



June 25, 2021

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



Brendan Hanlon
Chief Financial Officer

State law requires the City and County of Denver (City) to publish within seven months of the close of the fiscal year a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This report is prepared by the Controller's Office under the Department of Finance according to Article 2, Part 5 of the City's Charter. Pursuant to the requirements, I hereby issue the Comprehensive Annual Financial Report of the City for the fiscal year ended December 31, 2020.

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

BKD, LLP, a firm of licensed certified public accountants, has audited the City's financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended December 31, 2020, are free of material misstatement. The audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering unmodified opinions on the City's basic financial statements as of and for the year ended December 31, 2020. The independent Auditors' report is presented as the first component of the financial section of this report.

Department of Finance, The Controller's Office
201 W Colfax Ave, Dept 1109 | Denver, CO 80202

www.denvergov.org/finance

p: 720.913.5500 | f: 720.913.5245

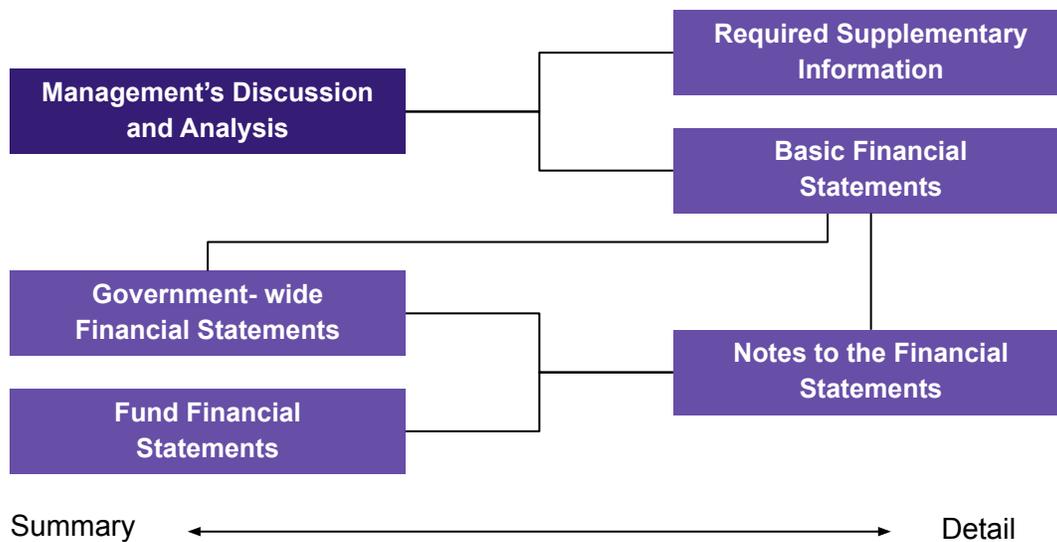
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The Report

The Comprehensive Annual Financial Report is presented in three sections:

- The **Introduction section** includes this letter of transmittal, Mayor, Auditor, District Attorney, Clerk and Recorder, and City Council introductions, the City’s organization chart, and certificates of achievement.
- The **Financial section** includes the report of the independent auditors, Management’s Discussion and Analysis (MD&A), the basic financial statements, including the government-wide financial statements comprised of the Statement of Net Position and the Statement of Activities and the accompanying notes to the financial statements. The Financial Section also includes the fund financial statements including the governmental funds financial statements, the proprietary funds financial statements, the fiduciary funds financial statements, the component units financial statements, and the combining individual funds financial statements for the nonmajor governmental funds and the internal service funds. Required supplementary information other than the MD&A is also included in the financial section.
- The **Statistical section** includes selected financial and demographic information, on a multi-year basis.

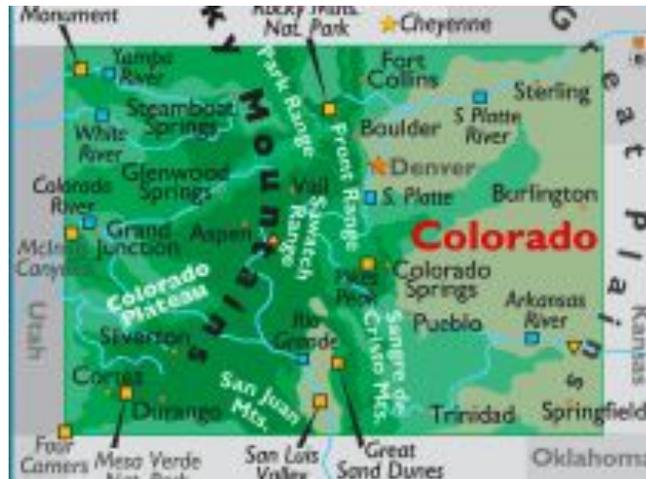
This transmittal letter is designed to complement the MD&A and should be read in conjunction with the MD&A.



