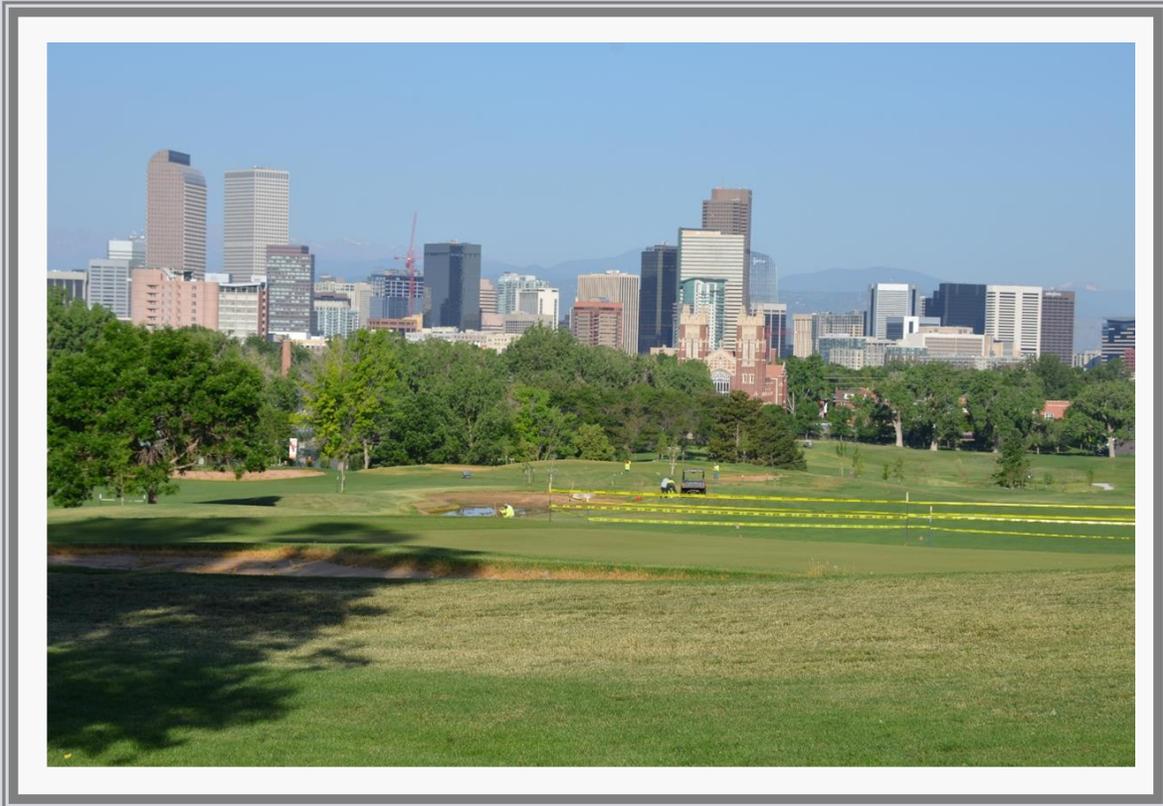


**CITY AND COUNTY OF DENVER  
WASTEWATER MANAGEMENT ENTERPRISE  
FUND**



**Financial Statements and Independent Auditor's  
Report  
December 31, 2019 and 2018**

**City and County of Denver**  
**Wastewater Management Enterprise Fund**  
December 31, 2019 and 2018

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## **Independent Auditor's Report**

Audit Committee  
City and County of Denver  
Denver, Colorado

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the City and County of Denver, Wastewater Management Enterprise Fund ("Wastewater"), an enterprise fund of the City and County of Denver as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wastewater, an enterprise fund of the City and County of Denver, as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



### **Emphasis of Matters**

As discussed in Note 1, the financial statements of the Wastewater are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the City and County of Denver that is attributable to the transactions of Wastewater. They do not purport to, and do not, present fairly the financial position of the City and County of Denver as of December 31, 2019 and 2018, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

The COVID-19 outbreak in 2020, see Note 2, has caused business disruption in a variety of industries, markets and geographic regions, which has resulted in considerable uncertainty as to the financial impact and duration, which cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, other postemployment benefits, and pension information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*ACM LLP*

Greeley, Colorado  
June 29, 2020

# City and County of Denver

## Wastewater Management Enterprise Fund

December 31, 2019 and 2018

### Management's Discussion and Analysis (MD&A)

The following discussion and analysis of the financial position of the Wastewater Management Division (Wastewater) of the City and County of Denver, Colorado (the City) provides an introduction and understanding of the basic financial statements of Wastewater for the years ended December 31, 2019 and 2018. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of Wastewater's financial activities and identify changes in Wastewater's financial position. We encourage readers to consider the information presented here in conjunction with the financial statements and notes taken as a whole.

#### *Overview of the Financial Statements*

Wastewater management is responsible for preparing the accompanying financial statements and their integrity. The statements were prepared in accordance with accounting principles generally accepted in the United States of America, applied on a consistent basis and include amounts that are based on management's best estimates and judgments.

Wastewater is an enterprise fund of the City. An enterprise fund is established to account for operations that are financed and operated in a manner similar to business-type activities, where fees are charged to external parties to cover the costs of providing goods and services. An enterprise fund uses the accrual basis of accounting and, accordingly, revenues are recognized when earned and expenses are recognized as incurred.

The basic financial statements, presented on a comparative basis for the years ended December 31, 2019 and 2018, include the statements of net position; statements of revenues, expenses and changes in net position; statements of cash flows; and notes to the financial statements. The statements of net position present information on Wastewater's assets; deferred outflows of resources; liabilities; deferred inflows of resources and net position. Over time, increases or decreases in net position serve as a useful indicator of whether the financial position of the enterprise is improving or deteriorating. The statements of revenues, expenses and changes in net position present information on how Wastewater's net position changed during the fiscal year. The statements of cash flows report cash receipts; cash payments and net changes in cash resulting from operating, investing, capital and noncapital financing activities. The notes to the financial statements provide additional information that is essential to a full understanding of the data presented in the financial statements.

This report also includes pension plan and other post-employment benefits required supplementary information.

# City and County of Denver

## Wastewater Management Enterprise Fund

December 31, 2019 and 2018

### **Financial Highlights**

#### **Statements of Net Position**



As of December 31, 2019, net capital assets totaled \$875.9 million, an increase of \$78.0 million due primarily to the spending of bond proceeds, which increased both construction-in-progress and collection system assets.



As of December 31, 2019, bonds payable, net totaled \$257.3 million, a decrease of \$8.0 million primarily due to principal payment of bonds.

#### **Statements of Revenues, Expenses and Changes in Net Position**



Operating revenues totaled \$172.0 million for the year ended December 31, 2019, an increase of \$12.4 million over 2018 primarily due to rate increases.



Operating expenses totaled \$129.2 million for the year ended December 31, 2019, an increase of \$5.2 million over 2018 primarily due to an increase in personnel services and depreciation expense.



Wastewater generated operating income of \$42.8 million for the year ended December 31, 2019. Net position increased by \$40.9 million to a total of \$776.0 million as of December 31, 2019.

### **Financial Analysis of Wastewater**

#### **Summary of Revenues, Expenses and Changes in Net Position**

Wastewater reported operating income of \$42.8, \$35.5 and \$29.5 million for 2019, 2018 and 2017, respectively. In 2019, operating revenues increased by \$12.4 million while operating expenses increased by \$5.2 million.

Net position increased by \$40.9, \$57.7 and \$49.2 million in 2019, 2018 and 2017, respectively.

**City and County of Denver**  
**Wastewater Management Enterprise Fund**  
**December 31, 2019 and 2018**

The following is a summary of the revenues, expenses and changes in net position for the years ended December 31, 2019, 2018 and 2017:

**Summary of Revenues, Expenses and  
Changes in Net Position  
(in thousands)  
Years Ended December 31,**

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Sanitary sewer charges	\$ 107,829	\$ 103,099	\$ 98,800
Storm drainage charges	64,121	56,427	51,322
Total operating revenues	<u>171,950</u>	<u>159,526</u>	<u>150,122</u>
Depreciation and amortization expense	23,479	19,319	19,126
District water treatment charges	52,209	52,043	54,710
Other operating expenses	53,514	52,658	46,782
Total operating expenses	<u>129,202</u>	<u>124,020</u>	<u>120,618</u>
Operating income	<u>42,748</u>	<u>35,506</u>	<u>29,504</u>
Nonoperating revenue, net of expenses	<u>3,584</u>	<u>4,470</u>	<u>(797)</u>
Income before capital contributions and transfers	46,332	39,976	28,707
Capital contributions and transfers – net	<u>(5,477)</u>	<u>17,709</u>	<u>20,539</u>
Change in net position	40,855	57,685	49,246
Beginning net position (before restatement)	735,154	681,788	632,542
Adjustment for change in accounting principle	<u>-</u>	<u>(4,319)</u>	<u>-</u>
Beginning net position (as restated)	<u>735,154</u>	<u>677,469</u>	<u>632,542</u>
Ending net position	<u>\$ 776,009</u>	<u>\$ 735,154</u>	<u>\$ 681,788</u>



View from Colorado State Capitol Building

Photo Provided by DOTI Accounting Services

# City and County of Denver Wastewater Management Enterprise Fund December 31, 2019 and 2018

## Revenues

### 2019



Total operating revenues were \$172.0 million for 2019, an increase of \$12.4 million, or 8% compared to 2018. The increase in revenue was primarily due to a 4% increase in sanitary rates and an 10% increase in storm rates that took effect on January 1, 2019.

### 2018



Total operating revenues were \$159.5 million for 2018, an increase of \$9.4 million, or 6% compared to 2017. The increase in revenue was primarily due to a 4% increase in sanitary rates and an 11% increase in storm rates that took effect on January 1, 2018.

The following is a graphical representation of Wastewater’s major source of operating revenues for 2019, 2018, and 2017.

