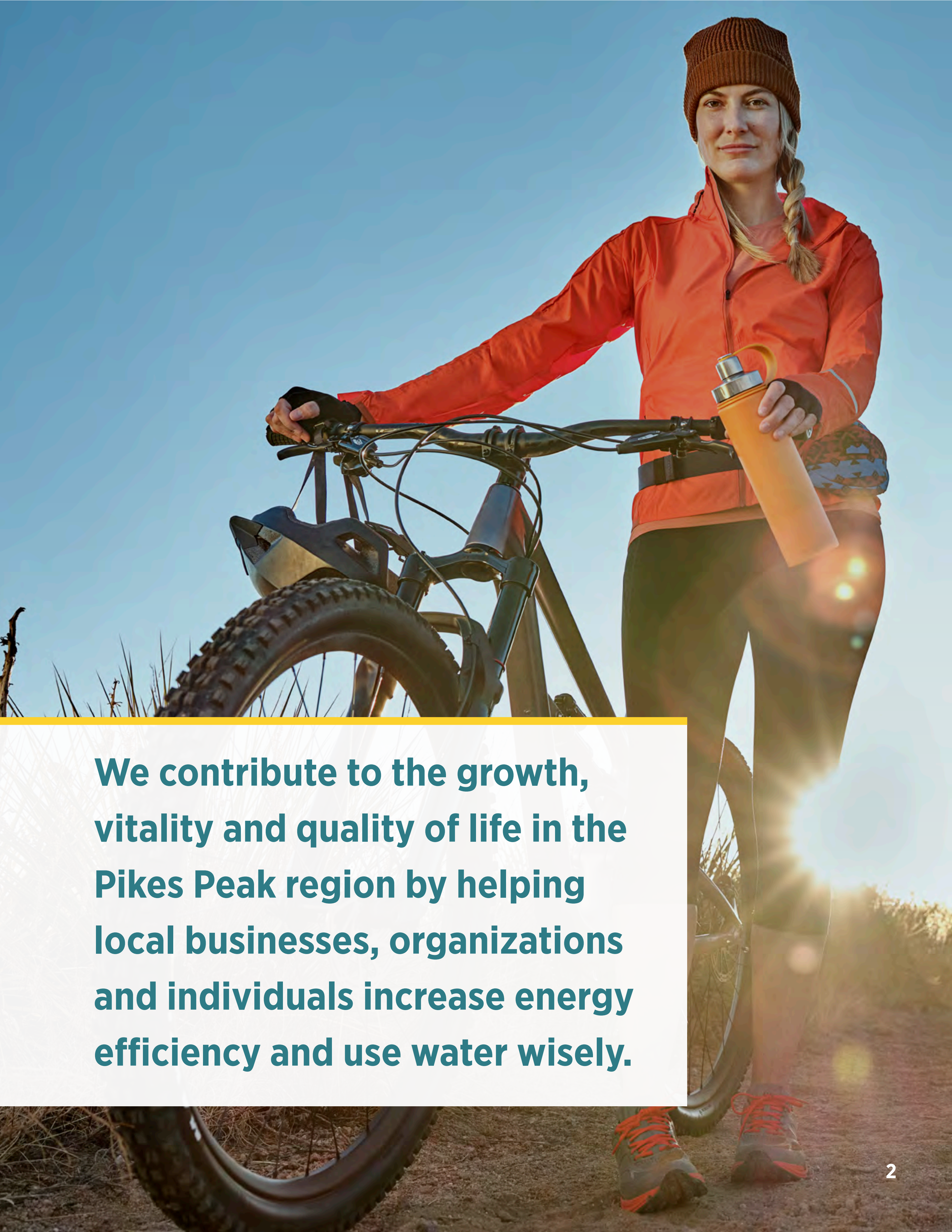
OUR COMMUNITY.
YOUR UTILITY.

2020
ANNUAL REPORT

Colorado Springs Utilities®
It's how we're all connected



We contribute to the growth, vitality and quality of life in the Pikes Peak region by helping local businesses, organizations and individuals increase energy efficiency and use water wisely.

OUR PROMISES

RESIDENTIAL: To add value to our customers' lives.
BUSINESS: To make our customers more successful.

OUR MISSION

To provide safe, reliable, competitively-priced electric, natural gas, water and wastewater services to the citizens and customers of Colorado Springs Utilities.

OUR VALUES

People, safety, trust, responsibility, collaboration and continuous improvement.

OUR GOALS

Deliver quality.
Uphold a culture of safety and service reliability.

Commit to the community.
Contribute to the growth, vitality and quality of life in the Pikes Peak region.

Execute organizational excellence.
Courageously lead a talented workforce who embraces continuous improvement.

Focus on the customer.
Serve by anticipating and exceeding their expectations.

LEADERSHIP

UTILITIES BOARD

Jill Gaebler – Chair
Wayne Williams – Vice Chair
Yolanda Avila
David Geislinger
Don Knight
Bill Murray
Andy Pico
Richard Skorman
Tom Strand

UTILITIES POLICY ADVISORY COMMITTEE

Rex Adams – Chair
Scott Harvey – Vice Chair
Larry Barrett
Balu Bhayani
Gary Burghart
Dr. James Colvin
Rich Kramer
Hilary Dussing – Alternate member
Nicole Inabinet – Alternate member

EXECUTIVE TEAM

Aram Benyamin, P.E. – Chief Executive Officer
Melissa Noble – Chief Customer and Corporate Services Officer
David Padgett – Chief Environmental Officer
Scott Shewey – Chief Financial Officer
Travas Deal – Chief Energy Services Officer
Phil Tunnah, P.E. – Chief System Planning and Projects Officer
Earl Wilkinson III, P.E. – Chief Water Services Officer

LETTER FROM THE CEO

Aram Benyamin, P.E.

Since 1924, our focus has been to provide exceptional hometown service and competitive rates to our customers.

As a four-service utility, I'm proud of our legacy to navigate an ever-changing industry and to be responsive to our customers' needs. This legacy has been built on our ability to anticipate change and understand our unique purpose as a community-owned utility. These principles guided us during our first 100 years and will continue in the years to come.

Our Strategic Plan serves as our compass, and in 2020, we finalized our 2021-2025 Strategic Plan after 12 months of collaboration among employees from all levels of the organization, our leadership team, and support and guidance from our Utilities Board.

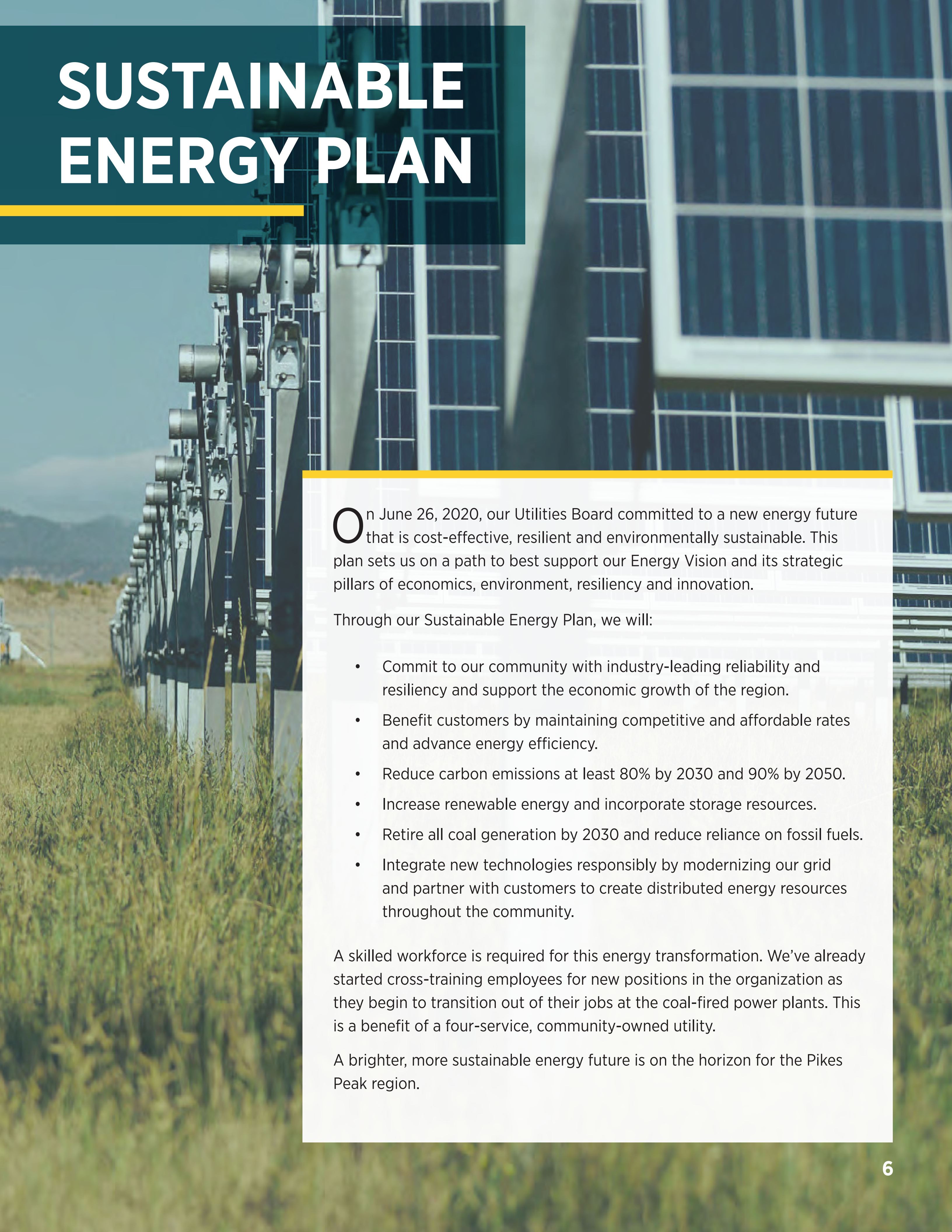
Despite the challenges of COVID-19, we've re-aligned our priorities and refined our course to maintain our financial health, provide a sustainable water supply for our customers and implement an environmentally responsible energy plan.

Four key perspective provide a holistic vision for the Strategic Plan:

- Provide value to our customers and community.
- Ensure responsible financial and asset management.
- Manage and enhance internal process excellence and organizational effectiveness.
- Make people, safety and the environment the building blocks of our organization.

The plan identifies 10 strategic objectives that involve all employees by aligning day-to-day work, projects, programs and initiatives. Progress is tracked through performance plans that link individual and group goals to strategic objectives.

I'm proud of what we've achieved through this planning process and wholeheartedly believe it is the path to build upon the legacy we've inherited. I'm confident in the work we've done and know the talent and focus of our employees will continue to drive us toward a bright future.



SUSTAINABLE ENERGY PLAN

On June 26, 2020, our Utilities Board committed to a new energy future that is cost-effective, resilient and environmentally sustainable. This plan sets us on a path to best support our Energy Vision and its strategic pillars of economics, environment, resiliency and innovation.

Through our Sustainable Energy Plan, we will:

- Commit to our community with industry-leading reliability and resiliency and support the economic growth of the region.
- Benefit customers by maintaining competitive and affordable rates and advance energy efficiency.
- Reduce carbon emissions at least 80% by 2030 and 90% by 2050.
- Increase renewable energy and incorporate storage resources.
- Retire all coal generation by 2030 and reduce reliance on fossil fuels.
- Integrate new technologies responsibly by modernizing our grid and partner with customers to create distributed energy resources throughout the community.

A skilled workforce is required for this energy transformation. We've already started cross-training employees for new positions in the organization as they begin to transition out of their jobs at the coal-fired power plants. This is a benefit of a four-service, community-owned utility.

A brighter, more sustainable energy future is on the horizon for the Pikes Peak region.

WATER-WISE RULES

With an eye on future needs and a collective effort toward the wise use of our water resources, 2020 marked the first full year water-wise rules were in effect.

These six rules, which were adopted by Colorado Springs City Council, helped us achieve a total of 559 acre-feet of water savings in 2020 — well over our goal of 375 acre-feet. That's equal to about 500 football fields covered in a foot of water. It was a great start toward meeting our long-term water resource savings goal of more than 10,000 acre-feet per year, 10% of which will be realized through outdoor watering restrictions.

The rules sustain landscaping recommended for our semi-arid climate and align with what other Front Range cities are doing to conserve water:

1. Water up to three days a week. You choose the days.
2. From May 1-Oct. 15 only water before 10 a.m. or after 6 p.m. to reduce evaporation.
3. Don't let water pool on hard surfaces or flow down gutters.
4. Repair leaking sprinkler systems within 10 days.
5. Use a shut-off nozzle when washing anything with a hose.
6. Clean hard surfaces (such as driveways, sidewalks and patios) with water only if there is a public health and safety concern.

To help our customers with the new rules, we provided education, irrigation tips and resources, including audits for commercial irrigation systems. We also enrolled more than 700 people in landscape webinars.

As Colorado faces climate variability and on-going drought, it makes sense to adapt our outdoor water use to the environment in which we live. Water-wise rules are part of our broader effort to use our water efficiently so that we have enough clean water for future generations.

COVID RELIEF RESPONSE

In response to the coronavirus outbreak, we remained committed to our mission of delivering safe and reliable utility services. This resulted in several temporary changes in 2020 for the safety of our customers and employees.

At the onset, we implemented emergency procedures to protect employees and minimize the risk of service disruption. Our front-line workers were provided personal protective equipment. We closed facilities, cancelled tours, prohibited business travel, increased cleaning and social distancing. More than 50% of our employees began working remotely.

As the situation progressed, we took another bold step moving some personnel into temporary campers at critical sites. This gave employees a safe place to rest, eat and sleep while maintaining services for our residents, businesses, health care workers and hospitals.

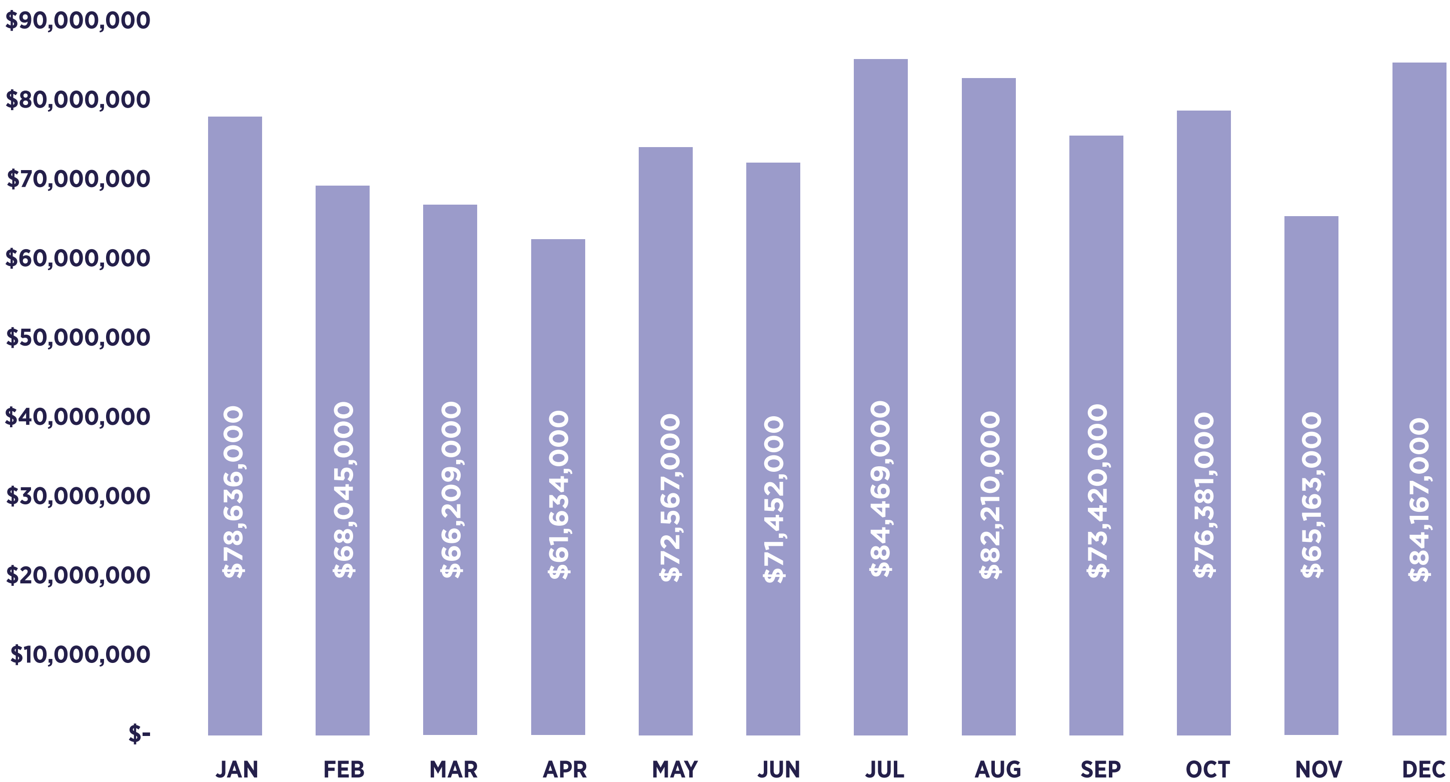
We also helped customers facing financial hardship and supported our community:

- From March through mid-October, we suspended service disconnects for non-payment.
- When disconnects resumed, we waived reconnection fees.
- We offered payment plans to help manage past-due balances.
- We educated customers about tools to manage their utilities use and payment assistance programs, like Project COPE, which provided $533,381 in utilities assistance to 1,178 households in 2020.

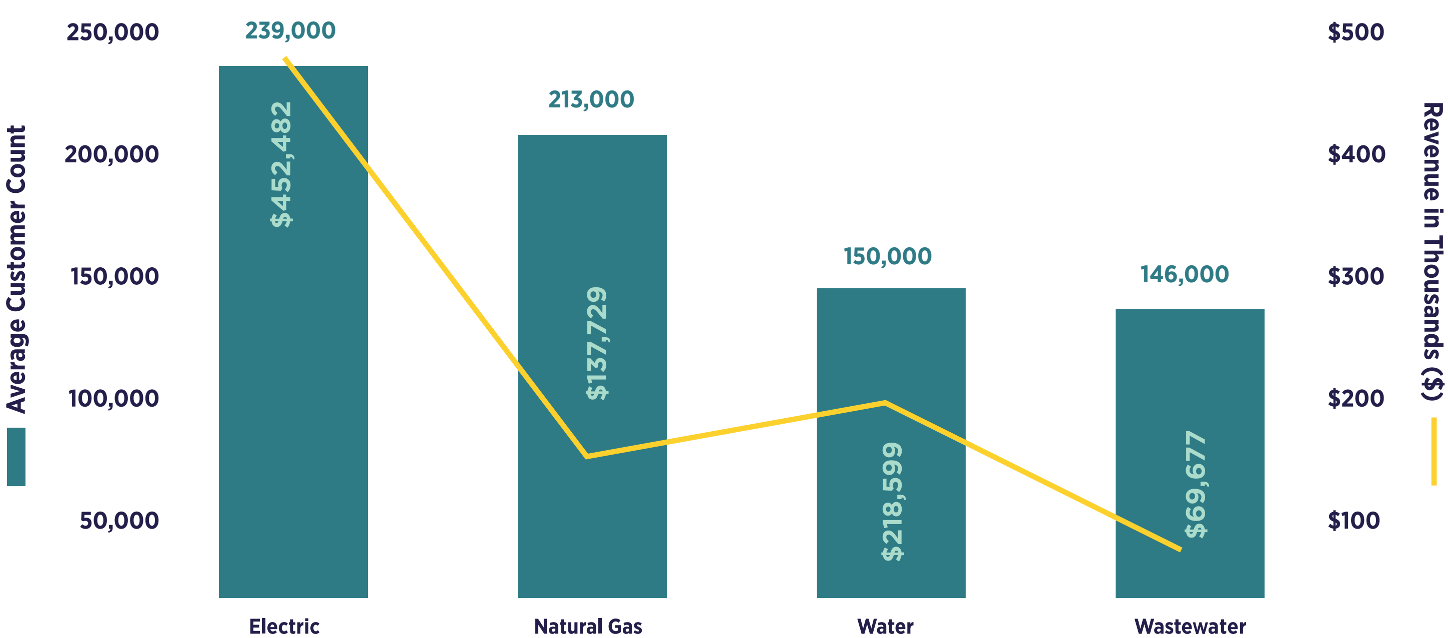
In June, we became one of 17 organizations across Colorado that started collecting and analyzing wastewater samples for COVID-19 as part of a grant-funded project. Wastewater data can help identify if there are infections in certain areas, allowing local public health agencies to begin preventative measures.

NUMBERS BY SERVICE

2020 OPERATING REVENUE BY MONTH



CUSTOMERS & REVENUE BY UTILITY



2020 FINANCIAL METRICS

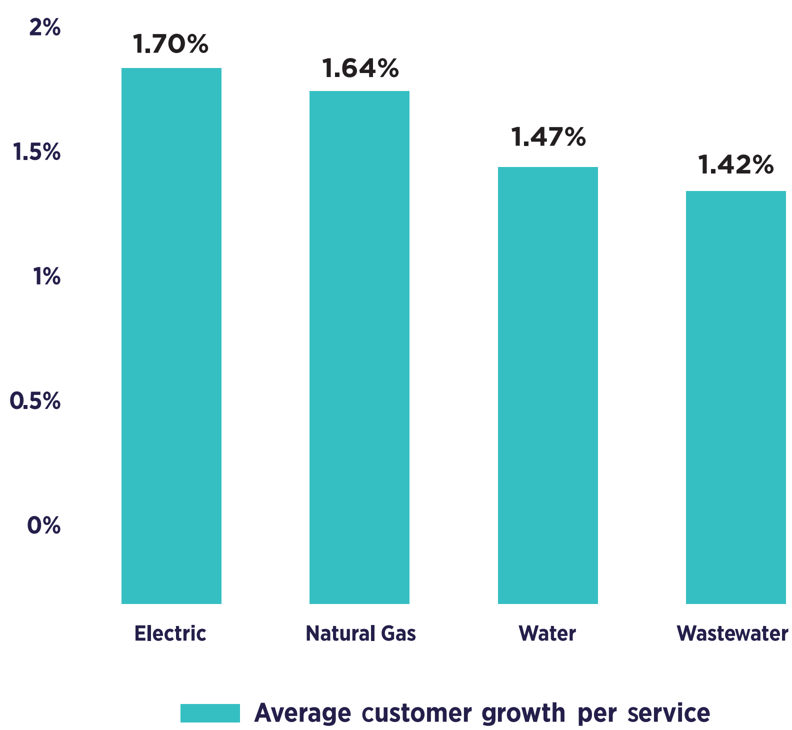
209

DAYS CASH ON HAND

2.25
DEBT SERVICE COVERAGE

53.5%
DEBT RATIO

2020 CUSTOMER GROWTH



CREDIT RATING

We work hard to maintain a strong credit rating to keep borrowing costs low. Our target is an AA rating, which we've held for more than 15 years, by focusing on the planning and execution of core business fundamentals.

In our most recent credit review, Standard and Poor's (S&P) rated us one notch higher than AA, at AA+. This was a great testimony to the diligence that all of our employees place on the financial health of the organization.


59

2020 RESULTS

ELECTRIC

2020
657

Typical
700

Avg. monthly residential use
(kilowatt hours)

965 MW

Peak day demand
(megawatts)

MILES OF POWER LINES	3,894
SUBSTATIONS	51
GENERATION PLANTS	8

99.99%

Electric reliability

53.85 minutes

Avg. interruption duration

NATURAL GAS

2020
64

Typical
60

Avg. monthly residential use
(centum cubic feet)

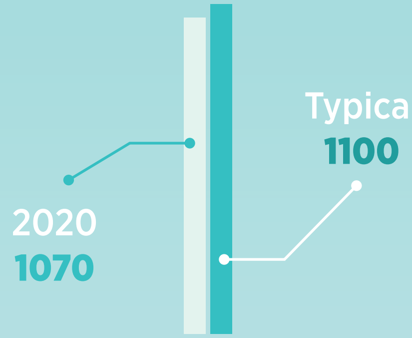
194,178 Mcf

Peak day demand
(thousand cubic feet)

MILES OF GAS PIPE MAINS	2,658
LOCAL GATE STATIONS	5
# OF SERVICE LINES	172,873

WATER

MILES OF WATER MAINS	2,481
TREATMENT TANKS	40
RESERVOIRS	25
TREATMENT PLANTS	6



Avg. monthly residential use
(cubic feet)

131 GAL

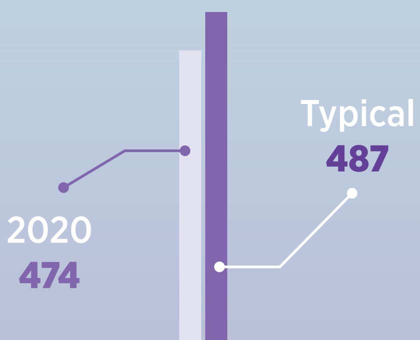
Avg. daily residential use
(gallons per day)

122 MGD

Peak one-day consumption
(million gallons per day)

12.57 minutes

Avg. interruption duration



Avg. monthly residential use

66 MGD

Peak day demand
(million gallons per day)

95 MGD capacity

36 MGD avg. flow

Capacity to treat vs. average flow

WASTEWATER

MILES OF WASTEWATER MAINS	1,769
RESOURCE RECOVERY FACILITIES	3
SOLIDS HANDLING FACILITY	1

bakertilly

COLORADO SPRINGS UTILITIES

(An Enterprise Fund of the
City of Colorado Springs, Colorado)

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2020 and 2019

COLORADO SPRINGS UTILITIES
(An Enterprise Fund of the
City of Colorado Springs, Colorado)
TABLE OF CONTENTS
As of and for the Years Ended December 31, 2020 and 2019

<u>Note</u>: *Immaterial differences may occur due to rounding*

bakertilly

Independent Auditors' Report

To the Audit Committee of
Colorado Springs Utilities

Report on the Financial Statements

We have audited the accompanying financial statements of Colorado Springs Utilities, an enterprise fund of the City of Colorado Springs, Colorado, as of and for the years ended December 31, 2020 and 2019, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 over financial reporting relevant to the Colorado Springs Utilities' 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 Colorado Springs Utilities' 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 Colorado Springs Utilities as of December 31, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Colorado Springs Utilities' enterprise fund and do not purport to, and do not, present fairly the financial position of the City of Colorado Springs, Colorado, as of December 31, 2020 and 2019 and the respective changes in financial position, or cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 19 to the financial statements, subsequent to the date of the financial statements, Colorado Springs Utilities has been impacted by the market response to Winter Storm Uri. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated March 9, 2021, on our consideration of the Colorado Springs Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Colorado Springs Utilities' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Colorado Springs Utilities' internal control over financial reporting and compliance.

