

City and County of Denver Wastewater Management Enterprise Fund



**Financial Statements and Independent Auditor's Report
December 31, 2016 and 2015**

Cover photo is of Kennedy Golf Course Outfall provided by Wastewater Capital Projects Management

City and County of Denver
Wastewater Management Enterprise Fund
December 31, 2016 and 2015

Table of Contents

Independent Auditor's Report.....	1
Management's Discussion and Analysis (Unaudited).....	3
Financial Statements	
Statements of Net Position.....	16
Statements of Revenues, Expenses and Changes in Net Position.....	18
Statements of Cash Flows.....	19
Notes to Financial Statements.....	21
Required Supplementary Information (Unaudited)	
Schedule of Proportionate Share of the Net Pension Liability.....	44
Schedule of Contributions.....	45
Other Postemployment Benefit Plan – Implicit Rate Subsidy	
Schedule of Funding Progress.....	46
Schedule of Employer Contributions.....	47



Independent Auditor's Report

Audit Committee
City and County of Denver
Denver, Colorado

We have audited the accompanying financial statements of 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 year ended December 31, 2016, and the related notes to the 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 audit. We conducted our audit 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, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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 that is attributable to the transactions of Wastewater. They do not purport to, and do not, present fairly the financial position of the City as of December 31, 2016, 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.

Other Matters

Prior Year Financial Statements

The 2015 financial statements of Wastewater were audited by other auditors, whose report dated May 26, 2016 expressed an unmodified opinion on those statements.

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.

Anton Collins Mitchell LLP

Denver, Colorado
May 25, 2017

City and County of Denver
Wastewater Management Enterprise Fund
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
December 31, 2016 and 2015

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, 2016 and 2015. 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, 2016 and 2015, 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 postemployment benefits required supplementary information.

City and County of Denver
Wastewater Management Enterprise Fund
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
December 31, 2016 and 2015

Financial Highlights

Statements of Net Position



As of December 31, 2016, cash and investments totaled \$231.7 million, an increase of \$135.8 million primarily due to the issuance of a \$115 million revenue bond.



As of December 31, 2016, noncurrent liabilities totaled \$209.4 million, an increase of \$133.3 million due largely to the 2016 revenue bond issuance.

Statements of Revenues, Expenses and Changes in Net Position



Operating revenues totaled \$133.4 million for the year ended December 31, 2016, an increase of \$7.1 million over 2015.



Operating expenses totaled \$113.1 million for the year ended December 31, 2016, an increase of \$1.8 million over 2015.



Wastewater generated operating income of \$20.2 million for the year ended December 31, 2016. Net position increased by \$48.3 million over 2015 to a total of \$632.5 million as of December 31, 2016.

Financial Analysis of Wastewater

Summary of Revenues, Expenses and Changes in Net Position

Wastewater reported operating income of \$20.2, \$14.9 and \$19.0 million for 2016, 2015 and 2014, respectively. In 2016, operating revenues increased by \$7.1 million while operating expenses increased by \$1.8 million.

Net position increased by \$48.3, \$3.3 and \$38.3 million in 2016, 2015 and 2014, respectively. The change in net position in 2015 was primarily influenced by the adoption of GASB 68.

City and County of Denver
Wastewater Management Enterprise Fund
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
December 31, 2016 and 2015

The following is a summary of the revenues, expenses and changes in net position for the years ended December 31, 2016, 2015 and 2014:

Summary of Revenues, Expenses and Changes in Net Position (in thousands) Years Ended December 31,			
	2016	2015	2014*
Sanitary sewer charges	\$ 90,812	\$ 85,710	\$ 81,833
Storm drainage charges	42,564	40,550	38,973
Total operating revenues	<u>133,376</u>	<u>126,260</u>	<u>120,806</u>
Depreciation and amortization expense	18,508	18,067	16,745
Metro District charges	49,198	48,873	44,200
Other operating expenses	45,442	44,391	40,857
Total operating expenses	<u>113,148</u>	<u>111,331</u>	<u>101,802</u>
Operating income	<u>20,228</u>	<u>14,929</u>	<u>19,004</u>
Nonoperating revenue, net of expenses	<u>97</u>	<u>1,059</u>	<u>833</u>
Gain (loss) before capital contributions and transfers	20,325	15,988	19,837
Capital contributions and transfers out – net	<u>27,993</u>	<u>9,539</u>	<u>18,420</u>
Change in net position	48,318	25,527	38,257
Beginning net position (before restatement)	<u>584,224</u>	<u>580,875</u>	<u>542,618</u>
Adjustment for change in accounting principle	<u>-</u>	<u>(22,178)</u>	<u>-</u>
Beginning net position (as restated)	<u>584,224</u>	<u>558,697</u>	<u>542,618</u>
Ending net position	<u><u>\$ 632,542</u></u>	<u><u>\$ 584,224</u></u>	<u><u>\$ 580,875</u></u>

* 2014 financial statements have not been restated for the adoption of GASB 68 as it was not practical to do so.

City and County of Denver

Wastewater Management Enterprise Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

December 31, 2016 and 2015

Revenues

2016



Total operating revenues were \$133.4 million for 2016, an increase of \$7.1 million, or 5.6% compared to 2015. The increase in revenue was primarily due to a 5.0% increase in sanitary rates and an 11.0% increase in storm rates that took effect on July 1, 2016.



Sanitary sewer and storm drainage revenue increased by 6.0% and 5.0%, respectively, due to recent fee increases.

2015

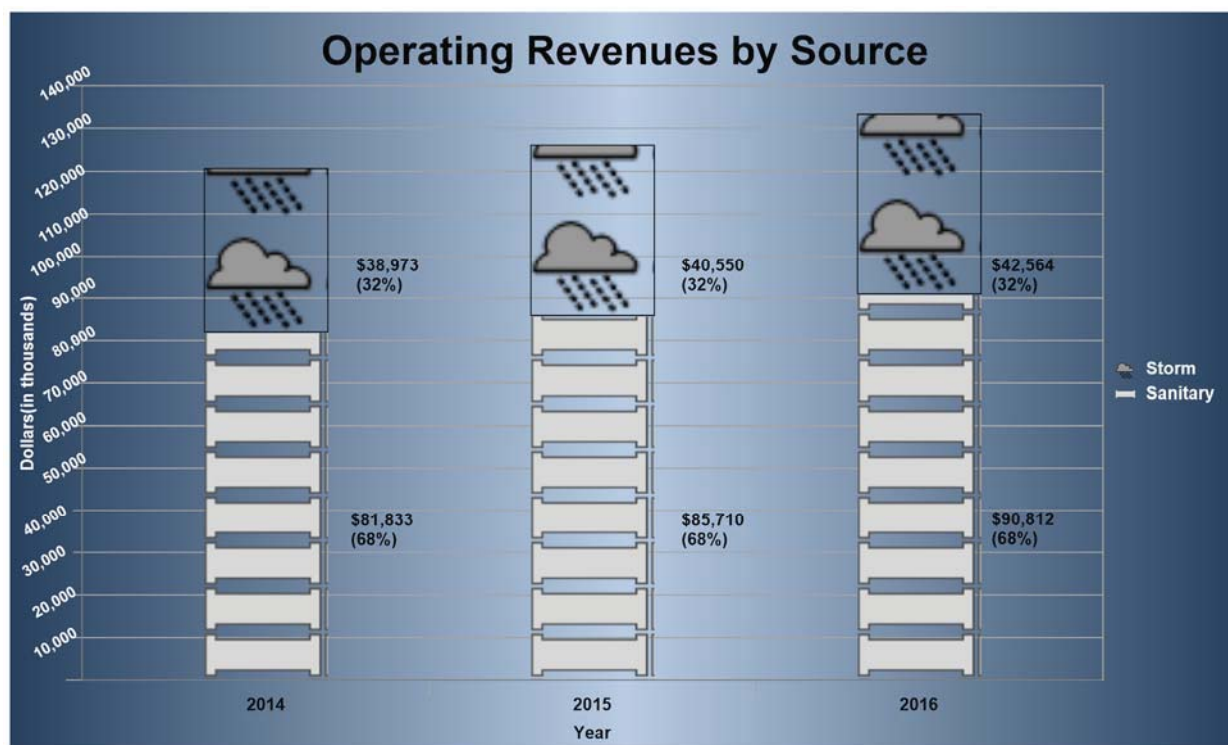


Total operating revenues were \$126.3 million for 2015, an increase of \$5.5 million, or 4.5% compared to 2014. The increase in revenue was primarily due to a 2.7% increase in both sanitary and storm rates that took effect on July 1, 2015.