Operating Revenue by Source



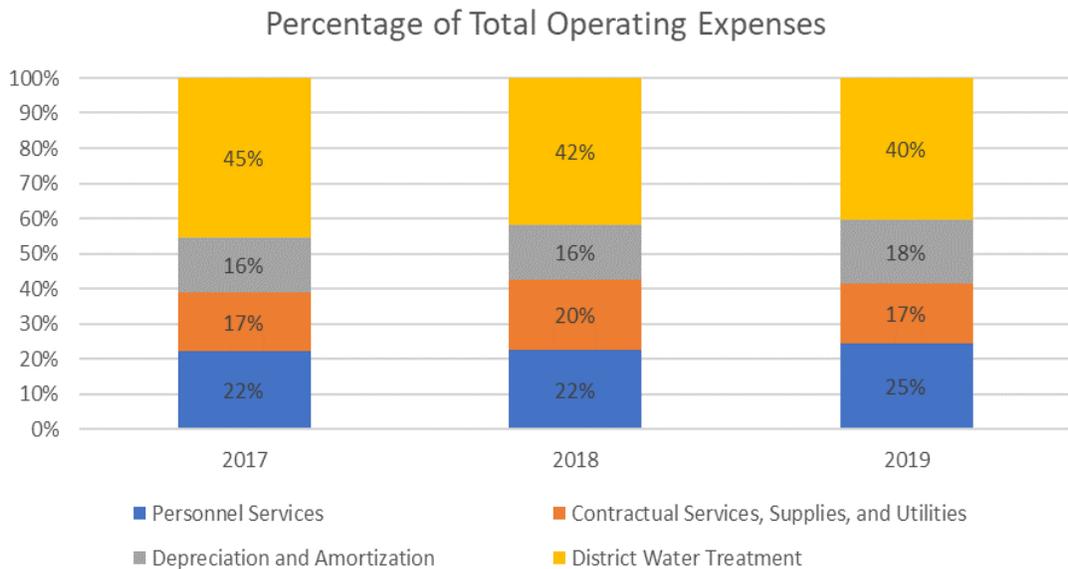
**City and County of Denver**  
**Wastewater Management Enterprise Fund**  
December 31, 2019 and 2018

**Expenses**

The following is a summary of operating expenses for the years ended December 31, 2019, 2018 and 2017:

<b>Operating Expenses</b> (in thousands) December 31,			
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Personnel services	\$ 31,629	\$ 27,829	\$ 26,662
Contractual services	20,111	23,292	17,621
Supplies	1,440	1,208	2,219
Utilities	334	329	280
Depreciation and amortization	23,479	19,319	19,126
District water treatment charges	52,209	52,043	54,710
<b>Total operating expenses</b>	<b>\$ 129,202</b>	<b>\$ 124,020</b>	<b>\$ 120,618</b>

The following chart is a graphical representation of Wastewater’s operational expenses and includes information regarding the percentage of total each expense category contributes to total operating expenses. As depicted in the chart, fees paid to the Metro Wastewater Reclamation District (Metro District) for water treatment charges comprise the largest component of operating expenses.



# City and County of Denver Wastewater Management Enterprise Fund December 31, 2019 and 2018

## 2019



Operating expenses were \$129.2 million in 2019 as compared to \$124 million in 2018, an increase of \$5.2 million.



Personnel services increased \$3.8 million due to higher compensation and benefit costs.



Depreciation increased \$4.2 million due to several large projects being placed into service in late 2018 and 2019.

## 2018



Operating expenses were \$124 million in 2018 as compared to \$120.6 million in 2017, an increase of \$3.4 million.



District water treatment charges were \$2.7 million lower in 2018 as compared to 2017 due to an 5% rate decrease that took effect January 1, 2018.



Personnel services increased by \$1.2 million primarily due to higher compensation and benefit costs.

### **Summary of Net Position**

Net position serves, over time, as a useful indicator of an entity's financial position. The largest portion of net position reflects Wastewater's investment in capital assets, less any related debt used to acquire those assets. Wastewater uses these capital assets to provide sewage collection and transportation services and to maintain and improve watercourses for the entire Wastewater service area; consequently, these assets are not available for future spending. Although Wastewater's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves are not intended to be used to liquidate these liabilities.



Platte River Wild Life

Photo Provided by DOTI Accounting Services

**City and County of Denver**  
**Wastewater Management Enterprise Fund**  
December 31, 2019 and 2018

The following is a summary of assets; deferred outflows of resources; liabilities; deferred inflows of resources and net position at December 31, 2019, 2018 and 2017:

**Summary of Net Position**  
(in thousands)  
December 31,

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Current assets	\$ 75,030	\$ 130,595	\$ 80,522
Noncurrent assets	1,053,374	962,306	839,154
Deferred outflows of resources	<u>13,796</u>	<u>5,303</u>	<u>8,179</u>
 Total assets and deferred outflows of resources	 <u>1,142,200</u>	 <u>1,098,204</u>	 <u>927,855</u>
 Current liabilities	 58,697	 59,328	 42,235
Noncurrent liabilities	306,573	301,030	203,184
Deferred inflows of resources	<u>921</u>	<u>2,692</u>	<u>648</u>
 Total liabilities and deferred inflows of resources	 <u>366,191</u>	 <u>363,050</u>	 <u>246,067</u>
 Net investment in capital assets	 643,090	 618,902	 601,526
Unrestricted	<u>132,919</u>	<u>116,252</u>	<u>80,262</u>
	<u><u>\$ 776,009</u></u>	<u><u>\$ 735,154</u></u>	<u><u>\$ 681,788</u></u>



Wastewater Management, System Maintenance      Photo Provided by DOTI Customer Service

# City and County of Denver Wastewater Management Enterprise Fund December 31, 2019 and 2018

## 2019



Noncurrent assets increased by \$91.1 million to \$1.1 billion in 2019 as compared to 2018. The increase was primarily due to bond-funded construction spending, which increased both collection systems and construction-in-progress.



Noncurrent liabilities increased by \$5.5 million to \$306.6 million in 2019 as compared to 2018. The increase was primarily due an increase in the Net Pension Liability.

## 2018



Noncurrent assets increased by \$123.2 million to \$962.3 million in 2018 as compared to 2017. The increase was primarily due to bond-funded construction spending, which increased both collection systems and construction-in-progress.



Noncurrent liabilities increased by \$97.8 million to \$301.0 million in 2018 as compared to 2017. The increase was primarily due to the issuance of the 2018 revenue bond.

## Customer Trends

The following graphs provide information on customer trends for both sanitary sewer and storm drainage services. On December 31, 2019, sanitary customers totaled 164,616 and storm customers totaled 171,833. Increased revenues can be attributed to an increase in customer base and recent fee increases. Average sanitary revenue per customer increased to \$655 from \$633 in 2019 as compared to 2018. Average storm revenue per customer increased to \$373 from \$332 in 2019 as compared to 2018.

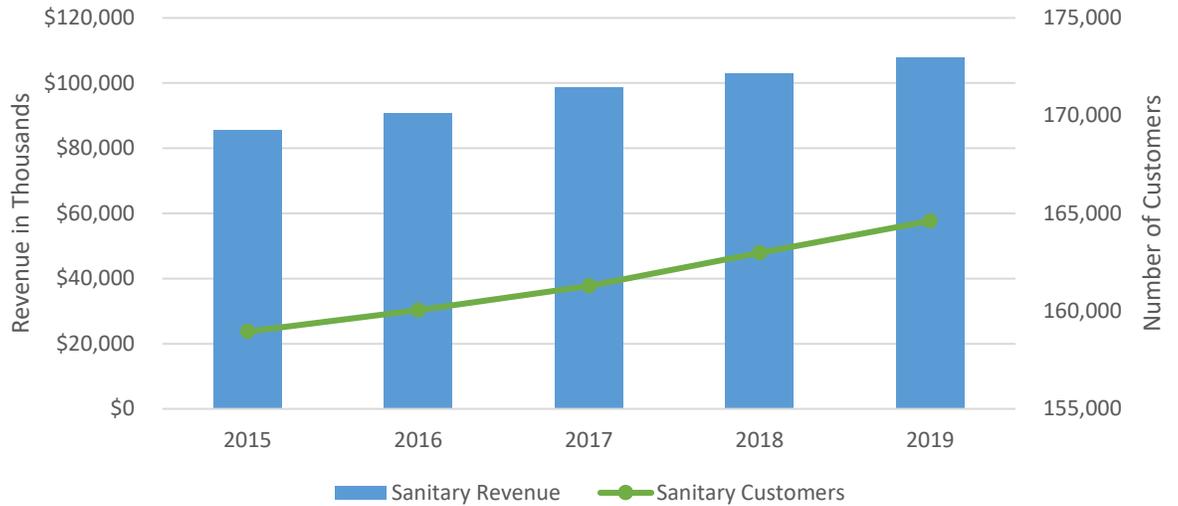


City Park Drainage Infrastructure

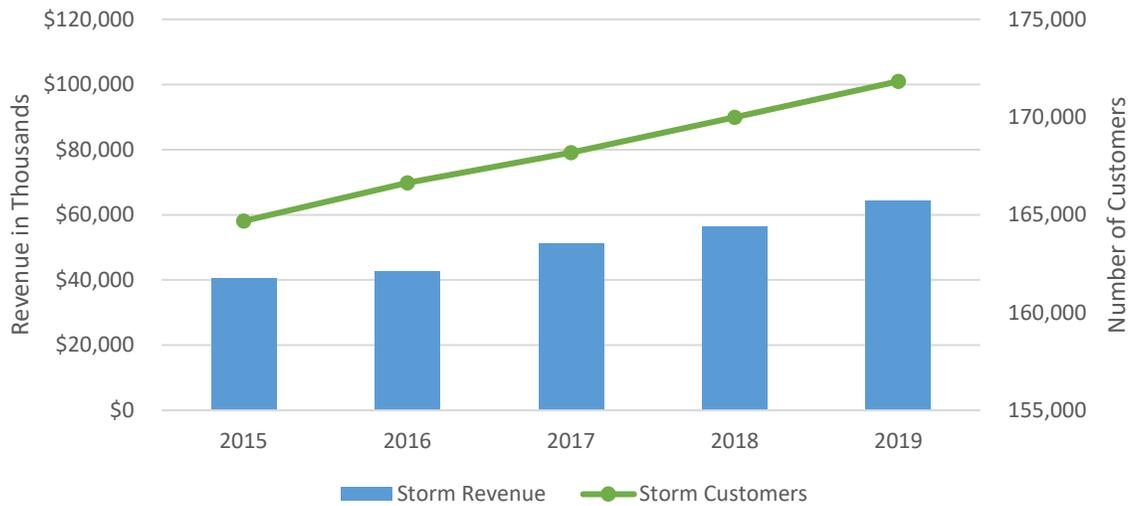
Photo Provided by DOTI Accounting Services

# City and County of Denver Wastewater Management Enterprise Fund December 31, 2019 and 2018

### Sanitary Revenue and Customer Trend

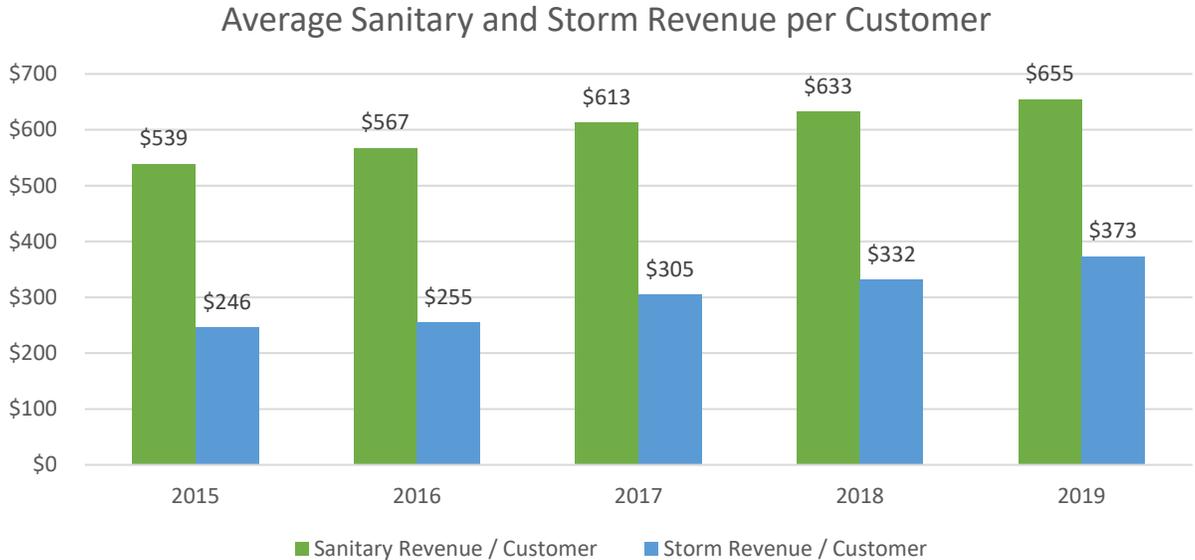


### Storm Revenue and Customer Trend



See Notes to Financial Statements

**City and County of Denver**  
**Wastewater Management Enterprise Fund**  
December 31, 2019 and 2018



**Capital Assets and Debt Administration**

**Capital Assets**

The following is a summary of capital assets at December 31, 2019, 2018, and 2017:

<b>Summary of Capital Assets</b>			
(in thousands)			
December 31,			
	2019	2018	2017
Land and land improvements	\$ 14,324	\$ 14,324	\$ 14,089
Buildings	17,975	17,975	17,975
Vehicles and equipment	15,195	14,629	15,165
Intangibles	6,375	6,375	6,125
Collection systems	1,046,032	969,110	834,944
Construction-in-progress	<u>123,830</u>	<u>101,025</u>	<u>86,122</u>
Total capital assets	1,223,731	1,123,438	974,420
Less accumulated depreciation	<u>(347,863)</u>	<u>(325,578)</u>	<u>(309,655)</u>
Net capital assets	<u>\$ 875,868</u>	<u>\$ 797,860</u>	<u>\$ 664,765</u>

# City and County of Denver Wastewater Management Enterprise Fund

December 31, 2019 and 2018

## 2019



As of December 31, 2019 and 2018, Wastewater's capital assets totaled \$875.9 million and \$797.9 million, respectively. These amounts are net of accumulated depreciation of \$347.9 million and \$325.6 million, respectively.



The increase in net capital assets is primarily due to the spending of bond proceeds, which increased both construction-in-progress and collection system assets.

## 2018



As of December 31, 2018 and 2017, Wastewater's capital assets totaled \$797.9 million and \$664.8 million, respectively. These amounts are net of accumulated depreciation of \$325.6 million and \$309.7 million, respectively.



The increase in net capital assets is primarily due to the increase in collection systems and construction-in-progress, which are driven by Wastewater's 2018 and 2016 bond issuances.

## **Debt Administration**

During 2018, Wastewater issued \$103.1 million in 2018 revenue bonds with a 30-year debt service period and interest rates ranging from 3.0% to 5.0%. The 2018 bond proceeds are being used to fund capital improvement projects.

During 2016, Wastewater issued \$115.0 million in 2016 revenue bonds with a 30-year debt service period and interest rates ranging from 4.0% to 5.0%. The 2016 bond proceeds are being used to fund capital improvement projects.

During 2012, Wastewater issued \$50.4 million in 2012 revenue bonds with a 21-year debt service period and interest rates ranging from 2.0% to 5.0%. A portion of the proceeds from the 2012 revenue bonds were used to retire Wastewater's outstanding 2002 bonds. The remaining proceeds were used to fund \$2.2 million in a required debt service reserve fund and \$32.5 million for capital improvement projects.

Wastewater's current underlying ratings are as follows:

<b>Moody's Investors Services</b>	<b>Standard &amp; Poor's</b>	<b>Fitch Ratings</b>
Aa1	AAA	AAA

# City and County of Denver Wastewater Management Enterprise Fund

December 31, 2019 and 2018

During 2012, the City issued \$45.0 million in Certificates of Participation to fund capital improvement projects. Of this total, Wastewater received \$8.5 million of the proceeds to fund the storm drainage portion of the projects. The proceeds are recorded as a capital lease obligation in the following financial statements.

## ***Next Year's Budgets***

Wastewater's 2020 operating budget was approved for \$123.6 million, which represents a \$1.7 million increase over the 2019 budget, excluding transfers within the funds. The increase is primarily due to higher personnel costs. Wastewater's capital project was approved for \$41.9 million, of which \$5.7 million was approved for sanitary related projects and \$34.0 million was approved for storm related projects.

## ***Request for Information***

This financial report is designed to provide a general overview of Wastewater's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Wastewater Management Division, Accounting Services, 2000 West Third Avenue, Denver, Colorado 80223, or [www.denvergov.org/Wastewater](http://www.denvergov.org/Wastewater).



Wastewater Management Construction

DOTI Department of Transportation and Infrastructure

**City and County of Denver**  
**Wastewater Management Enterprise Fund**

**STATEMENTS OF NET POSITION**  
**December 31, 2019 and 2018**

	2019	2018
<b>Assets</b>		
<b>Current Assets</b>		
Unrestricted:		
Cash and cash equivalents	\$ 7,327,000	\$ 8,906,000
Investments	30,777,000	51,941,000
Accounts receivable	25,526,000	26,712,000
Due from other City funds	455,000	60,000
Other assets	180,000	196,000
Accrued interest	1,145,000	1,014,000
Total current unrestricted assets	65,410,000	88,829,000
Restricted:		
Investments	9,620,000	41,766,000
Total current assets	75,030,000	130,595,000
<b>Noncurrent Assets</b>		
Unrestricted:		
Investments	135,237,000	91,151,000
Capital assets:		
Nondepreciable capital assets		
Land and land improvements	14,324,000	14,324,000
Construction-in-progress	123,830,000	101,025,000
Depreciable capital assets		
Buildings	17,975,000	17,975,000
Collection systems	1,046,032,000	969,110,000
Vehicles and equipment	15,195,000	14,629,000
Intangibles	6,375,000	6,375,000
Total depreciable capital assets	1,085,577,000	1,008,089,000
Less accumulated depreciation	(347,863,000)	(325,578,000)
Total depreciable capital assets, net	737,714,000	682,511,000
Total capital assets, net	875,868,000	797,860,000
Restricted:		
Investments	42,269,000	73,295,000
Total noncurrent assets	1,053,374,000	962,306,000
Total assets	1,128,404,000	1,092,901,000
<b>Deferred Outflows of Resources</b>		
Deferred loss from debt refundings	236,000	320,000
Items related to pension plan	12,605,000	4,768,000
Items related to OPEB	955,000	215,000
Total deferred outflows of resources	13,796,000	5,303,000
Total assets and deferred outflows of resources	1,142,200,000	1,098,204,000

See Notes to Financial Statements

**City and County of Denver**  
**Wastewater Management Enterprise Fund**

**STATEMENTS OF NET POSITION**  
**December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Vouchers payable	2,249,000	1,601,000
Construction payable	23,317,000	24,029,000
Bonds payable, current portion	7,395,000	7,090,000
Capital lease obligation, current portion	758,000	701,000
Accrued liabilities	2,301,000	2,207,000
Due to other City funds	2,967,000	2,943,000
Unearned revenue	15,970,000	14,508,000
Compensated absences	780,000	614,000
Due to Metro Wastewater Reclamation District	2,960,000	5,635,000
	.	
Total current liabilities	58,697,000	59,328,000
<b>Noncurrent Liabilities</b>		
Bonds payable, net	249,853,000	258,181,000
Net pension liability	45,067,000	31,170,000
Net OPEB liability	5,208,000	4,377,000
Capital lease obligation, net	3,580,000	4,338,000
Compensated absences, net	2,865,000	2,964,000
	.	
Total noncurrent liabilities	306,573,000	301,030,000
Total liabilities	365,270,000	360,358,000
<b>Deferred Inflows of Resources</b>		
Items related to pension plan	825,000	2,442,000
Items related to OPEB	96,000	250,000
Total deferred inflows of resources	921,000	2,692,000
Total liabilities and deferred inflows of resources	366,191,000	363,050,000
<b>Net Position</b>		
Net investment in capital assets	643,090,000	618,902,000
Unrestricted	132,919,000	116,252,000
Total net position	\$ 776,009,000	\$ 735,154,000

See Notes to Financial Statements

**City and County of Denver**  
**Wastewater Management Enterprise Fund**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Operating Revenues</b>		
Charges for services		
Sanitary sewer	\$ 107,829,000	\$ 103,099,000
Storm drainage	64,121,000	56,427,000
	<hr/>	<hr/>
Total operating revenues	171,950,000	159,526,000
	<hr/>	<hr/>
<b>Operating Expenses</b>		
Personnel services	31,629,000	27,829,000
Contractual services	20,111,000	23,292,000
Supplies	1,440,000	1,208,000
Utilities	334,000	329,000
Depreciation and amortization	23,479,000	19,319,000
District water treatment charges	52,209,000	52,043,000
	<hr/>	<hr/>
Total operating expenses	129,202,000	124,020,000
	<hr/>	<hr/>
Operating income	42,748,000	35,506,000
	<hr/>	<hr/>
<b>Nonoperating Revenues and Expenses</b>		
Intergovernmental revenue	2,952,000	4,455,000
Investment income	9,211,000	5,313,000
Interest expense	(8,849,000)	(5,359,000)
Gain on disposition of capital assets	270,000	61,000
	<hr/>	<hr/>
Total nonoperating revenues and expenses, net	3,584,000	4,470,000
	<hr/>	<hr/>
Income before capital contributions and transfers	46,332,000	39,976,000
	<hr/>	<hr/>
<b>Capital Contributions Received</b>	10,752,000	13,915,000
<b>Capital Asset Transfer</b>	(16,216,000)	3,827,000
<b>Transfers to Other City Funds</b>	(13,000)	(33,000)
	<hr/>	<hr/>
<b>Change in Net Position</b>	40,855,000	57,685,000
<b>Net Position, Beginning of Year (Before Restatement)</b>	735,154,000	681,788,000
<b>Adjustment for Change in Accounting Principle</b>	-	(4,319,000)
	<hr/>	<hr/>
<b>Net Position, Beginning of Year (As Restated)</b>	735,154,000	677,469,000
	<hr/>	<hr/>
<b>Net Position, End of Year</b>	\$ 776,009,000	\$ 735,154,000
	<hr/>	<hr/>

See Notes to Financial Statements

**City and County of Denver**  
**Wastewater Management Enterprise Fund**

**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	\$ 174,203,000	\$ 162,275,000
Payments to suppliers	(66,527,000)	(67,804,000)
Payments to employees	(27,030,000)	(25,841,000)
Internal activity – payments to other City funds	(9,554,000)	(4,889,000)
Net cash provided by operating activities	71,092,000	63,741,000
<b>Cash Flows from Noncapital Financing Activities</b>		
Capital Asset Transfer	-	3,827,000
Transfers to other City funds	(13,000)	(33,000)
Net cash provided (used) in noncapital financing activities	(13,000)	3,794,000
<b>Cash Flows from Capital and Related Financing Activities</b>		
Capital contributions received	3,016,000	4,936,000
Intergovernmental revenues received	2,952,000	4,455,000
Proceeds from bond issuance	-	107,000,000
Payments on capital assets acquired through payables	(24,029,000)	(15,195,000)
Purchase of capital assets	(86,650,000)	(115,213,000)
Principal payments	(7,791,000)	(7,699,000)
Interest paid	(9,756,000)	(9,774,000)
Proceeds from sale of assets	270,000	61,000
Net cash used in capital and related financing activities	(121,988,000)	(31,429,000)
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(547,733,000)	(475,216,325)
Proceeds from sale of investments	587,983,000	425,875,325
Interest	9,080,000	5,280,000
Net cash (used) provided by investing activities	49,330,000	(44,061,000)
<b>(Decrease) / Increase in Cash and Cash Equivalents</b>	<b>(1,579,000)</b>	<b>(7,955,000)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>8,906,000</b>	<b>16,861,000</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 7,327,000</b>	<b>\$ 8,906,000</b>