Baker Tilly US, LLP

Madison, Wisconsin
March 9, 2021

INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") serves as an introduction to the financial statements of Colorado Springs Utilities ("Utilities"). It is intended to be an objective, easily readable analysis of significant financial and operating activities and events for the fiscal years ended December 31, 2020 and 2019. It also provides an overview of Utilities' general financial condition and results of operations. The financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") as applied to units of local government and promulgated by the Governmental Accounting Standards Board ("GASB").

Utilities is an Enterprise Fund of the City of Colorado Springs, Colorado ("City") that provides electric, streetlight, natural gas, water and wastewater services ("Utility System") to customers in the Pikes Peak region. The organization operates an electric generation, transmission and distribution system; a streetlight system; a natural gas distribution system; a water collection, treatment and distribution system; and a wastewater collection and treatment system. Utilities' service area includes the City, Manitou Springs and many of the suburban residential areas surrounding the City. The military installations of Fort Carson Army Base, Peterson Air Force Base, and the United States Air Force Academy receive electric service, natural gas service and water service from Utilities. Peterson Air Force Base also receives wastewater treatment service, and Cheyenne Mountain Air Force Station receives electric service. The City is currently the primary customer of the streetlight system and is responsible for the majority of streetlight service charges.

Utilities' financial statements, in conformity with U.S. GAAP, do not purport to, and do not represent the financial position or the changes in the financial position of the City, component units or its joint ventures. The MD&A includes known information that management is aware of through the date of the auditors' report. Please read this MD&A in conjunction with Utilities' financial statements and accompanying notes that follow this section.

FINANCIAL STATEMENTS

Utilities' annual report includes three financial statements with accompanying notes that are an integral part of these statements. The financial statements include: 1) Statements of Net Position, 2) Statements of Revenues, Expenses and Changes in Net Position and 3) Statements of Cash Flows. Comparative total data for the prior year has been presented in order to provide an understanding of changes in Utilities' financial position and operations. Certain amounts presented in the prior year's data have been reclassified in order to be consistent with the current year's presentation.

Statements of Net Position - This statement reports net position as the difference between 1) assets and deferred outflows of resources and 2) liabilities and deferred inflows of resources as of the end of each fiscal year. Assets are separated into current and noncurrent categories and are reported in the order of liquidity. Deferred outflows of resources are the consumption of net assets in one period that are applicable to future periods. Liabilities are separated into current and noncurrent categories. Deferred inflows of resources are the acquisition of net assets that are applicable to future reporting periods. The components of net position are classified as net investment in capital assets, restricted collateral, restricted debt service, restricted third party escrow, restricted health care benefits, restricted for other purposes and unrestricted.

Statements of Revenues, Expenses and Changes in Net Position - This statement measures the activities for the year and can be used to determine whether the rates, fees and other charges are adequate to recover expenses. All revenues and expenses are accounted for in this statement for the years ended December 31.

Statements of Cash Flows - This statement reports all cash receipts and payments summarized by net changes in cash from operating, noncapital financing, capital and related financing and investing activities for the years ended December 31. This statement is prepared using the direct method, which reports gross cash receipts and payments and presents a reconciliation of operating income to net cash provided by operating activities. This statement also separately lists the noncash investing, capital and related financing activities.

Notes to Financial Statements - These notes provide additional detailed information and required disclosure in support of the financial statements.

COMPONENT UNITS AND JOINT VENTURES

COMPONENT UNITS - CITY

Public Authority for Colorado Energy ("PACE") - PACE is a nonprofit corporation that has been organized by the City for the purpose of assisting the City to acquire, finance and supply natural gas for Utilities. On June 27, 2008, the City (on behalf of Utilities) entered into a Natural Gas Supply Agreement with PACE. Utilities will purchase approximately 20.0% of Utilities' natural gas supply needs for 30 years through a natural gas prepayment transaction among PACE, Merrill Lynch Commodities, Inc., Bank of America Corporation and Royal Bank of Canada.

Fountain Valley Authority - Utilities has a 71.4% interest in this authority, which is a political subdivision of the State of Colorado, formed primarily to construct a water treatment plant and to operate the water treatment plant and water conveyance system for its five customers.

Aurora-Colorado Springs Joint Water Authority - Utilities has a 66.7% participation share in this authority, which is a political subdivision of the State of Colorado, formed for the purpose of developing water resources, systems or facilities for the benefit of Utilities and the City of Aurora, Colorado.

Canal and Reservoir Companies - Utilities has interests ranging from 51.9% to 77.2% in four canal and reservoir companies. This ownership interest represents proportionate ownership and control of the companies' facilities and water rights. The water rights add significant physical water to the water supply portfolio in addition to allowing for exchange, storage, staging and delivery of Utilities' water supply.

JOINT VENTURES

Young Gas Storage Company Ltd. - Utilities has an equity interest of 5.0% in this joint venture organized to develop and operate a natural gas storage system near Fort Morgan, Colorado.

CONDENSED FINANCIAL STATEMENTS

Condensed financial statements as of December 31:

Condensed Statements of Net Position

	2020	2019	2018
		(in thousands)	
Assets and Deferred Outflows of Resources			
Assets			
Current assets	$ 522,861	$ 451,376	$ 412,840
Other noncurrent assets	265,311	203,363	251,500
Capital assets, net	3,910,501	4,108,487	4,072,010
Total Assets	4,698,673	4,763,226	4,736,350
Deferred outflows of resources	111,341	150,119	117,657
Total Assets and Deferred Outflows of Resources	$ 4,810,014	$ 4,913,345	$ 4,854,007
Liabilities, Deferred Inflows of Resources and Net Position			
Liabilities			
Current liabilities	$ 190,643	$ 181,041	$ 186,577
Noncurrent liabilities	2,569,511	2,694,320	2,759,847
Total Liabilities	2,760,154	2,875,361	2,946,424
Deferred inflows of resources	90,695	3,024	63,115
Net Position			
Net investment in capital assets	1,767,570	1,926,373	1,835,592
Restricted	62,936	51,653	37,101
Unrestricted	128,659	56,934	(28,225)
Total Net Position	1,959,165	2,034,960	1,844,468
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 4,810,014	$ 4,913,345	$ 4,854,007

Assets

Current assets increased in 2020 and 2019 by $71.5 million and $38.5 million, respectively. The increase during 2020 was primarily due to increases of $135.0 million in cash and cash equivalents, $14.7 million in accounts receivable and $3.8 million in inventories, offset by a decrease of $84.7 million in unrestricted investments. The increase during 2019 was primarily due to increases of $52.6 million in cash and cash equivalents and $3.9 million in inventories, offset by decreases of $9.2 million in accounts receivable and $8.6 million in unrestricted investments.

Other noncurrent assets increased in 2020 by $61.9 million primarily due to an increase of $79.2 million in restricted cash and cash equivalents, offset by a decrease of $18.9 million in restricted investments. The decrease in 2019 of $48.1 million was primarily due to decreases of $43.5 million in restricted cash and cash equivalents and $6.2 million in restricted investments, offset by an increase of $1.6 million in other noncurrent assets (including utility acquisition adjustment).

Capital assets, net decreased in 2020 by $198.0 million due to the impairment of Martin Drake Power Plant ("Drake") Units 6 and 7, Nixon Power Plant Unit 1 ("Nixon 1") and Birdsall Power Plant ("Birdsall"), see Note 5, Special Items. The decrease was partially offset by capital improvements. The increase of $36.5 million in 2019 was due primarily to capital improvements that are required to maintain and rehabilitate aging infrastructure in order to provide safe and reliable services to customers, construction to prepare for future demand and to meet environmental and regulatory requirements.

Deferred Outflows of Resources

Deferred outflows of resources decreased in 2020 by $38.8 million primarily due to a decrease of $40.1 million in pension and other postemployment benefits ("OPEB") deferred outflows. The increase in 2019 of $32.5 million was primarily due to increases of $34.2 million in pension and OPEB deferred outflows and $4.3 million in unrealized loss on derivative instruments, offset by a decrease of $6.0 million in loss on debt refundings.

Liabilities

Current liabilities increased in 2020 by $9.6 million primarily due to increases of $10.1 million in accounts payable, $3.9 million in current maturities of restricted bonds and $3.3 million in compensated assets, offset by a decrease of $7.3 million in unrestricted accrued salaries and benefits. The decrease in 2019 of $5.5 million was primarily due to decreases of $10.9 million in accounts payable and $2.2 million in current portion of restricted notes and loans payable, offset by an increase of $5.8 million in current maturities of restricted bonds.

Noncurrent liabilities decreased in 2020 and 2019 by $124.8 million and $65.5 million, respectively. The decrease in 2020 was primarily due to decreases of $136.6 million in pension and OPEB and $8.8 million in revenue bonds, net of unamortized premiums and discounts. These decreases were offset by an increase of $21.0 million in derivative instruments. The decrease in 2019 was primarily due to a decrease of $125.7 million in revenue bonds, net of unamortized premiums and discounts. This decrease was partially offset by increases of $34.8 million in net pension and OPEB, $15.7 million in derivative instruments and $7.6 million in customer advances for construction. Revenue bonds, net of unamortized premiums and discounts comprise the majority of the noncurrent liabilities with a balance of $2.2 billion.

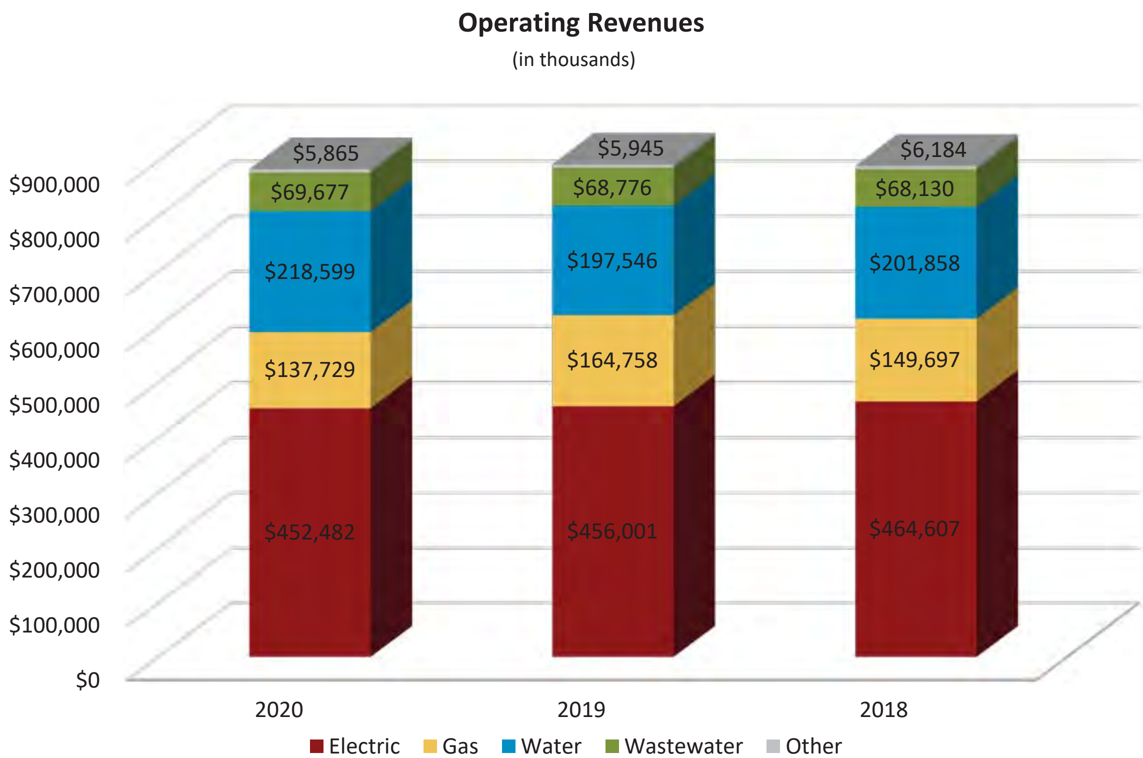
Deferred Inflows of Resources

Deferred inflows of resources increased in 2020 by $87.7 million primarily due to an increase of $78.2 million in pension and OPEB deferred inflows. The decrease of $60.1 million in 2019 was primarily due to a decrease of $60.0 million in pension and OPEB deferred inflows.

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2020	2019 (in thousands)	2018
Operating Revenues	$ 884,352	$ 893,026	$ 890,477
Operating Expenses	(648,836)	(630,437)	(742,900)
Operating Income	235,516	262,589	147,577
Nonoperating Expenses	(120,953)	(100,687)	(69,006)
Income Before Contributions, Transfers and Special Items	114,563	161,902	78,571
Capital contributions	73,222	64,939	62,733
Transfers out - surplus payments to the City	(35,154)	(34,015)	(31,690)
Transfers - other	(331)	(2,334)	(282)
Special items	(228,095)	-	-
Change in Net Position	(75,795)	190,492	109,332
Total Net Position, January 1	2,034,960	1,844,468	1,776,521
Cumulative effect of a change in accounting principle	-	-	(41,385)
Total Net Position, December 31	$ 1,959,165	$ 2,034,960	$ 1,844,468

CHANGES IN OPERATING REVENUES AND EXPENSES

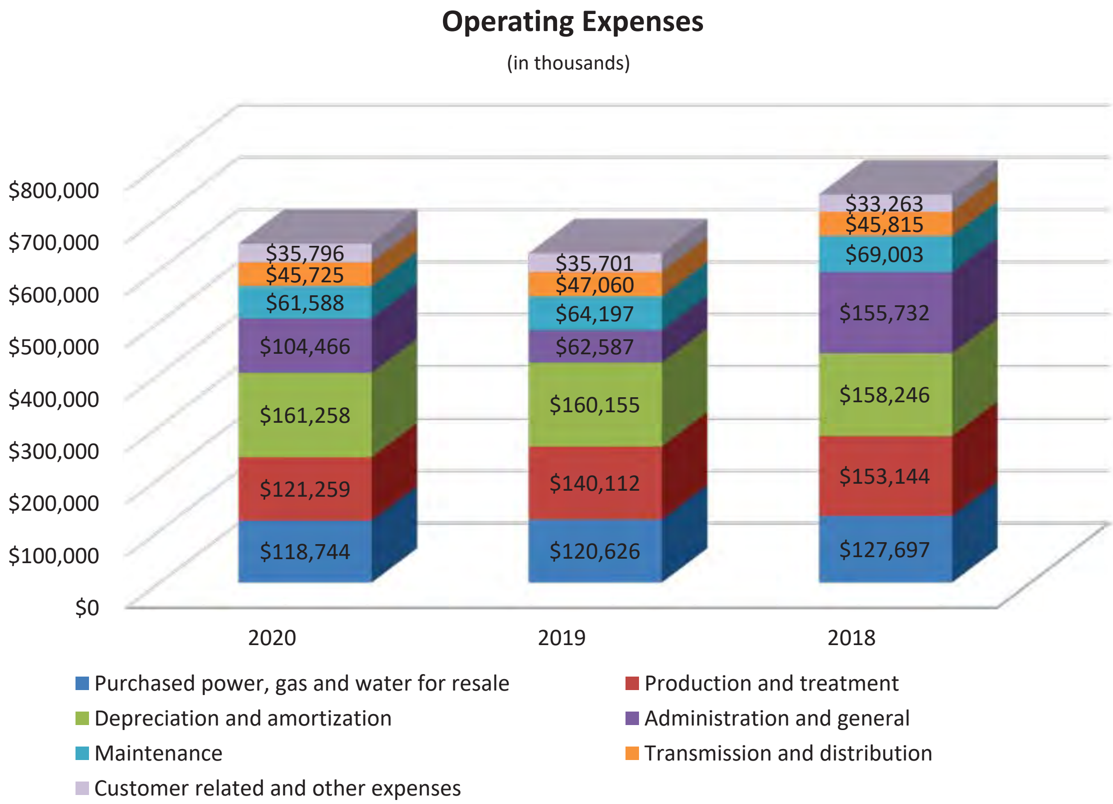


Operating Revenues 2020 to 2019:

- $(3.5) million - Electric decrease primarily driven by recovery of under collection of $8.0 million of prior year fuel costs through the electric cost adjustment rate, partially offset by higher sales
- $(27.0) million - Natural gas decrease primarily driven by lower fuel costs of $18.1 million in 2020, partially offset by recovery of under collection of $7.4 million of prior year fuel costs through the gas cost adjustment rate
- $21.1 million - Water increase primarily driven by hot and dry weather, a 3.5% rate increase, and higher off-system revenue in 2020

Operating Revenues 2019 to 2018:

- $(8.6) million - Electric decrease primarily driven by lower off-system revenue
- $15.1 million - Natural gas increase primarily driven by the recovery of under collection of prior year's fuel cost through the gas cost adjustment rate and cooler weather in 2019
- $(4.3) million - Water decrease primarily driven by cool and wet weather



Operating Expenses 2020 to 2019:

- $41.9 million - Administration and general increase primarily due to an increase in net pension and OPEB expense
- $(18.9) million - Production and treatment decrease primarily related to lower fuel costs
- $(2.6) million - Maintenance decrease primarily related to the variability in the scope of power plant outages

Operating Expenses 2019 to 2018:

- $(93.1) million - Administration and general decrease primarily due to a decrease in net pension and OPEB expense
- $(13.0) million - Production and treatment decrease primarily related to lower fuel costs
- $(7.1) million - Purchased power, gas and water for resale decrease primarily related to lower fuel costs

CASH AND LIQUIDITY

Current assets include unrestricted cash deposits in banks and unrestricted investments in United States ("U.S.") Treasury Notes and U.S. Government Agency Securities. The total of these two unrestricted funding sources was $289.3 million at December 31, 2020, an increase of $50.5 million, or 21.1%, from 2019 due primarily to net operating cash flow of $317.5 million, cash contributions in aid of construction of $49.6 million, interest received on investments of $6.1 million and cash receipts from Federal/State programs of $7.2 million, partially offset by principal and interest payments of $196.3 million, cash-funded capital expenditures of $103.5 million and surplus payments to the City of $35.0 million. The total of these two unrestricted funding sources was $238.8 million at December 31, 2019, an increase of $42.0 million, or 21.4%, from 2018 due primarily to net operating cash flow of $328.7 million, cash contributions in aid of construction of $47.7 million, interest received on investments of $8.0 million and cash receipts from Federal/State programs of $7.8 million, partially offset by principal and interest payments of $186.0 million, cash-funded capital expenditures of $102.0 million, surplus payments to the City of $33.9 million and bond redemptions of $29.1 million.

Current and noncurrent assets include restricted cash deposits in banks and restricted investments in U.S. Treasury Notes, U.S. Government Agency Securities, Local Government Investment Pools and repurchase agreements. The total of these two restricted funding sources was $183.8 million at December 31, 2020, an increase of $60.2 million, or 48.7%, from 2019 due primarily to bond proceeds of $110.0 million offset by capital reimbursements from restricted cash of $46.9 million. The total of these two restricted funding sources was $123.6 million at December 31, 2019, a decrease of $47.7 million, or 27.8%, from 2018 due primarily to capital reimbursements from restricted cash of $50.7 million.

A source of unrestricted liquidity that is not reflected on the Statements of Net Position is revolving lines of credit. Utilities has maintained one or more lines of credit in place since 2002. Although never drawn, the lines are maintained to ensure liquidity is available, if needed, through major unforeseen natural disasters when the ability to collect revenue could be impaired, for working capital during an unplanned or extended plant outage, or as a collateral posting source with financial counterparties on hedging agreements. In September 2019, Utilities executed an amendment renewing its $60.0 million line of credit with U.S. Bank, National Association ("N.A.") for a three year term. On June 1, 2020, Utilities executed a second amendment increasing the available line of credit from $60.0 million to $75.0 million. As of December 31, 2020, the total available lines of credit are $75.0 million.

Summary of the days cash on hand as of December 31:

	2020	2019 (in thousands)	2018
Cash, cash equivalents and investments - unrestricted	$ 289,264	$ 238,790	$ 196,775
Cash Expense per Day			
Total Operating Expenses	$ 648,836	$ 630,437	$ 742,900
Less: Noncash pension and OPEB expense	18,261	59,289	(35,975)
Less: Depreciation and Amortization	(161,258)	(160,155)	(158,246)
Net Cash Expense	$ 505,839	$ 529,571	$ 548,679
Number of Days in a Period	366	365	365
Net Cash Expense Per Day	$ 1,382	$ 1,451	$ 1,503
Days of Cash on Hand	209.3	164.6	130.9

CAPITAL ASSETS AND TOTAL LONG-TERM DEBT

Capital assets and total long-term debt as of December 31:

CAPITAL ASSETS

	2020	2019	2018
		(in thousands)	
Plant in service	$ 6,390,874	$ 6,487,238	$ 6,315,895
Completed construction not classified	103,872	102,744	84,641
Construction work in progress	160,979	148,990	155,993
Accumulated depreciation and amortization	(2,745,224)	(2,630,485)	(2,484,519)
Total Capital Assets (net of Accumulated Depreciation and Amortization)	$ 3,910,501	$ 4,108,487	$ 4,072,010

CAPITAL EXPENDITURES BY SYSTEM

Utilities' capital expenditures for the years ended December 31, 2020, 2019 and 2018, were $198.4 million, $183.0 million and $196.0 million respectively. Capital expenditures include general system improvements required to maintain and rehabilitate aging infrastructure, as well as construction to prepare for future demand and to meet environmental and regulatory requirements.

Capital expenditures by system as of December 31:

	2020	2019	2018
		(in thousands)	
Electric	$ 74,128	$ 67,853	$ 70,236
Water	64,675	67,476	69,415
Natural Gas	27,903	18,813	23,321
Wastewater	17,903	19,971	21,377
Facilities and Information Technology	13,742	8,881	11,639
Total Capital Expenditures	$ 198,351	$ 182,994	$ 195,988

TOTAL LONG-TERM DEBT

	2020	2019	2018
		(in thousands)	
Tax-exempt revenue bonds	$ 1,821,249	$ 1,693,624	$ 1,788,848
Taxable revenue bonds	221,550	413,885	452,980
Loans	4,831	5,252	7,845
Total Long-Term Debt	$ 2,047,630	$ 2,112,761	$ 2,249,673

DEBT RATIO

Debt Ratio as of December 31:

	2020	2019	2018
		(in thousands)	
Current Maturities of Bonds - Restricted	$ 89,174	$ 85,284	$ 79,519
Current Portion of Notes and Loans Payable - Restricted	431	420	2,593
Long-Term Revenue Bonds, Net	2,184,770	2,193,584	2,319,307
Long-Term Notes and Loans Payable	4,400	4,832	5,252
Net Loss on Debt Refundings	(25,312)	(40,802)	(46,620)
Total	$ 2,253,463	$ 2,243,318	$ 2,360,051
Net Position	$ 1,959,165	$ 2,034,960	$ 1,844,468
Debt Ratio	53.5%	52.4%	56.1%

Utilities engages Moody's Investor Services ("Moody's"), Standard & Poor's ("S&P") and Fitch Ratings ("Fitch") to provide credit rating services. Utilities' long-term credit ratings are as follows:

	2020		2019		2018	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
Moody's	Aa2	Stable	Aa2	Stable	Aa2	Stable
S&P	AA+	Stable	AA+	Stable	AA	Stable
Fitch	AA	Stable	AA	Stable	AA	Stable

Utilities' short-term ratings on variable rate bonds are as follows:

Bond Issue	2020	2019	2018
2000A	NA / NA / NA	NA / NA / NA	VMIG1 / A-1 / NR
2002C	NA / NA / NA	NA / NA / NA	VMIG1 / A-1 / NR
2005A	VMIG1 / A-1 / NR	VMIG1 / A-1 / NR	VMIG1 / A-1 / F1
2006B	VMIG1 / A-1 / F1+	VMIG1 / A-1 / F1+	VMIG1 / A-1 / F1+
2007A	VMIG1 / A-1+ / NR	VMIG1 / A-1 / F1+	VMIG1 / A-1 / F1+
2008A	VMIG1 / A-1+ / F1+	VMIG1 / A-1+ / F1+	VMIG1 / A-1+ / F1+
2009C	VMIG1 / A-1 / F1	VMIG1 / A-1 / F1	VMIG1 / A-1 / F1
2010C	VMIG1 / A-1 / F1	VMIG1 / A-1 / F1	VMIG1 / A-1 / F1
2012A	VMIG1 / A-1+ / F1+	VMIG1 / A-1+ / F1+	VMIG1 / A-1+ / F1+

Utilities' short-term ratings are based on the credit ratings of banks providing liquidity support for the variable rate bonds. Short-term credit rating assignments are by Moody's, S&P and Fitch, respectively. "NR" indicates a bond issue is not rated by that specific credit rating agency. The 2000A and 2002C bonds were refunded in 2019 so there are no ratings in 2020 and 2019 for these bonds and are labeled as "NA", not applicable in that year.

