport issued \$31,950,000 and \$47,400,000 of Airport System Revenue Bonds, Series 2007D2 and 2007E in fixed rate mode for the purpose of funding capital improvement projects.

In November 2007, the Airport issued \$208,025,000 and \$148,500,000 of Airport System Revenue Bonds, Series 2007F1-F4 and 2007G1-G2 in auction rate mode and variable rate mode respectively, for the purpose of current refunding a portion of the Series 1997E bonds.

The proceeds of the 2007C, 2007F1-F4 and 2007G1-G2 bonds were used together with other Airport monies, to advance refund a portion of the 2003B and currently refund a portion of the 1997E bonds. The 2007C, 2007F1-F4 and 2007G1-G2 bonds are structured to provide the Airport with approximately level annual debt service savings. Debt service savings for the refunding is estimated to be \$47,333,000. The economic gain resulting from the transaction is estimated to be \$29,848,000. The current refunding resulted in a defeasance of debt between the reacquisition price of \$392,900,000 and the net carrying amount of the old debt of \$370,677,000, and the recognition of a deferred loss on refunding in the amount of \$22,223,000. The deferred loss on refunding is being amortized over the remaining life of the old debt.

The proceeds of the 2006A-B bonds were used, together with other Airport monies, to currently refund all of the outstanding Series 1996A, 1996D and all but \$12,605,000 of the 1996B and 1996C Airport System Revenue Bonds. Series 2006A-B bonds are structured to provide the Airport with maximum interest savings through 2010 which will be applied to meet a portion of the airline rates and cost reduction goals in the United Stipulated Order. Interest savings for refunding is \$39,809,000 and debt service savings is \$53,304,000 (including principal). The economic gain resulting from the transaction was \$32,671,000. The Airport realized a cash flow savings of \$985,000 with this transaction in 2006. The current refunding resulted in a defeasance of debt between the reacquisition price of \$474,321,000 and the net carrying amount of the old debt of \$430,543,000, and the recognition of a deferred loss on refunding in the amount of \$43,778,000. The deferred loss on refunding is being amortized over the remaining life of the old debt.

- 3. Other Debt.** DURA component unit tax increment bonds, note payable, and loan payable exclusive of unamortized loss on refunding of \$2,354, at December 31, 2007, are comprised of the following individual issues shown in **Table 27** (dollars in thousands):

Table 27

Purpose	Interest Rates	Amount
Series 1992A	9.125%	\$ 2,200
Series 2002A	Variable less than 12.0%	5,975
Series 2004 A-1	5.259% to 6.300%	75,000
Series 2004 B-1	4.644% to 8.000%	200,000
Series 2006A	Variable	10,830
Series 2006B	Variable	13,210
Series 2006C	Variable	20,200
Series 2006D	Variable	6,200
Series 2007	5.25%	4,380
Note payable	6.00%	1,598
Loan payable	Variable	1,784
Total		\$ 341,377

Debt service requirements to maturity for DURA's note, loan and bond issues are shown in **Table 28** (dollars in thousands):

Table 28

Year	Principal	Interest
2008	\$ 8,087	\$ 20,347
2009	15,592	18,066
2010	17,767	16,688
2011	18,709	15,789
2012	19,833	14,848
2013 - 2017	110,825	58,469
2018 - 2022	92,125	26,155
2023 - 2026	58,439	4,084
Total	\$ 341,377	\$ 174,446

- 4. Indentures and Reporting Requirements.** The City is subject to a number of limitations and restrictions contained in various indentures. Such limitations and covenants include: continued collection of pledged revenues, segregation of pledged revenues, and maintenance of specified levels of bond reserve funds, permissible investment of bond proceeds and pledged revenues, and ongoing disclosure to the secondary bond market in accordance with the Securities and Exchange Commission's Rule 15c2-12. The City believes it is in compliance with all significant covenants.
- 5. Notes payable.** The Denver Airport System entered into Master Installment Purchase Agreements with Siemens Financial Services, GE Capital Public Finance Inc., and Koch Financial Corporation to fund a portion of the construction of a baggage screening system and to finance various capital asset purchases. The payment schedule relating to the loan requirements as of December 31, 2007, is shown in **Table 29** (dollars in thousands):

Table 29

Year	Principal	Interest
2008	\$ 12,139	\$ 2,403
2009	11,469	1,911
2010	11,555	1,439
2011	9,185	949
2012	3,479	674
2013 - 2016	13,844	1,197
Total	\$ 61,671	\$ 8,573

The City has a note payable with JP Morgan Chase Bank of New York in the amount of \$14,038,000 as of December 31, 2007. This represents Housing and Urban Development (HUD) loans that are due regardless of amounts received from borrowers.

- 6. Line of Credit.** Fannie Mae, a private corporation, has extended a Line of Credit Agreement of \$17,500,000 to the City to provide loans for affordable housing. The line of credit balance outstanding as of December 31, 2007, is \$735,000 and represents a liability to Fannie Mae.

7. Changes in Long-term Liabilities. Long-term liability activity for the year ended December 31, 2007 is shown in **Table 30** and **31** (dollars in thousands):

Table 30

Governmental Activities	January 1	Additions	Deletions	December 31	Due within one year
Legal liability	\$ 2,500	\$ -	\$ 980	\$ 1,520	\$ 1,520
Line of credit	5,209	-	4,474	735	-
Compensated absences:					
Classified service employees - 3,249	54,387	35,700	26,730	63,357	5,535
Career Service employees - 5,666	42,757	26,176	28,725	40,208	3,637
Claims payable	31,258	9,886	8,648	32,496	11,690
General obligation bonds ¹	473,671	9,367	58,245	424,793	41,880
GID general obligation bonds	2,725	-	205	2,520	230
Excise tax revenue bonds	313,920	-	9,815	304,105	13,175
Capitalized lease obligations ²	430,477	-	13,563	416,914	29,758
Unamortized premium	40,415	-	4,769	35,646	4,544
Unamortized gain on refunding	2,852	-	210	2,642	210
Other governmental funds - note payable	16,082	461	2,505	14,038	-
Total Governmental Activities	\$ 1,416,253	\$ 81,590	\$ 158,869	\$ 1,338,974	\$ 112,179

¹Additions and deletions to general obligation bonds include accretion of \$507.

²Deletions include \$143 paid by an internal service fund.

The legal liability, compensated absences, claims payable and other accrued liabilities in the governmental activities are generally liquidated by the General Fund. The other governmental funds – note payable is liquidated by the Community Development special revenue fund. The amount available for long-term debt in the debt service funds for bonds payable and in the special revenue fund was \$59,292,000.