See Notes to Financial Statements

**City and County of Denver**  
**Wastewater Management Enterprise Fund**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 42,748,000	\$ 35,506,000
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	23,479,000	19,319,000
Changes in assets, liabilities, and deferred inflows and outflows of resources:		
Accounts receivable	1,186,000	1,152,000
Due from other City funds	(395,000)	(9,000)
Other assets	16,000	146,000
Vouchers payable	648,000	870,000
Due to other City funds	24,000	2,349,000
Unearned revenue	1,462,000	1,606,000
Accrued payroll	152,000	146,000
Due to Metro Wastewater Reclamation District	(2,675,000)	814,000
Pension related items	4,443,000	1,480,000
OPEB related	(63,000)	93,000
Compensated absences	67,000	269,000
Net cash provided by operating activities	\$ 71,092,000	\$ 63,741,000
<b>Noncash Investing and Capital and Related Financing Activities</b>		
Assets acquired through capital contributions, net	\$ 7,736,000	\$ 8,979,000
Capital assets acquired through payables	\$ 23,317,000	\$ 24,029,000
Capital assets transferred to city funds	\$ (16,216,000)	\$ -
Amortization of bond premium	\$ 933,000	\$ 909,000
Amortization of deferred loss on refunding	\$ (84,000)	\$ (83,000)



38<sup>th</sup> & Holly Detention Pond

DOTI Department of Transportation and Infrastructure

# City and County of Denver Wastewater Management Enterprise Fund

## NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

### Note 1: Organization and Basis of Presentation

#### *Nature of Operations*

The Wastewater Management Enterprise Fund (Wastewater) was established by the City and County of Denver (the City) on January 1, 1967. Wastewater accounts for the sanitary sewer and storm operations of the City.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to governments. These financial statements present only the Wastewater Management Enterprise Fund and are not intended to present the financial position, changes in financial position, or cash flows of the proprietary fund types and the City in conformity with accounting principles generally accepted in the United States of America.

The operations of Wastewater are accounted for as an enterprise fund of the City. Enterprise funds are used to account for activities similar to those found in the private sector, where the determination of change in net position is necessary or useful for sound financial administration.

As an enterprise fund, the activity of Wastewater is accounted for on the flow of economic resources measurement focus, which emphasizes the determination of change in net position. The accounting records of Wastewater are maintained on the accrual basis of accounting. Under this method, revenues are recorded in the period in which they are earned and expenses are recorded when liabilities are incurred.

### Note 2: Summary of Significant Accounting Policies

#### *Cash, Cash Equivalents and Investments*

City investments attributed to Wastewater that have original maturities of three months or less from the purchase date are classified as cash equivalents.

Investments, which the City manages, are reported at fair value, which is primarily determined based on significant other observable inputs as of December 31, 2019 and 2018. Wastewater's investments are maintained in a pool at the City and include municipal securities, commercial paper, corporate bonds, multinational fixed income, structured products, and U.S. agency securities.

#### *Accounts Receivable*

The sanitary sewer services accounts of City users are maintained, billed and collected by the Denver Board of Water Commissioners in connection with its water accounts. Metered accounts are billed in arrears and have been accrued at year-end.

# City and County of Denver Wastewater Management Enterprise Fund

## NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

Wastewater is responsible for billing and collecting a semi-annual charge for storm drainage. A cycle billing system is utilized, resulting in advance billings and revenues relating to future years, which are classified as unearned revenue.

Wastewater's historical collection rate exceeds 99% because it places liens on the properties of delinquent customers. Given the high collection rate, Wastewater uses the direct write-off method, which approximates the allowance method.

### **Net Position**

Amounts included as restricted net position include the cost of capital assets, net of accumulated depreciation and related debt. The remaining net position is unrestricted and may be used to meet any of Wastewater's ongoing obligations. When both unrestricted and restricted resources are available, restricted resources are applied first.

As of December 31, 2019, and 2018, unrestricted net position totaled approximately \$132.9 million and \$116.3 million, respectively. Management has internally designated certain assets to be used for future building and equipment renewals, replacements, improvements, and additions.

Wastewater charges a sanitary sewer services availability fee to be used for sanitary sewer capital improvements. The amount designated for improvements has been reflected as capital contributions on the accompanying statements of revenues, expenses and changes in net position for 2019 and 2018. Sanitary sewer services availability fees were approximately \$2.0 million and \$2.4 million for the years ended December 31, 2019 and 2018, respectively.

### **Capital Assets**

Purchased capital assets are valued at cost where historical records are available and at estimated historical cost when no historical records exist. Donated capital assets are valued at their estimated fair value on the date of donation. Beginning in 2019, and in accordance with Statement Number 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, interest costs are no longer capitalized. Interest cost capitalized for the year ended December 31, 2018 was approximately \$4.2 million.

Wastewater capitalizes all capital expenditures greater than \$5,000 with an estimated useful life greater than one year. Depreciation is computed using the straight-line method over the following estimated useful lives: buildings, curb and gutter – 40 years; collection systems – 50 years; and vehicles and equipment – 5 to 10 years.

Expenses for repairs and maintenance are charged to operations as incurred. Expenses for major improvements extending the life of a capital asset are capitalized. Costs of the Customer Information System of the City and County of Denver Board of Water Commissioners (Denver Water) (Note 5) are being amortized over a 10-year period using the straight-line method.

# City and County of Denver Wastewater Management Enterprise Fund

## NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

### ***Deferred Outflows of Resources and Deferred Inflows of Resources***

Deferred outflows of resources represent a consumption of net position that applies to a future period(s). It will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s). It will not be recognized as an inflow of resources (revenue) until that time.

Wastewater's deferred outflows of resources and deferred inflows of resources consist of pension and OPEB related items. These amounts will be amortized to pension expense in a later period, or in the case of the deferred outflow of resources relating to contributions made subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent year. Wastewater also has deferred outflows of resources related to the unamortized losses on the refunding of bond debt.

### ***Due to/from Other City Funds***

During the course of operations, numerous transactions occur between Wastewater and the other funds of the City for goods provided or services rendered. Balances for the year-end receivable from or payable to the other City funds are reflected as amounts due to/from other City funds.

### ***Compensated Absences***

Wastewater has recorded an accrued liability for accumulated benefits in accordance with the City's vacation and sick leave policies. Employees may accumulate earned but unused benefits up to a specified maximum. The vesting method is used by Wastewater to estimate its accrued sick leave compensated absences liability.

### ***Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Denver Employee Retirement Plan (DERP) and additions to/deductions from DERP's fiduciary net position have been determined on the same basis as they are reported by DERP. For this purpose, benefits payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### ***Other Post-Employment Benefits (OPEB)***

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the Denver Employee Retirement Plan (DERP) and additions to/deductions from DERP's fiduciary net position have been determined on the same basis as they are reported by DERP. For this purpose, benefits payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

# City and County of Denver Wastewater Management Enterprise Fund

## NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

### ***Operating Revenues and Expenses***

The statements of revenue, expenses and changes in net position distinguish operating revenues and expenses from non-operating activity and capital contributions and transfers out. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with Wastewater's principal ongoing operations. The principal operating revenues of Wastewater are charges to customers for sales and services, administrative costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses or capital contributions and transfers out.

### ***Reclassifications***

Certain reclassifications have been made to conform prior year's information to the current year presentation.

### ***Use of Estimates in Preparation of Financial Statements***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

### ***Adoption of Recent Accounting Pronouncements***

In 2019, Wastewater adopted Governmental Accounting Standards Board (GASB) Statement Number 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement requires that interest costs incurred before the end of a construction project be recognized as an expense in the period in which the cost is incurred. As a result, interest costs incurred before the end of a construction period will not be included in the historical cost of a capital asset. Wastewater has applied this statement prospectively.

In 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which is effective for fiscal year 2019. The scope of this Statement establishes criteria for determining the timing and pattern recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. Wastewater has determined that there no existing AROs as defined in this Statement, as of December 31, 2019.

# City and County of Denver Wastewater Management Enterprise Fund

## NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

In 2018, Wastewater adopted GASB Statement Number 75, *Accounting and Financials Reporting for Postemployment Benefits Other Than Pensions*. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. GASB 75 requires employers participating in cost-sharing multiple-employer plans, to record their proportionate share, as defined in GASB 75, of the collective net OPEB liability. Wastewater has no legal obligation to fund this shortfall nor does it have any ability to affect funding, benefit, or annual required contribution decisions made by the DERP. The adoption of GASB 75 resulted in a \$4.3 million reduction in beginning net position as of January 1, 2018. Information regarding DERP's current funding status can be found in their annual financial report.

### **Subsequent Events**

During the period from January 1, 2020, through May 31, 2020, both domestic and international equity markets have experienced large declines. These losses are not included in the financial statements as of and for the year ended December 31, 2019.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which will result in declining revenues and have a negative impact on the Citywide budget. At this point, the extent to which COVID-19 may impact the City's financial condition and operations is uncertain. The City has formal financial policies and operating practices, including multiple reserves, that will be used to address budgetary shortfalls and maintain core city services. In addition, the City has already received federal funding of \$125,800,000 as part of the CARES Act and \$17,730,000 from FEMA to help cover costs related to the City's response to COVID-19.

### **Note 3: Deposits and Investments**

#### ***Deposits***

Wastewater's deposits are pooled with the City's and are subject to, and in accordance with, the State of Colorado's Public Deposit Protection Act (PDPA). In addition, the City's Investment Policy (Policy) requires that Certificates of Deposit be purchased from institutions that are certified as eligible public depositories. 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.

**City and County of Denver**  
**Wastewater Management Enterprise Fund**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

At December 31, 2019 and 2018, Wastewater's portions of the City's deposits were \$878,000 and \$1,449,000, respectively.

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. As of December 31, 2019, none of Wastewater Management's deposits were subject to custodial credit risk since they were deposited in certified eligible public depositories under the PDPA.

***Investments***

All Wastewater investments are managed by the City and are subject to and are in accordance with the City's Investment Policy (the "Policy"). The objectives of the Policy, in order of priority are to maintain principal, to ensure the availability of funds to meet obligations promptly, and to maximize yield on the investment portfolio. The Policy applies to all investment activity of the City under the control of the Chief Financial Officer.

The City Charter, Section 2.5.3(c) and Revised Municipal Code, Section 20-21, authorize the type of investments that the City can hold. The Policy generally 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 pool. Additionally, to the extent possible, investments will be diversified by security type and institution.

This diversification is required in order that potential losses of 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.