FINANCING

Utilities conducts financing activities based on strategies and guidance provided by the Plan of Finance ("Plan"). Fundamental to the Plan are goals and objectives that Utilities has developed and targeted as important measures for future performance. These include the following:

- Maintenance of long-term credit ratings of Aa2/AA+/AA by Moody's, S&P and Fitch, respectively
- A focus on targeted financial metrics: Debt Ratio, Days Cash on Hand and Debt Service Coverage
- The minimization of rate impacts resulting from financing activities in each utility service (Electric, Gas, Water and Wastewater)

The Plan includes analyzing funding options, measuring risk and benefits of the options, setting parameters for optimal structures such as fixed versus floating rate debt, term of debt and other financing alternatives. The Plan incorporates Utilities' Financial Risk Management Policy and a review of the legal framework to enable successful implementation of potential financing alternatives. The following briefly describes the major financing transactions Utilities executed in 2020 and 2019, all of which were in direct support of the Plan:

- In September 2020, Utilities entered into a new standby bond purchase agreement with TD Bank, N.A. for Variable Rate Demand Utilities System Improvement Revenue Bonds, Series 2007A (expires September 2023), supporting $57.8 million in variable rate debt.
- In September 2020, Utilities cancelled a standby bond purchase agreement with Wells Fargo Bank, N.A. for Variable Rate Demand Utilities System Improvement Revenue Bonds, Series 2007A.
- In August 2020, Utilities issued Utilities System Refunding Revenue Bonds, Series 2020A, Utilities System Refunding Revenue Bonds (Private Activity/Non-Alternative Minimum Tax), Series 2020B, and Utilities System Improvement Revenue Bonds, Series 2020C totaling $337.1 million. Series 2020A bonds were used to refund all of the City's outstanding Utilities System Refunding Revenue Bonds, Series 2009A, Utilities System Revenue Bonds, Series 2010A-1, Taxable Utilities System Improvement Revenue Bonds (Direct Pay Build America Bonds), Series 2010A-2, and Taxable Utilities System Improvement Revenue Bonds (Direct Pay Build America Bonds), Series 2010B-2. Series 2020B bonds were used to refund Utilities System Revenue Bonds (Tax Exempt/Private Activity), Series 2010D-2. Series 2020C bonds were issued as new money bonds to finance a portion of the costs of a number of general capital improvements to the Utility System.
- In June 2020, Utilities renewed a standby bond purchase agreement with U.S. Bank, N.A. for Variable Rate Demand Utilities System Improvement Revenue Bonds, Series 2008A (expires June 2023) supporting $38.8 million in variable rate debt.
- In June 2020, Utilities amended the Revolving Loan Agreement and Revolving Promissory Note with U.S. Bank, N.A. increasing the available Credit Line from $60.0 million to $75.0 million.
- In April 2020, Utilities defeased all of the outstanding Taxable Utilities System Subordinate Lien Revenue Bonds, Series 2000B in the amount of $1.4 million.
- In October 2019, Utilities issued Utilities System Refunding Revenue Bonds, Series 2019A in the amount of $84.1 million refunding all of the City's outstanding Series 2000A Variable Rate Demand Utilities System Bonds.
- In September 2019, Utilities redeemed in full the Taxable Variable Rate Demand Utilities System Subordinate Lien Revenue Bonds, Series 2002C in the amount of $27.1 million and redeemed a portion of the Variable Rate Demand Utilities System Refunding Revenue Bonds, Series 2009C in the amount of $2.0 million.
- In September 2019, Utilities amended the $60.0 million Revolving Loan Agreement and Revolving Promissory Note extending the commitment expiration date to September 2022.
- In September 2019, Utilities entered into a new standby bond purchase agreement with Bank of America, N.A. for Variable Rate Demand Utilities System Subordinate Lien Improvement Revenue Bonds, Series 2005A (expires September 2024), supporting $80.3 million in variable rate debt.

Debt Service Coverage

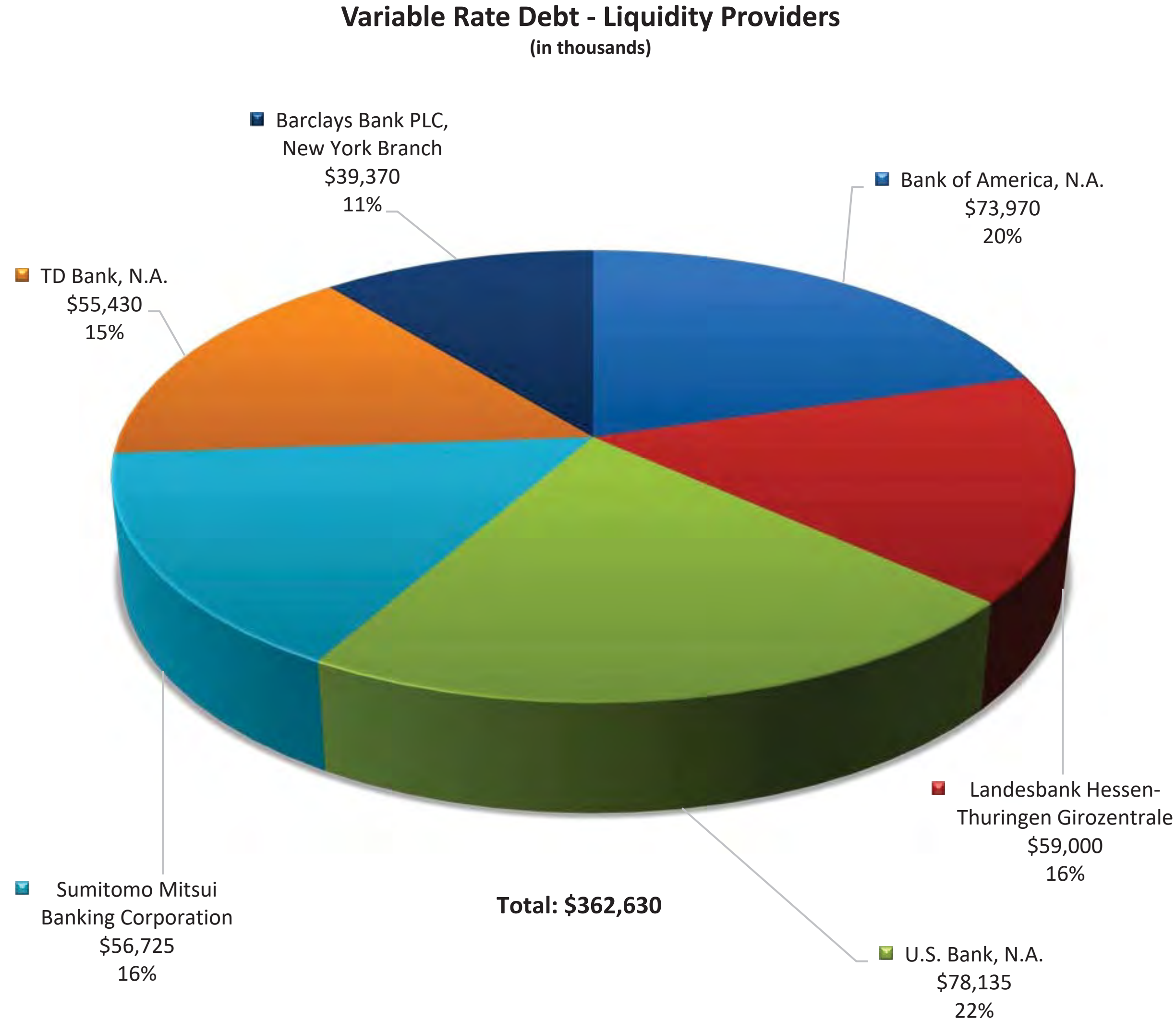
Summary of the debt service coverage for the years ended December 31:

	2020	2019	2018
		(in thousands)	
Operating Revenues	$ 884,352	$ 893,026	$ 890,477
Operating Expenses	(648,836)	(630,437)	(742,900)
Noncash pension and OPEB expense	(18,261)	(59,289)	35,975
Depreciation and amortization	161,258	160,155	158,246
Operating Revenues Available for Debt Service	378,513	363,455	341,798
Interest earnings (excl. interest on bonds)	10,230	12,116	11,255
Development fees	52,988	41,765	38,333
Net Pledged Revenues	$ 441,731	$ 417,336	$ 391,386
Fiscal Year Debt Service	$ 196,289	$ 185,983	$ 182,538
Debt Service Coverage Ratio	2.25	2.24	2.14

The following chart illustrates the variable and fixed financing structure for the years ended December 31:

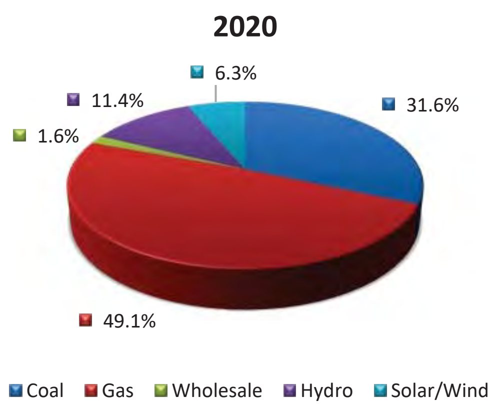
Variable vs. Fixed Rate Debt
(in thousands)

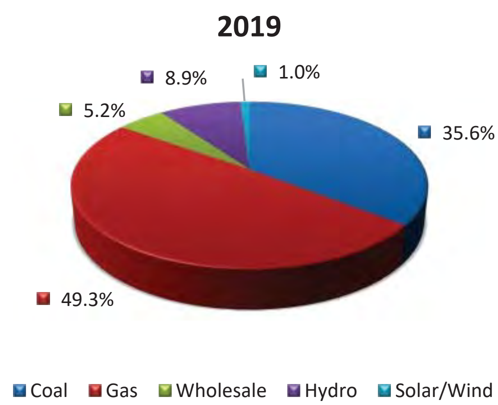
The following chart illustrates the variable rate liquidity providers as of December 31, 2020:

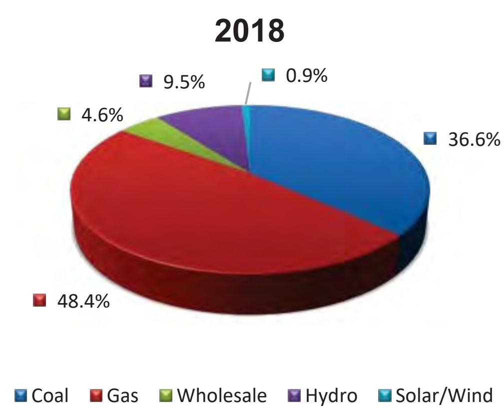


SOURCES OF GENERATION

The following illustrates Utilities' sources of generation for the years ended December 31:







PEAK DEMAND

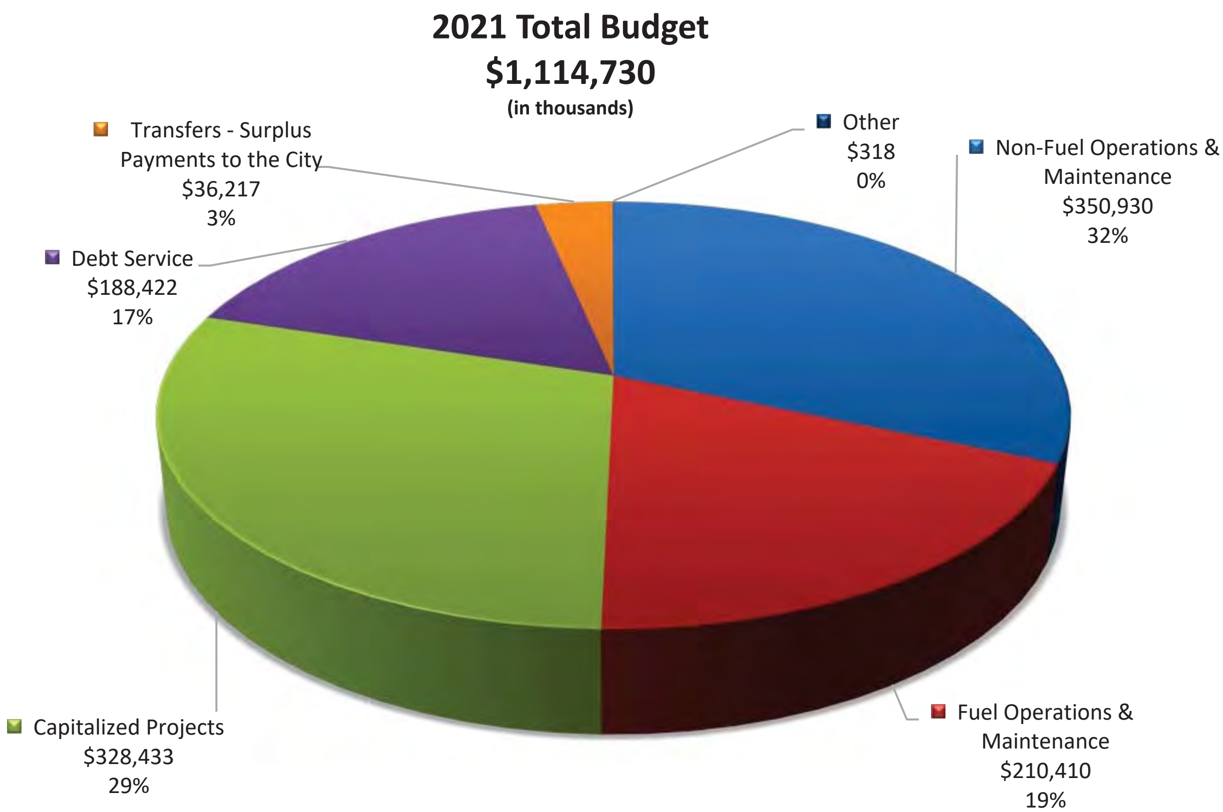
	Peak Demand	Peak Day
Electric - maximum hourly peak demand (Megawatts)	965	Jul 19, 2019
Natural Gas - maximum daily peak demand (Million Cubic Feet)	266,786	Feb 01, 2011
Water - maximum daily pumpage (Millions of Gallons)	182,405	Jul 07, 2001

NON-TRANSFER PAYMENTS TO CITY	2020	2019	2018
		(in thousands)	
City Attorney	$ 1,803	$ 1,645	$ 1,482
City Auditor	725	807	965
City Clerk	141	126	160
City Council	686	868	944
City Employee Medical Clinic and City Risk Management	214	237	223
Claims and Workers Compensation	848	432	124
Courier Service and Postage	163	186	120
Fuels Management	37	-	-
Garage and Fleet	1,688	1,523	1,795
Mesa Springs Greenway	59	78	102
Office Services	97	202	280
Parking	160	203	200
Permits	1,033	910	937
Police and Security	7	35	14
Public Works Fees	5,119	3,422	3,879
Radio	411	339	441
Real Estate Services	305	160	230
Rebates	31	89	31
Senior Maintenance Tech and Landscape Architect	175	158	186
Stormwater Fees	157	166	127
Miscellaneous Other	26	32	90
Public Improvement Projects - Infrastructure	3,638	7,201	6,062
2C Overlay Projects	236	763	669
Total Non-Transfer Payments	$ 17,759	$ 19,582	$ 19,061

BUDGETARY HIGHLIGHTS FOR 2021

The following information contains statements that to the extent they are not recitations of historical fact, constitute "forward-looking statements." A number of important factors affecting Utilities' business and financial results could cause actual results to differ materially from those stated in the forward-looking statements. Utilities does not plan to issue updates or revisions to forward-looking statements contained in this MD&A.

BUDGET SUMMARY



CAPITAL PROJECTS

	2021 Approved Budget (in thousands)
Electric	$ 196,174
Streetlight	1,431
Natural Gas	30,687
Water	67,082
Wastewater	19,521
Common	13,538
Total	$ 328,433

SIGNIFICANT EVENTS

DECOMMISSIONING OF POWER PLANTS

In June 2020, the Utilities Board voted to approve an integrated resource plan that commits Utilities to providing cost-effective, resilient and environmentally sustainable power. The plan calls for grid modernization, integration of more cost-effective renewable energy and incorporation of new technologies like energy storage. It allows Utilities to achieve an 80.0% carbon reduction by 2030 and included a decision to decommission Drake no later than December 31, 2022, Nixon 1 no later than December 31, 2029 and Birdsall no later than December 31, 2034. This further accelerated Drake's decommission date from the previous decision by the Utilities Board in November 2015 to close and decommission Drake no later than 2035. Drake Unit 5 was fully decommissioned in 2016.

As a result of the Utilities Board's decision to decommission Drake, Nixon 1 and Birdsall, Utilities determined the assets related to the decommissioning power plants were impaired as of December 31, 2020. Utilities recorded a $233.5 million loss as a Special item on the Statements of Revenues, Expenses and Changes in Net Position. See Note 5 for further information.

COVID-19 PANDEMIC

The World Health Organization declared a pandemic in 2020 following the outbreak of COVID-19, which has caused economic uncertainties at the national, state, and local level. The duration, scope and impact resulting from the COVID-19 pandemic are uncertain at this time, however Utilities continues to assess the financial impact of the pandemic on the financial statements.

CONTACTING UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, investors, creditors and other financial users with a general overview of Utilities' finances. If you have questions about this report or need additional financial information, contact the Chief Planning and Finance Officer, Colorado Springs Utilities, P.O. Box 1103, Mail Code 950, Colorado Springs, CO 80947-0950, or visit our website www.csu.org.

COLORADO SPRINGS UTILITIES
STATEMENTS OF NET POSITION
As of December 31, 2020 and 2019

	2020	2019
	(in thousands)	
Assets		
Current Assets		
Cash and cash equivalents - unrestricted	$ 198,440	$ 63,263
Cash and cash equivalents - restricted	43,615	43,775
Investments - unrestricted	90,824	175,527
Accounts receivable, net	113,956	99,271
Due from other City funds	3,462	3,482
Interest receivable	355	863
Inventories	57,709	53,869
Prepaid expenses	14,500	11,326
Total Current Assets	**522,861**	**451,376**
Noncurrent Assets		
Cash and cash equivalents - restricted	122,376	43,142
Investments - restricted	17,813	36,719
Interest receivable - restricted	44	142
Investment in joint ventures	898	952
Other (including utility acquisition adjustment)	124,180	122,408
Capital assets:		
Plant in service	6,390,874	6,487,238
Completed construction not classified	103,872	102,744
Construction work in progress	160,979	148,990
Accumulated depreciation and amortization	(2,745,224)	(2,630,485)
Total Capital Assets (net of accumulated depreciation and amortization)	3,910,501	4,108,487
Total Noncurrent Assets	**4,175,812**	**4,311,850**
Total Assets	**4,698,673**	**4,763,226**
Deferred Outflows of Resources		
Deferred cash flow hedges - unrealized loss on derivative instruments	37,986	30,640
Loss on debt refundings	36,056	42,059
Pension and OPEB deferred outflows	37,299	77,420
Total Deferred Outflows of Resources	**111,341**	**150,119**
Total Assets and Deferred Outflows of Resources	**$ 4,810,014**	**$ 4,913,345**

The accompanying notes are an integral part of these statements.

COLORADO SPRINGS UTILITIES
STATEMENTS OF NET POSITION
As of December 31, 2020 and 2019

	2020	2019
	(in thousands)	
Liabilities		
Current Liabilities		
Accounts payable	$ 62,836	$ 52,733
Due to other City funds	5,205	4,619
Current maturities of bonds - restricted	89,174	85,284
Current portion of notes and loans payable - restricted	431	420
Accrued interest - restricted	10,378	10,922
Accrued salaries and benefits - unrestricted	3,896	11,189
Accrued salaries and benefits - restricted	2,984	2,619
Compensated absences	13,195	9,879
Claims and judgments	371	2,212
Other	2,173	1,164
Total Current Liabilities	**190,643**	**181,041**
Noncurrent Liabilities		
Customer deposits	3,695	3,420
Notes and loans payable	4,400	4,832
Compensated absences	6,235	5,918
Customer advances for construction	19,057	22,576
Revenue bonds, net of unamortized premiums and discounts	2,184,770	2,193,584
Municipal solid waste landfill closure and postclosure care	5,085	4,818
Derivative instruments	121,371	100,410
Pension and OPEB	213,559	350,125
Other	11,339	8,637
Total Noncurrent Liabilities	**2,569,511**	**2,694,320**
Total Liabilities	**2,760,154**	**2,875,361**
Deferred Inflows of Resources		
Gain on debt refundings	10,744	1,257
Pension and OPEB deferred inflows	79,951	1,767
Total Deferred Inflows of Resources	**90,695**	**3,024**
Net Position		
Net investment in capital assets	1,767,570	1,926,373
Restricted		
Collateral	29,700	18,800
Debt service	18,894	17,918
Third party escrow	2,359	2,327
Health care benefits	3,569	3,155
Other purposes	8,414	9,453
Unrestricted	128,659	56,934
Total Net Position	**1,959,165**	**2,034,960**
Total Liabilities, Deferred Inflows of Resources and Net Position	**$ 4,810,014**	**$ 4,913,345**

The accompanying notes are an integral part of these statements.

This page intentionally left blank.

COLORADO SPRINGS UTILITIES

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
For the Years ended December 31, 2020 and 2019

	2020	2019
	(in thousands)	
Operating Revenues		
Electric	$ 452,482	$ 456,001
Streetlight	4,075	4,075
Gas	137,729	164,758
Water	218,599	197,546
Wastewater	69,677	68,776
Products and services	1,790	1,870
Total Operating Revenues	**884,352**	**893,026**
Operating Expenses		
Production and treatment	121,259	140,112
Purchased power, gas and water for resale	118,744	120,626
Transmission and distribution	45,725	47,060
Maintenance	61,588	64,197
Administration and general	104,466	62,587
Customer service and information	12,861	15,214
Customer accounting and collection	22,625	20,155
Franchise taxes	310	331
Depreciation and amortization	161,258	160,155
Total Operating Expenses	**648,836**	**630,437**
Operating Income	**235,516**	**262,589**
Nonoperating Revenues (Expenses)		
Derivative instruments gain (loss)	(13,615)	(11,365)
Investment income	5,917	10,231
Other revenues	12,012	12,630
Other expenses	(28,268)	(14,191)
Interest expense	(96,999)	(97,992)
Total Nonoperating Expenses	**(120,953)**	**(100,687)**
Income Before Contributions, Transfers and Special Items	**114,563**	**161,902**
Capital contributions	73,222	64,939
Transfers out - surplus payments to the City	(35,154)	(34,015)
Transfers - other	(331)	(2,334)
Special items (Note 5)	(228,095)	-
Change in Net Position	**(75,795)**	**190,492**
Net position-beginning period	**2,034,960**	**1,844,468**
Total Net Position, December 31	**$ 1,959,165**	**$ 2,034,960**

The accompanying notes are an integral part of these statements

COLORADO SPRINGS UTILITIES

STATEMENTS OF CASH FLOWS

For the Years ended December 31, 2020 and 2019

	2020	2019
	(in thousands)	
Cash Flows from Operating Activities		
Receipts from customers and users	$ 859,788	$ 892,748
Receipts from interfund activities	16,327	16,087
Other cash receipts, net	4,155	3,489
Payments to suppliers	(328,246)	(351,331)
Payments to/on behalf of employees	(212,640)	(208,087)
Payments for interfund activities	(21,874)	(24,218)
Net Cash Provided by Operating Activities	**317,510**	**328,688**
Cash Flows from Noncapital Financing Activities		
Other receipts (payments), net	37	(2,166)
Surplus payments to the City	(34,955)	(33,909)
Receipts from federal/state programs	229	13
Net Cash Used in Noncapital Financing Activities	**(34,689)**	**(36,062)**
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of revenue bonds	337,140	84,090
Premium related to bond issuance	84,044	26,540
Debt issuance and other related costs	(4,650)	(599)
Capital expenditures	(150,461)	(152,594)
Capital contributions	49,554	47,734
Repayment and refunding of revenue bonds	(398,509)	(218,409)
Interest payments on long-term debt	(107,245)	(104,036)
Interest payments - other	(80)	(62)
Proceeds from sale of assets	4,431	1,126
Receipts from federal/state programs	7,007	7,759
Net Cash Used in Capital and Related Financing Activities	**(178,769)**	**(308,451)**
Cash Flows from Investing Activities		
Interest received on investments	6,091	8,039
Distributions from joint ventures	205	106
Purchases of investments	(37,042)	(117,898)
Proceeds from sales and maturities of investments	140,945	134,707
Net Cash Provided by Investing Activities	**110,199**	**24,954**
Increase in Cash and Cash Equivalents	214,251	9,129
Cash and Cash Equivalents, January 1	150,180	141,051
Cash and Cash Equivalents, December 31	**$ 364,431**	**$ 150,180**

The accompanying notes are an integral part of these statements

COLORADO SPRINGS UTILITIES

STATEMENTS OF CASH FLOWS - continued

For the Years ended December 31, 2020 and 2019

	2020	2019
	(in thousands)	
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 235,516	$ 262,589
Adjustments to operating income:		
Depreciation and amortization	161,258	160,155
Other	(44,190)	(30,217)
(Increase) Decrease in Assets		
Accounts receivable	(14,927)	9,928
Inventories	(3,840)	(3,913)
Prepaid expenses	(3,174)	122
Other assets	(3,766)	(3,546)
Pension and OPEB deferred outflows	40,121	(34,176)
Increase (Decrease) in Liabilities		
Accounts payable	8,341	(10,909)
Accrued salaries and benefits	(3,294)	1,368
Pension and OPEB liabilities	(136,565)	34,791
Other liabilities	3,846	2,401
Pension and OPEB deferred inflows	78,184	(59,905)
Net Cash Provided by Operating Activities	**$ 317,510**	**$ 328,688**
Noncash Investing, Capital and Related Financing Activities		
Derivative instruments	$ (13,615)	$ (11,365)
Noncash acquisition of plant in service (incurrence of payable)	17,321	14,835
Noncash capital contributions	20,234	23,174
Noncash repayment of long-term debt	14,912	14,262
Amortization of loss on refundings	6,003	6,003
Amortization and charge-off of debt discount	10	22
Noncash adjustments of plant in service (Special items (Note 5))	(228,095)	-

The accompanying notes are an integral part of these statements

NOTE 1 - FINANCIAL REPORTING ENTITY

Colorado Springs Utilities ("Utilities") is an Enterprise Fund of the City of Colorado Springs, Colorado ("City"). The financial statements present only entities for which Utilities is considered to be financially accountable. The Chief Executive Officer ("CEO") directs and manages Utilities. The CEO reports to and is appointed by the City Council. Major policy decisions are subject to the approval of Utilities Board, which also sits as the City Council. The financial statements, in conformity with generally accepted accounting principles in the United States of America ("U.S. GAAP"), do not purport to, and do not represent the financial position or the changes in financial position of the City, component units, or its joint ventures.