Table 31

	January 1	Additions	Deletions	December 31	Due within one year
Business-type Activities					
Wastewater Management					
Revenue bonds	\$ 26,565	\$ -	\$ 1,135	\$ 25,430	\$ 1,180
Unamortized premium	78	-	5	73	-
Compensated absences	2,068	1,652	1,449	2,271	539
Total Wastewater Management	28,711	1,652	2,589	27,774	1,719
Denver Airport System:					
Revenue bonds	3,869,785	860,925	531,860	4,198,850	103,830
Unamortized premium and deferred loss on refunding	(261,884)	(5,121)	22,306	(244,699)	-
Notes payable	88,985	-	27,314	61,671	12,139
Compensated absences	6,695	798	202	7,291	1,914
Total Denver Airport System	3,703,581	856,602	581,682	4,023,113	117,883
Nonmajor enterprise funds:					
Revenue bonds	6,840	-	360	6,480	370
Unamortized premium	69	-	10	59	-
Compensated absences	654	380	250	784	169
Total nonmajor enterprise funds	7,563	380	620	7,323	539
Total Business-type Activities	\$ 3,739,855	\$ 858,634	\$ 584,891	\$ 4,058,210	\$ 120,141
Major Component Units:					
Revenue bonds ¹	\$ 545,760	\$ 100,000	\$ 4,065	\$ 641,695	\$ 4,535
General obligation bonds ²	86,433	-	24,982	61,451	18,820
Capitalized lease obligations	70,742	-	6,166	64,576	7,040
Increment bonds and notes payable ³	340,091	4,847	5,975	338,963	8,087
Customer advances	45,008	22,140	15,785	51,363	-
Compensated absences	7,082	1,907	2,152	6,837	2,365
Other post employment benefits	-	3,591	-	3,591	-
Other long term liabilities	2,421	72	-	2,493	-
Total Major Component Units	\$ 1,097,537	\$ 132,557	\$ 59,125	\$ 1,170,969	\$ 40,847

¹Includes unamortized premium of \$14,978; and deferred loss on refunding of (\$9,518).

²Includes unamortized discount of (\$32) and deferred loss on refunding of (\$62).

³Includes deferred amount on refunding of (\$2,414).

- 8. Swap Agreements.** On September 6, 2006, the City entered into interest rate swap agreements to protect against interest rates rising prior to the issuance of its 2008 general obligation bonds. The \$174,135,000 in unissued bonds and supplemental interest registered coupons in the amount of \$11,785,000 are authorized for the Justice System Facilities and were issued in February 2008 (see Note-IV-D-2). No cash was paid or received by either party when the swap was initiated.

The fair value of the swaps as of December 31, 2007 was (\$9,599,000). The year-end fair values were calculated using the mid-market LIBOR and BMA swap curves as of December 31, 2007. Fair values represent the difference between the present value of the fixed payments and the present value of the floating payments, at forward floating rates as of December 31, 2007. When the present value of payments to be made by the City exceeds the present value of payments to be received, the swap has a negative value to the City. When the present value of payments to be received by the City exceeds that of payments to be made, the swap has a positive value to the City.

Terms

- Counterparties: Morgan Stanley Capital Services, Inc. (Morgan Stanley Capital) and JPMorgan Chase Bank, N.A. (JPMorgan). The notional amount of each swap is \$91.5 million for a total of \$183 million.
- Effective Date: February 28, 2008
- Mandatory Unwind Date: February 28, 2008
- Fixed Rate Payer: City and County of Denver.
- Fixed Rate: 4.136%
- Floating Rate Payers: Morgan Stanley Capital Services and JP Morgan
- Floating Rate: USD-BMA Municipal Swap Index

Early Termination – The City may terminate the swap agreement at any time at its sole discretion. Additionally, either the City or the counterparties may choose to terminate the swap if a default or termination event occurs. Default events include events such as failure to pay, breach of agreement, misrepresentation, and bankruptcy. Termination events include changes in applicable law and the credit ratings of the parties falling below a specified minimum.

For the City to terminate the swap agreements under the default or termination event provisions, a termination event will occur if the minimum credit ratings of any two of the following senior unsecured ratings of JP Morgan and Morgan Stanley, Morgan Stanley Capital's credit support provider, falls below AA- in the case of Standard & Poor's and Fitch, and Aa3 in the case of Moody's. JP Morgan and Morgan Stanley Capital have the option to cure any such event within 45 days by 1) transferring all rights and obligations under the swap to another entity acceptable to the City, 2) obtaining a letter of credit or financial guaranty insurance policy acceptable to the City, or 3) posting collateral pursuant to terms specified in the agreement. In addition, a termination event will occur if any of the City's outstanding unenhanced general obligation bonds falls below BBB in the case of Standard & Poor's, BBB in the case of Fitch, or Baa2 in the case of Moody's.

For the counterparties to terminate the swap agreements under the default or termination event provisions, a termination event will occur if one of more of the City's outstanding unenhanced general obligation bonds falls below any two of the following minimums: BBB in the case of Standard & Poor's and Fitch and Baa2 in the case of Moody's. If this happens, the City has the option to cure any such event within 45 days by obtaining a letter of credit acceptable to the counterparties. In addition, a termination event will occur if any of the City's outstanding unenhanced general obligation bonds falls below BBB- in the case of Standard & Poor's, BBB- in the case of Fitch, or Baa3 in the case of Moody's.

Credit Risk – As of December 31, 2007 the City was not exposed to credit risk since the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to the risk of the counterparties being unable to fulfill their financial obligation to the City in the amount of the swaps' fair value. The City mitigates this risk by the minimum credit ratings of the counterparties described above. As of December 31, 2007, JP Morgan had senior unsecured ratings of AA- by Standard & Poor's and Fitch, and Aa2 by Moody's. Morgan Stanley had senior unsecured ratings of AA- by Fitch, Aa3 by Moody's, and A+ by Standard & Poor's.

Termination Risk – If the swap has a negative fair value and is terminated, the City would be liable to the counterparties for the fair value of the swap. Additionally, the City would no longer be hedged against an increase in interest rates for the 2008 general obligation bonds. At December 31, 2007, the City's ratings on general obligation bonds were AA+ by Fitch and Standard & Poor's and Aa1 by Moody's. The City is not aware of any events that would lead to early termination of the swap.