Sanitary sewer and storm drainage revenue increased by 4.7% and 4.0%, respectively, due to recent fee increases.

The following is a graphical representation of Wastewater's major source of operating revenues for 2016, 2015 and 2014.



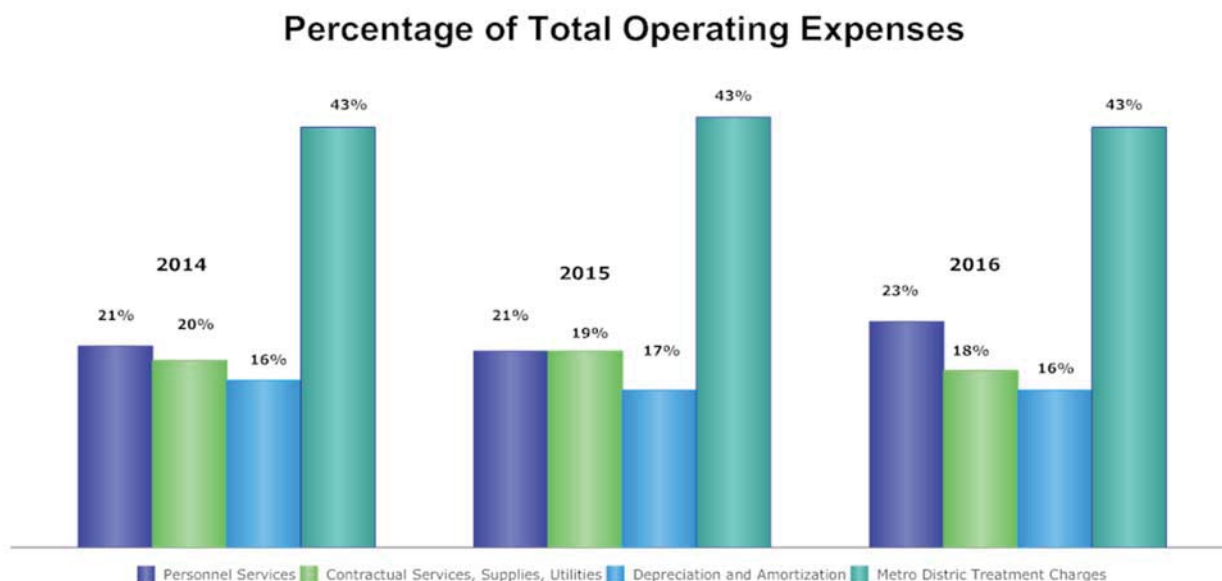
City and County of Denver
Wastewater Management Enterprise Fund
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
December 31, 2016 and 2015

Expenses

The following is a summary of operating expenses for the years ended December 31, 2016, 2015 and 2014:

Operating Expenses (in thousands) December 31,			
	2016	2015	2014
Personnel services	\$ 25,535	\$ 22,533	\$ 21,175
Contractual services	17,982	20,053	18,022
Supplies	1,534	1,429	1,221
Utilities	390	376	439
Depreciation and amortization	18,508	18,067	16,745
Metro District charges	49,198	48,873	44,200
Total operating expenses	<u>\$ 113,147</u>	<u>\$ 111,331</u>	<u>\$ 101,802</u>

The following chart is a graphical representation of Wastewater's primary operational expense 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
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
December 31, 2016 and 2015

2016



Operating expenses were \$113.1 million in 2016 as compared to \$111.3 million in 2015, an increase of \$1.8 million.



Personnel services increased by \$3.0 million primarily due to an increase in pension expense.

2015



Operating expenses were \$111.3 million in 2015 as compared to \$101.8 million in 2014, an increase of \$9.5 million.



District water treatment charges were \$4.7 million higher in 2015 as compared to 2014 due to a 3.4% rate increase that took effect January 1, 2015.



Personnel services in 2015 were \$1.4 million higher than 2014 due to a combination of higher compensation and benefit costs.



Photo submitted by Wastewater Management

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.

City and County of Denver
Wastewater Management Enterprise Fund
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
December 31, 2016 and 2015

The following is a summary of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at December 31, 2016, 2015 and 2014:

Summary of Net Position
(in thousands)
December 31,

	2016	2015	2014*
Current and other assets	\$ 255,003	\$ 111,501	\$ 92,660
Capital assets	606,873	580,286	573,221
Deferred outflows of resources	<u>10,320</u>	<u>3,849</u>	<u>653</u>
 Total assets and deferred outflows of resources	 <u>872,196</u>	 <u>695,636</u>	 <u>666,534</u>
 Current liabilities	 29,955	 34,809	 30,949
Noncurrent liabilities	209,376	76,078	54,710
Deferred inflows of resources	<u>323</u>	<u>525</u>	<u>-</u>
 Total liabilities and deferred inflows of resources	 <u>239,654</u>	 <u>111,412</u>	 <u>85,659</u>
 Net investment in capital assets	 553,632	 532,724	 523,194
Unrestricted	<u>78,910</u>	<u>51,500</u>	<u>57,681</u>
	<u><u>\$ 632,542</u></u>	<u><u>\$ 584,224</u></u>	<u><u>\$ 580,875</u></u>

* 2014 financial statements have not been restated for the adoption of GASB 68 as it was not practical to do so.

2016



Net position increased by \$48.3 million to \$632.5 million in 2016 as compared to 2015. The increase in net position in 2016 was primarily due to a \$135.8 million increase in cash and investments from the 2016 revenue bond and a \$26.6 million increase in capital assets during 2016.



In addition, total liabilities and deferred inflows increased by \$128.2 million in 2016 as compared to 2015. The increase was primarily due to a \$126.7 million increase in bonds payable.

City and County of Denver
Wastewater Management Enterprise Fund
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
December 31, 2016 and 2015

2015



Net position increased by \$3.3 million to \$584.2 million in 2015 as compared to 2014. The increase in net position in 2015 was primarily due to a \$10.4 million increase in capital assets during 2015 and an increase of \$15.7 million in cash and investments.



In addition, total liabilities and deferred inflows increased by \$25.8 million in 2015 primarily as a result of implementing GASB 68, which required the recording of a \$25.1 million net pension liability.