At December 31, 2019 and 2018, respectively, Wastewater's cash, cash equivalents, and investment balances were as follows:

**City and County of Denver**  
**Wastewater Management Enterprise Fund**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
Commercial paper	\$ 5,606,000	\$ 3,756,000
Local government investment pools	6,449,000	7,457,000
Municipal bonds	8,811,000	7,321,000
Corporate bonds	33,739,000	31,800,000
Multinational fixed income	24,144,000	18,384,000
Structured products	20,181,000	19,146,000
U.S. Treasury securities	50,481,000	114,274,000
U.S. agency securities	74,941,000	63,472,000
Total investments	224,352,000	265,610,000
Deposits	878,000	1,449,000
Total cash, cash equivalents, and investments	\$ 225,230,000	\$ 267,059,000

As of December 31, 2019, and 2018, Wastewater had unspent bond proceeds of \$51,889,000 and \$115,061,000 respectively, in restricted investments. Use of these funds is restricted for capital projects.

Fair Value Measurement - Wastewater categorizes its fair value measurements within the fair value hierarchy established by GASB Statement Number 72 *Fair Value Measurement and Application*. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Wastewater's Level 2 debt securities are valued using matrix pricing and various relational pricing model techniques. Wastewater does not hold any securities classified as Level 1 or Level 3.

At December 31, 2019 and 2018, Wastewater has the following recurring fair value measurements.

<b>2019</b>			
<b>Investment Type</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Commercial paper	\$ -	\$ 5,606,000	\$ -
Municipal bonds	-	8,811,000	-
Corporate bonds	-	33,739,000	-
Multinational fixed income	-	24,144,000	-
Structured products	-	20,181,000	-
U.S. Treasury securities	-	50,481,000	-
U.S. agency securities	-	74,941,000	-
Total	\$ -	\$ 217,903,000	\$ -

**City and County of Denver**  
**Wastewater Management Enterprise Fund**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**2018**

<b>Investment Type</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Commercial paper	\$ -	\$ 3,756,000	\$ -
Municipal bonds	-	7,321,000	-
Corporate bonds	-	31,800,000	-
Multinational fixed income	-	18,384,000	-
Structured products	-	19,146,000	-
U.S. Treasury securities	-	114,274,000	-
U.S. agency securities	-	63,472,000	-
<b>Total</b>	<b>\$ -</b>	<b>\$ 258,153,000</b>	<b>\$ -</b>

The City invests in two local government investment pools, CSAFE and Colotrust, which are regulated by State statute so that the funds held are fully collateralized. As of December 31, 2019 and 2018, Wastewater had balances of \$1,547,000 and \$1,415,000 in CSAFE, respectively and \$4,902,000 and \$6,042,000 in Colotrust, respectively. CSAFE measures all of its investments at \$1 net asset value per share or amortized cost. Additionally, Colotrust adheres to Financial Accounting Standards Board guidance and reports its investments in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification 820 (“ASC 820”). Colotrust maintains a stable net asset value of \$1 per share using the fair value method.

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 manages interest rate risk for the investments under the control of the Chief Financial Officer by limiting the maximum maturity of investments. Commercial paper can have a maximum maturity of 270 days. U.S. Treasury and agency securities can have a maximum maturity of ten years.

At December 31, 2019 and 2018, Wastewater’s portion of the City’s investment balances subject to interest rate risk is shown in the table below.

**City and County of Denver**  
**Wastewater Management Enterprise Fund**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

Investment Type	Fair Value	Investment Maturities (in years)			
		Less Than 1	1-5	6-10	10+
Commercial paper	\$ 5,606,000	\$ 5,606,000	\$ -	\$ -	\$ -
Municipal bonds	8,811,000	1,441,000	7,202,000	168,000	-
Corporate bonds	33,739,000	6,128,000	27,611,000	-	-
Multinational fixed income	24,144,000	2,426,000	17,954,000	3,764,000	-
Structured products	20,181,000	432,000	16,863,000	2,653,000	233,000
U.S. Treasury securities	50,481,000	12,701,000	31,541,000	6,239,000	-
U.S. agency securities	74,941,000	11,663,000	54,966,000	8,312,000	-
<b>Total</b>	<b>\$ 217,903,000</b>	<b>\$ 40,397,000</b>	<b>\$ 156,137,000</b>	<b>\$ 21,136,000</b>	<b>\$ 233,000</b>

Investment Type	Fair Value	Investment Maturities (in years)			
		Less Than 1	1-5	6-10	10+
Commercial paper	\$ 3,756,000	\$ 3,756,000	\$ -	\$ -	\$ -
Municipal bonds	7,321,000	1,228,000	5,944,000	149,000	-
Corporate bonds	31,800,000	5,834,000	25,966,000	-	-
Multinational fixed income	18,384,000	2,249,000	14,641,000	1,494,000	-
Structured products	19,146,000	952,000	15,753,000	2,441,000	-
U.S. Treasury securities	114,274,000	70,475,000	38,653,000	5,146,000	-
U.S. agency securities	63,472,000	9,213,000	49,451,000	4,808,000	-
<b>Total</b>	<b>\$ 258,153,000</b>	<b>\$ 93,707,000</b>	<b>\$ 150,408,000</b>	<b>\$ 14,038,000</b>	<b>\$ -</b>

Wastewater's portion of the City's portfolio includes callable municipal bonds. 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. The December 31, 2019 and 2018 fair value of Wastewater Management's portion of municipal bonds with call options was \$2,456,000 and \$377,000, respectively.

**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. Of the City's investments at December 31, 2019, commercial paper, municipal bonds, corporate bonds, structured products, local government investment pools, and multinational fixed income securities were subject to credit quality risk.

The City's Investment Policy requires that:

- Commercial paper be rated by at least two Nationally Recognized Securities Rating Organizations (NRSRO) with a minimum short-term rating of A-1, P-1, or F-1 at the time of purchase.

# City and County of Denver Wastewater Management Enterprise Fund

## NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

- Municipal bonds have a minimum underlying issuer rating from at least two of the three rating agencies of A+ or its equivalent.
- Corporate debt obligations have a minimum underlying issuer rating from at least two of the NRSRO of A- or its equivalent.
- Asset-backed securities have a minimum underlying issuer rating from at least two of the NRSRO of AA- or its equivalent.
- Mortgage-backed securities and collateralized mortgage obligations have ratings of at least Aaa by Moody's, AAA by Fitch and AA+ by Standard & Poor's.
- Local government investment pools are in compliance with Title 24, Part 7 of Article 24 of the Colorado Revised Statutes.
- Supranational securities be issued by institutions with debt obligations rated AAA, or the equivalent, by at least two NRSROs.

As of December 31, 2019, all of the City's investments subject to credit quality risk were in compliance with the City's Policy.

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of a failure, Wastewater 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 Wastewater's investments owned as of December 31, 2019 were subject to custodial credit risk.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's Investment Policy states that a maximum of 5% of the portfolio may be invested in commercial paper, municipal securities, corporate debt obligations, certificates of deposit, asset-backed securities, or mortgage-backed securities issued by any one obligor. The Policy states that a maximum of 10% per issuer of the portfolio may be invested in an individual supranational obligor, local government investment pool, or money market mutual fund. A maximum of 5% per issuer of the total portfolio may be invested in an individual collateralized mortgage obligation. The Policy also limits investments in U.S. agency securities to 25% per issuer and 80% of total investments. The Policy limits concentrations even further with a combined maximum of 50% of the portfolio that can be invested in corporate debt obligations, commercial paper, and certificates of deposit as well as a combined maximum of 20% of the portfolio that can be invested in structured products. As of December 31, 2019, all investments were in compliance with the City's Policy.

More than 5% of Wastewater's investments are in individual issuers: Federal Home Loan Bank (9.4%), Federal National Mortgage Association (8.9%), and Federal Home Loan Mortgage Corporation (5.1%).

**City and County of Denver**  
**Wastewater Management Enterprise Fund**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**Note 4: Capital Assets**

Capital assets activity for the year ended December 31, 2019, is as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Capital assets not being depreciated					
Land and land improvements	\$ 14,324,000	\$ -	\$ -	\$ -	\$ 14,324,000
Construction-in-progress	<u>101,025,000</u>	<u>107,355,000</u>	<u>(15,340,000)</u>	<u>(69,210,000)</u>	<u>123,830,000</u>
Total capital assets not being depreciated	<u>115,349,000</u>	<u>107,355,000</u>	<u>(15,340,000)</u>	<u>(69,210,000)</u>	<u>138,154,000</u>
Capital assets being depreciated					
Buildings	17,975,000	-	-	-	17,975,000
Collection systems	969,110,000	8,703,000	(991,000)	69,210,000	1,046,032,000
Vehicles and equipment	14,629,000	1,645,000	(1,079,000)	-	15,195,000
Intangibles	<u>6,375,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,375,000</u>
Total depreciable capital assets	<u>1,008,089,000</u>	<u>10,348,000</u>	<u>(2,070,000)</u>	<u>69,210,000</u>	<u>1,085,577,000</u>
Less accumulated depreciation for					
Buildings	11,056,000	375,000	-	-	11,431,000
Collection systems	299,362,000	21,139,000	(225,000)	-	320,276,000
Vehicles and equipment	9,093,000	1,659,000	(969,000)	-	9,783,000
Intangibles	<u>6,067,000</u>	<u>306,000</u>	<u>-</u>	<u>-</u>	<u>6,373,000</u>
Total accumulated depreciation	<u>325,578,000</u>	<u>23,479,000</u>	<u>(1,194,000)</u>	<u>-</u>	<u>347,863,000</u>
Total capital assets being depreciated – net	<u>682,511,000</u>	<u>(13,131,000)</u>	<u>(876,000)</u>	<u>69,210,000</u>	<u>737,714,000</u>
Total capital assets – net	<u>\$ 797,860,000</u>	<u>\$ 94,224,000</u>	<u>\$(16,216,000)</u>	<u>\$ -</u>	<u>\$ 875,868,000</u>

**City and County of Denver**  
**Wastewater Management Enterprise Fund**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

Capital assets activity for the year ended December 31, 2018, is as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Capital assets not being depreciated					
Land and land improvements	\$ 14,089,000	\$ 235,000	\$ -	\$ -	\$ 14,324,000
Construction-in-progress	<u>86,122,000</u>	<u>147,281,000</u>	<u>-</u>	<u>(132,378,000)</u>	<u>101,025,000</u>
Total capital assets not being depreciated	<u>100,211,000</u>	<u>147,516,000</u>	<u>-</u>	<u>(132,378,000)</u>	<u>115,349,000</u>
Capital assets being depreciated					
Buildings	17,975,000	-	-	-	17,975,000
Collection systems	834,944,000	3,679,000	(1,891,000)	132,378,000	969,110,000
Vehicles and equipment	15,165,000	1,331,000	(1,617,000)	(250,000)	14,629,000
Intangibles	<u>6,125,000</u>	<u>-</u>	<u>-</u>	<u>250,000</u>	<u>6,375,000</u>
Total depreciable capital assets	<u>874,209,000</u>	<u>5,010,000</u>	<u>(3,508,000)</u>	<u>132,378,000</u>	<u>1,008,089,000</u>
Less accumulated depreciation for					
Buildings	10,681,000	375,000	-	-	11,056,000
Collection systems	284,334,000	16,926,000	(1,898,000)	-	299,362,000
Vehicles and equipment	9,435,000	1,406,000	(1,498,000)	(250,000)	9,093,000
Intangibles	<u>5,205,000</u>	<u>612,000</u>	<u>-</u>	<u>250,000</u>	<u>6,067,000</u>
Total accumulated depreciation	<u>309,655,000</u>	<u>19,319,000</u>	<u>(3,396,000)</u>	<u>-</u>	<u>325,578,000</u>
Total capital assets being depreciated – net	<u>564,554,000</u>	<u>(14,309,000)</u>	<u>(112,000)</u>	<u>132,378,000</u>	<u>682,511,000</u>
Total capital assets – net	<u>\$ 664,765,000</u>	<u>\$ 133,207,000</u>	<u>\$ (112,000)</u>	<u>\$ -</u>	<u>\$ 797,860,000</u>