The Denver Airport System has entered into interest rate swap agreements in order to lock in interest rate savings and protect against rising interest rates. **Table 32** is a summary of the interest rate swap transactions (dollars in thousands):

Table 32

Year	Principal	Interest	Interest Rate Swaps Net	Total
2008	\$ 800	\$ 47,683	\$ 9,855	\$ 58,338
2009	900	47,652	9,849	58,401
2010	900	47,619	10,361	58,880
2011	900	47,585	10,728	59,213
2012	1,000	47,551	10,720	59,271
2013 - 2017	158,845	229,540	52,337	440,722
2018 - 2022	595,740	158,564	34,987	789,291
2023 - 2025	377,025	30,613	3,952	411,590
Total	\$ 1,136,110	\$ 656,807	\$ 142,789	\$ 1,935,706

Variable Rate Bonds and Swap payments are calculated using rates in effect on December 31, 2007, as shown in **Table 33** (dollars in thousands)

Table 33

Counterparty	Trade Date	Effective Date	Notional Amount	Termination Date	Associated Debt Series	Payable Swap Rate	Variable Receivable Swap Rate	Fair Values 12/31/07
1998 Swap Agreements								
Goldman Sachs Capital Markets, L.P.	1/22/98	10/4/00	\$ 100,000	11/15/25	2000B	4.7600%	Bond Rate	\$ (15,238)
Lehman Brothers Special Financing, Inc.	1/22/98	10/4/00	\$ 100,000	11/15/25	2000B	4.7600%	Bond Rate	(15,238)
Societe Generale, New York Branch	1/22/98	10/4/00	\$ 100,000	11/15/25	2000C	4.7190%	Bond Rate	(14,803)
1999 Swap Agreements								
Goldman Sachs Capital Markets, L.P.	7/22/99	10/4/01	\$ 100,000	11/1/22	2001C1-4	5.6179%	BMA	(22,774)
Merrill Lynch Capital Services, Inc.	7/22/99	10/4/01	\$ 50,000	11/1/22	2001C1-4	5.5529%	BMA	(11,165)
RFPC, LTD.	7/22/99	10/4/01	\$ 50,000	11/1/22	2001C1-4	5.6229%	BMA	(11,412)
2002 Swap Agreements								
Goldman Sachs Capital Markets, L.P.	4/11/02	4/15/02	\$ 100,000	11/1/22	2001C1-4	BMA	76.33% LIBOR	1,473
RFPC, LTD.	4/11/02	4/15/02	\$ 100,000	11/1/22	2001C1-4	BMA	76.00% LIBOR	1,331
2005 Swap Agreements								
Royal Bank of Canada	4/14/05	11/15/06	\$ 55,917	11/15/25	2006A	3.6560%	70% LIBOR	(3,780)
JP Morgan Chase Bank, N.A.	4/14/05	11/15/06	\$ 55,917	11/15/25	2006A	3.6874%	70% LIBOR	(4,028)
Jackson Financial Products, LLC	4/14/05	11/15/06	\$ 111,834	11/15/25	2006A	3.6560%	70% LIBOR	(7,688)
Piper Jaffray Financial Products, Inc.	4/14/05	11/15/06	\$ 55,917	11/15/25	2006A	3.6600%	70% LIBOR	(3,780)
2006B Swap Agreements								
Royal Bank of Canada	8/9/06	11/15/06	\$ 55,917	11/15/25	2006A	BMA	4.0855%	2,845
JP Morgan Chase Bank, N.A.	8/9/06	11/15/06	\$ 55,917	11/15/25	2006A	BMA	4.0855%	2,845
Jackson Financial Products, LLC	8/9/06	11/15/06	\$ 111,834	11/15/25	2006A	BMA	4.0855%	5,690
Piper Jaffray Financial Products, Inc.	8/9/06	11/15/06	\$ 55,917	11/15/25	2006A	BMA	4.0855%	2,845
2006A Swap Agreements								
Bear Stearns Capital Markets, Inc.	6/1/06	11/15/07	\$ 180,850	11/15/25	2007F-G	4.0085%	70% LIBOR	(13,902)
Lehman Brothers Special Financing, Inc.	6/1/06	11/15/07	\$ 120,567	11/15/25	2007F-G	4.0085%	70% LIBOR	(9,268)
GKB Financial Services Corp.	6/1/06	11/15/07	\$ 60,283	11/15/25	2007F-G	4.0085%	70% LIBOR	(4,634)
2007A Swap Agreements (Forward Starting in 2010)								
Bear Stearns Capital Markets, Inc.	12/21/07	5/1/10	\$ 150,000	11/1/22	2001C1-C4	76.165% 1M	65.55% 10Y	106
Royal Bank of Canada	12/21/07	5/1/10	\$ 50,000	11/1/22	2001C1-C4	76.165% 1M LIBOR	66.55% 10Y LIBOR	35
TOTAL								\$ (120,540)

Payments by the Denver Airport System to counterparties relating to these swap agreements, including termination payments, are Subordinate Obligations, subordinate to debt service payments on Denver Airport System's Senior Bonds, and on parity with Denver Airport System's Subordinate Bonds. The year-end fair values were calculated using the mid-market LIBOR and BMA swap curves as of December 31, 2007. Fair values represent the difference between the present value of the fixed payments and the present value of the floating payments, at forward floating rates as of December 31, 2007.

The following risks are generally associated with the swap agreements:

Credit Risk – All of the Denver Airport System’s swap agreements rely upon the performance of swap counterparties. The Denver Airport System is exposed to the risk of these counterparties being unable to fulfill their financial obligations to the Denver Airport System. The Denver Airport System measures the extent of this risk based upon the credit ratings of the counterparty and the fair value of the swap agreement. If the Denver Airport System delivers a surety policy or other credit support document guaranteeing its obligations under the swap agreement that is rated in the highest rating category of either Standard & Poor’s, Moody’s Investors Service or Fitch, for any swap agreement, the counterparty to that agreement is obligated to either be rated, or provide credit support securing its obligations under the swap agreement rated in the highest rating category of either Standard & Poor’s, Moody’s Investors Service or Fitch; or, under certain circumstances, provide collateral. The Denver Airport System is obligated, under the swap agreements, to provide such surety policy or credit support if the unsecured and unenhanced ratings of the Denver Airport System’s Senior Bonds is below any two of BBB by Standard & Poor’s, Baa2 by Moody’s Investors Service or BBB by Fitch. As of December 31, 2007, the ratings of the Denver Airport System’s Senior Bonds were A+ by Standard & Poor’s (with a stable outlook), A1 by Moody’s Investors Service (with a stable outlook) and A+ by Fitch (with a stable outlook). Therefore, no surety policy or credit has been provided to the counterparties by the Denver Airport System. Failure of either the Denver Airport System or the counterparty to provide credit support or collateral, as described in the swap agreements, is a termination event under the swap agreements (see termination risk below). The ratings of the counterparties, or their credit support providers, as of December 31, 2007 are shown in **Table 34**:

Table 34

Counterparty (Credit Support Provider)	Ratings of the Counterparty or its Credit Support Provider		
	S&P	Moody's	Fitch
Bear Stearns Capital Markets, Inc. (Bear Stearns Companies)	A	A2	A+
Bear Stearns Financial Products, Inc.	AAA	Aaa	AAA
GKB Financial Services Corporation II, Inc. (Societe Generale New York Branch)	AA	Aa1	AA
Goldman Sachs Capital Markets, L.P. (Goldman Sachs Group, Inc.)	AA-	Aa3	AA-
Jackson Financial Products, LLC (Merrill Lynch & Co., Inc.)	A+	A1	A+
JP Morgan Chase Bank, N.A.	AA	Aaa	AA-
Lehman Brothers Special Financing, Inc. (Lehman Brothers Holdings, Inc.)	A+	A1	AA-
Merrill Lynch Capital Services, Inc. (Merrill Lynch & Co., Inc.)	A+	A1	A+
Piper Jaffray Financial Products, Inc. (Morgan Stanley Capital Services, Inc.)	AA-	Aa3	AA-
RFPC, LTD (Ambac Assurance Corp.)	AAA	Aaa	AA
Royal Bank of Canada	AA-	Aaa	AA
Societe Generale, New York Brance	AA	Aa1	AA

As of December 31, 2007, there was no risk of loss for the swap agreements that had negative fair values. For the swap agreements that had positive fair values, the risk of loss is the amount of the derivative’s fair value.