Customer Trends

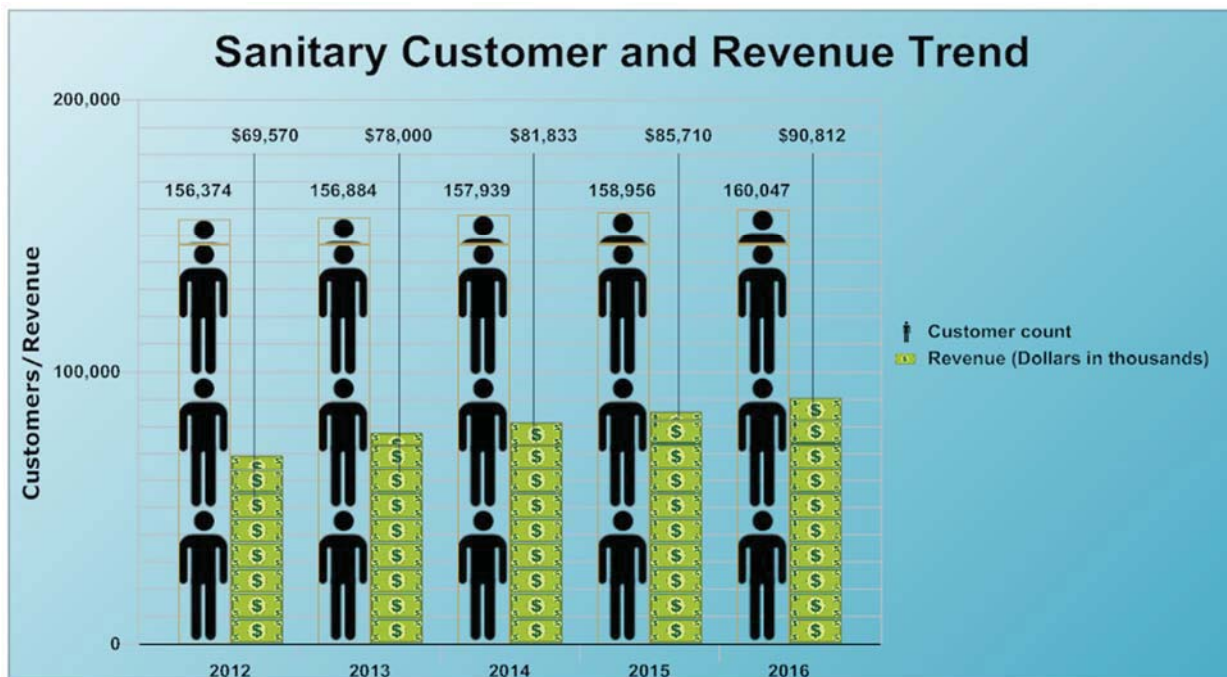
The following graphs provide information on customer trends for both sanitary sewer and storm drainage services. On December 31, 2016, sanitary customers totaled 160,047 and storm customers totaled 166,638. Increased revenues can be attributed to an increase in customer base and recent fee increases. Average sanitary revenue per customer increased to \$567 from \$539 in 2016 as compared to 2015. Average storm revenue per customer increased to \$255 from \$246 in 2016 as compared to 2015.



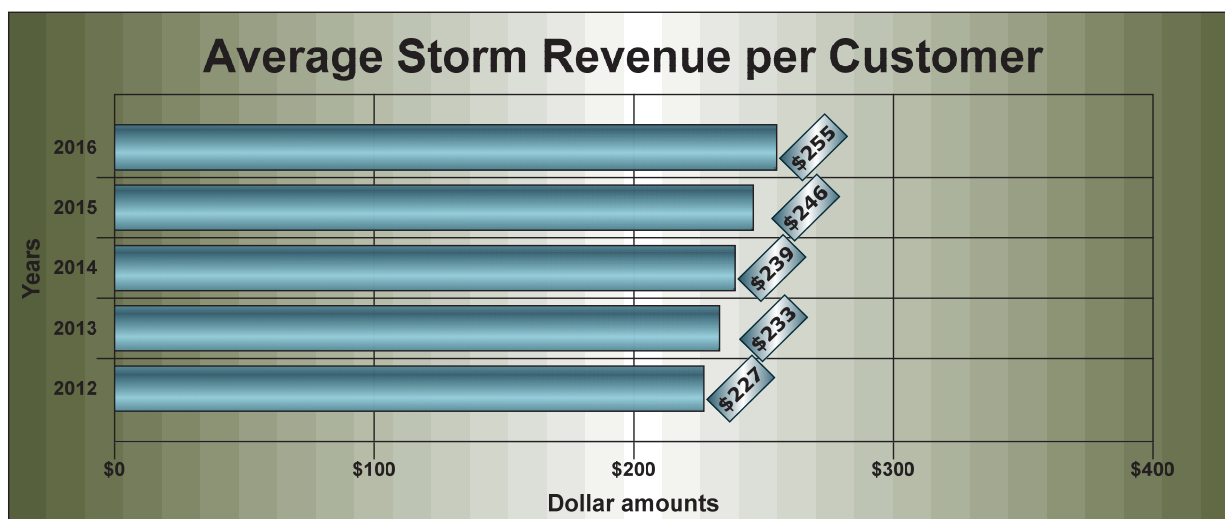
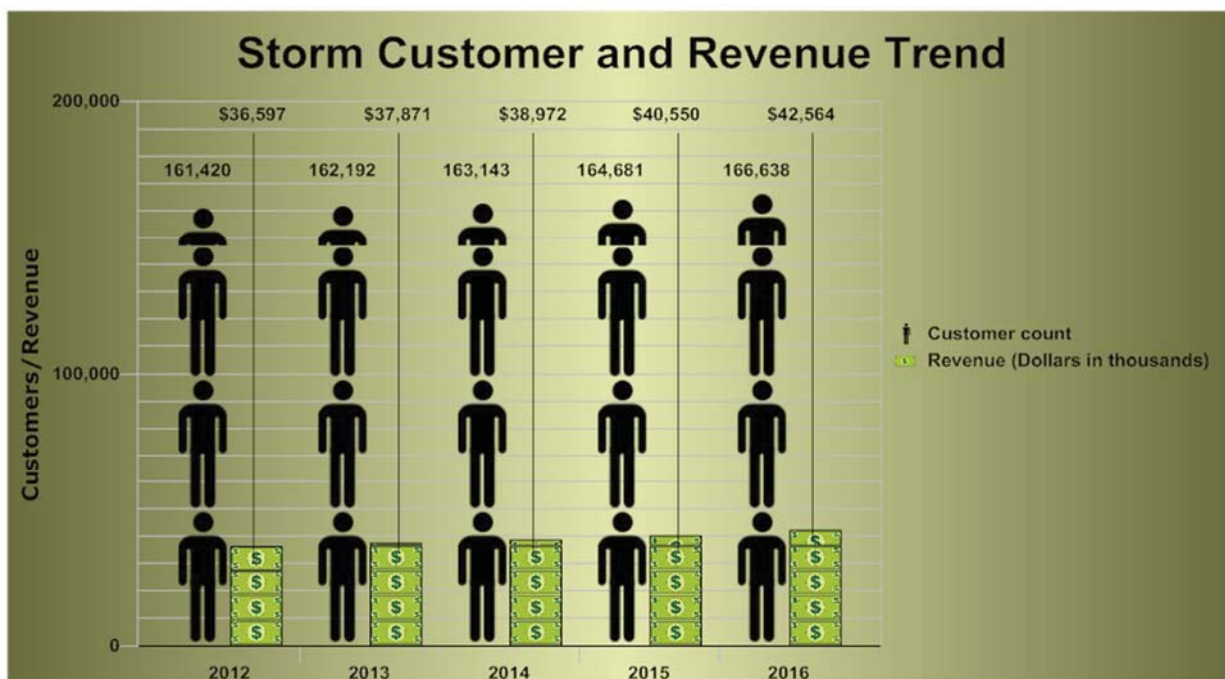
Lift Station #16

Photo submitted by Wastewater Accounting Services

**City and County of Denver
Wastewater Management Enterprise Fund
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
December 31, 2016 and 2015**



**City and County of Denver
Wastewater Management Enterprise Fund
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
December 31, 2016 and 2015**



City and County of Denver
Wastewater Management Enterprise Fund
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
December 31, 2016 and 2015

Capital Assets and Debt Administration

Capital Assets

The following is a summary of capital assets at December 31, 2016, 2015 and 2014:

Summary of Capital Assets (in thousands)			
December 31,			
	2016	2015	2014
Land and land improvements	\$ 14,041	\$ 10,369	\$ 10,369
Buildings	16,736	16,736	16,736
Vehicles and equipment	14,440	17,777	15,558
Intangibles	6,125	6,125	6,125
Sanitary collection system	261,873	256,612	253,106
Storm collection system	568,715	546,998	528,914
Construction-in-progress	24,187	13,819	14,188
Total capital assets	906,117	868,436	844,996
Less accumulated depreciation	(299,244)	(288,150)	(271,775)
Net capital assets	<u>\$ 606,873</u>	<u>\$ 580,286</u>	<u>\$ 573,221</u>

2016



As of December 31, 2016 and 2015, Wastewater's capital assets totaled \$606.9 million and \$580.3 million, respectively. These amounts are net of accumulated depreciation of \$299.2 million and \$288.2 million, respectively.