This Comprehensive Annual Financial Report (Financial Report) includes all funds of the City. The City provides a full range of services including: police and fire protection; the construction and maintenance of highways, streets and other infrastructure; and recreational activities and cultural events. The Financial Report also includes the City’s component units, which are legally separate organizations and for which the City is financially accountable or whose relationship with the City is of a nature and significance that would cause the City’s financial statements to be incomplete were they not included.

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

In addition to the financial audit, the City undertakes a single audit in conformance with the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Audits. The results of this single audit, including a schedule of expenditures of federal awards, and the independent auditor's reports on the City's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards, are available in the City's separately issued single audit report.

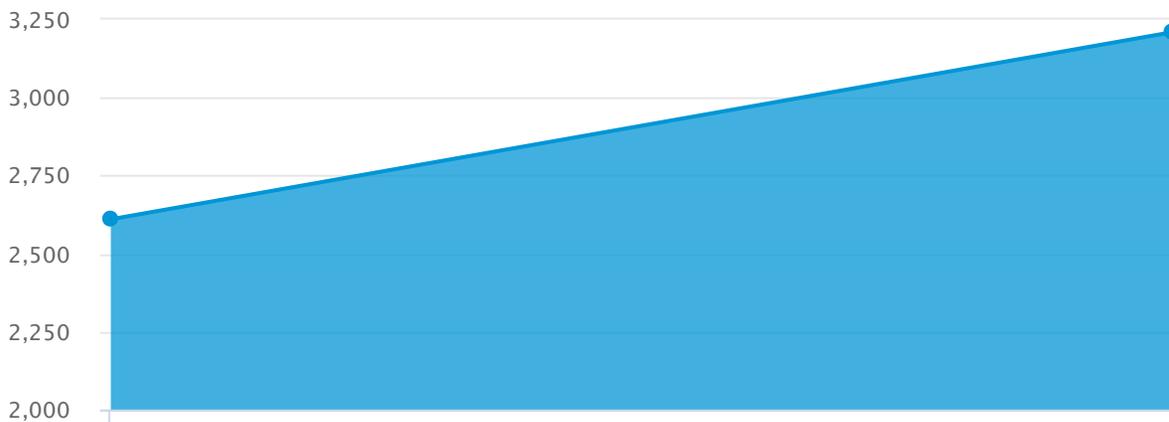


City Profile

The City is located at the eastern base of the Rocky Mountains in the north-central part of Colorado, encompassing 154.63 square miles. The City is the capital of the state, and it is also the cultural, distribution, entertainment, financial, service and transportation hub of the Rocky Mountain region. With an elevation of 5,280 feet the “Mile High City” has a cool, dry, sunny climate that makes it a magnet for health seekers and those enjoying outdoor recreation all year round. In 2020, Denver had an estimated population of 749,103 for the core City and County. It is estimated that over 3 million people reside in the Denver metro area, which includes the suburban counties of Adams, Arapahoe, Boulder, Broomfield, Douglas and Jefferson. Denver was founded November 22, 1858, after a gold discovery at the confluence of Cherry Creek and the South Platte River. Town founder William H. Larimer, Jr. named the city for James W. Denver, Governor of Kansas Territory, of which east central Colorado was then a part.

Denver Metro Area's Suburban Population

(numbers in thousands)



Numerous gold discoveries sparked a mass migration of some 100,000 in 1859-1861, leading the federal government to establish Colorado Territory in 1861. The City was incorporated on November 7, 1861, by a special act of the first session of the Legislative Assembly of Colorado Territory. In 1867 the City became the Capital of Colorado Territory and remained the capital after Colorado became a state on August 1, 1876. Denver became a City and County with

home rule when Article XX was added to the Colorado Constitution in 1902. The City's charter was enacted on March 29, 1904 establishing a strong mayor/city council form of government and an independent, elected city auditor.

The mayor and 13-member council, elected in non-partisan elections govern the City. The Mayor is the chief executive, exercising all administrative and executive powers granted to the City, except as otherwise delegated by the City Charter. The legislative powers of the City are vested in the City Council. The City has an elected Auditor and an elected Clerk and Recorder. All elected officials' terms are concurrent and last four years, and each position is subject to term limits of 12 years.