Termination Risk – Any party to the Denver Airport System’s swap agreements may terminate the swap if the other party fails to perform under the terms of the contract. Additionally, the Denver Airport System may terminate any of its swap agreements at any time at its sole discretion. Further, certain credit events can lead to a termination event under the swap agreements (see Credit Risk above). If, at the time of termination, the swap has a negative fair value, the Denver Airport System could be liable to the counterparty for a payment equal to the swap’s fair value. If any of the Denver Airport System’s swap agreements are terminated, the associated variable rate bonds would either no longer be hedged with a synthetic fixed interest rate or the nature of the basis risk associated with the swap agreement may change. The Denver Airport System is not aware of any existing event as of December 31, 2007, that would lead to a termination event with respect to any of its swap agreements.

Basis Risk – Each of the Denver Airport System’s swap agreements are associated with certain debt obligations. The debt associated with each of the swap agreements pays interest at variable interest rates. The Denver Airport System receives variable payments under its swap agreements. To the extent the variable rate on the associated debt is based on an index different from that used to determine the variable payments received by the Denver Airport System under the swap agreement, there may be an increase or decrease in the synthetic interest rate intended under the swap agreement.

The Denver Urban Renewal Authority (“Authority”) has entered into interest rate swap agreements in order to lock in interest rate savings and protect against rising interest rates. **Table 35** provides a summary of the interest rate swap transactions (dollars in thousands):

Table 35

Counterparty	Trade Date	Effective Date	Notional Amount	Termination Date	Associated Debt Series	Payable Swap Rate	Variable Receivable Swap Rate	Fair Values 12/31/07
2004 Swap Agreements								
Merrill Lynch Capital Services, Inc.	5/11/04	5/1/07	\$ 34,995	12/1/24	2004A-1	5.259%	BMA	\$ (4,958)
Lehman Brothers Special Financing Inc.	5/11/04	5/1/07	20,003	12/1/24	2004A-1	5.259%	BMA	(2,835)
Bank of America, N.A.	5/11/04	5/1/07	20,003	12/1/24	2004A-1	5.259%	BMA	(2,835)
2005 Swap Agreements								
Merrill Lynch Capital Services, Inc.	1/28/05	6/1/08	50,000	12/1/24	2004B-1	4.644%	BMA	(5,187)
Lehman Brothers	1/28/05	6/1/08	50,000	12/1/24	2004B-1	4.644%	BMA	(5,187)
2006 Swap Agreements								
Royal Bank of Canada	10/25/06	10/25/06	54,100	9/1/13	2006A,B,C,D	3.816%	BMA	(1,482)
Total								\$ (22,484)

Under the various swap agreements, the Authority is the fixed-rate payer at the rates listed in the “payable swap rate” column in the table above and the counterparties are the floating rate payers.

The year-end fair values were calculated using the mid-market BMA swap curve as of December 31, 2007. Fair values represent the difference between the present value of the fixed payments and the present value of the floating payments, at forward floating rates as of December 31, 2007. There were no payments made or received by the Authority or the counterparties to initiate any of the swaps.

The following risks are generally associated with the swap agreements:

Credit Risk – All of the Authority’s swap agreements rely upon the performance of the respective swap counterparties. The Authority is exposed to the risk of these counterparties being unable to fulfill their financial obligations to the Authority. The Authority measures the extent of this risk based upon the credit ratings of each counterparty (or, with respect to a swap agreement for which the counterparty’s payment obligations are guaranteed by another entity, the credit ratings of such guarantor) and the fair value of the swap agreement. The ratings of the counterparties, or their credit support providers, as of December 31, 2007, are shown in **Table 36**:

Table 36

Counterparty (Credit Support Provider)	Ratings of the Counterparty or its Credit Support Provider		
	S&P	Moody’s	Fitch
Merrill Lynch Capital Services, Inc. (Merrill Lynch & Co., Inc.)	A+	A1	A+
Lehman Brothers Special Financing Inc. (Lehman Brothers Holdings Inc.)	A	A1	AA-
Bank of America, N.A.	AA+	Aa1	AA
Royal Bank of Canada	AA-	Aaa	AA

As of December 31, 2007, there was no risk of loss to the Authority since the fair values of the swap agreements are negative.

Termination Risk – Any party to the Authority’s swap agreements may terminate the swap if the other party fails to perform under the terms of the contract. Additionally, the Authority may terminate any of its swap agreements at any time at its sole discretion, provided that if the Authority would be required to make a termination payment to the applicable counterparty upon such termination.

If any of the Authority’s swap agreements are terminated, and the associated bonds are then in variable rate mode, such bonds would no longer have the benefit of the interest rate risk hedge represented by such swap agreement. The Authority is not aware of any current circumstances that would lead to a termination event with respect to any of such swap agreements.

Basis Risk – Each of the Series 2004A-1, Series 2004B-1 and Series 2006 Swap Agreements provide for the applicable counterparty to pay variable payments to the Authority based on the BMA Municipal Swap Index. To the extent that the rate produced by such index from time to time does not equal the interest rate on the associated Series 2004A-1, Series 2004B-1 or Series 2006 Bonds, as applicable, there will either be a net loss or net benefit to the Authority.

IV. OTHER NOTE DISCLOSURES

Note A – Risk Management

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. In addition, the City is party to numerous pending or threatened lawsuits under which it may be required to pay certain amounts upon final disposition of these matters. The City has historically retained these risks, except where it has determined that commercial insurance is more cost beneficial or legally required. The City has covered all claim settlements and judgments out of its General Fund resources, except where specifically identifiable to an enterprise fund. The City currently reports substantially all of its risk management activities, except workers' compensation (see Note IV-B), in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Current liabilities are reported when the liability has matured. These losses include an estimate of claims that have been incurred but not reported.

The Lowry Landfill, which accepted hazardous waste from the late 1960s to 1980, is listed on the national Superfund list. This means that the contamination at the site will be cleaned up under the auspices of the U.S. Environmental Protection Agency. Under federal law, the City, as owner and operator of the facility is one of the parties responsible for cleanup of the site. The City's share of the remaining costs for cleanup could be incurred over the next 5 to 30 years. The City's liability for a portion of the cleanup costs is probable, but cannot be reasonably estimated.