Utilities operates an electric generation, transmission and distribution system; a streetlight system; a natural gas distribution system; a water collection, treatment and distribution system; and a wastewater collection and treatment system ("Utility System"). Utilities' service area includes the City, Manitou Springs and many of the suburban residential areas surrounding the City. The military installations of Fort Carson Army Base, Peterson Air Force Base, and the United States Air Force Academy receive electric service, natural gas service and water service from Utilities. Peterson Air Force Base also receives wastewater treatment service, and Cheyenne Mountain Air Force Station receives electric service.

The activity of component units is reported in the City's financial statements due to the extent of their operational and financial relationship. City component units are discussed further in Note 18. Separate financial statements of these component units can be obtained from the Chief Planning and Finance Officer, Colorado Springs Utilities, P.O. Box 1103, Mail Code 950, Colorado Springs, CO 80947-0950.

Joint ventures are legal entities or other organizations that result from contractual arrangements and are owned, operated or governed by two or more participants as separate and specific activities subject to joint control, in which the participants retain an ongoing financial interest or an ongoing financial responsibility. The joint venture in which Utilities participates is further discussed in Note 18.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Utilities' accounting records are maintained and the accompanying financial statements have been prepared in accordance with U.S. GAAP as applied to units of local government and promulgated by the Governmental Accounting Standards Board ("GASB"). Financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Recent Accounting Pronouncements

GASB Pronouncement Implementations in the Future

GASB Statement No. 87, *Leases* ("GASB 87") is effective for fiscal years beginning after June 15, 2021. GASB 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Utilities is currently assessing the adoption of GASB 87 and the impact it will have on the financial statements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates* ("GASB 93") is effective for fiscal years beginning after December 31, 2021. GASB 93 addresses accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate. Utilities is currently assessing the adoption of GASB 93 and the impact it will have on the financial statements.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* ("GASB 94") is effective for fiscal years beginning after June 15, 2022. GASB 94 addresses issues related to public-private and public-public partnership arrangements and availability payment arrangements. Utilities is currently assessing the adoption of GASB 94 and the impact it will have on the financial statements.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* ("GASB 96") is effective for fiscal years beginning after June 15, 2022. GASB 96 defines subscription-based information technology arrangements ("SBITAs"), establishes that a SBITA results in a right-to-use subscription asset and a corresponding subscription liability, and provides the capitalization criteria for outlays related to SBITAs other than subscription payments. Utilities is currently assessing the adoption of GASB 96 and the impact it will have on the financial statements.

USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. These estimates affect the reported amounts of assets, deferred outflows of resources, liabilities, 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 may differ from those estimates.

FINANCIAL STATEMENT PRESENTATION

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in Utilities' financial position and operations. Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

DEPOSITS AND INVESTMENTS

For purposes of the Statements of Cash Flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition. Investment of funds is restricted by State Statute.

Investments are limited to:

- Securities issued by, fully guaranteed by or for which the full credit of the United States ("U.S.") Treasury is pledged for payment and which matures within five years of settlement
- Securities issued by, fully guaranteed by or for which the full credit of the following pledged for payment: the Federal Farm Credit Bank, the Federal Land Bank, a Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Export-Import Bank, the Tennessee Valley Authority, the World Bank or other comparable Federal government sponsored agencies and that matures within five years of settlement
- Securities that are a general obligation of any U.S. state, the District of Columbia or any territorial possession of the U.S. and that are rated in one of its two highest rating categories by two or more nationally recognized organizations that regularly rate such obligations
- Securities that are a revenue obligation of any U.S. state, the District of Columbia, or any territorial possession of the U.S. and that are rated in its highest rating category by two or more nationally recognized organizations that regularly rate such obligations and that mature within three years of settlement
- Any security of the investing public entity under a lease, lease-purchase agreement, or similar agreement
- Any interest in any local government investment pool, subject to various conditions
- Repurchase agreements, subject to various conditions
- Reverse repurchase agreements, subject to various conditions
- Securities lending agreements, subject to various conditions

- Any money market fund that is registered as an investment company under the Federal Investment Company Act of 1940, subject to various conditions
- Any guaranteed investment contract that, at the time the contract or agreement is entered into, is rated in one of the two highest rating categories by two or more nationally recognized rating agencies that regularly issue such ratings
- Any corporate or bank security that is denominated in U.S. dollars, that matures within three years of settlement, that at the time of purchase carries at least two credit ratings from any of the nationally recognized statistical ratings organizations, with minimum rating requirements and other various conditions

Utilities has adopted an investment policy. That policy follows the State statute for allowable investments. Investments are stated at fair value, which is the amount an investment could be exchanged in a current transaction between willing parties. Fair values are based on methods and inputs as outlined in Note 4. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the financial statements as increases or decreases in investment income. Fair values may have changed significantly after the date reported.

RECEIVABLES AND PAYABLES

Accounts receivable as of December 31, 2020 and 2019, include unbilled customers' accounts of $45,622,506 and $44,860,265, respectively. Accounts receivable has been reduced by an allowance for uncollectible accounts of $3,731,264 and $2,981,879 as of December 31, 2020 and 2019, respectively.

Outstanding balances between Utilities and the City are reported as "Due to or Due from other City funds."

Accounts payable are obligations to pay for goods or services purchased from suppliers in the normal course of business. Accounts payable are classified as current liabilities if payment is due within the next twelve months.

INVENTORIES AND PREPAID EXPENSES

Inventories are valued at lower of cost or market value. The costs of inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the financial statements.

RESTRICTED ASSETS

Debt proceeds available for the acquisition, construction or improvement of capital assets that are unspent at year end are classified as restricted noncurrent assets. Restricted noncurrent assets consist primarily of unspent bond proceeds.

Utilities' Bond Ordinances require individual reserve funds by bond issue, but allow Utilities to use surety bonds in lieu of cash bond reserve funds. The Bond Ordinances require that monies be restricted in separate accounts for the retirement of principal and payment of interest.

Under terms of the International Swaps and Derivatives Association ("ISDA"), agreements covering interest rate and energy hedge positions held between Utilities and various counterparties, secured parties, are entitled to hold posted collateral directly or through a custodian. The value or amount of collateral posted is subject to thresholds and counterparty credit ratings established in the ISDA. Cash collateral held directly by Utilities is classified as a restricted noncurrent asset. The corresponding liability is classified as noncurrent on the Statements of Net Position.

Capital Assets

The costs of additions and replacements of assets identified as units of property or intangible assets that exceed $5,000 and have an estimated useful life greater than one year are capitalized pursuant to Utilities' Capital Policy. Maintenance and replacement of minor items of property are charged to operating expense. Depreciable asset retirements are recorded against accumulated depreciation and the retired portion of the asset is removed from plant in service. The net difference plus costs of removal less salvage value, if any, are recorded to Nonoperating Revenues (Expenses) on the Statements of Revenues, Expenses and Changes in Net Position.

GASB 83 was effective for Utilities in 2019. Utilities performed an assessment of its legal obligations to perform future asset retirement activities related to its tangible capital assets and determined there are no material obligations as of December 31, 2020 and 2019. An annual assessment is performed, and any future material obligations will be recorded in the period they are identified.

Utilities computes depreciation and amortization on plant in service on a straight-line, service-life basis. Depreciation is calculated using the following estimated maximum service lives for major asset classifications:

	Years
Electric boiler plant/station equipment	25
Electric underground conduit	28.5
Gas mains and services	80
Water source of supply	100
Water treatment plant	25
Water transmission and distribution mains	50
Sewer mains and laterals	100
Wastewater preliminary treatment facility	45
General structures and improvements	57
Intangibles	50

Other Assets

Other assets includes a noncurrent asset acquisition adjustment that is amortized over a 30-year period; equivalent to the remaining useful life of a natural gas-fired combined cycle electric generation asset acquired in 2010. The remaining unamortized balance was $39,874,647 and $41,868,380 as of December 31, 2020 and 2019, respectively.

In addition, SDS mitigation, engineering and design expenditures specific to monetary mitigation that do not meet Utilities' capitalization requirements are recognized as a regulatory asset in other assets and are amortized over a 10-year period. The remaining unamortized balance was $50,729,406 and $47,950,453 as of December 31, 2020 and 2019, respectively.

Utilities' debt issuance costs are also included as a regulatory asset in the other assets balance. These are costs incurred to issue new or refunding debt, include closing, legal and other costs required to issue debt. Debt issuance costs are amortized over the life of the debt using the straight-line method and the expense is reported as Other expenses on the Statements of Revenues, Expenses and Changes in Net Position. The remaining unamortized balance was $18,231,057 and $16,759,408 as of December 31, 2020 and 2019, respectively.

Utilities entered into a prepaid solar power purchase agreement in order to provide renewable solar photovoltaic electric energy service to the United States Air Force Academy. The prepaid amount is reported in other assets, reduced over time through actual usage. The remaining balance was $11,704,719 and $12,220,799 as of December 31, 2020 and 2019, respectively.

Utilities amended an agreement in 2019 for the reimbursement of developers' proportionate share of costs to construct the Wolf Ranch Pump Station. The remaining balance of the long-term receivable for future collections under this agreement was $1,570,552 and $2,094,070 as of December 31, 2020 and 2019, respectively.

Utilities has established payment arrangement plans with customers that extend beyond one year. The long-term balance of these accounts receivable was $853,745 as of December 31, 2020. There was no long-term accounts receivable balance for payment arrangements as of December 31, 2019.

Derivative Instruments

Utilities utilizes financial derivative instruments to manage exposure to fluctuating interest rates. All financial derivative instruments are stated at fair value as of December 31, 2020 and 2019, based on third party valuation services.

Deferred Cash Flow Hedges - Unrealized Gain / Loss on Derivative Instruments

Derivative instruments deemed effective by applying methods of evaluating effectiveness pursuant to GASB Statement No.53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB 53"), are recognized as cash flow hedges. Changes in the fair value of cash flow hedge derivative instruments are reported as either deferred cash flow hedge outflows or inflows of resources on the Statements of Net Position.

Customer Deposits

Utilities accrues a liability for all amounts deposited by customers as security for the payment of bills.

Compensated Absences

Utilities' employees earn vacation and sick leave in varying amounts. The amount of accumulated, unpaid vacation at year end is accrued and reported on the Statements of Net Position. Sick leave benefits which are anticipated to result in payments upon retirement are also accrued and reported on the Statements of Net Position.

Customer Advances for Construction

Utilities accrues a liability for advances from customers for construction which are to be refunded either wholly or in part.

Long-Term Obligations

Bond premiums and discounts are amortized over the life of the bond issues using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Additionally, any difference between the carrying amount of redeemed or defeased debt and its reacquisition price is deferred and amortized to interest expense using the straight-line method over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Municipal Solid Waste Landfill Closure and Postclosure Care Costs

Utilities accrues a liability for solid waste landfill closure and postclosure care costs. The liability is determined by multiplying the closure and postclosure care costs in current dollars by the percent capacity of the landfill used. Every five years, Utilities performs an independent assessment of postclosure landfill cost estimates and adjusts liabilities and expense recognition for any material differences. The last independent assessment was performed in 2018.

PENSIONS

Utilities participates in the Local Government Division Trust Fund ("LGDTF"), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to and deductions from the fiduciary net position of the LGDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. The bill was signed into law by Governor Hickenlooper on June 4, 2018. Some, but not all, of these changes were in effect as of December 31, 2020 and 2019. A full copy of the bill can be found online at www.leg.colorado.gov.

DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT PLANS

Utilities participates in the Health Care Trust Fund ("HCTF"), a cost-sharing multiple-employer defined benefit OPEB fund administered by PERA. The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the HCTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefits paid on behalf of health care participants are recognized when due and/or payable in accordance with the benefit terms. Investments are reported at fair value.

Utilities administers a single-employer defined benefit OPEB plan that provides health care and life insurance OPEB to retirees that were hired prior to August 1, 1988. Utilities' contribution is determined by the City Council. The total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the single-employer plan have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefits paid on behalf of participants are recognized when due and/or payable in accordance with the benefit terms. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting & Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75").

OTHER LIABILITIES

Utilities recognizes future obligations associated with net insurance reserves of $1,001,927 and $965,252 and unearned revenue of $1,739,853 and $803,161 as of December 31, 2020 and 2019, respectively.

Effective June 26, 2017, Utilities signed an amendment to modify the payment structure of an existing contractual service agreement. As of December 31, 2020 and 2019, Utilities recognized a liability of $10,770,187 and $8,033,202, respectively, for future payments due under this agreement.

NET POSITION

Net Investment in Capital Assets - This component of net position consists of capital assets net of accumulated depreciation and amortization, reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted - This component of net position consists of external constraints placed on net position use imposed by creditors (such as through debt covenants), contributors, law, regulations of other governments, constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of amounts that do not meet the definition of “restricted” or “net investment in capital assets.” When an expense is incurred for purposes for which both restricted and unrestricted net position are available, it is Utilities’ policy to use a combination of restricted resources and unrestricted resources as they are needed.

REVENUES AND EXPENSES

Utilities distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering services in connection with Utilities’ principal ongoing operations. The principal operating revenues of Utilities are charges to customers for sales and services. Operating expenses include the cost of sales and services, administration and general expenses and depreciation and amortization of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Operating revenues are comprised of the following for the years ended December 31:

	2020		2019	
	Amount	Percent	Amount	Percent
	(in thousands)			
Electric	$ 461,575	51.2 %	$ 466,456	51.3 %
Streetlight	4,075	0.5	4,075	0.4
Gas	142,170	15.8	166,227	18.3
Water	221,063	24.5	201,701	22.2
Wastewater	70,106	7.8	69,195	7.6
Products and services	1,790	0.2	1,870	0.2
Total	$ 900,779	100.0 %	$ 909,524	100.0 %
Less: Interdepartmental sales	(16,427)		(16,498)	
Total Operating Revenues	$ 884,352		$ 893,026	

CAPITAL CONTRIBUTIONS

Cash and capital assets are contributed to Utilities from customers, the City or external parties. The value of capital contributed to Utilities is reported as revenue on the Statements of Revenues, Expenses and Changes in Net Position.

NOTE 3 - DEPOSITS AND INVESTMENTS

The Federal Deposit Insurance Corporation standard insurance amount is $250,000 per depositor, per insured bank, for each account ownership category. Coverage includes checking and savings accounts (interest bearing and noninterest bearing).

DEPOSITS

The Colorado Public Deposit Protection Act requires that financial institutions pledge a single institution pool of collateral against all the uninsured public deposits it holds and the fair value of the securities in the pool is required to be equal to or greater than 102.0% of the financial institution’s total uninsured public deposits.

As of December 31, 2020, the carrying amount of Utilities' cash deposits was $102,148,337. Petty cash was $7,900 and the bank balance was $110,930,700. A portion of the bank balance in the amount of $588,863 was covered by Federal depository insurance and $110,341,837 was collateralized as required by Colorado Statutes.

As of December 31, 2019, the carrying amount of Utilities' cash deposits was $126,000,360. Petty cash was $7,900 and the bank balance was $132,497,296. A portion of the bank balance in the amount of $7,223,560 was covered by Federal depository insurance and $125,273,735 was collateralized as required by Colorado Statutes.

INVESTMENTS

Utilities' investment policy is dictated by the Bond Ordinances for individual issues. These Bond Ordinances require Utilities to establish and maintain certain restricted investment funds, including unrestricted funds and reserve funds. Utilities is authorized to invest in any securities or other instruments permitted as investments under the laws of the State. Utilities' investments are subject to interest rate, credit, concentration of credit and custodial credit risks as described below.

Interest Rate Risk - The risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting exposure to fair value losses arising from rising interest rates, Utilities' practice generally limits investments of unrestricted funds to maturities of two years or less.

Utilities' investment balances as of December 31:

	2020		2019	
	Fair Value	Weighted Average Maturity in Years	Fair Value	Weighted Average Maturity in Years
	(in thousands)			
U.S. Treasury Notes	$ 52,234	0.50	$ 107,690	0.93
U.S. Government Agency Securities	56,403	0.69	104,556	0.83
Repurchase Agreements	-	0.00	4,507	0.00
Local Government Investment Pools	262,275	0.00	19,664	0.00
Total Investments	370,912		236,417	
Portfolio Weighted Average Maturity		0.60		0.88
Reconciliation to Total Cash and Investments				
Add:				
Cash on Hand and in Banks	72,456		107,208	
Cash with Fiscal Agent	29,700		18,800	
Total Cash and Investments	$ 473,068		$ 362,425	

Credit Risk - The risk that an issuer or other counterparty to an investment will not fulfill its obligation. Pursuant to Utilities' Financial Risk Management Policy, all counterparties in swap or other financial product agreements with Utilities must have a minimum long-term credit rating in the "A-" category issued by at least one major credit rating agency at the time of execution of such swap or financial products agreement; though, there is no requirement that such a rating be maintained throughout the life of the financial products agreement. In the alternative, a counterparty must provide a guarantee, swap surety, or other form of credit enhancement such that its enhanced creditworthiness is in at least the "A-" category at the time of execution of such swap or financial products agreement.

As of December 31, 2019, Utilities invested $4,507,244 in repurchase agreements. Underlying investments related to the repurchase agreements were in U.S. Agency Securities and other government sponsored enterprises which carry an implied “AAA” credit rating. As of December 31, 2020, Utilities did not have investments in repurchase agreements.

Utilities has investments in two local government investment pools, Colorado Surplus Asset Fund Trust (“CSAFE”) and ColoTrust. These local government investment pools operate similarly to money market funds. They pool the funds of participating local governments and invest in various securities as permitted under state law. Both CSAFE and ColoTrust were established pursuant to Part 7 of Article 75 of Title 24 of the Colorado Revised Statutes.

As of December 31, 2020, Utilities invested $180,906,138 in the ColoTrust PLUS+ fund (“PLUS+”). PLUS+ is marked-to-market daily and seeks to maintain a stable net asset value (“NAV”) of $1.00 per share. The fair value of the position in the pool is the same as the value of the pool shares. The designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Securities settle through the Federal Reserve Bank (“Fed”) but are held at the custodial bank. Most investments in PLUS+ trade/settle through the Depository Trust Company (“DTC”) rather than the Fed, as the DTC trades and settles most commercial paper. The custodian’s internal records identify the investments owned by the fund. Investments of the fund consist of U.S. Treasury securities, Federal instrumentality securities, agency securities, repurchase agreements, tri-party repurchase agreements, collateralized bank deposits and commercial paper. The Repurchase Agreements between ColoTrust and the various approved counterparties require that the aggregate market value of all purchased securities from any counterparty be overcollateralized by at least 102.0% of the purchase price. Collateralized bank deposits are collateralized at 102.0% of fair market value under the provisions of the Public Depository Protection Act. As of December 31, 2019, Utilities did not have investments in ColoTrust.

As of December 31, 2020, Utilities invested $81,368,678 in the CSAFE Core Fund. The CSAFE Core fund seeks to maintain a stable NAV of $2.00 per share, and the investment guidelines limit the weighted average maturity (“WAM”) at 180 days. The fair value of the position in the pool is the same as the value of the pool shares. The designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned by the funds are held by the Fed in the account maintained for the custodial bank. The custodian’s internal records identify the investments owned by the fund. The fund invests in highly rated securities, including U.S. Treasury and U.S. government agency securities, commercial paper and corporate bonds. Other securities permitted by the funds’ investment policies include municipal securities, repurchase agreements and shares in certain money market funds. Any funds left in CSAFE's bank checking account during the day or overnight are collateralized at 102.0% of fair market value under the provisions of the Public Depository Protection Act. The remaining deposits are swept by the bank around mid-day into the trust where the participants’ deposits are collateralized 100.0% by the underlying investments.

As of December 31, 2019, Utilities invested $19,663,804 in the CSAFE Cash Fund. The CSAFE Cash fund seeks to maintain a stable NAV of $1.00 per share and the investment guidelines limit the weighted average maturity (“WAM”) at 60 days. Additionally, the Cash fund operates in conformity with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* which requires the fund to maintain 10% overnight and 30% 5-day business liquidity. The fair value of the position in the pool is the same as the value of the pool shares. The designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned by the pool are held by the Fed in the account maintained for the custodial bank. The custodian’s internal records identify the investments owned by the pool. Investments of the pool consist of securities of the U.S. Treasury, U.S. Agencies, Primary Dealer Repurchase Agreements and Colorado Depositories in which the deposits are collateralized at 102.0% of fair value under the provisions of the Public Depository Protection Act.

Utilities' investment ratings from Moody's Investor Services ("Moody's"), Standard & Poor's ("S&P") and Fitch Ratings ("Fitch") at December 31:

Investment Type	Moody's		S&P		Fitch	
	2020	2019	2020	2019	2020	2019
U.S. Govt Agency Securities	Aaa	Aaa	AA+	AA+	AAA	AAA
Local Government Investment Pools						
ColoTrust PLUS+ Fund	Not Rated	Not Rated	AAAm	AAAm	Not Rated	Not Rated
CSAFE Cash Fund	Not Rated	Not Rated	AAAm	AAAm	Not Rated	Not Rated
CSAFE Core Fund	Not Rated	Not Rated	Not Rated	Not Rated	AAAf	AAAf

Concentration of Credit Risk - The risk of loss attributed to the magnitude of a government's investment in a single issuer. Utilities, as an enterprise of a municipal government, places no limit on the amount that may be invested in a single issuer.

As of December 31, 2020, Utilities was invested in the following:

Investments	Amount (in thousands)	% of Total
Federal Home Loan Mortgage Corporation	$ 2,181	2.0 %
Federal Farm Credit Bureau	10,114	9.3
Federal National Mortgage Association	5,033	4.6
Federal Home Loan Bank	39,075	36.0

As of December 31, 2019, Utilities was invested in the following:

Investments	Amount (in thousands)	% of Total
Federal Home Loan Mortgage Corporation	$ 10,561	4.5 %
Federal Farm Credit Bureau	26,505	11.2
Federal National Mortgage Association	14,793	6.3
Federal Home Loan Bank	52,697	22.3
Bayerische Landesbank Repurchase Agreement	4,507	1.9

Custodial Credit Risk - The risk that, in the event of a bank failure, Utilities' deposits may not be returned. Utilities does not have any investments that are exposed to custodial credit risk.

Total Deposits and Investments - The deposits and investments reconcile to Cash and cash equivalents and Investments reported on the Statements of Net Position as of December 31, 2020:

	Cash and Cash Equivalents		Investments	
	Unrestricted	Restricted	Unrestricted	Restricted
	(in thousands)			
Deposits	$ 46,280	$ 55,868	$ -	$ -
Petty Cash	8	-	-	-
Investments				
U.S. Treasury Notes	-	-	45,276	6,958
U.S. Government Agency Securities	-	-	45,548	10,855
Local Government Investment Pools	152,152	110,123	-	-
Total	$ 198,440	$ 165,991	$ 90,824	$ 17,813

The deposits and investments reconcile to Cash and cash equivalents and Investments reported on the Statements of Net Position as of December 31, 2019:

	Cash and Cash Equivalents		Investments	
	Unrestricted	Restricted	Unrestricted	Restricted
	(in thousands)			
Deposits	$ 63,255	$ 62,746	$ -	$ -
Petty Cash	8	-	-	-
Investments				
Repurchase Agreements	-	4,507	-	-
U.S. Treasury Notes	-	-	100,087	7,603
U.S. Government Agency Securities	-	-	75,440	29,116
Local Government Investment Pools	-	19,664	-	-
Total	$ 63,263	$ 86,917	$ 175,527	$ 36,719

The amount of unrealized gain on investments included in Investment income on the Statements of Revenues, Expenses and Changes in Net Position for the years ended December 31, 2020 and 2019 was $269,028 and $1,260,965 respectively.