The increase in net capital assets is due to the completion of Wastewater funded projects of approximately \$6.7 million and the receipt of \$26.3 million in donated capital assets.

2015



As of December 31, 2015 and 2014, Wastewater's capital assets totaled \$580.3 million and \$573.2 million, respectively. These amounts are net of accumulated depreciation of \$288.2 million and \$271.2 million, respectively.



The increase in net capital assets is due to the completion of Wastewater funded projects of approximately \$16.4 million and the receipt of \$7.6 million in donated capital assets.

Additional information on Wastewater's capital assets can be found in Note 4 to the financial statements.

City and County of Denver

Wastewater Management Enterprise Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

December 31, 2016 and 2015

Debt Administration

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 will be 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:

Moody's Investors Services	Standard & Poor's	Fitch Ratings
Aa1	AAA	AAA

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.

Additional information on Wastewater's long-term debt can be found in Notes 6 and 7 to the financial statements.



Lakewood Gulch

Photo submitted by Wastewater Capital Projects Management

City and County of Denver
Wastewater Management Enterprise Fund
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
December 31, 2016 and 2015

Next Year's Budgets

Wastewater's 2017 Operation and Maintenance Budget approved at a total of \$121.6 million, which represents a \$4.7 million increase from the 2016 budget. The increase is primarily due to higher rates from the Metro District and an increase in staffing. Wastewater's Capital Project Budget was approved for \$38.4 million, of which \$5.8 million was approved for sanitary related projects and \$32.6 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.



Lift Station #16

Photo submitted by Wastewater Accounting Services

City and County of Denver
Wastewater Management Enterprise Fund
STATEMENTS OF NET POSITION
December 31, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Unrestricted:		
Cash and cash equivalents	\$ 14,499,683	\$ 4,798,074
Investments	6,004,488	4,799,397
Accounts receivable – net of allowances for doubtful accounts of \$0 and \$234,844 in 2016 and 2015, respectively	21,879,274	14,289,810
Due from other City funds	113,401	373,230
Other assets	277,110	492,177
Accrued interest	986,641	391,006
Total current unrestricted assets	43,760,597	25,143,694
Restricted:		
Investments	8,660,785	514,757
Total current assets	52,421,382	25,658,451
Noncurrent Assets		
Unrestricted:		
Investments	82,943,782	77,527,205
Capital assets:		
Nondepreciable capital assets		
Land and land improvements	14,040,659	10,369,110
Construction-in-progress	24,187,300	13,819,345
Depreciable capital assets		
Buildings	16,735,672	16,735,672
Collection systems	830,588,629	803,609,145
Vehicles and equipment	14,440,095	17,777,266
Intangibles	6,124,825	6,124,825
Total depreciable capital assets	867,889,221	844,246,908
Less accumulated depreciation	(299,243,896)	(288,149,778)
Total capital assets, net	606,873,284	580,285,585
Restricted:		
Investments	119,636,895	8,315,137
Total noncurrent assets	809,453,961	666,127,927
Total assets	861,875,343	691,786,378
Deferred Outflows of Resources		
Deferred loss from debt refundings	486,645	570,070
Items related to pension plan	9,833,753	3,279,245
Total deferred outflows of resources	10,320,398	3,849,315
Total assets and deferred outflows of resources	872,195,741	695,635,693

City and County of Denver
Wastewater Management Enterprise Fund
STATEMENTS OF NET POSITION (CONTINUED)
December 31, 2016 and 2015

	2016	2015
Liabilities		
Current Liabilities		
Vouchers payable	1,207,931	1,727,687
Construction payable	3,766,018	4,781,411
Bonds payable, current portion	4,980,000	2,850,000
Capital lease obligation, current portion	592,639	578,472
Accrued liabilities	1,355,466	577,026
Due to other City funds	358,044	563,711
Unearned revenue	11,626,712	18,347,983
Compensated absences	940,163	883,349
Due to Metro Wastewater Reclamation District	<u>5,128,752</u>	<u>4,499,658</u>
Total current liabilities	<u>29,955,725</u>	<u>34,809,297</u>
Noncurrent Liabilities		
Bonds payable, net	167,001,634	42,473,029
Net pension liability	34,306,314	25,079,226
Capital lease obligation, net	5,685,555	6,278,195
Compensated absences, net	<u>2,382,390</u>	<u>2,247,810</u>
Total noncurrent liabilities	<u>209,375,893</u>	<u>76,078,260</u>
Total liabilities	<u>239,331,618</u>	<u>110,887,557</u>
Deferred Inflows of Resources		
Items related to pension plan	<u>322,568</u>	<u>524,576</u>
Total liabilities and deferred inflows of resources	<u>239,654,186</u>	<u>111,412,133</u>
Net Position		
Net investment in capital assets	553,631,763	532,724,442
Unrestricted	<u>78,909,792</u>	<u>51,499,118</u>
Total net position	<u>\$ 632,541,555</u>	<u>\$ 584,223,560</u>

City and County of Denver
Wastewater Management Enterprise Fund
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenues		
Charges for services		
Sanitary sewer	\$ 90,811,637	\$ 85,709,854
Storm drainage	<u>42,563,676</u>	<u>40,550,193</u>
Total operating revenues	<u>133,375,313</u>	<u>126,260,047</u>
Operating Expenses		
Personnel services	25,534,697	22,532,732
Contractual services	17,982,487	20,052,641
Supplies	1,533,686	1,429,301
Utilities	390,844	376,018
Depreciation and amortization	18,507,796	18,067,479
District water treatment charges	<u>49,197,801</u>	<u>48,872,825</u>
Total operating expenses	<u>113,147,311</u>	<u>111,330,996</u>
Operating income	<u>20,228,002</u>	<u>14,929,051</u>
Nonoperating Revenues and Expenses		
Intergovernmental revenue	764,287	826,628
Investment income	822,223	705,812
Interest expense	(1,646,327)	(668,582)
Gain on disposition of capital assets	<u>157,199</u>	<u>194,853</u>
Total nonoperating revenues and expenses, net	<u>97,382</u>	<u>1,058,711</u>
Income before capital contributions and transfers	20,325,384	15,987,762
Capital Contributions Received	28,022,111	9,564,386
Transfers to Other City Funds	<u>(29,500)</u>	<u>(25,000)</u>
Change in Net Position	<u>48,317,995</u>	<u>25,527,148</u>
Net Position, Beginning of Year (Before Restatement)	584,223,560	580,874,806
Adjustment for Change in Accounting Principle	<u>-</u>	<u>(22,178,394)</u>
Net Position, Beginning of Year (As Restated)	<u>584,223,560</u>	<u>558,696,412</u>
Net Position, End of Year	<u><u>\$ 632,541,555</u></u>	<u><u>\$ 584,223,560</u></u>