The Environmental Protection Agency has listed a large area in north Denver on the National Priorities List of Superfund Sites because of lead, arsenic, and cadmium contamination found in soils in residential neighborhoods. The City owns part of the site and it is probable that some of the investigation and clean up cost will be the City's responsibility. It is not possible to estimate the costs at this early stage.

With respect to matters expecting to be settled subsequent to 2007, the City Attorney estimates the amount of liability determined as probable (in accordance with FASB Statement No. 5) and incurred but not reported claims and judgments at December 31, 2007, to be approximately \$1,520,000, which has been recorded at the government-wide level of reporting as a current liability. The City Attorney also estimates that pending cases having a reasonably possible likelihood of resulting in an additional liability aggregate approximately \$7,250,000 at December 31, 2007. This amount is not recorded in the accompanying financial statements since, in the opinion of management and the City Attorney, it is not probable that a loss has been incurred.

Changes in the long-term legal liability during the past two years are shown in **Table 37** (dollars in thousands):

Table 37

	2007	2006
Beginning balance - January 1	\$ 2,500	\$ 2,650
Current year claims and changes in estimates	581	-
Claims paid	(1,561)	(150)
Ending Balance - December 31	\$ 1,520	\$ 2,500

Pursuant to Colorado law, if a monetary judgment is rendered against the City, and the City fails to provide for the payment of such judgment, the Board of County Commissioners must levy a tax (not to exceed 10 mills per annum) upon all of the taxable property within the City for the purpose of making provision for the payment of the judgment. The City must continue to levy such tax until the judgment is discharged. Such mill levy is in addition to all other mill levies for other purposes. The Colorado Governmental Immunity Act establishes limits for claims made against governmental entities. These limits are \$150,000 per injury or \$600,000 per occurrence.

See Note IV-E-5 regarding Denver Airport System related litigation.

Note B – Workers’ Compensation

The City has a Workers’ Compensation self-insurance trust established in accordance with State Statutes to be held for the benefit of the City’s employees. This trust is included in the Workers’ Compensation internal service fund.

The Workers’ Compensation internal service fund compensates City employees, or their eligible dependents, for injuries as authorized by the State Workers’ Compensation law, in addition to maintaining in-house records of claims. The Workers’ Compensation program is part of the City’s Risk Management Office, which also provides safety training and loss prevention for all City departments and agencies.

The Department of Labor and Employment of the State of Colorado establishes the amount of funding required each year for the City to maintain its self-insured permit. The requirement is calculated using the average amount of claims paid over the previous five years plus the outstanding liability for claims as of the end of the previous year. This requirement at December 31, 2007, for 2008, was \$18,860,000. The Workers’ Compensation internal service fund has current assets and appropriations set aside in 2008 to satisfy this requirement. These funds may only be used for payment of worker’s compensation benefits and administrative costs.

The City has purchased reinsurance coverage in order to reduce its risk. For the period from January 1, 2007 through December 31, 2007, the self-retention amount was \$3,000,000 for all employees. The City had no settlements in the past three years that exceeded its self-retention levels.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated, and includes an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, and other economic and social factors. The liability is reported in the Workers’ Compensation internal service fund. This amount was discounted at 4.93% for the year ended December 31, 2007. Changes in the liability during the past two years are shown in **Table 38** (dollars in thousands):

Table 38

	2007	2006
Beginning balance, undiscounted - January 1	\$ 31,258	\$ 33,192
Current year claims and changes in estimates	19,647	16,453
Claims paid	(8,648)	(9,416)
Ending balance undiscounted	42,257	40,229
Less 4.75% discount	(9,761)	(8,971)
Ending Balance - December 31	\$ 32,496	\$ 31,258

Note C – Water Board Risk Management

The Water Board is exposed to various risks of losses including general liability (limited under the Colorado Governmental Immunity Act to \$150,000 per person and \$600,000 per occurrence), property damage, and employee life, medical, dental, and accident benefits. The Water Board has a risk management program that includes self-insurance for liability, employee medical, long-term disability, dental, and vision. The Water Board carries commercial property insurance for catastrophic losses, including flood, fire, earthquakes, and terrorism for scheduled major facilities: the Westside Complex, Marston Treatment Plant and Lab, Moffat Treatment Plant, Foothills Water Treatment Plant, and the Recycling Plant. The Water Board carries limited insurance for other nonscheduled miscellaneous locations. The Water Board also carries commercial insurance for employee life, accident, short-term disability, and worker’s compensation. Workers’ compensation insurance is under a retrospectively rated policy whereby the initial premiums are adjusted based on actual experience during the period of coverage. Settled claims have not exceeded commercial insurance coverage in any of the past three years.

Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Premiums on retrospectively rated policies are accrued based on the ultimate cost of the experience to date. These losses include an estimate of claims that have been incurred but not reported. At December 31, 2007, claims liabilities consisting of medical and dental benefits were \$1,452,000. Changes in the balances of these liabilities are shown in **Table 39** (dollars in thousands):

Table 39

	2007	2006
Beginning balance - January 1	\$ 1,966	\$ 1,347
Current year claims and changes in estimates	10,310	14,320
Claims paid	(10,824)	(13,701)
Ending Balance - December 31	\$ 1,452	\$ 1,966

Note D – Subsequent Events

1. Denver Airport System.

The Airport System purchased World Port, a cargo property, on March 5, 2008, for \$4,000,000.

The Airport has restructured a significant amount of its outstanding auction rate securities in order to eliminate its exposure to the volatility in interest rates in the auction rate market precipitated by the downgrades in the ratings of bond issuers. Interest rates on the Airport's auction rate debt subsequent to December 31, 2007, have ranged from approximately 3.75% to 8.50%.

The Airport drew \$100 million on March 28, 2008, and April 1, 2008, Commercial Paper to currently refund the Series 2001C1-C2 Auction Rate Securities.

On April 14, 2008, the Airport issued the Series 2008A1-A4 bonds to current refund the Series 2001C3-C4, Series 2002A1-A3, 2005B1-B2 Airport Revenue bonds that are variable rate bonds currently in an auction rate mode, and the Series 2004A-B bonds that are variable rate bonds in weekly mode.