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**Wastewater Management Enterprise Fund**  
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Capital contributions for 2019 and 2018 are comprised of the following:

	2019	2018
Contributed by the City	\$ -	\$ 2,500,000
Contributed by others	10,752,000	11,415,000
	\$ 10,752,000	\$ 13,915,000

Depreciation and amortization for the years ended December 31, 2019 and 2018, is comprised of the following:

	2019	2018
Depreciation	\$ 23,173,000	\$ 18,707,000
Amortization – intangibles	306,000	612,000

**Note 5: Customer Information System**

Denver Water performs billing services for Wastewater’s sanitary customers. When Denver Water acquired a new billing system (Customer Information System) in 2010, Wastewater agreed to pay for a portion of the system. Denver Water owns, operates, and maintains the system. Wastewater capitalized the \$6,125,000 it paid for CIS as an intangible capital asset and is amortizing it over 10 years. Amortization expense was \$306,000 in 2019 and 2018.

**Note 6: Revenue Bonds and Certificates of Participation**

In February 2018, Wastewater issued \$103,050,000 of 2018 Wastewater Enterprise Revenue Bonds with fixed interest rates ranging between 3.0% and 5.0% maturing in 2047.

In November 2016, Wastewater issued \$115,000,000 of 2016 Wastewater Enterprise Revenue Bonds with fixed interest rates ranging between 4.0% and 5.0% maturing in 2046.

In January 2012, Wastewater issued \$50,425,000 of 2012 Wastewater Enterprise Revenue Bonds with fixed interest rates ranging between 2.0% and 5.0% maturing in 2032. \$20,767,000 of the net proceeds was used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the advance refunding of Wastewater’s Series 2002 outstanding bonds, which were called in November 2012.

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The refunding of the 2002 bonds resulted in a defeasance of debt with the deferred loss being amortized over the remaining life of the old debt. The present value savings from the transaction at the time of refunding was estimated to be \$3,438,000, which represented the net present value of cash flow savings on the refunded bonds.

The maturity schedule for principal amounts and related interest of the 2012, 2016, and 2018 bonds is as follows:

Year Ending December 31,	Principal	Interest	Total
2020	7,395,000	9,295,000	16,690,000
2021	7,735,000	8,958,000	16,693,000
2022	8,085,000	8,606,000	16,691,000
2023	6,275,000	8,238,000	14,513,000
2024	6,550,000	7,956,000	14,506,000
2025 - 2029	37,395,000	35,156,000	72,551,000
2030 - 2034	40,850,000	27,455,000	68,305,000
2035 - 2039	42,210,000	19,716,000	61,926,000
2040 - 2044	50,840,000	11,090,000	61,930,000
2045 - 2047	<u>28,550,000</u>	<u>1,890,000</u>	<u>30,440,000</u>
	<u>\$ 235,885,000</u>	<u>\$ 138,360,000</u>	<u>\$ 374,245,000</u>

Wastewater has pledged future operating revenues, net of specified operating expenses, to repay the outstanding bonds and make capital improvements. The bonds are payable solely from net pledged revenues. For the current year, principal and interest payments were \$16,707,000. Total principal and interest payments remaining on the bonds are \$235,885,000 and \$138,360,000, respectively, payable through 2047.

The City ordinances authorizing the issuance of the bonds contains a rate maintenance covenant that requires the City, through Wastewater, to collect charges which, after payment of operation and maintenance expenses (net pledged revenue), are sufficient to pay an amount at least equal to one hundred twenty-five percent (125%) of the combined average annual debt service requirements for the outstanding bonds and every other issue of outstanding additional parity bonds or other parity securities that might be outstanding. Wastewater was in compliance with this covenant as of December 31, 2019.

Net pledged revenues	\$ 66,237,000
Combined average annual debt service requirement	\$ 12,475,000
Debt service coverage ratio	5.31

# City and County of Denver Wastewater Management Enterprise Fund

## NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

In May 2012, the City executed and delivered \$18,000,000 of Series 2012C1 (Tax-Exempt) Certificates of Participation (COPs), \$15,000,000 of Series 2012C2 (Tax-Exempt) COPs and \$12,000,000 of Series 2012C3 (Taxable) COPs in a private placement transaction. The proceeds of the COPs were used for certain traffic, drainage, and communication improvements to the East Corridor Light Rail Line as agreed upon by the City and the Regional Transportation District (RTD). Wastewater received \$8,500,000 of the proceeds for drainage improvements. Lease payments are made from FASTER (Funding Advancement for Surface Transportation and Economic Recover) revenues received from the State of Colorado. Wastewater's certificates are 2.71% fixed rate certificates with a final maturity in 2024. The COPs are described as capital lease obligations on the statements of net position.

The following is a schedule of future minimum lease obligations (in thousands), together with the present value of the net minimum lease payments as of December 31, 2019.

Year Ending December 31,	Total Lease Payments
2020	\$ 875,000
2021	912,000
2022	949,000
2023	983,000
2024	<u>986,000</u>
<b>Total minimum lease payments</b>	<b>4,705,000</b>
Less amounts representing interest	<u>(367,000)</u>
Present value of minimum lease payments	4,338,000
Less current portion	<u>(758,000)</u>
Noncurrent portion	<u>\$ 3,580,000</u>



Wastewater Management Building

DOTI Department of Transportation and Infrastructure

**City and County of Denver**  
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**Note 7: Changes in Long-term Liabilities**

The following are changes in long-term liabilities for the year ended December 31, 2019:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	\$ 242,975,000	\$ -	\$ 7,090,000	\$ 235,885,000	\$ 7,395,000
Plus unamortized bond premium	22,296,000	-	933,000	21,363,000	-
Total bond payable	265,271,000	-	8,023,000	257,248,000	7,395,000
Net Pension Liability	31,170,000	13,897,000	-	45,067,000	-
Net OPEB Liability	4,377,000	831,000	-	5,208,000	-
Certificate of participation	5,039,000	-	701,000	4,338,000	758,000
Compensated Absences	3,578,000	166,000	99,000	3,645,000	780,000
Total Long-Term Liabilities	\$ 309,435,000	\$ 14,894,000	\$ 8,823,000	\$ 315,506,000	\$ 8,933,000

The following are changes in long-term liabilities for the year ended December 31, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	\$ 147,880,000	\$ 103,050,000	\$ 7,955,000	\$ 242,975,000	\$ 7,090,000
Plus unamortized bond premium	18,352,000	4,853,000	909,000	22,296,000	-
Total bond payable	166,232,000	107,903,000	8,864,000	265,271,000	7,090,000
Net Pension Liability	34,492,000	-	3,322,000	31,170,000	-
Net OPEB Liability	-	4,377,000	-	4,377,000	-
Certificate of participation	5,686,000	-	647,000	5,039,000	701,000
Compensated Absences	3,309,000	2,431,000	2,162,000	3,578,000	614,000
Total Long-Term Liabilities	\$ 209,719,000	\$ 114,711,000	\$ 14,995,000	\$ 309,435,000	\$ 8,405,000

**Note 8: Related-party Transactions**

In the normal course of business, Wastewater provides services to other entities of the City. In addition, Wastewater is responsible for certain allocated administrative, street maintenance and other service charges. Charges from the City for such services were \$9.6 million and \$7.2 million in 2019 and 2018, respectively. These charges are reflected in operating expenses in the accompanying statements of revenues, expenses and changes in net position. In addition, Wastewater has pledged buildings as a guarantee of \$14.8 million of Certificates of Participation entered into by the City. The historical cost of the collateralized buildings is \$14.2 million.

**City and County of Denver**  
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The sanitary sewer services accounts represent a significant portion of Wastewater's accounts receivable and charges for services. These accounts are maintained, billed and collected by Denver Water in connection with its water accounts. Amounts due from Denver Water, which are included in accounts receivable, are \$12.6 million and \$12.3 million at December 31, 2019 and 2018, respectively. Wastewater pays Denver Water a fee for services performed. For the years ended December 31, 2019 and 2018, Wastewater incurred expenses to Denver Water of \$2.4 million and \$2.3 million, respectively.

Wastewater bills and collects fees for sewer capital improvements on behalf of the Metro Wastewater Reclamation District, which is a political subdivision of the State of Colorado organized to manage and finance facilities for the carriage, treatment, and disposal of wastewater throughout the metropolitan Denver area. Wastewater remits payments to Metro District on a quarterly basis. As of December 31, 2019, approximately 26% of the voting authority of the Board of Directors at Metro District is appointed by the Mayor of Denver.

**Note 9: Commitments and Contingencies**

Wastewater had outstanding construction, consulting and operational contract commitments of approximately \$59.9 million as of December 31, 2019.

Wastewater 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, Wastewater is party to pending or threatened lawsuits, under which it may be required to pay certain amounts upon final disposition of these matters. Wastewater has historically retained these risks, except in the case of workers' compensation, in which case Wastewater pays a premium to the City and the City retains the risk. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Wastewater and its legal counsel estimate that the ultimate resolution of these matters will not materially affect the accompanying financial statements.

**Note 10: Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

# City and County of Denver Wastewater Management Enterprise Fund

## NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

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 (until paid or made available to the employees or other beneficiary) held in trust by the City for the exclusive benefits of the participants and their beneficiaries.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

### Note 11: Pension Plan

Wastewater employees are covered under the City and County of Denver's pension plan, DERP. A summary of Wastewater's pension related items for the years ended December 31, 2019 and 2018, is presented below.

Year Ended December 31,	Net Pension Liability (Asset)	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
2019	\$ 45,067,000	\$ 12,605,000	\$ 825,000	\$ 7,222,000
2018	\$ 31,170,000	\$ 4,768,000	\$ 2,442,000	\$ 3,936,000

### *Plan Description*

DERP administers a cost-sharing multiple-employer defined benefit plan to eligible members. 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.

The Plan provides retirement, death and disability benefits for its members and their beneficiaries. Members who were hired before July 1, 2011, and retire at or after age 65 (or at age 55 if the sum of their age and credited service is at least 75) are entitled to an annual retirement benefit, in an amount equal to 2.0% of their final average salary for each year of credited service, payable monthly for life. Effective for employees hired after September 1, 2004, the formula multiplier was reduced to 1.5%. Final average salary is based on the member's highest salary during a 36 consecutive month period of credited service. Members with five years of credited service may retire at or after age 55 and receive a reduced retirement benefit.