City and County of Denver
Wastewater Management Enterprise Fund
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Receipts from customers	\$ 119,324,407	\$ 126,313,490
Payments to suppliers	(60,615,598)	(59,734,428)
Payments to employees	(22,762,295)	(23,019,529)
Internal activity – payments to other City funds	<u>(8,370,482)</u>	<u>(8,950,588)</u>
Net cash provided by operating activities	<u>27,576,032</u>	<u>34,608,945</u>
Cash Flows from Noncapital Financing Activities		
Transfers to other City funds	<u>(29,500)</u>	<u>(25,000)</u>
Net cash (used) in noncapital financing activities	<u>(29,500)</u>	<u>(25,000)</u>
Cash Flows from Capital and Related Financing Activities		
Capital contributions received	1,814,308	1,924,107
Intergovernmental revenues received	764,287	826,628
Proceeds from bond issuance	129,853,195	-
Payments on capital assets acquired through payables	(4,781,411)	(2,930,778)
Purchase of capital assets	(14,200,493)	(14,534,685)
Principal payments	(3,428,473)	(3,276,944)
Interest paid	(2,160,672)	(1,815,216)
Proceeds from sale of assets	<u>157,199</u>	<u>194,854</u>
Net cash provided (used) in capital and related financing activities	<u>108,017,940</u>	<u>(19,612,034)</u>
Cash Flows from Investing Activities		
Purchases of investments	(356,773,141)	(147,561,139)
Proceeds from sale of investments	230,683,687	134,404,002
Interest and dividends	<u>226,591</u>	<u>713,129</u>
Net cash (used) by investing activities	<u>(125,862,863)</u>	<u>(12,444,008)</u>
Increase in Cash and Cash Equivalents	9,701,609	2,527,903
Cash and Cash Equivalents, Beginning of Year	<u>4,798,074</u>	<u>2,270,171</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 14,499,683</u></u>	<u><u>\$ 4,798,074</u></u>

City and County of Denver
Wastewater Management Enterprise Fund
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 20,228,002	\$ 14,929,051
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	18,507,796	18,067,479
Change in allowance for doubtful accounts	(234,844)	-
Changes in assets and liabilities:		
Accounts receivable	(7,354,620)	(485,860)
Due from other City funds	259,829	(142,834)
Other assets	215,066	221,887
Vouchers payable	(519,756)	1,507,150
Due to other City funds	(205,667)	(750,101)
Unearned revenue	(6,721,271)	682,136
Accrued liabilities	110,437	(664,021)
Due to Metro Wastewater Reclamation District	629,094	1,066,834
Pension related items	2,470,572	146,163
Compensated absences	<u>191,394</u>	<u>31,061</u>
Net cash provided by operating activities	<u>\$ 27,576,032</u>	<u>\$ 34,608,945</u>
Noncash Investing and Capital and Related Financing Activities		
Assets acquired through city capital contributions, net	\$ 2,600,000	\$ -
Assets acquired through capital contributions, net	23,607,803	7,640,279
Capital assets acquired through payables	3,766,016	4,781,411
Amortization of bond premium	344,590	274,041
Amortization of deferred loss on refunding	<u>(83,425)</u>	<u>(83,425)</u>



City of Denver skyline

Photo submitted by Wastewater Management

City and County of Denver
Wastewater Management Enterprise Fund
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

Cash and cash equivalents, which the City manages, consist principally of U.S. Treasury securities, U.S. agency securities, and commercial paper with maturities of less than 270 days.

Investments, which the City manages, are reported at fair value, which is primarily determined based on quoted market prices at December 31, 2016 and 2015. Wastewater's investments are maintained in a pool at the City and include U.S. agency securities, corporate bonds, municipal bonds, structured products, and multinational fixed income.

City and County of Denver
Wastewater Management Enterprise Fund
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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.

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 eliminated its allowance for doubtful accounts in 2016 and adopted the direct write-off method, which is expected to approximate the allowance method.

Net Position

Amounts included as restricted net position include the cost of capital assets, net of 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, 2016 and 2015, unrestricted net position totaled approximately \$78.9 million and \$51.5 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 2016 and 2015. Sanitary sewer services availability fees were \$1,814,308 and \$1,924,107 for the years ended December 31, 2016 and 2015, 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. Major outlays for capital assets and improvements are capitalized as projects are constructed. During the construction phase, interest costs related to the construction of assets is capitalized. Interest cost capitalized for the years ended December 31, 2016 and 2015 were \$921,183 and \$932,149, respectively. Interest is not capitalized on an asset when all activity on that asset has ceased for an entire fiscal year.

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

City and County of Denver
Wastewater Management Enterprise Fund
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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.

Customer Information System

Costs of the Customer Information System of 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.

Deferred Outflows of Resources and Deferred Inflows of Resources

A deferred outflow of resources is a consumption of net position by Wastewater that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net position by Wastewater that is applicable to a future reporting period. Wastewater's deferred inflows of resources consist of pension 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 amounts for 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.

City and County of Denver
Wastewater Management Enterprise Fund
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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 2016, Wastewater adopted GASB 72, *Fair Value Measurement and Application*. This statement changes the definition of fair value and adds new disclosure requirements. Additional information can be found in Note 3.

In 2015, the City implemented GASB 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27 as amended by GASB 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. GASB 68 requires employers participating in cost-sharing multiple-employer plans (see Note 11), to record their proportionate share, as defined in GASB 68, of the collective net pension 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 68 resulted in a \$22.2 million reduction in beginning net position as of January 1, 2015. Information regarding DERP's current funding status can be found in their annual financial report.

City and County of Denver
Wastewater Management Enterprise Fund
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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 (the PDPA). In addition, the City's Investment Policy (the 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. At December 31, 2016 and 2015, Wastewater's portions of the City's deposits were \$1,320,967 and \$797,008, respectively. In addition, Wastewater had \$316,624 and \$56,004 in uncashed payroll and vendor checks at December 31, 2016 and 2015, 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. At December 31, 2016, 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 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 authorize the type of investments that the City can acquire. 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.

City and County of Denver
Wastewater Management Enterprise Fund
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

At December 31, 2016 and 2015, respectively, Wastewater's cash, cash equivalents, and investment balances were as follows:

	2016	2015
Commercial paper	\$ 930,523	\$ -
Local government investment pools	13,178,716	4,001,067
Municipal bonds	9,683,001	3,676,373
Corporate bonds	40,369,649	17,355,046
Multinational fixed income	19,234,255	7,534,637
Structured products	31,349,686	10,433,297
U.S. Treasury securities	45,636,658	19,937,735
U.S. agency securities	<u>70,042,178</u>	<u>32,219,407</u>
 Total investments	 230,424,666	 95,157,562
Deposits	<u>1,320,967</u>	<u>797,008</u>
 Total cash, cash equivalents, and investments	 <u>\$ 231,745,633</u>	 <u>\$95,954,570</u>

At December 31, 2016 and 2015, Wastewater had unspent bond and capital lease proceeds of \$128,297,680 and \$8,829,894, 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 72. 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.

City and County of Denver
Wastewater Management Enterprise Fund
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

At December 31, 2016 and 2015, Wastewater has the following recurring fair value measurements.