NOTE 4 - FAIR VALUE MEASUREMENT

Utilities discloses assets and liabilities in accordance with GASB Statement No. 72, *Fair Value Measurement & Application* ("GASB 72"), which establishes general principles for measuring fair value, provides additional fair value application guidance and enhances disclosures about fair value measurements.

GASB 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique. As a basis for considering market participant assumptions in fair value measurements, GASB 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date. Examples include U.S. Treasury securities and equity securities from active markets. The hierarchy gives the highest priority to Level 1 inputs.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for an asset or liability either directly or indirectly. Examples include government agency securities and derivative instruments valued using prices for similar locations or products on published exchanges.
- Level 3 inputs are unobservable inputs for an asset or liability.

The following valuation methods were used for Utilities' recurring fair value measurements as of December 31, 2020 and 2019:

- Repurchase agreements classified in Level 1 of the fair value hierarchy are valued as cash and cash equivalents.
- U.S. Treasury Notes and Agency Notes classified in Level 2 of the fair value hierarchy are valued using the following standard inputs, listed in approximate order of priority for use, when available: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids and offers and reference data including market research publications.
- Derivative instruments classified in Level 2 of the fair value hierarchy are valued using valuations provided by Stifel, a third-party valuation service provider. The fair values of the interest rate derivative instruments are based on present value of their estimated future cash flows and account for counterparty nonperformance risk, see Note 6.

Utilities has the following recurring fair value measurements as of December 31:

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
		(in thousands)		
Assets				
Investments - unrestricted				
U.S. Treasury Notes	$ -	$ 45,276	$ -	$ 45,276
Agency Notes	-	45,548	-	45,548
Total Investments - unrestricted	$ -	$ 90,824	$ -	$ 90,824
Investments - restricted				
U.S. Treasury Notes	$ -	$ 6,958	$ -	$ 6,958
Agency Notes	-	10,855	-	10,855
Total Investments - restricted	$ -	$ 17,813	$ -	$ 17,813
Liabilities				
Derivative instruments	$ -	$ 121,371	$ -	$ 121,371

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
		(in thousands)		
Assets				
Investments - unrestricted				
U.S. Treasury Notes	$ -	$ 100,086	$ -	$ 100,086
Agency Notes	-	75,441	-	75,441
Total Investments - unrestricted	$ -	$ 175,527	$ -	$ 175,527
Repurchase agreements	$ 4,507	$ -	$ -	$ 4,507
Investments - restricted				
U.S. Treasury Notes	$ -	$ 7,604	$ -	$ 7,604
Agency Notes	-	29,115	-	29,115
Total Investments - restricted	$ -	$ 36,719	$ -	$ 36,719
Liabilities				
Derivative instruments	$ -	$ 100,410	$ -	$ 100,410

NOTE 5 - CAPITAL ASSETS

SUMMARY OF CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION AND AMORTIZATION

Summary for the year ended December 31, 2020:

	Beginning Balance	Additions	Deletions	Ending Balance
		(in thousands)		
Plant in Service				
Non-Depreciable Capital Assets				
Land	$ 224,071	$ 1,774	$ (15,643)	$ 210,202
Intangible assets				
Land rights	37,699	2,700	-	40,399
Other intangibles	889	-	-	889
Total Non-Depreciable Capital Assets	262,659	4,474	(15,643)	251,490
Depreciable Capital Assets				
Electric	2,340,792	75,060	(288,332)	2,127,520
Streetlight	49,960	1,723	(46)	51,637
Gas	397,316	21,598	(170)	418,744
Water and Wastewater	3,031,139	101,409	(1,886)	3,130,662
Common	324,191	4,806	(440)	328,557
Intangible assets				
Software	54,969	1,272	(188)	56,053
Land rights	44	-	-	44
Other intangibles	26,167	-	-	26,167
Completed construction not classified	102,744	103,872	(102,744)	103,872
Total Depreciable Capital Assets	6,327,322	309,740	(393,806)	6,243,256
Total Plant in Service	6,589,981	314,214	(409,449)	6,494,746
Accumulated Depreciation and Amortization				
Electric	(1,313,407)	(76,352)	43,031	(1,346,728)
Streetlight	(32,182)	(1,418)	32	(33,568)
Gas	(127,930)	(7,716)	166	(135,480)
Water and Wastewater	(895,843)	(62,595)	1,348	(957,090)
Common	(203,652)	(6,909)	396	(210,165)
Intangible assets				
Software	(51,638)	(1,971)	70	(53,539)
Land rights	(15)	(1)	-	(16)
Other intangibles	(1,744)	(524)	-	(2,268)
Completed construction not classified	(4,073)	(6,370)	4,073	(6,370)
Total Accumulated Depreciation and Amortization	(2,630,484)	(163,856)	49,116	(2,745,224)
Total Plant in Service (net of Accumulated Depreciation and Amortization)	3,959,497	150,358	(360,333)	3,749,522
Construction work in progress	148,990	197,225	(185,236)	160,979
Total Capital Assets (net of Accumulated Depreciation and Amortization)	$ 4,108,487	$ 347,583	$ (545,569)	$ 3,910,501

Summary for the year ended December 31, 2019:

	Beginning Balance	Additions	Deletions	Ending Balance
		(in thousands)		
Plant in Service				
Non-Depreciable Capital Assets				
Land	$ 199,905	$ 27,699	$ (3,533)	$ 224,071
Intangible assets				
Land rights	34,134	3,565	-	37,699
Other intangibles	889	-	-	889
Total Non-Depreciable Capital Assets	234,928	31,264	(3,533)	262,659
Depreciable Capital Assets				
Electric	2,287,709	75,008	(21,925)	2,340,792
Streetlight	48,436	1,654	(130)	49,960
Gas	374,576	23,543	(803)	397,316
Water and Wastewater	2,967,326	75,680	(11,867)	3,031,139
Common	322,560	2,262	(631)	324,191
Intangible assets				
Software	54,148	821	-	54,969
Land rights	44	-	-	44
Other intangibles	26,167	-	-	26,167
Completed construction not classified	84,641	102,744	(84,641)	102,744
Total Depreciable Capital Assets	6,165,607	281,712	(119,997)	6,327,322
Total Plant in Service	6,400,535	312,976	(123,530)	6,589,981
Accumulated Depreciation and Amortization				
Electric	(1,241,488)	(82,530)	10,611	(1,313,407)
Streetlight	(30,800)	(1,478)	96	(32,182)
Gas	(121,175)	(7,550)	795	(127,930)
Water and Wastewater	(839,885)	(59,732)	3,774	(895,843)
Common	(197,485)	(6,722)	555	(203,652)
Intangible assets				
Software	(49,475)	(2,163)	-	(51,638)
Land rights	(13)	(2)	-	(15)
Other intangibles	(1,221)	(523)	-	(1,744)
Completed construction not classified	(2,976)	(4,073)	2,976	(4,073)
Total Accumulated Depreciation and Amortization	(2,484,518)	(164,773)	18,807	(2,630,484)
Total Plant in Service (net of Accumulated Depreciation and Amortization)	3,916,017	148,203	(104,723)	3,959,497
Construction work in progress	155,993	182,994	(189,997)	148,990
Total Capital Assets (net of Accumulated Depreciation and Amortization)	$ 4,072,010	$ 331,197	$ (294,720)	$ 4,108,487

SPECIAL ITEMS

Decommissioning of Power Plants - In June 2020, the Utilities Board voted to approve an integrated resource plan that commits Utilities to providing cost-effective, resilient and environmentally sustainable power. The plan calls for grid modernization, integration of more cost-effective renewable energy and incorporation of new technologies like energy storage. It allows Utilities to achieve an 80.0% carbon reduction by 2030 and included a decision to decommission Martin Drake Power Plant ("Drake") no later than December 31, 2022, Ray Nixon Power Plant Unit 1 ("Nixon 1") no later than December 31, 2029 and Birdsall Power Plant ("Birdsall") no later than December 31, 2034. This further accelerated Drake's decommission date from the previous decision by the Utilities Board in November 2015 to close and decommission Drake no later than 2035. Drake Unit 5 was fully decommissioned in 2016.

As a result of the Utilities Board's decision to decommission Drake, Nixon 1 and Birdsall, Utilities determined the assets related to the decommissioning power plants were impaired as of December 31, 2020 and recorded a loss as a Special item on the Statements of Revenues, Expenses and Changes in Net Position.

Transfer of Operations - In November 2020, Utilities took over Cascade Metropolitan District No. 1's water system ("Cascade Water System"). Utilities recorded the Cascade Water System assets at net book value as a Special item on the Statements of Revenues, Expenses and Changes in Net Position in accordance with GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*.

Special items on the Statements of Revenues, Expenses and Changes in Net Position at December 31, 2020:

	Special Items (in thousands)
Drake Power Plant	$ (184,321)
Nixon Power Plant Unit 1	(48,426)
Birdsall Power Plant	(742)
Total Power Plant Impairment	(233,489)
Cascade Water System	5,394
Total Special Items	$ (228,095)

NOTE 6 - DERIVATIVE INSTRUMENTS

Utilities' financial derivative instruments are acquired with the objective of effectively hedging expected cash flows. Interest rate hedges that are deemed effective by applying methods of evaluating effectiveness pursuant to GASB 53 are recognized as cash flow hedges. Financial derivative instruments that do not meet the effectiveness criteria are classified as investment derivative instruments. Changes in the fair value of cash flow hedge derivative instruments are reported as either Deferred Outflows or Inflows of Resources on the Statements of Net Position. Interest rate hedges that are deemed ineffective are recognized as standalone investment derivative instruments. The change in the fair value of investment derivative instruments is recognized as Nonoperating Revenues (Expenses) on the Statements of Revenues, Expenses and Changes in Net Position.

Utilities has interest rate hedges based on both the Securities Industry and Financial Markets Association ("SIFMA") index and the London Interbank Offered Rate ("LIBOR") index. Historically, Utilities' interest rate derivative instruments based on 68.0% of 1-month LIBOR were classified as cash flow hedges. As of December 31, 2013, these LIBOR-based derivative instruments are no longer effective pursuant to GASB 53 hedge effectiveness standards and are considered investment derivative instruments.

Utilities values interest rate derivative instruments based on valuations provided by Stifel, a third-party valuation service provider for 2020 and 2019. The fair values of the interest rate derivative instruments are based on present value of their estimated future cash flows and account for the risk of nonperformance.

SUMMARY OF DERIVATIVE INSTRUMENTS

The fair value and notional amount of derivative instruments outstanding at December 31, 2020, classified by type and changes in fair value of such derivative instruments for the year then ended:

	Changes in Fair Value		Fair Value		
	Classification	Amount	Classification	Amount	Notional
		(in thousands)			
Cash Flow Hedges					
Interest Rate Swaps	Deferred outflows	$ (7,346)	Derivative instruments	$ (37,986)	$ 111,440
Total Cash Flow Hedges		$ (7,346)		$ (37,986)	
Investment Derivative Instruments					
Interest Rate Swaps	Derivative loss	$ (13,615)	Derivative instruments	$ (83,385)	$ 251,620
Total Investment Derivative Instruments		$ (13,615)		$ (83,385)	

The fair value and notional amount of derivative instruments outstanding at December 31, 2019, classified by type and changes in fair value of such derivative instruments for the year then ended:

	Changes in Fair Value		Fair Value		
	Classification	Amount	Classification	Amount	Notional
		(in thousands)			
Cash Flow Hedges					
Interest Rate Swaps	Deferred outflows	$ (4,290)	Derivative instruments	$ (30,640)	$ 116,010
Total Cash Flow Hedges		$ (4,290)		$ (30,640)	
Investment Derivative Instruments					
Interest Rate Swaps	Derivative loss	$ (11,365)	Derivative instruments	$ (69,770)	$ 259,535
Total Investment Derivative Instruments		$ (11,365)		$ (69,770)	

Utilities employs interest rate swap derivative instruments that are designed to synthetically fix the cash flows on Variable Rate Demand Obligation bonds ("VRDO"). The variable rate received on the interest rate swaps is intended to offset the variable rate being paid on the obligations so that the fixed rate of the swap is essentially the effective rate incurred by Utilities.

Summary of scheduled projected future cash flows for interest rate derivative instruments as of December 31, 2020:

December 31,	Projected Future Cash Flows In/(Out) for Hedging Derivatives Instruments (in thousands)
2021	$ (15,141)
2022	(14,605)
2023	(14,043)
2024	(13,453)
2025	(12,837)
2026-2030	(48,066)
2031-2035	(21,963)
2036-2040	(4,592)
2041	(92)
Total	$ (144,792)

Summary of Utilities' pay-fixed interest rate swap agreements outstanding as of December 31, 2020:

	Notional Amount (in thousands)	Effective Date	Maturity Date	Trade Details	Counterparty
Cash Flow Hedges					
2005A SIFMA Swap	$ 55,370	09/15/05	11/01/35	Pay 4.7099%; receive SIFMA index	Bank of America, N.A.
2005A SIFMA Swap	18,600	09/15/05	11/01/35	Pay 4.7099%; receive SIFMA index	J. Aron & Company
2008A SIFMA Swap	37,470	09/12/08	11/01/38	Pay 4.2686%; receive SIFMA index	Bank of America, N.A.
Investment Derivatives Instruments					
2005A SIFMA Swap	430	09/15/05	11/01/35	Pay 4.7099%; receive SIFMA index	Bank of America, N.A.
2006B New Money LIBOR Swap	23,600	09/14/06	11/01/36	Pay 4.1185%; receive 68% of LIBOR	JPMorgan Chase Bank, N.A.
2006B New Money LIBOR Swap	35,400	09/14/06	11/01/36	Pay 4.1185%; receive 68% of LIBOR	Morgan Stanley Capital Services, Inc.
2007A New Money LIBOR Swap	33,258	09/13/07	11/01/37	Pay 3.1980%; receive 68% of LIBOR	J. Aron & Company
2007A New Money LIBOR Swap	22,172	09/13/07	11/01/37	Pay 3.1980%; receive 68% of LIBOR	Morgan Stanley Capital Services, Inc.
2009C LIBOR Swap (2012 Novation)	56,725	10/01/09	11/01/28	Pay 5.4750%; receive 68% of LIBOR	Wells Fargo Bank, N.A.
2010C LIBOR Swap	39,370	10/26/10	11/01/40	Pay 3.8807%; receive 68% of LIBOR	Morgan Stanley Capital Services, Inc.
2012A LIBOR Swap	40,665	03/15/12	11/01/41	Pay 4.0242%; receive 68% of LIBOR	Morgan Stanley Capital Services, Inc.
Total Notional Amount for Interest Rate Swaps	$ 363,060				

2005A SIFMA Swap - During the fourth quarter 2012, it was discovered that in 2008, Utilities redeemed a portion of its 2005A variable rate bond series through the issuance of the 2008D Clean Renewable Energy Bonds. This transaction created an immaterial difference between the notional size of the bond issuance and the interest rate swap hedge. The overhedged portion of the swap has therefore been declared an investment derivative instrument.

RISK

Utilities routinely monitors and manages risks in the areas of credit, interest rate and associated basis, termination, rollover, market access and foreign currency risks. These risks are discussed in detail below.

Credit Risk - The exposure resulting when the counterparty is unable or unwilling to fulfill its present and future financial obligations. Each of Utilities' interest rate cash flow and investment derivative instruments are held with various counterparties of high credit quality. Utilities views counterparty credit risks that may arise through interest rate derivative instrument transactions as similar between cash flow hedges and investment derivative instruments.

Long-term counterparty credit ratings from Moody's and S&P at December 31:

	Credit Rating	
Counterparty	2020	2019
J. Aron & Co.	A3 / BBB+	A3 / BBB+
JPMorgan Chase Bank, N.A.	Aa2 / A+	Aa2 / A+
Bank of America, N.A.	Aa2 / A+	Aa2 / A+
Morgan Stanley Capital Services, Inc.	A2 / BBB+	A3 / BBB+
Wells Fargo Bank, N.A.	Aa2 / A+	Aa2 / A+

The Financial Risk Management Plan requires that Utilities' counterparties to financial instruments be on an approved counterparty list. To be on the interest rate counterparty transaction list, at the time of transaction execution, counterparties must have a minimum credit rating in the "A-" category by at least one of the major credit rating agencies previously listed or a counterparty shall provide a guarantee, swap surety, or other form of credit enhancement such that its creditworthiness is of an "A-" category equivalent. Each counterparty must also have a demonstrated record of successfully executing swap transactions and shall have a minimum capitalization of at least $250.0 million.

The Energy Risk Management Plan requires that Utilities' counterparties to commodity transactions be on an approved counterparty list. To be on this list, counterparties must have the necessary contracts in place for the commodity being transacted and have adequate credit or credit facilities in place to cover assumed transactions. The Energy Risk Management Plan limits the amount of counterparty credit exposure according to the counterparty's credit rating. At December 31, 2020 and 2019, Utilities has no forward exposure to energy financial commodity transactions.

It is Utilities' policy to require collateral posting provisions for all counterparties involved in its non-exchange-traded derivative instrument transactions. The collateral posted by counterparties is governed by ISDA agreements with collateral threshold limits as specified in each agreement. As the mark to market value of a fixed price financial derivative instrument held by Utilities decreases relative to market, Utilities may be obligated to post collateral with the applicable counterparty. Conversely, as the mark to market value of a fixed price financial derivative instrument agreement or call option increases, Utilities' counterparties may be required to post collateral.

At December 31, 2020 and 2019, Utilities has posted approximately $29.7 million and $18.8 million, respectively, in collateral with various counterparties to the swap agreements. Utilities' aggregate fair value of derivative instruments as of December 31, 2020 was approximately ($121.4) million compared to ($100.4) million at the end of 2019.

The combined fair value of all derivative instruments, net of collateral postings, as of December 31, 2020 and 2019 was approximately ($91.7) million and ($81.6) million, respectively.

Collateral postings represent the initial amount that Utilities would be required to pay in the event counterparties failed due to a credit default event. Collateral posted is presented as restricted cash and impacts Utilities' cash reserves and liquidity. In the event of a failure of all counterparties due to a credit default, Utilities anticipates the full value of the collateral posting would be liquidated on behalf of secured creditors, thereby reducing actual cash balances and liquidity by the value of the collateral posting. A credit default by all counterparties could lead to additional cash requirements called by secured creditors up to the net liability of the combined derivative instrument positions.

The impact of a future credit default on Utilities is dependent on market conditions that exist at the time of the event. As a result, the impact on Utilities' cash and liquidity position could be negative or positive. In consideration of this uncertainty and to minimize the impact of such an event on liquidity, as of December 31, 2020 and 2019, Utilities has total lines of credit available in the amount of $75.0 million and $60.0 million, respectively. Utilities also closely monitors the creditworthiness of all existing counterparties and awards future business based on creditworthiness and collateral positions existing at the time of the transaction.

Interest Rate Risk - The risk that changes in market interest rates will adversely affect Utilities' anticipated cash flows. Utilities is exposed to interest rate risk on variable rate debt. Utilities utilizes fixed price swaps to offset cash flow exposures to a portion of the variable rate debt. Utilities receives fixed rate swap payments against VRDOs based on SIFMA and LIBOR swap indices.

Basis Risk - The risk that arises when variable rates or prices of a derivative instrument and a hedged item are based on different reference rates. Utilities is exposed to basis risk on pay-fixed interest rate swap hedging derivative instruments because the variable rate payments received by Utilities on these hedging derivative instruments are based on a rate or index other than interest rates. Utilities pays on hedged variable rate debt, which is generally remarketed every 7 days. As of December 31, 2020, the weighted average interest rate on Utilities' variable rate debt was 0.087%, the SIFMA swap index rate was 0.09%, while 68.0% of the LIBOR was 0.0978%. As of December 31, 2019, the weighted average interest rate on Utilities' variable rate debt was 1.68%, the SIFMA swap index rate was 1.61%, while 68.0% of the LIBOR was 1.20%.

Termination Risk - The risk that a derivative instrument's unscheduled end will affect Utilities' asset and liability strategy or will present Utilities with potentially unscheduled termination payments to the counterparty. Utilities or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract or if both parties agree to terminate, or "close." If at the time of termination a hedging derivative instrument is in a liability position, Utilities would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

Rollover Risk - The risk that a derivative instrument associated with a hedged item does not extend to the maturity of that hedged item. Utilities is exposed to rollover risk on hedging instruments of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, or if a counterparty exercises a termination option, Utilities will be re-exposed to the risks being hedged by the hedging derivative instrument. Utilities has no exposure to rollover risk with current interest rate derivative instruments.

Market Access Risk - The risk that Utilities will not be able to enter credit markets or that credit will become more costly. A strong credit rating tends to broaden an entity's credit market access and bondholder base while achieving lower cost funding. As of December 2020, Utilities' long-term credit ratings are "Aa2/AA+/No Rating" by Moody's, S&P and Fitch, respectively. As of December 2019, Utilities' long-term credit ratings are "Aa2/AA+/AA" by Moody's, S&P and Fitch, respectively.

Foreign Currency Risk - The risk that changes in exchange rates will adversely affect the cash flows of a transaction. Utilities has no exposure to foreign currency risk.

NOTE 7 - TOTAL LONG-TERM DEBT

SUMMARY OF SCHEDULED MATURITIES OF TOTAL LONG-TERM DEBT

Revenue Bonds - scheduled maturities as of December 31, 2020:

December 31,	Principal	Interest
	(in thousands)	
2021	$ 89,174	$ 99,108
2022	99,970	94,160
2023	102,590	89,341
2024	102,755	84,312
2025	104,700	79,302
2026-2030	566,560	317,969
2031-2035	376,895	202,339
2036-2040	316,985	115,838
2041-2045	184,665	47,955
2046-2050	98,505	11,978
	$ 2,042,799	$ 1,142,302

Notes and loans from direct borrowings - scheduled maturities as of December 31, 2020:

December 31,	Principal	Interest
	(in thousands)	
2021	$ 431	$ 118
2022	442	107
2023	453	96
2024	465	85
2025	476	73
2026-2030	2,564	180
Total	$ 4,831	$ 659

Summary of Total Long-Term Debt

The following is a summary of the total long-term debt as of December 31, 2020:

Revenue Bonds	Issue Date	Final Maturity	Coupon Rate Ranges	Original Amount of Debt	Outstanding Principal at December 31, 2020
				(in thousands)	
Fixed Rate Tax Exempt Bonds					
Series 2008D	12/08/2008	12/15/2021	1.350%	$ 3,631	$ 259
Series 2011A	09/07/2011	11/15/2033	2.000%-5.000%	167,490	69,685
Series 2012B	05/09/2012	11/15/2043	3.000%-5.000%	108,015	83,925
Series 2012C-1	09/26/2012	11/15/2042	3.000%-5.000%	113,565	45,390
Series 2012C-2	09/26/2012	11/15/2042	3.000%-5.000%	44,105	28,770
Series 2013A	04/15/2013	11/15/2045	1.500%-5.000%	97,580	90,185
Series 2013B-1	10/01/2013	11/15/2043	1.500%-5.000%	58,915	51,080
Series 2013B-2	10/01/2013	11/15/2043	2.000%-5.000%	68,645	59,895
Series 2014A-1	09/25/2014	11/15/2044	4.000%-5.000%	58,515	56,495
Series 2014A-2	09/25/2014	11/15/2044	4.000%-5.000%	53,995	52,170
Series 2015A	10/15/2015	11/15/2048	3.000%-5.000%	82,975	74,170
Series 2017A-1	09/27/2017	11/15/2042	3.000%-5.000%	89,750	87,515
Series 2017A-2	09/27/2017	11/15/2047	2.500%-5.000%	84,340	80,475
Series 2017A-3	09/27/2017	11/15/2023	5.000%	66,090	39,105
Series 2018A-1	07/10/2018	11/15/2026	3.000%-5.000%	125,645	124,345
Series 2018A-2	07/10/2018	11/15/2048	3.000%-5.000%	39,500	38,115
Series 2018A-3	08/21/2018	11/15/2033	5.000%	4,810	4,220
Series 2018A-4	07/10/2018	11/15/2048	4.000%-5.000%	56,860	54,930
Series 2019A	10/24/2019	11/15/2029	5.000%	84,090	84,090
Series 2020A	08/18/2020	11/15/2050	4.000%-5.000%	200,720	198,990
Series 2020B	08/18/2020	11/15/2028	5.000%	50,980	49,675
Series 2020C	08/18/2020	11/15/2050	5.000%	85,440	85,135
Fixed Rate Taxable Bonds					
Series 2009B-2	09/24/2009	11/15/2039	4.949%-5.545%	64,450	62,155
Series 2009D-2	11/17/2009	11/15/2049	4.164%-6.313%	56,750	52,135
Series 2010D-4	12/23/2010	11/15/2040	6.615%	107,260	107,260
Variable Rate Tax Exempt Bonds					
Series 2005A	09/15/2005	11/01/2035	resets weekly	100,000	73,970
Series 2006B	09/14/2006	11/01/2036	resets weekly	75,000	59,000
Series 2007A	09/13/2007	11/01/2037	resets weekly	75,000	55,430
Series 2008A	09/12/2008	11/01/2038	resets weekly	50,000	37,470
Series 2009C	10/01/2009	11/01/2028	resets weekly	66,455	56,725
Series 2010C	10/26/2010	11/01/2040	resets weekly	50,000	39,370
Series 2012A	03/15/2012	11/01/2041	resets weekly	50,000	40,665
Total Revenue Bonds					**$ 2,042,799**

Notes and loans from direct borrowings	Issue Date	Final Maturity	Interest Rate Ranges	Original Amount of Debt	Outstanding Principal at December 31, 2020
				(in thousands)	
Colorado Water Resources & Power Development Authority					
Series 1998B - Clean Water Revenue Bonds	04/01/1998	05/15/2019	3.700%-5.500%	$ 22,204	$ -
Series 2009E - Drinking Water Revolving Fund	04/29/2010	11/01/2030	2.500%	8,600	4,831
Total Notes and Loans Payable					**4,831**
Total Long-Term Debt					**$ 2,047,630**

NOTE 8 - REVENUE BONDS

In August 2020, Utilities issued Utilities System Refunding Revenue Bonds, Series 2020A, and Utilities System Refunding Revenue Bonds (Private Activity/Non-Alternative Minimum Tax), Series 2020B totaling $251,700,000. Series 2020A bonds were used to refund the City's outstanding Utilities System Refunding Revenue Bonds, Series 2009A, Utilities System Revenue Bonds, Series 2010A-1, Taxable Utilities System Improvement Revenue Bonds (Direct Pay Build America Bonds), Series 2010A-2 and Taxable Utilities System Improvement Revenue Bonds (Direct Pay Build America Bonds), Series 2010B-2. Series 2020B bonds were used to refund Utilities System Revenue Bonds (Tax Exempt/Private Activity), Series 2010D-2.