For members who were hired after July 1, 2011, they must be age 60 and have combined credited service of at least 85 in order to receive a normal retirement prior to age 65. Final average salary is based on the member's highest salary during a 60 consecutive month period of credited service. Five-year vesting is required of all employees in order to qualify for a benefit, regardless of their age at the time of termination of employment.

# City and County of Denver Wastewater Management Enterprise Fund

## NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

Annual cost of living adjustments are granted on an ad hoc basis. The estimated cost of benefit and contribution provisions is determined annually by an independent actuary, recommended by the Plan's Board and enacted into ordinance by Denver City Council.

The Plan is accounted for using the economic resources measurement focus and the accrual basis of accounting. DERP issues a publicly available comprehensive annual financial report that can be obtained at <https://www.derp.org/>.

**Funding Policy.** The City contributed 12.5% and 12.5% for 2019 and 2018, respectively of covered payroll and employees made a pre-tax contribution of 8.0% for 2019 and 2018 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, 2019 and 2018 were \$83,255,000, and \$72,640,000, respectively, which equaled the required contributions. Wastewater's share of the City's contribution for the years ended December 31, 2019 and 2018 were \$2,777,000 and \$2,456,000, respectively.

**Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** As of December 31, 2019, Wastewater reported a liability of \$45,067,000 for its proportionate share of the net pension liability related to DERP. The net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. Standard update procedures were used to roll forward the total pension liability to December 31, 2019. The City's proportion of the net pension liability was based on contributions to DERP for the calendar year 2018 relative to the total contributions of participating employers to DERP.

As of December 31, 2019, Wastewater's proportion was 2.98729%, which was an increase of 0.32949% from its proportion of 2.65780%, measured as of December 31, 2018.

The components of Wastewater's net pension liability related to DERP as of December 31, 2019 and 2018, are presented below:

	<b>2019</b>	<b>2018</b>
<b>Total pension liability</b>	\$ 106,685,927	\$ 90,317,000
<b>Plan fiduciary net position</b>	<u>(61,618,157)</u>	<u>(59,147,000)</u>
<b>Net pension liability</b>	<u>\$ 45,063,770</u>	<u>\$ 31,170,000</u>

**City and County of Denver**  
**Wastewater Management Enterprise Fund**  
**NOTES TO FINANCIAL STATEMENTS**  
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For the year ended December 31, 2019, Wastewater recognized pension expense of \$7,222,000. A summary of deferred outflows of resources and deferred inflows of resources related to pensions as of December 31, 2019 and 2018, is presented below:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 570,000	-	\$ 601,000	-
Change of assumptions or other inputs	3,997,000	-	1,651,000	-
Difference between projected and actual investment	2,638,000	-	-	986,000
Changes in proportion, net	2,623,000	825,000	60,000	1,456,000
Contributions subsequent to the measurement date	2,777,000	-	2,456,000	-
Total	\$ 12,605,000	\$ 825,000	\$ 4,768,000	\$ 2,442,000

The \$2,777,000 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as presented below:

**Year Ended December 31,**

2020	3,778,000
2021	2,582,000
2022	1,228,000
2023	1,415,000
2024	-
Thereafter	-
	\$ 9,003,000

The total pension liability in the December 31, 2018 actuarial valuation was determined using the actuarial assumptions and other inputs presented below:

<b>Investment Rate of Return</b>	7.50%
<b>Salary Increases</b>	3.00% to 7.00%
<b>Inflation</b>	2.50%

Mortality rates were based on the RP-2000 Combined Mortality Table via scale AA to 2020, with multipliers specific to gender and payment status of employee.

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The latest experience study was conducted in 2013 covering the 5-year period of January 1, 2008 to December 31, 2012. At the time, the recommended mortality table was expected to produce a margin of 8% on the retired male mortality experience and 7% on the retired female experience.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return were adopted by the plan's trustees after considering input from the plan's investment consultant and actuary(s). For each major asset class that is included in the pension plan's target asset allocation as of December 31, 2018, these best estimates are summarized in the following table:



City Park Greenhouse

Photo Provided by DOTI Accounting Services

# City and County of Denver Wastewater Management Enterprise Fund

## NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

Asset Class	Target Allocation	Long-Term Expected Rate of Return
<b>US Equities</b>	<b>22.50%</b>	
Large Cap	12.00%	3.80%
Large Cap Value	3.50%	4.30%
Large Cap Growth	3.50%	3.80%
Small Cap Value	2.20%	4.50%
Small Cap Growth	1.30%	4.00%
<b>International Equity</b>	<b>23.50%</b>	
International Large Cap	2.00%	4.30%
international Large Cap Value	4.00%	5.30%
International Large Cap Growth	4.00%	4.80%
International Small Cap Value	5.50%	4.80%
Emerging Markets	8.00%	6.30%
<b>Fixed Income</b>	<b>20.50%</b>	
Governments	5.00%	0.50%
Core Fixed income	6.50%	1.00%
Emerging Market Debt	2.50%	4.30%
Private Debt	4.00%	5.00%
Distress Debt	2.50%	6.50%
<b>Real Estate</b>	<b>8.00%</b>	
Non-Core Real Estate	3.20%	5.80%
Core Real Estate	4.80%	3.80%
<b>Alternatives</b>	<b>25.50%</b>	
Hedge Funds	5.00%	3.30%
MLP	7.00%	6.30%
Private Equity	7.00%	6.50%
Private Energy	5.50%	6.50%
Timber	1.00%	3.00%
<b>Total</b>	<b>100.00%</b>	

**Discount Rate.** A single discount rate of 7.50% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.50%. The projection of cash flows used to determine this single rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**City and County of Denver  
Wastewater Management Enterprise Fund**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2019 and 2018**

**Sensitivity of proportional share of net pension liability to changes in the discount rate.** Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents Wastewater's net pension liability, calculated using a single discount rate of 7.50%, as well as what Wastewater's net pension liability would be if it were calculated using a single discount rate that is 1-percentage point lower or 1-percentage point higher:

2019		
1% Decrease	Current Discount Rate	1% Increase
6.50%	7.50%	8.50%
\$ 56,610,000	\$ 45,067,000	\$ 35,358,000

**Pension plan fiduciary net position.** Detailed information about the pension plan's fiduciary net position is available in the separately issued DERP financial report, which can be obtained at <https://www.derp.org/>.

**Note 12: Other Postemployment Benefit Plan**

Wastewater employees are covered under the City and County of Denver's OPEB plan, DERP. A summary of Wastewater's OPEB related items for the year ended December 31, 2019 is presented below.

OPEB	Net OPEB Liability (Asset)	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
2019	\$ 3,191,000	\$ 691,000	\$ 95,000	\$ 271,000
Implicit Rate Subsidy	Net OPEB Liability (Asset)	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
2019	\$ 2,017,000	\$ 264,000	\$ 1,000	\$ 153,000

***Plan Description***

The City acts in a cost-sharing multiple-employer capacity by providing health insurance to eligible DERP retirees and their qualified dependents through the City's group insurance plans. As authorized by section 18-412 of the City's Revised Municipal Code, DERP retirees are allowed to participate in the health insurance programs offered to active employees. To be eligible, a retiree must be a minimum of 55 years of age if hired prior to July 1, 2011, and a minimum of 60 years of age if hired after July 1, 2011, with 5 years of service and have begun receiving their pension benefit. Coverage ceases when one reaches Medicare age. As of the December 31, 2018 actuarial valuation, there are 8,755

# City and County of Denver Wastewater Management Enterprise Fund

## NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

active employees under age 65 covered under the health insurance plans. In addition, there are 1,124 retired employees not yet covered by Medicare who are covered by the plans. There is no stand-alone financial report for this medical coverage benefit and it is not included in the DERP report.

**Funding Policy.** DERP retirees are responsible for 100.00% of the blended premium rate. They may choose to use their health benefit toward the premium costs. The health benefit associated with the DERP pension provides monthly health insurance premium reduction of \$12.50 per year of service for retired participants under the age of 65 and \$6.25 per year of service for retirees age 65 and older. The City's required contribution toward the implicit rate subsidy is based on pay-as-you-go financing. For the year ended December 31, 2019, the City's contributions to the DERP OPEB plan were \$4,855,000 and contributions to the implicit rate subsidy were \$6,832,000. Wastewater's share of the City's contributions for the year ended December 31, 2019, were \$162,000 for OPEB.

**OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB.** As of December 31, 2019, Wastewater reported a liability of \$3,191,000 for its proportionate share of the net OPEB liability and \$2,017,000 for its proportionate share of the implicit rate subsidy. The net OPEB liability and implicit rate subsidy liability for DERP was measured as of December 31, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017. Standard update procedures were used to roll-forward the total OPEB liability and implicit rate subsidy liability to December 31, 2018. The City's proportion of the net OPEB liability was based on contributions to DERP for the calendar year 2018 relative to the total contributions of participating employers to the DERP.

As of December 31, 2018, Wastewater's proportion was 3.05109% percent for OPEB, which was a increase of 0.31543% from its proportion measured as of December 31, 2017.

The components of Wastewater's proportionate share of the net OPEB liability and implicit rate subsidy liability related to DERP as of December 31, 2019, are presented below:

OPEB Plan	2019
Total OPEB liability	\$ 5,247,000
Plan fiduciary net position	(2,056,000)
Net OPEB liability	\$ 3,191,000
Implicit Rate Subsidy	2019
Total OPEB liability	\$ 2,017,000
Plan fiduciary net position	-
Net OPEB liability	\$ 2,017,000

**City and County of Denver**  
**Wastewater Management Enterprise Fund**

**NOTES TO FINANCIAL STATEMENTS**  
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For the year ended December 31, 2019, Wastewater recognized OPEB expense for the DERP plan of \$271,000 and \$153,000 for the implicit rate subsidy. A summary of Wastewater's deferred outflows of resources and deferred inflows of resources related to OPEB as of December 31, 2019, is presented below:

<b>Implicit Rate Subsidy</b>	<b>2019</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ 14,000	\$ -
Change of assumptions or other inputs	47,000	-
Difference between projected and actual investment	-	-
Changes in proportion, net	30,000	1,000
Contributions subsequent to the measurement date	173,000	-
<b>Total</b>	<b>\$ 264,000</b>	<b>\$ 1,000</b>

<b>OPEB</b>	<b>2019</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ 15,000	\$ -
Change of assumptions or other inputs	186,000	-
Difference between projected and actual investment	91,000	-
Changes in proportion, net	237,000	95,000
Contributions subsequent to the measurement date	162,000	-
<b>Total</b>	<b>\$ 691,000</b>	<b>\$ 95,000</b>

The \$335,000 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability and net implicit rate subsidy liability in the year ended December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB and the implicit rate subsidy will be recognized as presented below:

**City and County of Denver**  
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**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

OPEB Plan Year		Implicit Rate Subsidy Year	
2020	\$ (74,000)	2020	\$ 9,000
2021	\$ (74,000)	2021	9,000
2022	\$ (74,000)	2022	9,000
2023	\$ (70,000)	2023	9,000
2024	-	2024	9,000
Thereafter	-	Thereafter	17,000
	\$(292,000)		\$ 62,000

The total OPEB liability and the implicit rate subsidy liability in the December 31, 2017, actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs.