2016

Investment Type	Level 1	Level 2	Level 3
Commercial paper	\$ -	\$ 930,523	\$ -
Municipal bonds	-	9,683,001	-
Corporate bonds	-	40,369,649	-
Multinational fixed income	-	19,234,255	-
Structured products	-	31,349,686	-
U.S. Treasury securities	-	45,636,658	-
U.S. agency securities	-	70,042,178	-
Total	\$ -	\$ 217,245,950	\$ -

2015

Investment Type	Level 1	Level 2	Level 3
Commercial paper	\$ -	\$ -	\$ -
Municipal bonds	-	3,676,373	-
Corporate bonds	-	17,355,046	-
Multinational fixed income	-	7,534,637	-
Structured products	-	10,433,297	-
U.S. Treasury securities	-	19,937,735	-
U.S. agency securities	-	32,219,407	-
Total	\$ -	\$ 91,156,495	\$ -

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, 2016 Wastewater had balances of \$5,159,475 and \$8,019,241 in CSAFE and Colotrust, respectively. CSAFE measures all of its investments at amortized cost in accordance with GASB 79. Additionally, Colotrust adheres to FASB and reports its investments in accordance with 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, 2016 and 2015, 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, 2016 and 2015

2016		Investment Maturities (in years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	10+
Commercial paper	\$ 930,523	\$ 930,523	\$ -	\$ -	\$ -
Municipal bonds	9,683,001	1,519,695	6,738,868	1,424,438	-
Corporate bonds	40,369,649	5,460,362	34,909,287	-	-
Multinational fixed income	19,234,255	741,839	15,632,864	2,859,552	-
Structured products	31,349,686	107,177	23,838,281	7,338,506	65,722
U.S. Treasury securities	45,636,658	3,266,375	38,877,931	3,492,352	-
U.S. agency securities	70,042,178	2,639,361	62,722,647	4,680,170	-
Total	\$ 217,245,950	\$ 14,665,332	\$ 182,719,878	\$ 19,795,018	\$ 65,722

2015		Investment Maturities (in years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	10+
Commercial paper	\$ -	\$ -	\$ -	\$ -	\$ -
Municipal bonds	3,676,373	-	3,002,207	674,166	-
Corporate bonds	17,355,046	492,805	16,862,241	-	-
Multinational fixed income	7,534,637	883,357	5,436,119	1,215,161	-
Structured products	10,433,297	257,909	7,531,291	2,560,415	83,682
U.S. Treasury securities	19,937,735	916,233	17,846,265	1,175,237	-
U.S. agency securities	32,219,407	2,763,850	26,954,847	2,500,710	-
Total	\$ 91,156,495	\$ 5,314,154	\$ 77,632,970	\$ 8,125,689	\$ 83,682

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, 2016 and 2015 fair value of Wastewater Management's portion of municipal bonds with call options was \$702,005 and \$538,036, 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, 2016, 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.
- Municipal bonds have a minimum underlying issuer rating from at least two of the three rating agencies of A+ or its equivalent.

City and County of Denver
Wastewater Management Enterprise Fund
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

- Corporate debt obligations have a minimum underlying issuer rating from at least two of the NRSRO or 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, 2016, 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 at December 31, 2016, 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 type of investment, or in a single issuer. The City's Policy states that a maximum of 5% of the portfolio, based on market value, may be invested in commercial paper, municipal securities, corporate debt obligations, or certificates of deposit, issued by any one provider. The Policy also limits total investments to 10% in supranational obligor, local government investment pool, and money market mutual funds. The City's Policy also limits money market funds and local government investment pools to 25% of total investments; with investments in municipal securities and asset backed securities to 15% of total investments. Corporate debt obligations are limited to 20% of investments. Up to 80% of the portfolio can be invested in US federal agency securities.

More than 5% of Wastewater's investments are in individual issuers: Federal National Mortgage Association (9.5%), Federal Home Loan Bank (8.3%), and Federal Home Loan Mortgage Corp. (6.3%).

As of December 31, 2016, all investments were in compliance with the City's Policy.

City and County of Denver
Wastewater Management Enterprise Fund
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

Note 4: Capital Assets

Capital assets activity for the year ended December 31, 2016 is as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated					
Land and land improvements	\$ 10,369,110	\$ 665,943	\$ -	\$ 3,005,606	\$ 14,040,659
Construction-in-progress	<u>13,819,345</u>	<u>20,085,135</u>	<u>-</u>	<u>(9,717,180)</u>	<u>24,187,300</u>
Total capital assets not being depreciated	<u>24,188,455</u>	<u>20,751,078</u>	<u>-</u>	<u>(6,711,574)</u>	<u>38,227,959</u>
Capital assets being depreciated					
Buildings	16,735,672	-	-	-	16,735,672
Collection systems	803,609,145	22,563,944	(2,296,034)	6,711,574	830,588,629
Vehicles and equipment	17,777,266	1,780,473	(5,117,644)	-	14,440,095
Intangibles	<u>6,124,825</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,124,825</u>
Total depreciable capital assets	<u>844,246,908</u>	<u>24,344,417</u>	<u>(7,413,678)</u>	<u>6,711,574</u>	<u>867,889,221</u>
Less accumulated depreciation for					
Buildings	9,517,323	418,393	-	-	9,935,715
Collection systems	261,525,818	16,530,234	(2,296,034)	-	275,760,018
Vehicles and equipment	13,125,501	946,687	(5,117,644)	-	8,954,544
Intangibles	<u>3,981,136</u>	<u>612,483</u>	<u>-</u>	<u>-</u>	<u>4,593,619</u>
Total accumulated depreciation	<u>288,149,778</u>	<u>18,507,796</u>	<u>(7,413,678)</u>	<u>-</u>	<u>299,243,896</u>
Total capital assets being depreciated – net	<u>556,097,130</u>	<u>5,836,621</u>	<u>-</u>	<u>6,711,574</u>	<u>568,645,325</u>
Total capital assets – net	<u>\$ 580,285,585</u>	<u>\$ 26,587,699</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 606,873,284</u>

City and County of Denver
Wastewater Management Enterprise Fund
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

Capital assets activity for the year ended December 31, 2015 is as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated					
Land and land improvements	\$ 10,369,110	\$ -	\$ -	\$ -	\$ 10,369,110
Construction-in-progress	<u>14,188,394</u>	<u>16,071,400</u>	<u>-</u>	<u>(16,440,449)</u>	<u>13,819,345</u>
Total capital assets not being depreciated	<u>24,557,504</u>	<u>16,071,400</u>	<u>-</u>	<u>(16,440,449)</u>	<u>24,188,455</u>
Capital assets being depreciated					
Buildings	16,735,672	-	-	-	16,735,672
Collection systems	782,020,255	7,659,215	(2,510,774)	16,440,449	803,609,145
Vehicles and equipment	15,557,844	4,157,909	(1,938,487)	-	17,777,266
Intangibles	<u>6,124,825</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,124,825</u>
Total capital assets being depreciated	<u>820,438,596</u>	<u>11,817,124</u>	<u>(4,449,261)</u>	<u>16,440,449</u>	<u>844,246,908</u>
Less accumulated depreciation for					
Buildings	9,098,931	418,392	-	-	9,517,323
Collection systems	247,765,393	16,271,199	(2,510,774)	-	261,525,818
Vehicles	14,298,583	765,405	(1,938,487)	-	13,125,501
Intangibles	<u>3,368,653</u>	<u>612,483</u>	<u>-</u>	<u>-</u>	<u>3,981,136</u>
Total accumulated depreciation	<u>274,531,560</u>	<u>18,067,479</u>	<u>(4,449,261)</u>	<u>-</u>	<u>288,149,778</u>
Total capital assets being depreciated – net	<u>545,907,036</u>	<u>(6,250,355)</u>	<u>-</u>	<u>16,440,449</u>	<u>556,097,130</u>
Total capital assets – net	<u>\$ 570,464,540</u>	<u>\$ 9,821,045</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 580,285,585</u>

City and County of Denver
Wastewater Management Enterprise Fund
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

Capital contributions for 2016 and 2015 are comprised of the following:

	<u>2016</u>	<u>2015</u>
Contributed by the City	\$ 2,600,000	\$ -
Contributed by others	<u>25,422,111</u>	<u>9,564,386</u>
	<u>\$ 28,022,111</u>	<u>\$ 9,564,386</u>

Depreciation and amortization for the years ended December 31, 2016 and 2015, is comprised of the following:

	<u>2016</u>	<u>2015</u>
Depreciation	\$ 17,895,313	\$ 17,454,996
Amortization – intangibles	<u>612,483</u>	<u>612,483</u>
	<u>\$ 18,507,796</u>	<u>\$ 18,067,479</u>

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 \$6,124,825 it paid for CIS as an intangible capital asset and is amortizing it over 10 years. Amortization expense was \$612,483 in 2016 and 2015.