In May of 2008, six of the counterparties to the Airport's swap agreements had their credit ratings downgraded. Bear Stearns Capital Markets, Inc.'s ratings were downgraded from A/A2/A+ by Standard & Poor's, Moody's Investors Service, and Fitch Ratings, respectively, to A-/Baa1/BBB. Subsequent to the downgrades, Bear Stearns Capital Markets, Inc. was acquired on May 30, 2008 by JP Morgan Chase & Co. (rated AA/Aaa/AA-). Lehman Brothers Special Financing, Inc. was downgraded by Standard & Poor's from A+ to A and by Fitch Ratings from AA- to A+. Merrill Lynch Capital Services, Inc. was downgraded from A+/Aa3/AA- to A/A1/A+. Piper Jaffray Financial Products, Inc. (Morgan Stanley Capital Services, Inc.) was downgraded by Standard & Poor's from AA- to A+. Societe Generale, New York Branch's ratings were downgraded from AA/Aa1/AA to AA-/Aa2/AA-. RFPC, LTD (Ambac Assurance Corporation) was downgraded from AAA/Aaa/AAA to AA/Aaa/AA.

On April 10, 2008, Frontier Airlines filed for bankruptcy protection under Chapter 11 of the U. S. Bankruptcy Code. A Chapter 11 filing permits Frontier to continue operations while developing a plan of reorganization to address existing debt, capital and cost structures.

On April 15, 2008, Delta Air Lines announced it had reached an agreement with Northwest Airlines to take over Northwest and create the world's biggest carrier.

- 2. Bond Issuance.** In February 2008, the City issued \$174,135,000 of Justice System Facilities Bonds and supplemental interest registered coupons in the amount of \$11,785,000 to finance a portion of the City's downtown Justice Center complex. The bonds were issued in accordance with the authorization given by Denver voters in 2005 to issue up to \$378,000,000 of general obligation bonds. Concurrent with the issuance of the bonds was the mandatory unwind of the associated interest rate swap agreements with Morgan Stanley Capital Services, Inc. and JP Morgan Chase Bank, N.A. At the time of the unwind the swap agreements had a negative value to the City, resulting in total payments to the counterparties of \$13,420,000.

Note E – Contingencies

- 1. Legal Debt Margin.** Per the City Charter, the City's indebtedness for general obligation bonds shall not exceed three percent of actual value as determined by the last final assessment of the taxable property within the City. At December 31, 2007, the City's General obligation debt outstanding was \$422,924,000 and the City's legal debt margin was \$1,901,399,000.
- 2. Prior Years' Defeased Bonds.** At various dates in prior years, the City and certain component units have placed proceeds from bond issues and cash contributions in irrevocable refunding escrow accounts. The amounts deposited in the irrevocable escrow accounts are invested in U.S. Treasury obligations that, together with interest earned thereon, would provide amounts sufficient for payment of all principal and interest of the bond issues on each remaining payment date. The likelihood of the earnings and principal maturities of the U.S. Treasury obligations not being sufficient to pay the defeased bond issues appears remote. Accordingly, the escrow accounts and outstanding defeased bonds are not included in the accompanying financial statements. Defeased bonds principal outstanding at December 31, 2007, for the City and Water Board component unit was \$179,480,000 and \$9,455,000, respectively.
- 3. Grants and Other.** Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes disallowances, if any, will be immaterial to its financial position and activities.

The City is responsible for administering certain federal and state social services programs for which the related revenue and expenditures are not included in the accompanying financial statements since the state now makes the grant disbursements.

Table 40 lists Denver County electronic benefit transfers (EBT) authorizations, warrant expenditures, and total expenditures associated with the Human Services special revenue fund for the year ended December 31, 2007 (dollars in thousands):

Table 40

Program	City EBT Authorizations	City Share of Authorizations	Expenditures by City Warrant	City EBT Authorized Plus Expenditures by City Warrant		Total Expenditures
Colorado Works	\$ 9,539	\$ 2,029	\$ 22,717	\$ 32,256	\$ 24,746	
Child Care	15,492	1,223	7,604	23,096	8,827	
Child Welfare	39,722	6,313	36,944	76,666	43,257	
County Administration	-	-	18,005	18,005	18,005	
Non-allocated Programs	3	1	190	193	191	
Core Services	7,887	995	1,224	9,111	2,219	
HB 1414 Activities	320	-	1,162	1,482	1,162	
Child Support Enforcement	-	-	11,948	11,948	11,948	
Low Income Energy Assistance	4,651	-	650	5,301	650	
Adult Foster Care	19	1	-	19	1	
Aid to Needy and Disabled	3,344	669	-	3,344	669	
Home Care Allowance	3,432	172	-	3,432	172	
Old Age Pension	18,847	-	677	19,524	677	
Colorado Refugee Services	-	-	65	65	65	
Food Assistance Fraud	-	-	(240)	(240)	(240)	
Food Assistance Benefits	61,303	-	-	61,303	-	
Food Assistance Job Search	-	-	730	730	730	
Employment First	-	-	281	281	281	
Child Support Grants	-	-	468	468	468	
Child Support Default Orders	-	-	40	40	40	
School Readiness Program	-	-	(12)	(12)	(12)	
Title IV-B Sub Part 2 - PSSF	16	-	382	398	382	
Title IV-E Independent Living	20	-	246	266	246	
Family to Family Grant	-	-	44	44	44	
ADP Pass Thru	-	-	119	119	119	
County Only Pass Thru	-	-	6,366	6,366	6,366	
TANF Collects-EBT	(203)	(41)	-	(203)	(41)	
Federal Grants	-	-	4,778	4,778	4,778	
Total	\$ 164,392	\$ 11,362	\$ 114,388	\$ 278,780	\$ 125,750	

¹ Does not include audit adjustments, TANF Collections - IV-D Retained, Medicaid Collections and programs not settled in CRMS, with the exception of Federal grants, which are also captured in the CAFR. It also excludes County Wide Cost Allocation Pass Thru, as these amounts are not retained by Human Services and not earned by expenses incurred by Human Services.

4. Conduit Debt Obligations. From time to time, the City issues industrial revenue bonds, single-family mortgage revenue bonds, multi-family mortgage revenue bonds, construction loan revenue bonds, and special obligation revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of private, industrial, and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Not the City, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2007, the aggregate principal amount payable for the bonds was approximately \$234,918,000.

To finance the acquisition and construction of various facilities at Denver International Airport, the City issued three series of Special Facility Revenue Bonds. These bonds are special limited obligations of the City, payable and secured by a pledge of certain revenues to be received from lease agreements for these facilities. The bonds do not constitute a debt or pledge of the full faith and credit of the City or the Airport System, and accordingly, have not been reported in the accompanying financial statements. As of December 31, 2007 Special Facility Revenue Bonds outstanding totaled \$315,700,000.

5. Denver Airport System. The City and Adams County entered into an intergovernmental agreement for Denver International dated April 21, 1988 (the Intergovernmental Agreement). The Intergovernmental Agreement establishes maximum levels of noise that should not be exceeded on an average annual basis at various grid points surrounding the Airport. Penalties must be paid to Adams County when these maximums are exceeded.

As of December 31, 2007, the Airport System accrued \$.5 million in the accompanying financial statements for noise violations and penalties.

The Airport System is involved in several other claims and lawsuits and is the subject of certain other investigations. The Airport System and its legal counsel estimate that the ultimate resolution of these matters will not materially affect the accompanying financial statements of the Airport System.