<b>OPEB</b>	
Investment Rate of Return	7.50%
Salary Increases	3.00% to 7.00%
Inflation	2.50%
<b>Implicit Rate Subsidy</b>	
Salary Increases	3.00%
Inflation	2.50%
<b>Actuarial cost method</b>	Entry Age Normal
<b>Experience Study</b>	Conducted in 2013 covering the 5-year period of 1/1/2008 - 12/31/2012 3.50% in aggregate
<b>Long-term investment rate of return</b>	7.50%
<b>Discount rate</b>	7.50%
<b>Projected salary increases</b>	3.00%-7.00%
<b>Inflation</b>	2.50%

Mortality rates were based on the RP-2000 Combined Mortality Table Projected Via Scale AA to 2020, with multipliers specific to gender and payment status of employee.

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The target allocation and best estimates of geometric real rates of return for each major asset class are summarized below:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Rate of Return</b>
<b>US Equities</b>	<b>22.50%</b>	
Large Cap	12.00%	4.90%
Large Cap Value	3.50%	5.30%
Large Cap Growth	3.50%	4.70%
Small Cap Value	2.20%	5.50%
Small Cap Growth	1.30%	5.00%
<b>International Equity</b>	<b>23.50%</b>	
International Large Cap	2.00%	5.80%
international Large Cap Value	4.00%	6.30%
International Large Cap Growth	4.00%	5.50%
International Small Cap Value	5.50%	6.00%
Emerging Markets	8.00%	7.80%
<b>Fixed Income</b>	<b>20.50%</b>	
Governments	5.00%	0.60%
Core Fixed income	6.50%	1.10%
Emerging Market Debt	2.50%	4.60%
Private Debt	4.00%	7.50%
Distress Debt	2.50%	7.50%
<b>Real Estate</b>	<b>8.00%</b>	
Non-Core Real Estate	3.20%	5.90%
Core Real Estate	4.80%	4.10%
<b>Alternatives</b>	<b>25.50%</b>	
Hedge Funds	5.00%	2.60%
MLP	7.00%	7.20%
Private Equity	7.00%	7.50%
Private Energy	5.50%	7.30%
Timber	1.00%	3.60%
<b>Total</b>	<b>100.00%</b>	

**Discount rate.** A single discount rate of 7.50% was used to measure the total OPEB liability. This single discount rate was based on the expected rate of return on OPEB plan investments of 7.50%. The projection of cash flows used to determine this single rate assumed that plan member and employer contributions will be made at the current contribution rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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**December 31, 2019 and 2018**

**Sensitivity of the City's proportionate share of the net OPEB liability and implicit rate subsidy liability to changes in the Health Care Cost Trend Rates.** The following table presents the net OPEB liability using the current health care cost trend rates applicable to the DERP benefit structure, as well as if it were calculated using a discount rate that is one percentage point lower or one percentage point higher.

<b>2019 - OPEB</b>		
1% Decrease	Current Discount Rate	1% Increase
6.50%	7.50%	8.50%
\$ 3,152,776	\$ 3,191,000	\$ 2,279,062

<b>2019 - Implicit Rate Subsidy</b>		
1% Decrease	Current Discount Rate	1% Increase
3.11%	4.11%	5.11%
\$ 2,175,000	\$ 2,017,000	\$ 1,875,000

**OPEB plan fiduciary net position.** Detailed information about the DERP's fiduciary net position is available in DERP's comprehensive annual financial report which can be obtained at [www.derp.org](http://www.derp.org).

**Note 13: Net Investment in Capital Assets**

Net investments in capital assets is comprised of the following as of December 31, 2019 and 2018, respectively:

	<b>2019</b>	<b>2018</b>
Total capital assets, net of accumulated depreciation	\$ 875,868,000	\$ 797,860,000
Bonds payable, net (current and noncurrent)	(257,248,000)	(265,271,000)
Unspent bond proceeds and reserves	51,889,000	115,061,000
Deferred loss on refunding	236,000	320,000
Capital lease obligation (current and noncurrent)	(4,338,000)	(5,039,000)
Capital asset acquisitions included in payables	(23,317,000)	(24,029,000)
Net investment in capital assets	\$ 643,090,000	\$ 618,902,000

**City and County of Denver  
Wastewater Management Enterprise Fund**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY - DERP  
(UNAUDITED)**

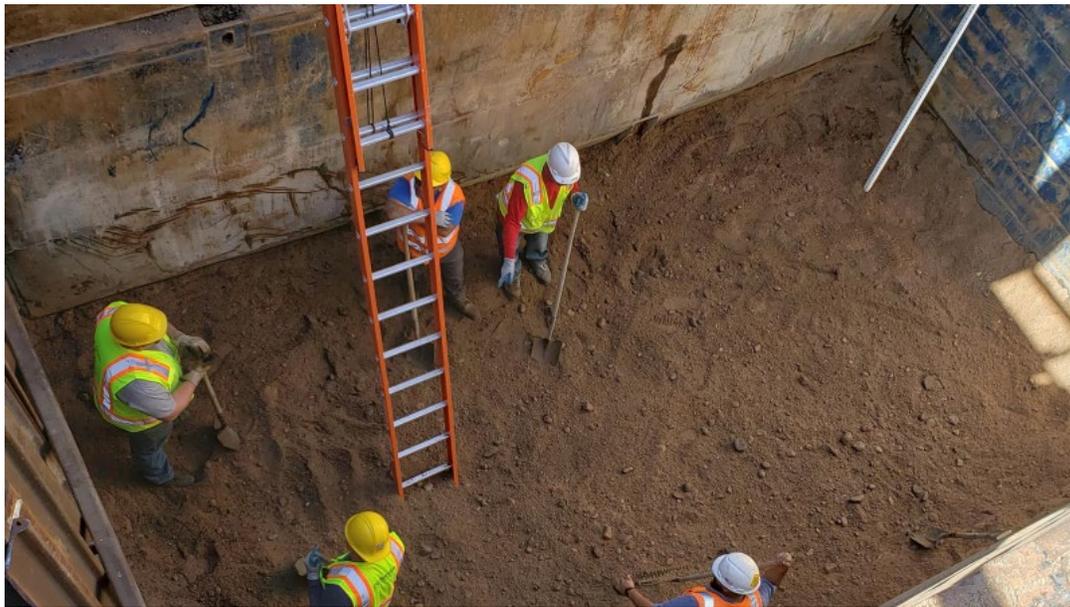
**December 31, 2019**

	<b>Wastewater's proportion of net pension liability</b>	<b>Wastewater's proportionate share of net pension liability</b>	<b>Wastewater's covered payroll</b>	<b>Wastewater's proportionate share of net pension liability as a percentage of its covered payroll</b>	<b>Plan fiduciary net position as a percentage of the total pension liability</b>
December 31, 2015	2.86340%	\$ 25,079,000	\$ 16,537,000	151.65%	70.11%
December 31, 2016	2.90906%	34,306,000	18,195,000	188.55%	62.26%
December 31, 2017	2.82855%	34,492,000	18,166,000	189.87%	62.26%
December 31, 2018	2.65780%	31,170,000	19,622,000	158.85%	65.49%
December 31, 2019	2.98729%	45,067,000	20,970,000	214.91%	57.76%

Note: Information is not available prior to 2015. In future periods, additional years will be added until 10 years of historical data are presented.

Note: Information presented in this schedule has been determined as of Wastewater's measurement date (December 31 one year prior to the most recent fiscal year-end) of the collective net pension liability in accordance with Governmental Accounting Statement No. 68.

Note: Change in assumptions. The discount rate used to measure the total pension liability at December 31, 2018 remained at 7.50% from the prior measurement date.



Wastewater Management Construction

DOTI Department of Transportation and Infrastructure

**City and County of Denver**  
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**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CONTRIBUTIONS - DERP**  
**(UNAUDITED)**  
**December 31, 2019**

	<b>Contractually required contribution</b>	<b>Contributions in relation to the contractually required contribution</b>	<b>Contribution deficiency (excess)</b>	<b>Wastewater covered payroll</b>	<b>Contributions as a percentage of covered payroll</b>
December 31, 2015	\$ 1,956,000	\$ 1,956,000	\$ -	\$ 18,195,000	10.75%
December 31, 2016	1,953,000	1,953,000	-	18,166,000	10.75%
December 31, 2017	2,097,000	2,097,000	-	19,622,000	10.69%
December 31, 2018	2,456,000	2,456,000	-	20,970,000	11.71%
December 31, 2019	2,778,000	2,778,000	-	22,634,000	12.27%

Note: Information is not available prior to 2015. In future periods, additional years will be added until 10 years of historical data are presented.

Note: Information presented in this schedule has been determined as of Wastewater's measurement date (December 31 one year prior to the most recent fiscal year-end) of the collective net pension liability in accordance with Governmental Accounting Statement No. 68.

Note: There were no benefit changes during the year. As of October 1, 2015, the valuation interest was lowered from 8% to 7.75%. The latest experience study was conducted in 2013 covering the 5-year period of January 1, 2008 to December 31, 2012. At the time, the recommended mortality table was expected to produce a margin of 8% on the retired male mortality experience and 7% on the retired female experience (Source: Denver Employees Retirement Plan 2013 Actuarial Experience Study for the period ending December 31, 2012, page 24).



Denver's new enhanced Bike Lanes

DOTI Department of Transportation and Infrastructure

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**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF NET OPEB LIABILITY AND IMPLICIT RATE SUBSIDY LIABILITY  
(UNAUDITED)**

**December 31, 2019**

	<b>Total OPEB Liability</b>	<b>OPEB Plan Net Position</b>	<b>Net OPEB Liability</b>	<b>Plan Net Position as a % of Total OPEB Liability</b>	<b>Covered Payroll</b>	<b>Net OPEB Liability as a % of Covered Payroll</b>
<b>DERP OPEB</b>						
December 31, 2019	\$5,247,000	\$(2,056,000)	\$3,191,000	39%	\$20,970,000	15%

	<b>Total Implicit Rate Subsidy Liability</b>	<b>OPEB Plan Net Position</b>	<b>Net OPEB Liability</b>	<b>Plan Net Position as a % of Total OPEB Liability</b>	<b>Covered Payroll</b>	<b>Net OPEB Liability as a % of Covered Payroll</b>
<b>DERP Implicit Rate Subsidy</b>						
December 31, 2019	\$2,017,000	\$ -	\$2,017,000	0%	\$20,970,000	10%

Note: Information is not available prior to 2018. In future periods, additional years will be added until 10 years of historical data are presented.

Note: Information presented in this schedule has been determined as of Wastewater's most recent fiscal year end (December 31) in accordance with Governmental Accounting Standards Board Statement No. 75.

Note: There were no benefit changes during the year. The latest experience study was conducted in 2013 covering the 5-year period of January 1, 2008 to December 31, 2012. At the time, the recommended mortality table was expected to produce a margin of 8% on the retired male mortality experience and 7% on the retired female experience (Source: Denver Employees Retirement Plan 2013 Actuarial Experience Study for the period ending December 31, 2012, page 24).



Wastewater Management Construction DOTI Department of Transportation and Infrastructure