Note 6: Revenue Bonds and Certificates of Participation

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. \$20,766,560 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.

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

City and County of Denver
Wastewater Management Enterprise Fund
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

the transaction at the time of refunding was estimated to be \$3,438,112, 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 and 2016 bonds is as follows:

Year Ending December 31,	Principal	Interest	Total
2017	\$ 4,980,000	\$ 6,080,714	\$ 11,060,714
2018	5,065,000	5,983,325	11,048,325
2019	5,285,000	5,761,125	11,046,125
2020	5,500,000	5,529,125	11,029,125
2021	5,745,000	5,287,525	11,032,525
2022 - 2026	23,390,000	23,053,525	46,443,525
2027 - 2031	26,040,000	18,223,925	44,263,925
2032 - 2036	22,290,000	13,468,375	35,758,375
2037 - 2041	24,615,000	9,021,000	33,636,000
2042 - 2046	<u>29,950,000</u>	<u>3,688,000</u>	<u>33,638,000</u>
	<u>\$ 152,860,000</u>	<u>\$ 96,096,639</u>	<u>\$ 248,956,639</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 \$4,328,425. Total principal and interest payments remaining on the bonds are \$152,860,000 and \$96,096,639, respectively, payable through 2046.

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, 2016.

Net pledged revenues	\$ 35,293,111
Combined average annual debt service requirement	\$ 8,298,555
Debt service coverage ratio	4.25

City and County of Denver
Wastewater Management Enterprise Fund
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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, 2016.

Year Ending December 31,	Total Lease Payments
2017	\$ 762,778
2018	801,023
2019	837,796
2020	875,459
2021	911,586
2022 – 2024	<u>2,917,020</u>
Total minimum lease payments	7,105,662
Less amounts representing interest	<u>(827,468)</u>
Present value of minimum lease payments	6,278,194
Less current portion	<u>(592,639)</u>
Noncurrent portion	<u><u>\$ 5,685,555</u></u>

City and County of Denver
Wastewater Management Enterprise Fund
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

Note 7: Changes in Long-term Liabilities

The following are changes in long-term liabilities for the year ended December 31, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	\$ 40,710,000	\$ 115,000,000	\$ 2,850,000	\$ 152,860,000	\$ 4,980,000
Plus unamortized bond premium	4,613,029	14,853,195	344,590	19,121,634	-
Total bonds payable	45,323,029	129,853,195	3,194,590	171,981,634	4,980,000
Net pension liability	25,079,226	11,180,317	1,953,229	34,306,314	-
Certificate of Participation	6,856,667	-	578,473	6,278,194	592,639
Compensated absences	3,131,159	191,394	-	3,322,553	940,163
Total long-term liabilities	<u>\$ 80,390,081</u>	<u>\$ 141,224,906</u>	<u>\$ 5,726,292</u>	<u>\$ 215,888,695</u>	<u>\$ 6,512,802</u>

The following are changes in long-term liabilities for the year ended December 31, 2015:

	Beginning Balance (as restated)	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	\$ 43,425,000	\$ -	\$ 2,715,000	\$ 40,710,000	\$ 2,850,000
Plus unamortized bond premium	4,887,070	-	274,041	4,613,029	-
Total bonds payable	48,312,070	-	2,989,041	45,323,029	2,850,000
Net pension liability	23,894,744	3,140,311	1,955,829	25,079,226	-
Certificate of Participation	7,418,611	-	561,944	6,856,667	578,472
Compensated absences	3,100,098	39,764	8,703	3,131,159	883,349
Total long-term liabilities	<u>\$ 82,725,523</u>	<u>\$ 3,180,075</u>	<u>\$ 5,515,517</u>	<u>\$ 80,390,081</u>	<u>\$ 4,311,821</u>

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 \$8.2 million and \$10.6 million in 2016 and 2015, 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
Wastewater Management Enterprise Fund
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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 \$10.4 million and \$9.6 million at December 31, 2016 and 2015, respectively. Wastewater pays Denver Water a fee for services performed. For the years ended December 31, 2016 and 2015, Wastewater incurred expenses to Denver Water of \$2.2 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, 2016, approximately 20% 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 \$48.1 million at December 31, 2016.

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.

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

City and County of Denver
Wastewater Management Enterprise Fund
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

(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

Substantially all 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, 2016 and 2015 is presented below.

Year Ended December 31,	Net Pension Liability (Asset)	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
2016	\$ 34,306,314	\$ 9,833,753	\$ 322,568	\$ 4,423,800
2015	\$ 25,079,226	\$ 3,279,245	\$ 524,576	\$ 2,101,993

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, 2016 and 2015

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 contributes 11.5% (11.5% for 2015 and 11.2% for 2014) of covered payroll and employees make a pre-tax contribution of 8.0% (8.0% for 2015 and 7.3% in 2014) 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, 2016 and 2015 were \$56,359,222, and \$60,180,000, respectively, which equaled the required contributions. Wastewater's share of the City's contribution for the years ended December 31, 2016 and 2015 were \$1,953,229 and \$1,955,829, respectively.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions. At December 31, 2016, Wastewater reported a liability of \$34,306,314 for its proportionate share of the net pension liability related to DERP. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The City's proportion of the net pension liability was based on contributions to DERP for the calendar year 2015 relative to the total contributions of participating employers to DERP.

At December 31, 2015, Wastewater's proportion was 2.90906%, which was an increase of 0.04566% from its proportion of 2.86340% measured as of December 31, 2014.

The components of Wastewater's net pension liability related to DERP as of December 31, 2016 and 2015, are presented below:

	2016	2015
Total pension liability	\$ 90,907,119	\$ 83,929,900
Plan fiduciary net position	<u>(56,600,805)</u>	<u>(58,850,674)</u>
Net pension liability	<u><u>\$ 34,306,314</u></u>	<u><u>\$ 25,079,226</u></u>

City and County of Denver
Wastewater Management Enterprise Fund
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

For the year ended December 31, 2016, Wastewater recognized pension expense of \$2,470,572. A summary of deferred outflows of resources and deferred inflows of resources related to pensions as of December 31, 2016 and 2015, is presented below:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 610,294	-	-	-
Change of assumptions or other inputs	1,533,095	-	-	-
Difference between projected and actual investment	5,464,516	-	1,323,416	-
Changes in proportion, net	272,619	322,568	-	524,576
Contributions subsequent to the measurement date	1,953,229	-	1,955,829	-
Total	\$ 9,833,753	\$ 322,568	\$ 3,279,245	\$ 524,576

The \$1,953,229 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, 2017. 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,	
2017	\$ 2,186,360
2018	2,267,809
2019	1,989,807
2020	1,113,980
2021	-
Thereafter	-
	\$ 7,557,956

The total pension liability in the December 31, 2014 actuarial valuation was determined using the actuarial assumptions and other inputs presented below:

Investment Rate of Return	7.75%
Salary Increases	3.25% to 7.25%
Inflation	2.75%

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.