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

Regional Economic Conditions

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

The City is the center of economic activity of the region, serving as a business, recreational, higher educational and cultural hub. Major features of the economy include the central business district, state capitol building, Denver International Airport, extensive library facilities, several professional sports teams, institutions of higher learning, and numerous museums and other cultural facilities.

The economy of the metropolitan area generally mirrors that of the state. The economy is experiencing a steady recovery from the worldwide financial downturn that began in March 2020 due to the COVID-19 pandemic. According to the Colorado Office of State Budget and Planning (OSBP), starting in January 2021 the state has experienced employment growth with the expectation that this will continue as declining COVID caseloads have allowed the easing of public health restrictions and more people are vaccinated.

Labor Market

Per the OSBP, the Colorado labor market is expected to continue to grow in 2021 as vaccinations increase and there is significant federal stimulus and relief spending. After stabilizing at 6.9 percent from October through December, Colorado's unemployment rate dropped to 6.6 percent in January, just slightly above the U.S. rate of 6.3 percent. This was primarily driven by gains in the leisure and hospitality industries after loosening of the public health restrictions. No industries experienced significant declines in January, signaling positive employment trends across the board in Colorado.

Tourism

In 2020, COVID-19 severely influenced the State and Denver's heavily service-reliant tourism industry. Mass gathering restrictions, safer-at-home mandates, loss in personal and business income, and an unprecedented level of public health concern contributed to a precipitous drop in travel and its related spending for the region. The brunt of COVID-19's economic impact was felt in this sector which translated into a 51.1% decline in DIA passenger traffic, 22.6% decline in employment, 40.7% decline in Sales and Use Tax collections, and occupancy rates in Denver-area lodging facilities shrinking by 33% from 2019 levels. Coupled with this loss of demand were falling room rates, further compounding Denver's lodgers' tax shortfall. Preliminary, unaudited year-end actuals show that the City's 2020 lodgers' tax revenue fell by 62 percent year-over-year, the steepest rate of decline on record.

Activity and spending due to leisure travel is expected to recover starting in Q3 2021. What remains uncertain is the outlook for business travel as well as how long it will take for international travel restrictions to be lifted.

Consumer Spending

According to the OSBP, retail spending in Colorado grew 1.9% in 2020 over 2019 levels. Overall, Colorado retail sales are expected to pick up throughout 2021, bolstered by additional federal stimulus, a lower unemployment rate, and tourism picking back up in late spring and through the rest of the year. Denver's sales and use tax revenue, which makes up half of the General Fund revenue stream, decreased by 11.3% in 2020 due to the effects of the pandemic. The City anticipates that due to the economic recovery expected in 2021, core sales and use tax revenue will increase approximately 15.30% over 2020.

City Financial Policies and Planning

The City's economy, as with the rest of the nation and most of the world, experienced a significant financial downturn due to the COVID-19 pandemic, causing the largest decline in revenues in its history. Formal financial policies, as well as operating practices, enabled the City to maintain core services and minimize the impact to citizens and employees wherever possible. Formal policies exist in areas such as balanced budgets, revenue diversification and use of one-time and unpredictable revenues, operating expenditures, reserves, investments, and debt.

Revenue Administration

The City's main source of revenue for operating expenditures is sales and use tax, which typically averages 50.00% of total General Fund revenues, including transfers in. This is less than the 70.00% average for most local governments in the region. In addition, the City reviews all fees, fines, and charges for services on a rotating basis to ensure they are meeting cost recovery goals. One-time and unpredictable revenues are spent on one-time costs, such as equipment replacement, or transferred to capital improvement funds for repair and rehabilitation projects.

Expenditure Administration

Expenditure budgets are carefully reviewed by both the implementing departments and the Budget and Management Office. Careful attention is paid to ensure departments are meeting projected vacancy savings and that excess budget cannot be transferred to non-personnel line items without approval of the Finance Department. For 2020, there was \$3,000,000 in additional expenditures due to the CARES grant spending deadline extension. The revised budget anticipated using CARES to offset general fund expenditures to assure the original grant spending deadline was met. Overall, as a result of implementing midyear reductions in 2020, the actual expenditures reflected more than \$126,000 in savings from the original 2020 budget. City agencies did not backfill positions and reduced overall spending.