In August 2020, Utilities issued Improvement Revenue bonds, Series 2020C in the amount of $85,440,000. Series 2020C bonds were issued as new money bonds to finance a portion of the costs of a number of general capital improvements to the Utility System.

In 2019, Utilities issued $84,090,000 of Utilities System Refunding Revenue Bonds, Series 2019A, to refund the City's outstanding Variable Rate Demand Utilities System Subordinate Lien Revenue Bonds, Series 2000A.

In 2019, Utilities redeemed all of its unhedged variable rate debt and has approximately 17.8% of total outstanding debt in hedged VRDOs. The individual remarketing agents for the 2005A, 2006B, 2007A, 2008A, 2009C, 2010C and 2012A VRDOs calculate weekly the interest rate to be paid to bondholders by determining the interest rate that would enable the bonds to be remarketed at par plus accrued interest, if any.

Revenue bonds constitute an irrevocable lien, but not necessarily an exclusive lien, upon net pledged revenues pursuant to the Bond Ordinances. All Utilities' revenues net of specified operating expenses are pledged as security for all revenue bonds and loans payable until they are defeased. None of the covenants, agreements, representations and warranties contained in the Ordinance or in the bonds, nor the breach thereof, shall ever impose or shall be construed as imposing any liability, obligation or charge against the City (except the special funds pledged therefore), or against its general credit, or as payable out of its general fund or out of any funds derived from taxation or out of any other revenue source (other than those pledged therefore). The full faith and credit of the City is not pledged for the payment of the amounts due on the bonds or under the Ordinance.

Summary of principal and interest paid and net pledged revenues for the following periods:

	2020	2019
	(in thousands)	
Principal and Interest Paid ("P&I")	$ 196,289	$ 185,983
Net Pledged Revenues	441,731	417,336
P&I % of Net Pledged Revenues	44.4%	44.6%

The bond ordinance provides for certain other covenants, the most significant of which are as follows:

- Utilities is required to ensure charges to the users of the Utility System are sufficient to pay in each fiscal year: an amount equal to the annual operation and maintenance expenses for such fiscal year, an amount equal to 130.0% of both the principal and interest on the bonds and parity bonds then outstanding from the net pledged revenues in that fiscal year and any amounts required to meet then existing deficiencies under a surety agreement or to satisfy covenants under any financial products agreements.
- Utilities is restricted from issuing additional parity bonds unless certain conditions are met.

Utilities’ outstanding revenue bonds contain event of default provisions with possible finance-related consequences. Utilities’ management has evaluated the event of default provisions with possible finance-related consequences and in the opinion of Utilities’ management, the likelihood is remote that these provisions will have a significant effect on Utilities’ financial position or results of operations.

ARBITRAGE REBATE PAYABLE

Section 148 of the Internal Revenue Code requires issuers of most types of tax-exempt bonds to rebate investment earnings in excess of bond yield to the United States Internal Revenue Service in installment payments made at least once every five years, with the final installment made when the last bond in the issue is redeemed.

The most recent arbitrage rebate analysis was completed as of December 31, 2020, by an independent consulting firm. Future computations of the rebate requirement on outstanding bond issues will be calculated annually, with an arbitrage rebate liability recorded for any issues that have a material amount due at the time of calculation.

Utilities’ bond issues do not carry any liability. The 2008A, 2009B, 2009C, 2009D, 2010C, 2010D, 2011A, 2012A, 2012B, 2012C, 2013A, 2013B, 2017A, 2018A, 2019A, 2020A, 2020B and 2020C bond issues will continue to have annual calculations completed until no longer required.

CURRENT REFUNDINGS

The 2020A and 2020B series were issued on August 18, 2020, and the 2019A series was issued on October 24, 2019 to current refund the following:

2020A Current Refunding:

Bonds Refunded	Refunded Amount	Average Interest Rate on Refunded Bonds	Refunded Bonds Cash Flow	Refunded Bonds Cash Flow Period	Refunded Bonds Call Date	Prior Net Cash Flow [1]
2009A	$ 6,875,000	4.738 %	$ 8,238,903	2020-2033	08/18/2020	$ 8,238,903
2010A-1	67,795,000	4.177	76,880,038	2020-2033	08/18/2020	76,880,038
2010A-2	19,410,000	5.395	31,692,497	2020-2040	08/18/2020	26,900,053
2010B-2	168,120,000	5.636	340,818,707	2020-2050	08/18/2020	279,259,962

Bonds Refunded	Issue Amount	Average Interest Rate on New Issue	New Issue Cash Flow
2009A	$ 3,990,000	0.489 %	$ 4,955,213
2010A-1	50,305,000	0.681	62,901,352
2010A-2	14,590,000	0.186	22,608,661
2010B-2	131,835,000	2.494	235,222,117

Bond Refunded	Issue Cash Flow Period	Net Proceeds (2)	Economic Gain (Loss) (3)
2009A	2020-2029	$ 6,960,531	$ 1,392,254
2010A-1	2020-2033	69,262,125	10,327,215
2010A-2	2020-2040	19,910,038	3,382,572
2010B-2	2020-2050	172,657,972	33,225,410

(1) Amounts are net of Build America Bond subsidies and prior receipts.
(2) Net proceeds exclude bond issuance costs and debt service reserve requirements. Net proceeds plus any additional sinking fund monies were used to purchase State and Local Government securities which were placed in an irrevocable trust with an escrow agent to provide for all future debt service on the old bonds. As a result, the old bonds are considered defeased and the refunded bonds have been removed from the Statement of Net assets.
(3) Economic Gain is the net present value of the savings (New Issue Cash Flow minus Prior Net Cash Flow minus Prior funds on hand plus Refunding funds on hand).

2020B Current Refunding:

Bonds Refunded	Refunded Amount	Average Interest Rate on Refunded Bonds	Refunded Bonds Cash Flow	Refunded Bonds Cash Flow Period	Refunded Bonds Call Date	Prior Net Cash Flow (1)
2010D-2	$ 68,500,000	5.000 %	$ 84,826,750	2020-2028	08/18/2020	$ 79,346,750

Bonds Refunded	Issue Amount	Average Interest Rate on New Issue	New Issue Cash Flow
2010D-2	$ 50,980,000	0.493 %	$ 63,200,258

Bond Refunded	Issue Cash Flow Period	Net Proceeds (2)	Economic Gain (Loss) (3)
2010D-2	2020-2028	$ 70,197,105	$ 12,248,111

(1) Amounts are net of prior receipts.
(2) Net proceeds exclude bond issuance costs and debt service reserve requirements. Net proceeds plus any additional sinking fund monies were used to purchase State and Local Government securities which were placed in an irrevocable trust with an escrow agent to provide for all future debt service on the old bonds. As a result, the old bonds are considered defeased and the refunded bonds have been removed from the Statement of Net assets.
(3) Economic Gain is the net present value of the savings (New Issue Cash Flow minus Prior Net Cash Flow minus Prior funds on hand plus Refunding funds on hand).

2019A Current Refunding:

Bonds Refunded	Refunded Amount	Average Interest Rate on Refunded Bonds	Refunded Bonds Cash Flow	Refunded Bonds Cash Flow Period	Refunded Bonds Call Date	Prior Net Cash Flow [1]
2000A	$ 110,000,000	1.600 %	$ 127,634,223	2019-2029	10/24/2019	$ 132,307,594

Bonds Refunded	Issue Amount	Average Interest Rate on New Issue	New Issue Cash Flow
2000A	$ 84,090,000	1.570 %	$ 125,780,263

Bond Refunded	Issue Cash Flow Period	Net Proceeds [2]	Economic Gain (Loss) [3]
2000A	2020-2029	$ 110,031,496	$ 4,225,469

[1] Assumes 35.0 bps for liquidity facility costs and 7.0 bps for remarketing fees.
[2] Net proceeds exclude bond issuance costs and debt service reserve requirements. Net proceeds plus any additional sinking fund monies were used to purchase State and Local Government securities which were placed in an irrevocable trust with an escrow agent to provide for all future debt service on the old bonds. As a result, the old bonds are considered defeased and the refunded bonds have been removed from the Statements of Net Position.
[3] Economic Gain is the net present value of the savings (New Issue Cash Flow minus Prior Net Cash Flow).

REFUNDED BONDS

Utilities has placed proceeds from advance refunding bond issues in irrevocable refunding escrow accounts. The monies deposited in the irrevocable escrow accounts are invested in U.S. Treasury obligations that, together with interest earned thereon, will provide amounts sufficient for payment of all principal and interest on each remaining payment date, either through regular maturities or designated prior redemption dates. In accordance with the provisions of the escrow agreements, Utilities has furnished the escrow agents with certificates from independent certified public accountants as to the adequacy of the earning and principal maturities of the U.S. Treasury obligations to pay the refunded bond issues. Accordingly, the escrow accounts and the refunded bonds are not included in Utilities' Statements of Net Position. As of December 31, 2020 and 2019, Utilities remains contingently liable for the outstanding principal balance of $19,850,000 and $79,380,000 in refunded bonds, respectively.

NOTE 9 - REVOLVING LOAN AGREEMENTS

On September 4, 2019, Utilities amended the Revolving Loan Agreement ("Credit Line") with U.S. Bank National Association dated as of September 8, 2016. On June 1, 2020, Utilities executed a second amendment increasing the available Credit Line from $60.0 million to $75.0 million, and as of December 31, 2020, Utilities may receive advances up to $75.0 million under the Credit Line to fund Utilities' operating needs and normal expenditures including, without limitation, regularly scheduled capital expenses. Utilities' repayment obligations under the Credit Line is limited to the net pledged revenues on a subordinate basis to the parity bonds and certain related obligations. The 2020 Credit Line expires on September 9, 2022. Utilities has entered into agreements similar to this Credit Line over the past several years and to date, Utilities has not drawn on any such agreement.

NOTE 10 - LONG-TERM LIABILITIES

COMMERCIAL PAPER

On November 24, 2015, City Council approved Ordinance 15-83 authorizing the issuance of up to $150.0 million in commercial paper notes ("Series A Notes" and "Series B Notes" collectively the "Notes"). The maximum principal amount of the commercial paper notes which may be outstanding at any time is limited to $75.0 million for each series. In October 2018, Utilities terminated the Irrevocable Transferable Direct-Pay Letters of Credit for the Notes and suspended the commercial paper program. Market conditions will determine if and when the City (on behalf of Utilities) will deliver more commercial paper notes.

CHANGES IN LONG-TERM LIABILITIES

Summary of changes in long-term liabilities as of December 31, 2020:

	Balance January 1, 2020	Additions	Reductions	Balance December 31, 2020	Current Portion
			(in thousands)		
Revenue bonds	$ 2,107,509	$ 337,140	$ 401,850	$ 2,042,799	$ 89,174
Issuance discounts and premiums	171,359	84,044	24,258	231,145	-
Total Bonds Payable	2,278,868	421,184	426,108	2,273,944	89,174
Other Long-term Liabilities					
Customer deposits	3,420	834	559	3,695	-
Notes and loans payable	5,252	-	421	4,831	431
Compensated absences	15,797	24,500	20,867	19,430	13,195
Customer advances for construction	22,576	8,651	12,170	19,057	-
Municipal solid waste landfill closure and postclosure care	4,818	267	-	5,085	-
Derivative instruments	100,410	20,961	-	121,371	-
Pension and OPEB	350,125	11,779	148,345	213,559	-
Other	8,637	2,737	35	11,339	-
Total Other Long-term Liabilities	511,035	69,729	182,397	398,367	13,626
Total Long-term Liabilities	$ 2,789,903	$ 490,913	$ 608,505	$ 2,672,311	$ 102,800

Summary of changes in long-term liabilities as of December 31, 2019:

	Balance January 1, 2019	Additions	Reductions	Balance December 31, 2019	Current Portion
			(in thousands)		
Revenue bonds	$ 2,241,828	$ 84,090	$ 218,409	$ 2,107,509	$ 85,284
Issuance discounts and premiums	156,998	26,540	12,179	171,359	-
Total Bonds Payable	2,398,826	110,630	230,588	2,278,868	85,284
Other Long-term Liabilities					
Customer deposits	3,466	1,694	1,740	3,420	-
Notes and loans payable	7,846	-	2,594	5,252	420
Compensated absences	15,584	19,073	18,860	15,797	9,879
Customer advances for construction	14,933	14,322	6,679	22,576	-
Municipal solid waste landfill closure and postclosure care	4,649	169	-	4,818	-
Derivative instruments	84,755	15,655	-	100,410	-
Pension and OPEB	315,333	90,392	55,600	350,125	-
Other	6,272	2,496	131	8,637	-
Total Other Long-term Liabilities	452,838	143,801	85,604	511,035	10,299
Total Long-term Liabilities	$ 2,851,664	$ 254,431	$ 316,192	$ 2,789,903	$ 95,583

Interest Cost, Expense and Payments

Interest cost to interest expense reconciliation for the years ended December 31:

	2020	2019
	(in thousands)	
Total interest cost	$ 106,701	$ 104,208
Capital interest component	212	83
Amortization of discounts, (premiums) and deferred (gain) loss on refundings	(9,914)	(6,299)
Total Interest Expense	$ 96,999	$ 97,992

Interest cost to interest payments reconciliation for the years ended December 31:

	2020	2019
	(in thousands)	
Total interest cost	$ 106,701	$ 104,208
Accrued interest December 31 of current year	(10,378)	(10,922)
Accrued interest December 31 of prior year	10,922	10,750
Total Interest Payments	$ 107,245	$ 104,036

NOTE 11 - MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

Utilities is subject to the Colorado Department of Public Health and Environment ("CDPHE") regulations which require Utilities to incur closure and postclosure care costs for landfills. In 2020 and 2019, Utilities recognized a liability of $5,084,917 and $4,818,100 respectively, for closure and postclosure care costs based upon landfill capacity used to date. The estimated total current cost of closure and postclosure care to be recognized for Utilities' landfills is $8,264,677 and $7,975,373 for 2020 and 2019, respectively. The average landfill capacity used to date in 2020 and 2019 is 67.7% and 67.9%, respectively. The estimated remaining lives of landfills vary up to a maximum of 66 years. There are no financial assurance requirements or restricted assets for the payment of closure and postclosure care costs. Estimates of closure and postclosure costs are stated in current dollars and shall be adjusted annually for inflation and changes in laws and regulations. The last independent assessment was performed in 2018.

NOTE 12 - DEFINED BENEFIT PENSION PLAN

Eligible employees of Utilities are provided with pensions through the LGDTF, a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes ("C.R.S."), administrative rules set forth in the Code of Colorado Regulations ("C.C.R.") at 8 C.C.R. 1502-1 and applicable provisions of the Federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

PERA provides retirement, disability and survivor benefits. Retirement benefits are determined by the amount of service credit earned, as well as purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713 and 1714.

The lifetime retirement benefit for all eligible retiring employees under the PERA benefit structure is the greater of the:

- Highest average salary multiplied by 2.5% and then multiplied by years of service credit.
- The value of the retiring employee's member contribution account plus a 100.0% match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

In all cases the service retirement benefit is limited to 100.0% of highest average salary and cannot exceed the maximum benefit allowed by Federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50.0% or 100.0% on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether five years of service credit has been obtained and the benefit structure under which contributions were made.

As of December 31, 2019, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S., once certain criteria are met. Pursuant to SB 18-200, there are no annual increases for 2018 and 2019. Thereafter, benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 will receive an annual increase of 1.25% unless adjusted by the automatic adjustment provision (“AAP”) pursuant to C.R.S. § 24-51-413. Benefit recipients under the PERA benefit structure who began eligible employment on or after January 1, 2007 will receive the lessor of an annual increase of 1.25% or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers for the prior calendar year, not to exceed 10.0% of PERA’s Annual Increase Reserve (“AIR”) for the LGDTF. The AAP may raise or lower the aforementioned annual increase by up to 0.25% based on the parameters specified in C.R.S. § 24-51-413.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum twenty years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained and the qualified survivor(s) who will receive the benefits.

Eligible employees and Utilities are required to contribute to the LGDTF at a rate set by Colorado Statute. The contribution requirements are established under C.R.S. § 24-51-401, et seq. and § 24-51-413. The employee contribution rate was 8.0% for the period of January 1, 2019 to June 30, 2020 and was 8.5% for the period of July 1, 2020 to December 31, 2020. The employer contribution requirements for 2020 and 2019 are summarized in the table below:

	July 1, 2020 Through December 31, 2020	January 1, 2019 Through June 30, 2020
Employer Contribution Rate(1)	10.50 %	10.00 %
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f)	(1.02) %	(1.02) %
Amount Apportioned to the LGDTF	9.48 %	8.98 %
Amortization Equalization Disbursement (“AED”) as specified in C.R.S. § 24-51-411	2.20 %	2.20 %
Supplemental Amortization Equalization Disbursement (“SAED”) as specified in C.R.S. § 24-51-411	1.50 %	1.50 %
Total Employer Contribution Rate to the LGDTF	13.18 %	12.68 %

(1) Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Employer contributions are recognized by the LGDTF in the period in which the compensation becomes payable to the member and Utilities is statutorily committed to pay the contributions to the LGDTF. Employer contributions recognized by the LGDTF from Utilities were $22,347,976 and $20,599,217 for the years ended December 31, 2020 and 2019, respectively.

PENSION LIABILITIES, PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

Pension Liabilities - Utilities' proportion of the net pension liability is based on Utilities' contributions to the LGDTF for the calendar years 2019 and 2018 relative to the total contributions of participating employers to the LGDTF. Utilities' pension liabilities are as follows:

December 31,	Measurement Date	Actuarial Valuation Date	Proportionate Share of the Net Pension Liability (in thousands)	Utilities' Proportion of the LGDTF Net Pension Liability	Increase (Decrease) of Utilities' Proportion of the LGDTF Net Pension Liability from Prior Year
2020	12/31/2019	12/31/2018	$ 172,137	23.5 %	(0.8) %
2019	12/31/2018	12/31/2017	305,276	24.3	0.1

Pension Expense - For the years ended December 31, 2020 and 2019, Utilities recognized pension expense of $2,961,295 and ($36,596,894), respectively.

Deferred Outflows of Resources - Utilities reported Deferred Outflows of Resources related to pensions from the following sources as of December 31:

Deferred Outflows of Resources	2020 (in thousands)	2019
Difference between expected and actual experience	$ 11,264	$ 12,765
Changes of assumptions or other inputs	-	-
Net difference between projected and actual earnings on pension plan investments	-	39,756
Changes in proportion and differences between contributions recognized and proportionate share of contributions	470	973
Contributions subsequent to the measurement date	22,348	20,599
Total	$ 34,082	$ 74,093

The $22,347,976 reported as Deferred Outflows of Resources related to pensions reported at December 31, 2020, 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, 2021. The Deferred Outflows of Resources related to pensions of $20,599,217 reported at December 31, 2019, resulting from contributions subsequent to the measurement date, was recognized as a reduction of the net pension liability at December 31, 2020.

Deferred Inflows of Resources - Utilities reported Deferred Inflows of Resources related to pensions from the following sources as of December 31:

Deferred Inflows of Resources	2020 (in thousands)	2019
Net difference between projected and actual earnings on pension plan investments	$ 70,424	$ -
Changes in proportion and differences between contributions recognized and proportionate share of contributions	4,301	982
Total	$ 74,725	$ 982

Other amounts reported as Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions will be recognized in pension expense as follows:

December 31,	Amount (in thousands)
2021	$ (14,953)
2022	(21,014)
2023	(2,994)
2024	(24,030)
Thereafter	-

Actuarial Assumptions - The total pension liability in the actuarial valuations were determined using the following actuarial cost method, actuarial assumptions and other inputs:

Financial statement date	**December 31, 2020**	**December 31, 2019**
Measurement date	December 31, 2019	December 31, 2018
Actuarial valuation date	December 31, 2018	December 31, 2017
Actuarial cost method	Entry age	Entry age
Price inflation	2.40%	2.40%
Real wage growth	1.10%	1.10%
Wage inflation	3.50%	3.50%
Salary increases, including wage inflation	3.50% - 10.45%	3.50% - 10.45%
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.25%	7.25%
Discount rate	7.25%	7.25%
Future post-retirement benefit increases:		
PERA Benefit Structure hired prior to January 1, 2007	1.25% compounded annually	0.00% through 2019 and 1.5% compounded annually, thereafter
PERA Benefit Structure hired after December 31, 2006 (ad hoc, substantively automatic)	Financed by the AIR	Financed by the AIR

Healthy mortality assumptions for active members reflect the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70.0% factor applied to male rates and a 55.0% factor applied to female rates.

Post-retirement non-disabled mortality assumptions reflect the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- Males: Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73.0% factor applied to rates for ages less than 80, a 108.0% factor applied to rates for ages 80 and above and further adjustments for credibility.
- Females: Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78.0% factor applied to rates for ages less than 80, a 109.0% factor applied to rates for ages 80 and above and further adjustments for credibility.

For disabled retirees, the mortality assumption was changed to reflect 90.0% of the RP-2014 Disabled Retiree Mortality Table.

The actuarial assumptions used in the December 31, 2018 valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012 through December 31, 2015, as well as the October 28, 2016 actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016 Board meeting.

Long-term Expected Return - The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analysis was outlined in presentations to PERA's Board on October 28, 2016.

Several factors were considered in evaluating the long-term rate of return assumption for the LGDTF, including long-term historical data, estimates inherent in current market data and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were 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 then adding expected inflation.

As of the most recent adoption of the current long-term expected rate of return by the PERA Board, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation		30 Year Expected Geometric Real Rate of Return	
U.S. Equity - Large Cap	21.20	%	4.30	%
Core Fixed Income	19.32		1.20	
Non U.S. Equity - Developed	18.55		5.20	
Core Real Estate	8.50		4.90	
Private Equity	8.50		6.60	
U.S. Equity - Small Cap	7.42		4.80	
Opportunity Fund	6.00		3.80	
Non U.S. Equity - Emerging	5.83		5.40	
Non U.S. Fixed Income - Developed	1.84		0.60	
High Yield	1.38		4.30	
Cash	1.00		0.20	
Emerging Market Debt	0.46		3.90	
Total	100.00	%		

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%.

Discount Rate - The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.5%.
- Employee contributions were assumed to be made at the current member contribution rates in effect for each year, including the additional 0.5%, resulting from the 2018 AAP assessment, statutorily

recognized July 1, 2019, and effective July 1, 2020. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.

- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law for each year, including the additional 0.5%, resulting from the 2018 AAP assessment, statutorily recognized July 1, 2019, and effective July 1, 2020, Employer contributions also include current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103.0%, at which point, the AED and SAED will each drop 0.5% every year until they are zero. Additionally, estimated employer contributions reflect reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- The projected benefit payments reflect the lowered annual increase cap, from 1.50% to 1.25% resulting from the 2018 AAP assessment, statutorily recognized July 1, 2019, and effective July 1, 2020.
- Benefit payments and contributions were assumed to be made at the middle of the year.

Based on the above assumptions and methods, LGDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25% on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25%. There was no change in the discount rate from the prior measurement date.

Sensitivity of Utilities' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the proportionate share of the net pension liability calculated using the current discount rate, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
		(in thousands)	
2020			
Discount Rate	6.25%	7.25%	8.25%
Proportionate Share of Net Pension Liability	$ 316,202	$ 172,137	$ 50,979
2019			
Discount Rate	6.25%	7.25%	8.25%
Proportionate Share of Net Pension Liability	$ 467,010	$ 305,276	$ 169,970

Pension Plan Fiduciary Net Position - Detailed information about the LGDTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

NOTE 13 - DEFINED CONTRIBUTION PENSION PLAN

VOLUNTARY INVESTMENT PROGRAM

Employees of Utilities that are also members of the LGDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available comprehensive annual financial report which includes additional information on the Voluntary Investment Program. That report can be obtained at www.copera.org/investments/pera-financial-reports.