City and County of Denver
Wastewater Management Enterprise Fund
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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, 2015 these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
US Equities	22.50%	4.30%
Non-US Developed Markets	15.50%	6.00%
Emerging Markets	8.00%	9.80%
Total Public Equity	46.00%	
Core Fixed Income	11.50%	0.80%
Debt	2.50%	5.90%
Private Debt	6.50%	8.40%
Total Fixed Income	20.50%	
Real Estate	8.00%	6.40%
Absolute Return	5.00%	3.60%
Energy MLPs	7.00%	7.30%
Private Equity / Other	13.50%	7.70%
Cash	0.00%	0.50%
Total	100.00%	

Discount Rate. A single discount rate of 7.75% 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 7.75%. 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, 2016 and 2015

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 7.75%, 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:

2016		
	Current	
1% Decrease	Discount Rate	1% Increase
6.75%	7.75%	8.75%
\$ 36,621,990	\$ 34,306,314	\$ 31,304,511

2015		
	Current	
1% Decrease	Discount Rate	1% Increase
7.00%	8.00%	9.00%
\$ 34,683,195	\$ 25,079,226	\$ 16,942,571

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 – Implicit Rate Subsidy

Employees of Wastewater (as City employees), along with a portion of the employees of Denver Health and Hospital Authority (DHHA) (those employed prior to 2001 who have elected to remain members of the Plan), employees of DERP, and a majority of the other employees of the City (certain fire and police personnel are excluded), are participants in the City's health care plan. For active employees participating in the City's health care plan, the employers pay a certain percentage of monthly premiums and the employees pay the remainder of the premium. Vested retired employees participating in the City's health care plan pay 100% of the premiums and are eligible for an insurance premium reduction payment from DERP. In establishing premiums, the active and retired employees from the three employers (the City, DERP and DHHA) are grouped together without age adjustments of differentiation between employers. The premiums are the same for both active and retired employees, creating an implicit rate subsidy for the retirees.

The City is acting in a cost-sharing multiple-employer capacity for this other postemployment benefit plan. The City's Revised Municipal Code, Section 18-412, authorizes the City's retirees to participate in the health insurance programs offered to the

City and County of Denver
Wastewater Management Enterprise Fund
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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 five years of service, and have begun to receive their pension benefit. Coverage ceases when one reaches Medicare eligibility age. For purposes of calculating the implicit rate subsidy, it was estimated there were 1,107 retirees not yet covered by Medicare who were covered by the health insurance programs. There is no stand-alone report for this plan and it is not included in the City's financial statements. The City's required contribution toward the implicit rate subsidy is based on pay-as-you-go financing.

A Schedule of Funding Progress and a Schedule of Employer Contributions are presented as Required Supplementary Information following the notes to the financial statements. The Schedule of Funding Progress represents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Both the Schedule of Funding Progress and the Schedule of Employer Contributions present information related to the cost-sharing plan as a whole, of which the City, including Wastewater, is one participant, and should provide information helpful for understanding the scale of the information presented relative to Wastewater.

Projections and benefits for financial reporting purposes are based on the substantive plan as understood by the plan and the members, and include the types of benefits provided at the time of each valuation and the historic pattern of benefit costs between the employer and the plan member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and actuarial value of assets, consistent with long-term perspective calculations.

For the December 31, 2016 actuarial valuation of the Implicit Rate Subsidy, the entry age normal, level percent of pay, valuation method was used. The actuarial assumptions included a 2.75% general inflation rate, 4.0% investment rate of return, 3.25% salary increase, and health care cost trend grading from 7.0%, decreasing by 0.5% per year to 5.0% thereafter. The amortization period was 30 years, open basis, using a level percentage of pay amortization method.

Contributions made by Wastewater toward the implicit rate subsidy were \$173,143, \$197,281 and \$176,911 for the years ended December 31, 2016, 2015 and 2014, respectively, based on a pay-as-you-go financing.

City and County of Denver
Wastewater Management Enterprise Fund
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

Note 13: Net Investment in Capital Assets

Net investments in capital assets is comprised of the following as of December 31, 2016 and 2015, respectively:

	<u>2016</u>	<u>2015</u>
Total capital assets, net of accumulated depreciation	\$ 606,873,284	\$ 580,285,585
Bonds payable, net (current and noncurrent)	(171,981,634)	(45,323,029)
Unspent bond proceeds and reserves	128,100,882	2,312,278
Deferred loss on refunding	486,645	570,070
Capital lease obligation (current and noncurrent)	(6,278,194)	(6,856,667)
Unspent capital lease proceeds	196,796	6,517,616
Capital asset acquisitions included in payables	<u>(3,766,016)</u>	<u>(4,781,411)</u>
Net investment in capital assets	<u>\$ 553,631,763</u>	<u>\$ 532,724,442</u>



Kennedy Golf Course

Photo submitted by Wastewater Capital Projects Management

City and County of Denver
Wastewater Management Enterprise Fund
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
(UNAUDITED)
December 31, 2016

	<u>2016</u>	<u>2015</u>
Wastewater proportion of net pension liability	2.90906%	2.86340%
Wastewater proportionate share of net pension liability	\$ 34,306,314	\$ 25,079,226
Wastewater covered-employee payroll	\$ 18,195,484	\$ 16,536,551
Wastewater proportionate share of net pension liability as a percentage of its covered-employee payroll	188.54%	151.17%
Plan fiduciary net position as a percentage of the total pension liability	62.26%	70.11%

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

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.



South Platte River

Photo submitted by Wastewater Management

City and County of Denver
Wastewater Management Enterprise Fund
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
(UNAUDITED)
December 31, 2016

	2016	2015
Contractually required contribution	\$ 1,953,229	\$ 1,955,829
Contributions in relation to the contractually required contribution	\$ 1,953,229	\$ 1,955,829
Contribution deficiency (excess)	\$ -	\$ -
Wastewater covered-employee payroll	\$ 18,165,760	\$ 18,195,484
Contributions as a percentage of covered-employee payroll	10.75%	10.75%

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

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.



Artwork at the Wastewater Management Building

Photo submitted by Wastewater Management

City and County of Denver
Wastewater Management Enterprise Fund
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFIT PLAN – IMPLICIT RATE SUBSIDY
SCHEDULE OF FUNDING PROGRESS
(UNAUDITED)
December 31, 2016 and 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (Funding Excess) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL (Funding Excess) as a Percentage of Covered Payroll (b-a)/(c)
--------------------------------	----------------------------------	--	---	-----------------------	--------------------------	--

Implicit Rate Subsidy

12/31/14	\$	-	\$73,738,477	\$73,738,477	0.0%	\$487,407,934	15.1%
12/31/15		-	\$73,494,705	\$73,494,705	0.0%	\$503,248,691	14.6%
12/31/16		-	\$76,610,156	\$76,610,156	0.0%	\$526,301,291	14.6%



Micro Tunnel Machine Cutting Head

Photo submitted by Wastewater Capital Projects Management

City and County of Denver
Wastewater Management Enterprise Fund
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFIT PLAN – IMPLICIT RATE SUBSIDY
SCHEDULE OF EMPLOYER CONTRIBUTIONS
(UNAUDITED)
December 31, 2016

Annual		
Year Beginning January 1	Actuarially Required Contribution	Percentage Contributed
Implicit Rate Subsidy		
2014	\$4,987,182	105.1%
2015	\$5,048,374	112.5%
2016	\$5,479,721	95.0%



Lift Station #16

Photo submitted by Wastewater Management