Under the terms of the Federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. The Airport System management believes disallowances, if any will be immaterial to its financial position and activities of the Airport.

6. Environmental Services. State and federal laws will require the City to close the Denver Arapahoe Disposal Site (DADS) once its capacity is reached and to monitor and maintain the site for 30 subsequent years. The contracted operator is responsible for all closure and post-closure costs for the landfill's individual cells while they are under contract to operate the landfill. However, the ultimate responsibility rests with the City as owner of the facility. The City contractually shifted this financial responsibility to its operator as described below.

Effective October 1, 1997, the City renegotiated its contract with Waste Management of Colorado, Inc. (WMC), the current operator of DADS. As a result, the City assigned its responsibility for all closure and post-closure costs to WMC. To cover these costs, WMC has provided a performance bond of \$2,250,000, provided a corporate guarantee from their parent company, Waste Management, Inc (WMI), and posted a financial assurance plan with the State of Colorado (including an insurance certificate of \$15,614,607 as of March, 2008). Due to this assignment of closure and post-closure costs to WMC, the City no longer recognizes the related closure and post-closure costs liability in its financial statements.

7. Denver Urban Renewal Authority. In connection with DURA's development of the Denver Dry Building, DURA has guaranteed certain loans made to the Denver Building Housing, Ltd. by the Colorado Housing and Finance Authority with an outstanding balance of \$2,779,434 at December 31, 2007. In addition, DURA has guaranteed all obligations of the Denver Dry Development Corporation as general partner, under the terms and conditions of the limited partnership agreement of the Denver Building Housing, Ltd. No amounts have been recorded as a liability in the financial statements, as DURA management believes the possibility of having to make payments under these guarantees is remote.

- 8. Other Items.** At the general election held November 3, 1992, the voters of the State approved an amendment to the Colorado Constitution limiting the ability of the State and local governments, such as the City, to increase revenues, debt and spending, and restricting property, income and other taxes. In addition, the amendment requires that the State and local governments obtain voter approval to create any "multiple fiscal year direct or indirect debt or other financial obligation whatsoever without adequate present cash reserves pledged irrevocably and held for payments in all future fiscal years." The amendment excludes from its restrictions the borrowings and fiscal operations of "enterprises." Enterprises are defined to include government-owned businesses authorized to issue their own revenue bonds and receiving less than 10% of their revenues in grants from all Colorado State and local governments combined. The amendment also requires the establishment of an "Emergency Reserve" equal to three percent of fiscal year spending excluding debt service for all years subsequent to 1994. The City has established an emergency reserve of \$31,240,000. The amendment is also applicable to several component units, which have established emergency reserves of \$210,000.

In November 2005, local voters approved Referred Measure 1B to allow the City to retain any revenue collected in excess of the limits established by the state amendment to the constitution for ten fiscal years beginning with fiscal year 2005 and thereafter retain and spend any excess revenues up to the amount of the revenue cap as defined.

There are numerous uncertainties about the interpretation of the amendment and its application to particular governmental entities and their operations. It is possible that the constitutionality of the amendment as applied in some situations may be challenged on various grounds, including the argument that the amendment conflicts with other constitutional provisions and violates the protections afforded by the federal constitution against impairment of contract.

- 9. Denver Museum of Nature and Science.** The Denver Museum of Nature and Science (DMNS) component unit has entered into a Memorandum of Understanding (MOU) with the City to expand the parking capacity at City Park. Pursuant to the MOU, two parking structures were constructed under a lease purchase agreement between the City and Denver Capital Leasing Corporation (DCLC). Construction of the parking structures was financed with certificates of participation (COPs) issued by DCLC; the City leased the structures from DCLC (see Note III-E-1). The DMNS has agreed to provide \$0.85 per ticket sold for admission to the museum to help retire the COPs. During 2007, the DMNS collected \$653,703 for amounts due under the MOU and remitted to the City.

Note F – Deferred Compensation Plan

- 1. Description of the Plan.** The Deferred Compensation Plan (Plan) was adopted by the City to provide a means by which public employees could defer a portion of their current income and related income taxes to future years. Under Section 457 of the Internal Revenue Code, amounts deferred and income earned on those funds are not taxed until made available to the participant. The Plan's publicly available financial report can be obtained by contacting the City of Denver Controller's Office at 201 West Colfax Avenue, Department 1109, Denver, Colorado, 80202.
- 2. Administration of the Plan.** The Deferred Compensation Governing Committee of the City manages the Plan. The Committee has designated two third-party administrators for the Plan to account for all deferred compensation, withdrawals, interest income credited, and the individual balance for each participant. In addition, the administrators execute individual participant agreements and provide Plan information and counseling to all eligible employees.
- 3. Investments.** Investments are recorded at fair value. In compliance with the City Charter, the Deferred Compensation Governing Committee has approved certain options for investment. All investments are transferred to mutual investment funds offered by the Hartford Variable Annuity Life Insurance Company, to an annuity contract program with the Prudential Insurance Company of America, or to a retirement trust investment fund with ICMA Retirement Trust. The Plan provides for self-directed investments by the participants.

- 4. Contributions.** Participation in the Plan is voluntary and is open to all City employees. The City does not make any contributions. The maximum deferral in any one year is generally limited to 100 percent of a participant's pre-deferred taxable income or \$15,500 for 2007. Those who are age 50 and older may save an additional \$5,000 per year. However, special provisions, applicable during the last three taxable years before a participant attains normal retirement age under the Plan, or any year thereafter prior to the participants' separation from service, may increase the annual maximum up to \$31,000 for 2007.
- 5. Withdrawals.** Withdrawals from the Plan may be made upon retirement, termination of employment with the City, or in hardship cases as approved by the Administrator. Upon death, amounts credited to the participant are paid to the beneficiary designated by the participant.

Eligible participants may elect the Systematic Withdrawal Option, purchase an annuity, or receive a lump-sum distribution. The Systemic Withdrawal Option allows eligible participants to withdraw specified amounts from their account at regular intervals. The balance of their account remains in the pool of Plan assets and continues to be invested as directed by the participant. The annuity option allows eligible participants to purchase a payment stream for a period certain or for the lifetime of the annuitant. Contracts purchased under this annuity option remain as assets of the Plan. The periodic distributions are accounted for as withdrawals in the year disbursed.
- 6. Assets.** All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust by the City for the exclusive benefit of the participants and their beneficiaries. The assets of the Plan are reported as an other employee benefit trust fund of the City.
- 7. Plan Termination and Amendments.** The City can at any time elect to amend, modify, or terminate the Plan. However, notice must be given to all participants at least 45 days prior to the effective date of an amendment. No amendments will deprive the participants of any benefits they were entitled to prior to the change. If the Plan is terminated, all amounts then credited to the participants are to be paid out by the administrators under the normal withdrawal requirements and procedures.
- 8. Component Units.** Several component units offer plans similar to the City's which are also qualified under Section 457 of the Internal Revenue Code.