The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. Employees are immediately vested in their own contributions and investment earnings. The program member contributions from Utilities for the years ending December 31, 2020 and 2019 were $3,622,840 and $3,532,250, respectively.

NOTE 14 - DEFINED BENEFIT OPEB PLANS

HCTF COST-SHARING MULTIPLE-EMPLOYER PLAN

Eligible employees of Utilities are provided with OPEB through the HCTF, a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the C.R.S., as amended, and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of the premium subsidies. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

The HCTF provides a health care premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA health care plans, however, the subsidy is not available if only enrolled in the dental and/or vision plan(s). The health care premium subsidy is based upon the benefit structure under which the member retires and the member's years of service credit.

C.R.S. § 24-51-1202 et seq. specifies the eligibility for enrollment in the health care plans offered by PERA and the amount of the premium subsidy. The law governing a benefit recipient's eligibility for the subsidy and the amount of the subsidy differs slightly depending under which benefit structure the benefits are calculated. All benefit recipients under the PERA benefit structure are eligible for a premium subsidy, if enrolled in a health care plan under PERACare.

Enrollment in the PERACare is voluntary and is available to benefit recipients and their eligible dependents, certain surviving spouses and divorced spouses and guardians, among others. Eligible benefit recipients may enroll in the program upon retirement, upon the occurrence of certain life events, or on an annual basis during an open enrollment period.

The maximum service-based premium subsidy is $230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is $115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The basis for the maximum service-based subsidy, in each case, is for benefit recipients with retirement benefits based on 20 or more years of service credit. There is a 5.0% reduction in the subsidy for each year less than 20. The benefit recipient pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

For benefit recipients who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, C.R.S. § 24-51-1206(4) provides an additional subsidy. According to the Statute, PERA cannot charge premiums to benefit recipients without Medicare Part A that are greater than premiums charged to benefit recipients with Part A for the same plan option, coverage level and service credit. Currently, for each individual PERACare enrollee, the total premium for Medicare coverage is determined assuming plan participants have both Medicare Part A and Part B and the difference in premium cost is paid by the HCTF on behalf of benefit recipients not covered by Medicare Part A.

Pursuant to Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers of the State, School, Local Government and Judicial Divisions are required to contribute at a rate of 1.02% of PERA-includable salary into the HCTF.

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and Utilities is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from Utilities were $1,763,620 and $1,657,035 for the years ended December 31, 2020 and 2019, respectively.

OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPEB Liabilities - Utilities' proportion of the net OPEB liability is based on Utilities' contributions to the HCTF for the calendar years 2019 and 2018 relative to the total contributions of participating employers to the HCTF.

Utilities' OPEB liabilities are as follows:

December 31,	Measurement Date	Actuarial Valuation Date	Proportionate Share of the OPEB Liability (in thousands)	Utilities' Proportion of the HCTF Net OPEB Liability	Increase (Decrease) of Utilities' Proportion of the HCTF Net OPEB Liability from Prior Year
2020	12/31/2019	12/31/2018	$ 20,243	1.8 %	(0.1) %
2019	12/31/2018	12/31/2017	25,620	1.9	0.0

OPEB Expense - For the years ended December 31, 2020 and 2019, Utilities recognized OPEB expense of $914,757 and $1,926,053, respectively.

Deferred Outflows of Resources - Utilities reported Deferred Outflows of Resources related to OPEB from the following sources as of December 31:

Deferred Outflows of Resources	2020	2019
	(in thousands)	
Difference between expected and actual experience	$ 67	$ 93
Changes of assumptions or other inputs	168	180
Net difference between projected and actual earnings on OPEB plan investments	-	147
Changes in proportion and differences between contributions recognized and proportionate share of contributions	33	41
Contributions subsequent to the measurement date	1,764	1,657
Total	$ 2,032	$ 2,118

The $1,763,620 reported as Deferred Outflows of Resources related to OPEB reported at December 31, 2020, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2021. The Deferred Outflows of Resources related to OPEB of $1,657,035 reported at December 31, 2019, resulting from contributions subsequent to the measurement date, was recognized as a reduction of the net OPEB liability at December 31, 2020.

Deferred Inflows of Resources - Utilities reported Deferred Inflows of Resources related to OPEB from the following sources as of December 31:

Deferred Inflows of Resources	2020	2019
	(in thousands)	
Difference between expected and actual experience	$ 3,402	$ 39
Changes of assumptions or other inputs	-	-
Net difference between projected and actual earnings on OPEB plan investments	338	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	1,486	746
Total	$ 5,226	$ 785

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

December 31,	Amount
	(in thousands)
2021	$ (1,075)
2022	(1,075)
2023	(976)
2024	(940)
2025	(841)
Thereafter	(51)

Actuarial Assumptions - The total OPEB liability in the actuarial valuations was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Financial statement date	**December 31, 2020**	**December 31, 2019**
Measurement date	December 31, 2019	December 31, 2018
Actuarial valuation date	December 31, 2018	December 31, 2017
Actuarial cost method	Entry age	Entry age
Price inflation	2.40%	2.40%
Real wage growth	1.10%	1.10%
Wage inflation	3.50%	3.50%
Salary increases, including wage inflation	3.50% in aggregate	3.50% in aggregate
Long-term investment rate of return, net of OPEB plan investment expenses, including price inflation	7.25%	7.25%
Discount rate	7.25%	7.25%
Health care cost trend rates		
PERA Benefit Structure:		
Service-based premium subsidy	0.00%	0.00%
PERACare Medicare plans	5.6% in 2019, gradually decreasing to 4.5% in 2029	5.00%
Medicare Part A premiums	3.5% in 2019, gradually increasing to 4.5% in 2029	3.25% in 2018, gradually increasing to 5.0% in 2025

Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each actuarial valuation and on the pattern of sharing of costs between employers of each fund to that point.

The actuarial assumptions used in the December 31, 2018 valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012 through December 31, 2015, as well as the October 28, 2016 actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016 Board meeting. In addition, certain actuarial assumptions pertaining to per capita health care costs and their related trends are analyzed and reviewed by PERA's actuary, as discussed below.

In determining the additional liability for PERACare enrollees who are age 65 or older and who are not eligible for premium-free Medicare Part A, the following monthly costs/premiums are assumed for 2019 for the PERA Benefit Structure:

Medicare Plan	Cost for Members Without Medicare Part A	Premiums for Members Without Medicare Part A
Medicare Advantage/Self-Insured Prescription	$ 601	$ 240
Kaiser Permanente Medicare Advantage HMO	605	237

The 2019 Medicare Part A premium is $437 per month.

In determining the additional liability for PERACare enrollees in the PERA Benefit Structure who are age 65 or older and who are not eligible for premium-free Medicare Part A, the following chart details the initial expected value of Medicare Part A benefits, age adjusted to age 65 for the year following the valuation date:

Medicare Plan	Cost for Members Without Medicare Part A
Medicare Advantage/Self-Insured Prescription	$ 562
Kaiser Permanente Medicare Advantage HMO	571

All costs are subject to the health care cost trend rates, as discussed below.

Health care cost trend rates reflect the change in per capita health costs over time due to factors such as medical inflation, utilization, plan design and technology improvements. For the PERA benefit structure, health care cost trend rates are needed to project the future costs associated with providing benefits to those PERACare enrollees not eligible for premium-free Medicare Part A.

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and industry methods developed by health plan actuaries and administrators. In addition, projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services are referenced in the development of these rates. Effective December 31, 2018, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

The PERA benefit structure health care cost trend rates that were used to measure the total OPEB liability are summarized in the table below:

Year	PERACare Medicare Plans	Medicare Part A Premiums
2019	5.60%	3.50%
2020	8.60	3.50
2021	7.30	3.50
2022	6.00	3.75
2023	5.70	3.75
2024	5.50	3.75
2025	5.30	4.00
2026	5.10	4.00
2027	4.90	4.25
2028	4.70	4.25
2029+	4.50	4.50

Mortality assumptions for the determination of the total pension liability for each of the Division Trust Funds as shown below are applied, as applicable, in the determination of the total OPEB liability for the HCTF. Affiliated employers of the State, School, Local Government and Judicial Divisions participate in the HCTF.

Healthy mortality assumptions for active members were based on the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70.0% factor applied to male rates and a 55.0% factor applied to female rates.

Post-retirement non-disabled mortality assumptions for the State and Local Government Divisions were based on the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- Males: Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73.0% factor applied to rates for ages less than 80, a 108.0% factor applied to rates for ages 80 and above and further adjustments for credibility.
- Females: Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78.0% factor applied to rates for ages less than 80, a 109.0% factor applied to rates for ages 80 and above and further adjustments for credibility.

For disabled retirees, the mortality assumption was based on 90.0% of the RP-2014 Disabled Retiree Mortality Table.

The following health care costs assumptions were updated and used in the measurement of the obligations for the HCTF:

- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2019 and 2018 plan year.
- The morbidity assumptions were updated to reflect the assumed standard aging factors.
- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analysis was outlined in presentations to PERA's Board on October 28, 2016.

Several factors were considered in evaluating the long-term rate of return assumption for the HCTF, including long-term historical data, estimates inherent in current market data and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were 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 then adding expected inflation.

As of the most recent adoption of the long-term expected rate of return by the PERA Board, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation		30 Year Expected Geometric Real Rate of Return	
U.S. Equity - Large Cap	21.20	%	4.30	%
Core Fixed Income	19.32		1.20	
Non U.S. Equity - Developed	18.55		5.20	
Core Real Estate	8.50		4.90	
Private Equity	8.50		6.60	
U.S. Equity - Small Cap	7.42		4.80	
Opportunity Fund	6.00		3.80	
Non U.S. Equity - Emerging	5.83		5.40	
Non U.S. Fixed Income - Developed	1.84		0.60	
High Yield	1.38		4.30	
Cash	1.00		0.20	
Emerging Market Debt	0.46		3.90	
Total	100.00	%		

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%.

Sensitivity of Utilities' Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates - The following presents the net OPEB liability using the current health care cost trend rates applicable to the PERA benefit structure, as well as if it were calculated using health care cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current rates:

	1% Decrease	Current Trend Rates (in thousands)	1% Increase
2020			
Initial PERACare Medicare trend rate	4.60%	5.60%	6.60%
Ultimate PERACare Medicare trend rate	3.50%	4.50%	5.50%
Initial Medicare Part A trend rate	2.50%	3.50%	4.50%
Ultimate Medicare Part A trend rate	3.50%	4.50%	5.50%
Proportionate Share of Net OPEB Liability	$ 19,763	$ 20,243	$ 20,799
2019			
PERACare Medicare trend rate	4.00%	5.00%	6.00%
Initial Medicare Part A trend rate	2.25%	3.25%	4.25%
Ultimate Medicare Part A trend rate	4.00%	5.00%	6.00%
Proportionate Share of Net OPEB Liability	$ 24,912	$ 25,620	$ 26,434

***Discount Rate* -** The discount rate used to measure the total OPEB liability was 7.25%. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 2019 and 2018, measurement dates.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.5%.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date.
- Employer contributions and the amount of total service costs for future plan members were based upon a process to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Benefit payments and contributions were assumed to be made at the middle of the year.

Based on the above assumptions and methods, the projection test indicates the HCTF's fiduciary net position was projected to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25% on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25%.

***Sensitivity of Utilities' Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate* -** The following presents the proportionate share of the net OPEB liability calculated using the discount rate of 7.25%, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate (in thousands)	1% Increase
2020			
Discount Rate	6.25%	7.25%	8.25%
Proportionate Share of Net OPEB Liability	$ 22,889	$ 20,243	$ 17,981
2019			
Discount Rate	6.25%	7.25%	8.25%
Proportionate Share of Net OPEB Liability	$ 28,667	$ 25,620	$ 23,015

***OPEB Plan Fiduciary Net Position* -** Detailed information about the HCTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

UTILITIES' SINGLE-EMPLOYER PLAN

In accordance with the City Code, Utilities offers a health care plan to retirees with Utilities' contribution determined by the City Council. Employees eligible to retire prior to January 1, 1979, receive this health care plan without cost to the employee. Those eligible to retire after January 1, 1979 and hired prior to August 1, 1988 receive a limited Utilities' contribution not to exceed $91.40 per month. The monthly subsidy for these members is determined as the difference between the full PERA premium and the PERA service subsidy. All employees hired after August 1, 1988, receive no contribution from Utilities for this health care plan. In addition to regular medical insurance subsidies, Utilities also funds a Medicare supplement for eligible retirees. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

Utilities' OPEB plan also provides a subsidy of life insurance premiums of $0.13/$1,000 for life insurance amounts up to $9,000/year per member, depending on employee type, to those who have retired prior to January 1, 2013. Employees retiring after January 1, 2013 are no longer eligible to receive the life insurance benefits.

As of the most recent actuarial valuation of the plan, 1,238 retired members or beneficiaries and 15 active employees were covered by the benefit terms.

Total Single Employer OPEB Liability

December 31,	Measurement Date	Actuarial Valuation Date	Total OPEB Liability (in thousands)
2020	12/31/2019	12/31/2019	$ 21,179
2019	12/31/2018	12/31/2018	$ 19,228

Actuarial Assumptions and Other Inputs - The total OPEB liability in the actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurements, unless otherwise specified:

Financial statement date	**December 31, 2020**	**December 31, 2019**
Measurement date	December 31, 2019	December 31, 2018
Actuarial cost method	Entry age	Entry age
Inflation	3.50%	3.50%
Salary increases	10.45% to 3.50%	10.45% to 3.50%
Discount rate	2.74%	4.10%
Health care cost trend rates		
PERA Premiums	0.00% to 2021, 6.50% to 2022, and 6.00% to 2023 graded to 4.50% over 6 years	5.60% graded to 4.50% over 10 years
Medicare Part B	6.00% to 2021 and 4.50% thereafter	4.50%

For the December 31, 2019 valuation, healthy mortality assumptions for active members were based on the RP-2014 White Collar Employee Mortality Table with a 70.0% factor applied to male rates and a 55.0% factor applied to female rates.

Healthy, post-retirement mortality assumptions were based on the RP-2014 Healthy Annuitant Mortality Table with adjustments for the following:

- Males: Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73.0% factor applied to rates for ages less than 80, a 108.0% factor applied to rates for ages 80 and above and further adjustments for credibility.
- Females: Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78.0% factor applied to rates for ages less than 80, a 109.0% factor applied to rates for ages 80 and above and further adjustments for credibility.

For disabled retirees, the mortality assumption was based on RP-2014 Disabled Retiree Mortality Table with a 90.0% factor applied to all rates.

The non-health related demographic actuarial assumptions used in the December 31, 2019 and 2018 valuations were based on the results of an actuarial experience study performed by PERA for the period January 1, 2012 to December 31, 2015.

Changes in the Total Single Employer OPEB Liability

	2020	2019
	(in thousands)	
Beginning balance	$ 19,228	$ 21,624
Changes for the year:		
Service cost	11	23
Interest	764	723
Changes of benefit terms	-	-
Differences between expected and actual experience	(492)	(511)
Changes of assumptions or other inputs	2,877	(1,389)
Benefit payments	(1,209)	(1,242)
Net changes	1,951	(2,396)
Ending balance	$ 21,179	$ 19,228

Changes of assumptions or other inputs:

- Change in the discount rate from 4.10% to 2.74%, based on changes in the 20-year municipal bond rate from December 31, 2018 to December 31, 2019.
- Future trend rates for PERA premiums were lowered.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate - The following table presents Utilities' total OPEB liability, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease	Current Discount Rate	1% Increase
		(in thousands)	
2020			
Discount Rate	1.74%	2.74%	3.74%
Total OPEB Liability	$ 23,807	$ 21,179	$ 18,996
2019			
Discount Rate	3.10%	4.10%	5.10%
Total OPEB Liability	$ 21,414	$ 19,228	$ 17,394

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the total OPEB liability of Utilities, as well as what the OPEB liability would be if it were calculated using health care cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current health care cost trend rates:

	1% Decrease	Current Trend Rates	1% Increase
		(in thousands)	
2020			
Initial PERA Premiums trend rate	5.50%	6.50%	7.50%
Ultimate PERA Premiums trend rate	3.50%	4.50%	5.50%
Medicare Part B	3.50%	4.50%	5.50%
Total OPEB Liability	$ 21,152	$ 21,179	$ 21,209
2019			
Initial PERA Premiums trend rate	4.60%	5.60%	6.60%
Ultimate PERA Premiums trend rate	3.50%	4.50%	5.50%
Medicare Part B	3.50%	4.50%	5.50%
Total OPEB Liability	$ 19,194	$ 19,228	$ 19,266

OPEB Expense and Deferred Outflows of Resources Related to OPEB - For the years ended December 31, 2020 and 2019, Utilities recognized OPEB expense of $3,159,993 and ($1,153,619), respectively. Utilities reported Deferred Outflows of Resources related to OPEB from the following sources as of December 31:

Deferred Outflows of Resources	2020	2019
	(in thousands)	
Contributions subsequent to the measurement date	$ 1,185	$ 1,209

The $1,185,225 reported as deferred outflows of resources related to OPEB reported at December 31, 2020, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2021. The Deferred Outflows of Resources related to OPEB of $1,209,142 reported at December 31, 2019, resulting from contributions subsequent to the measurement date, was recognized as a reduction of the net OPEB liability at December 31, 2020.

TOTAL OPEB LIABILITIES, DEFERRED OUTFLOWS, DEFERRED INFLOWS & EXPENSE - ALL PLANS

Total OPEB	2020	2019
	(in thousands)	
OPEB Liabilities	$ 41,423	$ 44,848
OPEB Deferred Outflows	3,217	3,328
OPEB Deferred Inflows	5,226	785
OPEB Expense	4,075	772

NOTE 15 - COMMITMENTS

Under Article 7-60 of the City Charter, the City cannot enter into agreements involving the expenditure of public funds (with certain limited exceptions) unless funds have been appropriated by the City Council to liquidate the liability created by the agreement. In accordance with this City Charter provision, each of Utilities' agreements (with certain limited exceptions) contains clauses that, in general, terminate the agreement without further liability to Utilities if funds are not appropriated by the City Council (in whole or in part) that are sufficient to perform Utilities' obligations under the agreement. Such an agreement clause is referred to as an "appropriations clause."

CONSTRUCTION COMMITMENTS

Construction commitment amounts represent contract price less payments applied on outstanding retainage construction contracts. Utilities' total construction and commitments as of December 31, 2020 were $192,851,687.

ELECTRIC COMMITMENTS

Electric Generation Fuel Supply Agreements - Utilities' coal units are operated in the most economical manner, while observing the plants physical and thermal operating guidelines. Due to the varying price of commodities, coal may not be the baseload generation source. Utilities runs a daily production cost model to determine the most economical and reliable mix of generation and market activity. Utilities' hydro units are operated as "run of the river" for the smaller units and the dispatchable hydro unit is included in the production cost model to contribute to an optimum generation portfolio for the daily load and market conditions. Utilities' hydro contracts are also optimized within the constraints of the contracts. Utilities' demand for coal has decreased by 22.0% in 2020 due to changes in electric market, fuel prices, unit availability and Drake Unit 7's moved off coal to natural gas. Utilities' term coal supply contract is at a price relatively equivalent to the current forward market. Spot market coal is purchased to supplement term contract volumes as needed.

Electric Power Purchase Agreements - Utilities has electric power purchase agreements with other power producers to purchase capacity and associated energy to supplement existing generation resources. The agreements have various terms and conditions. Utilities' largest purchase power contract is with Western Area Power Administration. In addition to the purchase power agreements that supplement existing generation, Utilities has four solar power purchase agreements to add to Utilities' renewable portfolio through 2039, 2040, 2041 and 2044 respectively. In 2020, Utilities entered into a five year wind energy purchase agreement that terminates in 2025, but can be extended until 2030 at Utilities' sole discretion.

Contractual Service Agreement - Utilities has a contractual service agreement with General Electric International, Inc. ("GE"). This contractual service agreement was amended on June 26, 2017 and requires that GE perform all major maintenance activities on the two GE combustion turbines through an estimated 138,000 run hours. The total run hours are estimated to be achieved in the fourth quarter 2026.

Total Electric Commitments - As of December 31, 2020, the approximate minimum obligations, subject to any appropriations clauses, for these Electric Commitments over the next five years are:

December 31,	Amount (in thousands)
2021	$ 43,005
2022	37,183
2023	37,650
2024	47,044
2025	40,826

Natural Gas Commitments

Natural Gas Supply and Transport Agreements - Utilities contracts for sufficient firm transportation capacity and supplies to meet sales customers' peak day needs and fuel gas requirements for power generation. Utilities defines peak day conditions as a day with an average temperature of -13 degrees Fahrenheit. Utilities' goal is to hold a diversified portfolio of natural gas supplies, pipeline transportation and storage services in order to provide reliability and economic efficiency in meeting supply obligations.

Utilities' firm natural gas supply portfolio is comprised of multiple contracts with various terms. The expiring contracts are competitively bid by the suppliers each year, usually during the spring. In addition, Utilities balances natural gas supply needs on a short-term (30-day or less) basis, giving Utilities the flexibility to react to warmer than normal conditions without defaulting on firm commitments and providing the flexibility to take advantage of short-term drops in natural gas prices. The staggered terms of the supply contracts help shape supply commitments to better match load requirements and ensure Utilities can acquire and replace supplies in an orderly fashion.

In addition to a diversified portfolio within the context of terms and conditions of service, Utilities actively pursues opportunities to reduce costs and realize value from natural gas supply assets. This process includes releasing transportation and storage capacity to meet peak loads during non-peak periods and other asset optimization strategies to capture value from any available asset capacity.

Total Natural Gas Commitments - As of December 31, 2020, the approximate minimum obligations, subject to any appropriations clauses, for these Natural Gas Commitments over the next five years are:

December 31,	Amount (in thousands)
2021	$ 65,793
2022	23,264
2023	3,159
2024	778
2025	324

NATURAL GAS PREPAY AGREEMENT

On June 27, 2008, the City (on behalf of Utilities) entered into a Natural Gas Supply Agreement ("Supply Agreement") with Public Authority for Colorado Energy ("PACE"), a component unit of the City, for financial reporting purposes. The Supply Agreement will be in effect until September 30, 2038, unless terminated earlier due to certain defaults, as set forth therein, or the termination of PACE's Prepaid Gas Agreement. The City is obligated to purchase and pay for natural gas tendered for delivery by PACE at an index minus a predetermined discount. If PACE fails on any day, for any reason other than force majeure, to deliver the quantity of natural gas required to be delivered pursuant to the Supply Agreement, the City will have no obligation for any of the natural gas supply that was not delivered as a result of such PACE delivery default.

Certain risk exists that all or part of the discount associated with this gas prepay transaction will not be realized as a result of the financial creditworthiness of the counterparties to agreements associated with the transaction and the potential failure of such counterparties to fulfill their contractual obligations, including financial remedies. As of December 31, 2020, all of the counterparties to agreements associated with the gas prepay transaction are fulfilling their contractual obligations.

WATER COMMITMENTS

Water Storage Agreements - Utilities' contracts with the U.S. Bureau of Reclamation ("Bureau") for water storage in Pueblo Reservoir for SDS. The Bureau will provide reimbursement for costs associated with the construction and connection of the pipe onto the Pueblo Reservoir Dam. The contract expires December 31, 2049, unless extended or terminated earlier in accordance with the provisions of the contract.

Total Water Commitments - As of December 31, 2020, the approximate minimum obligations for this Water Commitment over the next five years are:

December 31,	Amount (in thousands)
2021	$ 946
2022	985
2023	1,024
2024	1,065
2025	1,108

Grants - Utilities receives Federal and State grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

NOTE 16 - CONTINGENCIES AND CLAIMS

ENVIRONMENTAL MATTERS

Numerous Federal, State and Local environmental laws and regulations affect Utilities' facilities and operations. Utilities monitors compliance with environmental laws and regulations on an ongoing basis.

Air Quality - In operating the Electric System, Utilities is subject to various State and Federal environmental requirements, which affect operating and capital costs of the System. Ongoing promulgation of new regulations under the Clean Air Act Amendments of 1990 and the Colorado Air Quality Control Act will have the effect of imposing more stringent air emission requirements for the Electric System's generating facilities, particularly Drake and Ray Nixon Power Plant ("Nixon").

The Federal Clean Air Act requires that states develop “State Implementation Plans” that address how each State will control air pollution, including visibility impacts to Class I Federal areas. The EPA’s Regional Haze Rule requires that certain emission sources, such as Drake, that may reasonably be anticipated to cause or contribute to visibility impairment in Class I areas, to install Best Available Retrofit Technology (“BART”).

Utilities completed full implementation of its approved BART and Reasonable Progress plans in 2017 and there are no remaining capital costs. Compliance with the BART emission limits for sulfur dioxide (“SO2”) for Drake and the Reasonable Progress limit for Nixon was demonstrated on November 3, 2017, approximately two months ahead of the regulatory deadline. Compliance with the Reasonable Progress emission limit for nitrogen oxides (“NOx”) for Nixon was demonstrated on July 3, 2017, approximately six months ahead of the regulatory deadline. Compliance with the other particulate and NOx limits for the Drake and Nixon plants required under BART and Reasonable Progress were previously demonstrated in 2013 and 2015.