Reserves

The City has multiple reserves in its General Fund to address budgetary shortfalls. A Contingency Reserve of no less than 2.00% of total estimated expenditures, an Emergency Reserve mandated by the State Constitution equal to 3.00% of covered funds, and an unassigned Fund Balance minimum of 10% and target of 15.00% of total budgeted expenditures. The City's budget policy concerning the use of reserves varies depending on the reserve type but generally limits the use of reserves to respond to revenue shortfalls, unanticipated expenditures, or severe economic downturn. In 2020, almost \$90 million of the unassigned Fund Balance was leveraged to address the severe revenue shortfall in the general fund.

Debt Administration

The City's debt policy establishes guidelines and parameters for the issuance and management of debt. The primary objectives of the policy are to ensure that debt is issued prudently and is affordable. The Taxpayer's Bill of Rights (TABOR) under the State Constitution requires the City to obtain voter approval prior to issuing any multi-year fiscal debt or obligations. Certain exceptions apply for refunding of outstanding bonds and debt issued by enterprises of the City. The City's Charter further restricts general obligation bonded debt to 3.0% of the actual value of the taxable property within the City. General obligation water bonds issued by Denver Water are excluded from this limitation. At December 31, 2020, the City's general obligation bonded debt of \$842,370,000, net amounts reserved for debt service and subject to this restriction, was 13.58% of the \$4,986,103,000 three-percent limitation amount, not including compound interest of the general obligation mini-bonds.

According to standard measures used by the primary credit rating agencies to assess debt (e.g. fund balance as a percent of operating expenses, debt-to-assessed ratios, debt per capital, etc.), the City's level of direct debt obligations are considered moderate but manageable in comparison with similarly sized cities. Rating agencies cite the City's strong financial management and prudent fiscal policies as credit strengths. As of December 31, 2020, the City is rated triple-A (AAA) by all three of the major rating agencies: Standard & Poor's, Fitch, and Moody's Investors Service.

Cash Management

The City's Charter regulates the securities in which the City may invest its funds. Permissible investments under the Charter are obligations of the United States Government, its agencies, and sponsored corporations, prime bankers' acceptances, prime commercial paper, certificates of deposit issued by banks and savings and loan institutions, local government investment pools, repurchase agreements, forward purchase agreements, security lending agreements, highly rated municipal securities, high grade corporate bonds, asset-backed securities, supranational debt obligations, federal agency collateralized mortgage obligations (CMO), federal agency mortgage pass through securities (MBS),

money market funds that purchase only the types of securities specified herein, and other similar securities as may be authorized by ordinance. The City Council has adopted an ordinance authorizing the investment of City moneys in Resolution Funding Corporation (REFCORP) Securities, Forward Purchase Agreements, and Debt Service Reserve Fund Put Agreements, all of which are either issued by a U.S. Government Corporation or are collateralized by surety types already authorized by the Charter. The City is not permitted to leverage its investment portfolio.

The objectives of the City's investment policy, in order of priority are to maintain principal, to ensure the availability of funds to meet obligations promptly, and to maximize yield on the investment portfolio. Bank deposits are either insured by federal deposit insurance or collateralized according to state law. Investments are held at a third-party bank in a safekeeping account in the City's name.

Long-Term Financial Planning

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

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (Financial Report) for the year ended December 31, 2019. The Certificate of Achievement is a national award recognizing conformance with the highest standards for preparation of state and local government financial reports. To be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized Financial Report. This report must satisfy both U.S. GAAP and applicable legal requirements. This was the fortieth consecutive year that the city has received this award. A Certificate of Achievement is valid for one year only. We believe this 2020 Financial Report continues to conform to the Certificate of Achievement program requirements and will submit it to the GFOA to determine its eligibility for another certificate.

Furthermore, the GFOA has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the City for its Popular Annual Financial Report (PAFR) for the fiscal year ending on December 31, 2019. The Award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports. To receive this award a government unit must publish a PAFR whose contents conform to program standards of creativity, presentation, understandability and reader appeal. This is the eighth year that the city has received this award. An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

Additionally, GFOA presented a Distinguished Budget Presentation Award to the City for its annual budget for the fiscal year beginning January 1, 2020. To receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device. This award is valid for a period of one year only. We believe our 2021 budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another year.

The preparation of this Comprehensive Annual Financial Report could not have been accomplished without the efficient and dedicated service of a highly qualified staff in the Controller's Office. The Cash, Risk, and Capital Funding Division and the Budget and Management Office were also instrumental in the AFR's completion. Their cooperation and continued assistance is necessary and appreciated. I would like to thank all personnel who helped and contributed to the preparation of this report. I also want to acknowledge the thorough and professional way our independent auditors, BKD, LLP, conducted their audit.

Respectfully submitted,



Brendan Hanlon
Chief Financial Officer