Note G – Pension Plans

The City has two material pension plans covering substantially all employees of the primary government, as follows:

- Denver Employees Retirement Plan
- State of Colorado - Fire and Police Pension Plan

The majority of the City's employees are covered under the Denver Employees Retirement Plan; firemen and policemen are covered under the State of Colorado - Fire and Police Pension Plan. In addition to the two material plans offered, several component units offer various types of pension plans, which include deferred annuity plans and defined contribution plans.

- 1. Plan Descriptions.** The following are brief descriptions of the retirement plans. Plan participants should refer to the appropriate source documents or publicly available financial reports for more complete information on the plans.

The Denver Employees Retirement Plan (DERP) is a cost-sharing multiple-employer defined benefit plan established by the City to provide pension and post-retirement health benefits for its employees. The DERP is administered by the DERP Retirement Board in accordance with sections 18-401 through 18-430.7 of the City's Revised Municipal Code. Amendments to the plan are made by ordinance. These Code sections establish the plan, provide complete information on the DERP, and vests the authority for the benefit and contribution provisions with the City Council. The DERP Retirement Board acts as the trustee of the plan's assets. As of January 1, 2007, the date of the last actuarial valuation, the plan was under-funded; however, there is no Net Pension Obligation reported because the actuarial valuation adjusts contributions in the ensuing year to fully fund the Plan. The Board monitors the Plan continually to ensure an appropriate level of funding.

All full-time fire fighters and police officers of the City participate in the State of Colorado - Fire and Police Pension Plan (State Plan), a cost-sharing multiple-employer public employee retirement system. Authority for the State Plan, including benefit and contribution provisions, is derived from Title 31, Articles 30, 30.5 and 31 of the Colorado Revised Statutes. The plan is amended by statute. The plan is affiliated with and administered by the Fire and Police Pension Association (FPPA).

Each plan issues a publicly available financial report that includes financial statements and required supplementary information of that plan. Those reports are available by contacting:

Denver Employees Retirement Plan	Fire and Police Pension Association
777 Pearl Street	5290 DTC Parkway, Suite 100
Denver, Colorado 80203	Greenwood Village, Colorado 80111

- 2. Pension Plans' Funding Policy and Annual Pension Cost.** For DERP, the City contributes 8.50% of covered payroll and employees make a pre-tax contribution of 2.50% in accordance with Section 18-407 of the Revised Municipal Code of the City. The City's contributions to DERP for the years ended December 31, 2007, 2006, and 2005 were \$38,862,000, \$36,036,000, and \$35,036,000, respectively, which equaled the required contributions each year.

For FPPA, covered employees contribute at the rate of at least 8% of base salary. The City is required to provide level dollar funding at a minimum of \$27,894,000 each year until there is no longer any unfunded actuarial liability for police officers and fire fighters hired before April 8, 1978. The City's contributions to FPPA for employees hired before April 8, 1978, for the years ended December 31, 2007, 2006, and 2005 were \$30,353,579, \$29,659,628, and \$30,865,575, respectively, which was over 100% of the required contributions. The City also made contributions for the years ended December 31, 2007, 2006, and 2005 for police officers and fire fighters hired on or after April 8, 1978, in the amounts of \$11,728,730, \$10,977,086, and \$10,250,087, respectively. There are no long-term contracts for contributions to the State Plan. The City's annual pension cost for the current year and related contribution information for DERP (plan totals) is shown in **Table 41, 42 and 43** (dollars in thousands):

Table 41

	DERP	DERP Health Benefits
Actuarially determined contribution rates (percentage of covered payroll):		
Employer	7.82%	0.85%
Plan members	2.30%	0.25%
Annual pension costs	\$50,536	\$5,475
Total contributions made	\$52,934	\$5,802
Actuarial valuation date	1/1/07	1/1/07
Actuarial cost method	Projected unit credit	Projected unit credit
Amortization method	Level dollar, open basis	Level dollar, open basis
Remaining amortization period	27 years	27 years
Asset valuation methods	5-year smoothed mkt.	5-year smoothed mkt.
Actuarial assumptions:		
Investment rate of return	8.00%	8.00%
Projected salary increases	3.0-6.3%	3.0-6.3%
Includes inflation at	3.00%	0%
Cost of living adjustment	None	None

Table 42**Three-year Trend Information**

December 31, 2007 (dollars in thousands)

	Year	Annual Actuarial Required Contribution (ARC) ¹	Percentage of ARC Contributed	Net Pension Obligation
DERP	2005	\$ 48,734	99.7%	\$ -
	2006	53,428	92.2%	-
	2007	50,536	100.0%	-
DERP Health Benefits	2005	\$ 4,723	96.7%	\$ -
	2006	5,292	99.5%	-
	2007	5,475	100.0%	-

¹Employers made contributions based on the legally required rates.

Table 43**Defined Benefit Pension Plans Schedule of Funding Progress**

December 31, 2007 (dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability-Projected Unit Credit	Unfunded (Excess) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded (Excess) Actuarial Accrued Liab. as a % of Covered Payroll
DERP						
January 1, 2004	\$ 1,572,938	\$ 1,604,530	31,592	98.0%	\$ 501,966	6.3%
January 1, 2005	1,651,091	1,665,541	14,450	99.1%	485,003	3.0%
January 1, 2006	1,735,209	1,782,505	47,296	97.3%	495,285	9.5%
January 1, 2007	1,837,476	1,862,773	25,297	98.6%	499,463	5.1%
DERP Health Benefits						
January 1, 2004	\$ 87,110	\$ 105,479	18,369	82.6%	\$ 501,966	3.7%
January 1, 2005	88,528	116,568	28,040	75.9%	485,003	5.8%
January 1, 2006	90,228	123,775	33,547	72.9%	495,285	6.8%
January 1, 2007	93,089	127,133	34,044	73.2%	499,463	6.8%

Note H – Restatement of 2006 Financial Statements

In 2007 it was determined that the car rental facilities and United hangar and flight kitchen facility acquired and constructed at Denver International Airport using special facility revenue bonds were owned by DIA but had never been recorded in its financial statements. Such facilities were acquired and constructed principally during or before 1995, the year DIA opened. Additionally, in 2007 DIA determined that certain costs that had been capitalized to construction in progress in years prior to 2007 should have been expensed. Also, in 2007 DIA determined that the State of Colorado, Division of Aeronautics, had underpaid DIA aviation fuel sales tax from August 2003 through November 2007. DIA has restated its separately issued 2006 financial statements to correct these errors. The restatement reflected in this report resulted in an increase in net assets as of January 1, 2007, of \$137,853,000 in both the business-type activities in the Statement of Activities, and in the Denver Airport System fund in the Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds.

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