In May 2019 the Colorado legislature passed HB19-1261 which establishes a statewide goal to reduce greenhouse gas emissions below 2005 levels by meeting the following milestones: 26.0% by 2025; 50.0% by 2030; and 90.0% by 2050. While the bill carries no direct mandates, it directs the Colorado Air Quality Control Commission to adopt and implement rules and regulations to achieve the statewide reduction goals. It is not yet clear how or to what extent such reduction goals may be apportioned to electric utilities in Colorado. Utilities will continue to evaluate potential impacts of carbon legislation or regulation at the state and federal level as part of its ongoing evaluation of its existing generation, future resource needs and any operational constraints that may be imposed through the guidance of the state’s Greenhouse Gas Pollution Reduction roadmap. As it relates to coal-fired generating units, the State proposes for this guidance to be implemented through the voluntary submittal of a Clean Energy Plan. The Clean Energy Plan would be submitted to the State for data validation and then approved by the Public Utilities Commission. This would provide the State the ability to monitor Utilities progress in meeting the reduction goals referenced above. Utilities currently anticipates completing this process by end of 2021.

Additional regulations, such as the October 1, 2015 Environmental Protection Agency (“EPA”) release of the final revised National Ambient Air Quality Standard for ozone, which lowered the standard from 75 parts per billion to 70 parts per billion, may necessitate the installation of additional pollution controls beyond those described above. The Pikes Peak Region (which encompasses the area in which Utilities operates its power plants) currently remains in attainment with the new standard. While it is uncertain the extent to which any future nonattainment with this standard and Colorado’s ongoing Regional Progress evaluation under the Regional Haze Rule will affect Utilities’ power plants or operations, additional future pollution controls for NOx, i.e., post-combustion controls such as Selective Catalytic Reduction, could potentially cost Utilities an additional $85 million beyond 2021, depending on which units would be required to install such controls.

The next period of Regional Haze planning is currently underway in Colorado, with a State Implementation Plan (“SIP”) due in July 2021 for the years 2021-2028. Utilities expects to receive clarity regarding any future controls as part of this process. The State has initiated a two-phase Regional Haze Rule review process. Phase I was approved by the Air Quality Control Commission on December 16, 2020 and codifies the retirement dates for Utilities remaining coal units as adopted by the Utilities Board in June 2020. Once the SIP is approved by the EPA the federally enforceable retirement date for Drake Units 6 & 7 will be December 31, 2022 and Nixon Unit 1 will be no later than December 31, 2029. Utilities expects to receive clarity regarding any future controls on remaining natural gas-fired units as part of this process. It is uncertain at this time if the SIP which is due in July 2021 will remain on schedule.

In December 2011, the EPA’s Mercury and Air Toxics Standards rule was finalized. Utilities has implemented a compliance program to meet this standard that is a combination of scrubbers, activated carbon injection and existing baghouses.

In September 2015, the EPA finalized the Effluent Limit Guidelines rule for the Steam Electric Power Generating industry, establishing a zero-discharge requirement for bottom ash transport water with a compliance date of November 1, 2018. On September 12, 2017, the EPA issued a final rule postponing the bottom ash transport water compliance date by two years (November 1, 2020). This rule required Drake to modify the boilers' bottom ash systems to a zero-discharge system by November 1, 2020. On August 31, 2020, the EPA finalized the Effluent Limit Guidelines reconsideration rule and standards for the Steam Electric Power Generating Point Source Category, which became effective on December 14, 2020. This rule requires Drake to have a high recycle rate system for bottom ash transport water no later than December 31, 2025. Prior to the 2020 final rule, Drake completed design and construction of Phase I for these modifications totaling $382,000. Because Drake will be decommissioned prior to the new compliance date, construction of Phase 2 ($37,000) will not be executed.

Except as described in the preceding paragraphs of this section, Utilities believes that the air and water pollution control facilities at electric generating units are sufficient so that those facilities will remain in compliance with all present air and water pollution laws and regulations.

Wastewater Quality - Utilities is subject to various State and Federal environmental requirements, which affect operating and capital costs of the wastewater system. The CDPHE adopted regulations for reducing nutrients (nitrogen and phosphorus) in State waters through 2022 which became effective in September 2012. Based on these regulations, capital projects have been completed at both the Las Vegas Street Water Resource Recovery and the J.D. Phillips Water Resource Recovery Facility to allow Utilities to meet the new limits. However, some nutrient regulatory scenarios could result in much greater capital investment being required after 2027.

It is reasonably possible that new regulations would require more stringent requirements on controls for discharges for the Las Vegas Street Water Resource and Recovery Facility and the J.D. Phillips Water Resource Recovery Facility.

In February 2012, the CDPHE adopted revisions to Section 9 (regarding waste impoundments) of its "Regulations Pertaining to Solid Waste Sites and Facilities." Additional capital investment in the range of $7.0 to $15.0 million for existing impoundments at the Clear Spring Ranch Resource Recovery Facility may be required to meet these revisions in the 2021-2023 timeframe. Utilities expects to receive clarity from the CDPHE in 2021 regarding the extent for impoundment-related capital investment following their review of Utilities' preliminary impoundment classification submittals.

Drinking Water Quality - The Federal Safe Drinking Water Act authorizes the EPA to establish national health-based standards for the protection of drinking water from both naturally occurring and man-made contaminants. Additionally, the EPA maintains a list of unregulated contaminants that are not currently subject to any proposed or promulgated national primary drinking water regulation, but that are known or anticipated to occur in public water systems and may become subject to regulation in the future. As such, there is always the potential for new and/or more stringent standards that may impose additional costs to Utilities, either to existing infrastructure or operations or to new water project development.

Utilities' annual Water Quality Report to customers consistently notes that the water treated and supplied by Utilities meets applicable primary drinking water quality standards.

Water Supply - Federal and State legislation often influences Utilities' water development activities and prohibits new project development.

The conditions imposed under State and Federal water quality regulations are determined on a case-by-case basis when projects are permitted based on an assessment of the impacts of the proposed project. The additional costs to operate the Water System and develop additional water sources, as a result of these regulations, is determined on a case-by-case basis and cannot be fully quantified at this time. Utilities is actively engaged in and partnering with several water industry groups to oppose or ameliorate proposed regulations or administrative actions under Federal regulations such as the Clean Water Act which have the potential to adversely impact Utilities' water system. Recently, Utilities has been actively involved in commenting on numerous Federal agency proposals including the EPA's proposed Waters of the U.S. and Water Transfers Rules and the Draft Technical Report on Protecting Aquatic Life from the Effects of Hydrologic Alteration.

RISK MANAGEMENT

Utilities' Enterprise Risk Management group develops the process to identify, prioritize and report risks so that appropriate mitigation plans are developed and implemented to protect and enhance the business performance of Utilities. The process requires specific risk policies and procedures to document risk mitigation plans and ongoing monitoring and communication.

As part of this broader enterprise risk process, Utilities manages an ongoing insurance risk management program, protecting against both property and casualty exposures where appropriate. Working with insurance providers and Utilities' operations, loss tolerances are identified and insured through the insurance carriers, or are self-insured. Utilities has insurance policies covering damages due to most types of major losses. Property insurance for physical damage is purchased commercially for Utilities' facilities and for most of the infrastructure (except transmission lines, underground piping and dams), with a retention level of $1,000,000 per occurrence, with the exception of $5,000,000 for hail-related losses.

Utilities also purchases comprehensive information security and privacy "cyber" liability insurance, with a retention level of $1,000,000 per occurrence.

Utilities is covered under the Colorado Governmental Immunity Act for certain liability claims. The Colorado Governmental Immunity Act provides the maximum amount that may be recovered through tort claims under Colorado law of $387,000 for any injury to one person in any single occurrence and $1,093,000 for any injury to two or more persons in any single occurrence. To cover auto and general liability exposures not covered by the Colorado Governmental Immunity Act, Utilities purchases excess liability coverage, with a retention level of $1,000,000 per occurrence.

The City purchases an excess public employers' liability policy, which covers Utilities' public officials' liability, errors and omissions and employment practices liability with a retention level of $1,000,000 per occurrence.

Utilities accrues on its Statements of Net Position as a liability an amount estimated for public officials', general and auto liability claims. As of December 31, 2020 and 2019, Utilities' Statements of Net Position reflected an accrual of $1,372,652 and $3,176,848, respectively.

Workers' compensation claims are self-insured and managed by City in-house staff. An excess workers' compensation liability insurance policy is purchased for statutory benefits in excess of $750,000 per occurrence. Utilities also contributes, along with the City, to a joint Workers' Compensation Self-Insurance Fund. Utilities' outstanding workers' compensation claims are reserved at $1,269,768 and $1,038,130 as of December 31, 2020 and 2019, respectively, under the City's self-insurance fund. The City believes that any liability arising out of unforeseen losses will not materially impact Utilities' financial position. This balance is not reflected on Utilities' Statements of Net Position.

Utilities is self-insured up to $400,000 per individual for medical and self-insured for a limited dental benefit and is fully insured for the vision plan. All plans provide covered employees and dependents the intended benefits detailed in the self-funded health plan documents. As part of this plan, Utilities pays claims and associated plan expenses through its Employee Benefits Self-Insurance Fund. During the course of the plan year, the contributions from Utilities and employees are expected to cover projected health care expenses while maintaining an adequately funded reserve account for Incurred But Not Reported ("IBNR"), Health Reimbursement Account ("HRA") and catastrophic claims.

Summary of the plan's ending balance as of December 31:

	2020	2019
	(in thousands)	
Health Plan	$ 6,996	$ 3,239
Less: Reserved for IBNR, HRA, catastrophic claims	(3,569)	(3,155)
Unreserved fund balance	$ 3,427	$ 84

Additionally, Utilities maintains a reinsurance policy through Cigna Health and Life Insurance Company, with a deductible of $400,000 per claim per plan year. Should a covered medical claim exceed $400,000 in a given plan year, the plan would be reimbursed by Cigna for the amount in excess of the deductible.

During 2020, the combined annual aggregate in Communicable Disease Response and Interruption was reduced from $1,000,000 to $10,000. There were no other significant reductions in insurance coverage as compared to 2019. In the past three years, no loss occurred that required settlements in excess of coverage.

Summary of change in claims:

	Injuries and Damages	Employee Benefits
	(in thousands)	
Unpaid Claims - December 31, 2018	$ 1,637	$ 2,264
2019 Increases	754	28,744
2019 Decreases	(179)	(28,389)
Unpaid Claims - December 31, 2019	2,212	2,619
2020 Increases	189	27,612
2020 Decreases	(2,030)	(27,247)
Unpaid Claims - December 31, 2020	$ 371	$ 2,984

Legal Matters

Utilities' Statements of Net Position as of December 31, 2020 and 2019, reflected the accrual of $370,725 and $2,211,596 respectively, for estimated liability for injury and damage claims. The City Risk Manager estimates that the amount of liability for potential claims (taking into account such accrual, the Colorado Governmental Immunity Act and insurance coverage as outlined in the Risk Management section) against Utilities would not materially affect the financial condition or operations of Utilities. Utilities has purchased insurance covering damages due to most types of major contingencies, subject to the limits in those policies and subject to the application of the Colorado Governmental Immunity Act.

REGULATORY MATTERS

Utilities is subject to regulation by the City Council with respect to rates charged for services, budgeting, accounting and other matters pertaining to regulated operations. As such, Utilities applies the provision of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (formerly Statement of Financial Standards No. 71, *Accounting for the Effects of Certain Types of Regulation* [Codification 980-340-25-1]) ("GASB 62").

Effective December 31, 2009, Utilities received approval to recognize a regulatory asset for SDS mitigation, engineering and design expenditures specific to the monetary mitigation requirements of the Pueblo County 1041 permit, certain NEPA mitigations as required by the Bureau and Fremont County Mitigation that do not meet Utilities' capitalization requirements and would otherwise be expensed as incurred. In 2020 and 2019, the SDS mitigation expenditures were $10,167,975 and $10,032,974, respectively. The remaining unamortized balance was $50,729,406 and $47,950,453 as of December 31, 2020 and 2019, respectively.

Effective January 1, 2012, Utilities began directly expensing conservation and demand side management rebate costs. Prior to 2012, expenses were accounted for using GASB 62. The balance of expenses accounted for using GASB 62 totaled $337,480 and $908,264 in 2020 and 2019, respectively.

Effective December 31, 2012, Utilities received the City Council's approval to recognize debt issue costs as a regulatory asset in accordance with GASB 62. A regulated asset valued at $16,039,835 was established on January 1, 2013, for the unamortized balance of the debt issue costs through December 31, 2012. In 2020 and 2019, additional debt issue costs were $4,973,410 and $828,814, respectively. Debt issuance costs are amortized over the life of the bonds using the straight-line method and the expense is reported as Other expense on the Statements of Revenues, Expenses and Changes in Net Position. The remaining unamortized balance was $18,231,057 and $16,759,408 as of December 31, 2020 and 2019, respectively.

NOTE 17 - TRANSFERS TO AND FROM THE CITY OF COLORADO SPRINGS

Utilities provides for surplus payments to the City, in lieu of taxes, based on a fixed rate per kWh (Kilo-watt hour) of electricity, Mcf (one-thousand cubic feet) at 14.65 psi of natural gas delivered and cf (cubic feet) of water delivered within the City limits, without exclusion for interdepartmental deliveries. The payments are recorded as Transfers out - surplus payments to the City on the Statements of Revenues, Expenses and Changes in Net Position. In addition, Utilities provides for other transfers when they enter into approved special contracts for water-related services that include a premium on fees and rates that benefit Utilities' ratepayers, fifty percent of the premium includes a surplus revenue and may be appropriated to the general revenues of the City by the City Council in the annual budget and Appropriation Ordinance pursuant to the City Charter.

At December 31, the amount of Transfers on the Statements of Revenues, Expenses and Changes in Net Position:

	2020	2019
	(in thousands)	
Transfers		
Transfers Out - Surplus Payments to the City		
Electric	$ 24,756	$ 24,933
Natural Gas	7,879	7,886
Water	2,519	1,196
Total Transfers Out - Surplus Payments to the City	35,154	34,015
Transfers To - Other		
Donala Water District Fee	233	317
Water Delivery to Security Water District	96	49
Water Delivery to Emerald Valley Ranch	1	1
Water Augmentation to PF, LLC	1	-
Total Transfers To - Other	331	367
Transfers From - Other		
Capital Asset - Transferred to City	-	1,967
Total Transfers From - Other	-	1,967
Total Transfers - Other	331	2,334
Total Transfers to the City	$ 35,485	$ 36,349

NOTE 18 - COMPONENT UNITS AND JOINT VENTURES

COMPONENT UNITS - CITY

Utilities is a participant in PACE, Fountain Valley Authority, Aurora-Colorado Springs Joint Water Authority and the Canal and Reservoir Companies. Each of these entities is treated as a component unit of the City for financial reporting purposes.

Public Authority for Colorado Energy - In June 2008, the City contracted to purchase approximately 20.0% of Utilities' natural gas supply needs for 30 years through a natural gas prepayment transaction with Merrill Lynch Commodities, Inc., Bank of America Corporation and Royal Bank of Canada that is financed by PACE non-recourse revenue bonds. PACE is obligated to pay the principal and interest on the PACE bonds. Utilities is obligated to purchase and pay for natural gas tendered for delivery by PACE at an index price minus a predetermined discount and is not obligated to make payments in respect to debt service on the PACE bonds.

Separate financial statements of the above component units, can be obtained from the Chief Planning and Finance Officer, Colorado Springs Utilities, P.O. Box 1103, Mail Code 950, Colorado Springs, CO 80947-0950.

Fountain Valley Authority - The Fountain Valley Authority constructed a water treatment plant with 18,000,000 gallons per day capacity approximately 17 miles south of the City. Utilities acts as operator of the plant under contract with the Fountain Valley Authority. Utilities is entitled to receive approximately 71.4% of the water treated at the Fountain Valley Authority plant. The remaining water is available to the other Fountain Valley Authority participants, which include the City of Fountain, the Security Water District, the Stratmoor Hills Water District and the Widefield Water and Sanitation District, each of which owns and operates a water distribution system.

Under the applicable long-term contracts relating to the Fountain Valley Authority, Utilities is obligated to pay water treatment service charges to the Fountain Valley Authority and water conveyance service charges to the Bureau for conveyance of its water through the Bureau's Fountain Valley Conduit, which conveys raw water from the Pueblo Reservoir to the Fountain Valley Authority's treatment plant and treated water from the treatment plant to distribution reservoirs of the Fountain Valley Authority participants.

Aurora-Colorado Springs Joint Water Authority - The Aurora-Colorado Springs Joint Water Authority has constructed a 66-inch diameter pipeline from the Twin Lakes Dam, which is located approximately 12 miles south of Leadville, Colorado, to connect with the Otero Pumping Station intake pipeline located approximately 10 miles north of Buena Vista, Colorado. Utilities has a 66.7% participation share in the Aurora-Colorado Springs Joint Water Authority's project. This share was determined by the parties on the basis of their projected pumping demands, but no provision is made in the Aurora-Colorado Springs Joint Water Authority contracts for adjustments in participation shares if actual pumping demands differ from these projections. Therefore, it is possible that the transmission service charges to be paid by Utilities will be disproportionate to the water transmission service that Utilities is using during a particular time period.

Canal and Reservoir Companies - Utilities owns from 51.9% to 77.2% in four canal and reservoir companies, which include The Twin Lakes Reservoir and Canal Company, The Lake Meredith Reservoir Company, The Colorado Canal Company and The Lake Henry Reservoir Company. This ownership interest represents proportionate ownership and control of the companies' facilities and water rights. The water rights add significant physical water to the water supply portfolio in addition to allowing for exchange, storage, staging and delivery of Utilities' water supply.

JOINT VENTURE

Young Gas Storage Company, Ltd. ("Young") - Utilities has an equity interest of 5.0% in this joint venture. Young is a Colorado Limited Partnership organized on June 30, 1993, to develop and operate a natural gas storage system near Fort Morgan, Colorado. Young's natural gas storage system consists of 38 natural gas storage facility wells, a 6,000 horsepower compressor station, a natural gas processing plant, eleven miles of 20-inch transmission line and four miles of storage gathering line.

The net investment in Young reported on the Statements of Net Position as of December 31:

December 31,	Amounts Invested	Undistributed Net Earnings	Utilities' Investments
		(in thousands)	
2020	$ 500	$ 398	$ 898
2019	500	452	952

NOTE 19 - SUBSEQUENT EVENTS

Rate Changes - On November 10, 2020 City Council approved changes to the Natural Gas, Electric, Water, and Wastewater Rate Schedules effective January 1, 2021. On January 26, 2021 City Council approved changes to the Electric Cost Adjustment, Industrial Service – Large Power and Light (ELG) Supply Credit and Gas Cost Adjustment rates effective February 1, 2021.

From February 13 - 16, 2021, the City and much of the country experienced record low temperatures. This weather and resulting challenges in the delivery of natural gas caused natural gas prices to increase to unprecedented levels. During this period, Utilities incurred additional electric and natural gas fuel costs of approximately $144.0 million. To recover these expenses, Utilities has requested that City Council approve increases to the Gas Cost Adjustment rate in March 2021 and the Electric Cost Adjustment rate in April 2021.

***Other Subsequent Events* -** Utilities has evaluated subsequent events through March 9, 2021, the date which the financial statements were available to be issued, and did not note any additional subsequent events requiring recording or disclosure in the financial statements for the year ended December 31, 2020.

REQUIRED SUPPLEMENTARY INFORMATION

COLORADO SPRINGS UTILITIES
REQUIRED SUPPLEMENTARY INFORMATION
COLORADO PERA LOCAL GOVERNMENT DIVISION TRUST FUND
For the Years Ended December 31,
(Unaudited)

SCHEDULE OF UTILITIES' PROPORTIONATE SHARE OF THE NET PENSION LIABILITY*

Year	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
			(in thousands)		
2020	23.5%	$ 172,137	$ 162,454	106.0%	86.3%
2019	24.3	305,276	158,984	192.0	76.0
2018	24.2	269,286	153,008	176.0	79.4
2017	25.6	345,491	149,251	231.5	73.6
2016	25.3	278,733	143,704	194.0	76.9
2015	25.8	231,178	141,331	163.6	80.7

SCHEDULE OF UTILITIES' PENSION CONTRIBUTIONS*

Year	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Utilities Covered Payroll	Contributions as a Percentage of Covered Payroll
			(in thousands)		
2020	$ 22,348	$ 22,348	$ -	$ 172,897	12.9%
2019	20,599	20,599	-	162,454	12.7
2018	20,159	20,159	-	158,984	12.7
2017	19,401	19,401	-	153,008	12.7
2016	18,925	18,925	-	149,251	12.7
2015	18,222	18,222	-	143,704	12.7

*Information is not available for years prior to 2015. In future reports, additional years will be added until 10 years of historical data are presented. Information presented in this schedule has been determined as of Utilities' measurement date (December 31 of the year prior to the most recent fiscal year) in accordance with GASB 68.

COLORADO SPRINGS UTILITIES
REQUIRED SUPPLEMENTARY INFORMATION
COLORADO PERA HEALTH CARE TRUST FUND
For the Years Ended December 31,
(Unaudited)

SCHEDULE OF UTILITIES' PROPORTIONATE SHARE OF THE NET OPEB LIABILITY*

Year	Proportion of the Net OPEB Liability	Proportionate Share of the Net OPEB Liability	Covered - Employee Payroll	Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
			(in thousands)		
2020	1.8%	$ 20,243	$ 162,454	12.5%	24.5%
2019	1.9	25,620	158,984	16.1	17.0
2018	1.9	24,423	153,008	16.0	17.5

SCHEDULE OF UTILITIES' OPEB CONTRIBUTIONS*

Year	Statutorily Required Contributions	Contributions in relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Utilities Covered Payroll	Contributions as a Percentage of Covered Payroll
			(in thousands)		
2020	$ 1,764	$ 1,764	$ -	$ 172,897	1.0%
2019	1,657	1,657	-	162,454	1.0
2018	1,622	1,622	-	158,984	1.0

*Information is not available for years prior to 2018. In future reports, additional years will be added until 10 years of historical data are presented. Information presented in this schedule has been determined as of Utilities' measurement date (December 31 of the year prior to the most recent fiscal year) in accordance with GASB 75.

The accompanying notes are an integral part of the Required Supplementary Information.

COLORADO SPRINGS UTILITIES
REQUIRED SUPPLEMENTARY INFORMATION
UTILITIES' SINGLE-EMPLOYER OPEB PLAN
For the Years Ended December 31,
(Unaudited)

SCHEDULE OF CHANGES IN UTILITIES' TOTAL OPEB LIABILITY AND RELATED RATIOS*

	2020	2019	2018
		(in thousands)	
Total OPEB Liability			
Beginning balance	$ 19,228	$ 21,624	$ 21,390
Changes for the year:			
Service cost	11	23	20
Interest	764	723	786
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(492)	(511)	(93)
Changes of assumptions or other inputs	2,877	(1,389)	785
Benefit payments	(1,209)	(1,242)	(1,264)
Net changes	1,951	(2,396)	234
Ending balance	$ 21,179	$ 19,228	$ 21,624
Covered-employee Payroll	$ 2,207	$ 3,530	$ 5,683
Total OPEB Liability as a percentage of covered-employee payroll	959.6%	544.7%	380.5%

*Information is not available for years prior to 2018. In future reports, additional years will be added until 10 years of historical data are presented. Information presented in this schedule has been determined as of Utilities' measurement date (December 31 of the year prior to the most recent fiscal year) in accordance with GASB 75.

The accompanying notes are an integral part of the Required Supplementary Information.

COLORADO SPRINGS UTILITIES

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

SIGNIFICANT CHANGES IN PLAN PROVISIONS, ASSUMPTIONS OR OTHER INPUTS AFFECTING TRENDS IN ACTUARIAL INFORMATION (MEASUREMENT DATE)

COLORADO PERA LOCAL GOVERNMENT DIVISION TRUST FUND

2019 Changes in Plan Provisions, Assumptions or Other Inputs Since 2018

- Senate Bill (SB) 18-200 was enacted on June 4, 2018, which included the adoption of the automatic adjustment provision (AAP). The following changes reflect the anticipated adjustments resulting from the 2018 AAP assessment, statutorily recognized July 1, 2019, and effective July 1, 2020:
    - Member contribution rates increase by 0.50%
    - Employer contribution rates increase by 0.50%
    - Annual Increase (AI) cap is lowered from 1.50% per year to 1.25% per year.
- House Bill (HB) 19-1217, enacted May 20, 2019, repealed the member contribution increases scheduled for the Local Government Division pursuant to SB 18-200.

2018 Changes in Plan Provisions, Assumptions or Other Inputs Since 2017

The following changes were made to the plan provisions as part of SB 18-200:

- Member contribution rates increase by 0.75% effective July 1, 2019, an additional 0.75% effective July 1, 2020, and an additional 0.50% effective July 1, 2021.
- Annual Increase (Al) cap is lowered from 2.00% per year to 1.50% per year.
- Initial AI waiting period is extended from one year after retirement to three years after retirement.
- AI payments are suspended for 2018 and 2019.
- The number of years used in the Highest Average Salary calculation for non-vested members as of January 1, 2020, increases from three to five years for the Local Government Division.

2017 Changes in Plan Provisions, Assumptions or Other Inputs Since 2016

- There were no changes made to plan provisions, actuarial methods or assumptions, or other inputs that had a significant effect on trends in actuarial information.

2016 Changes in Plan Provisions, Assumptions or Other Inputs Since 2015

- The Investment return assumption was lowered from 7.50% to 7.25%.
- The price inflation assumption was lowered from 2.80% to 2.40%.
- The wage inflation assumption was lowered from 3.90% to 3.50%.
- The post-retirement mortality assumption for healthy lives was changed to the RP-2014 Healthy Annuitant Mortality Table with adjustments for credibility and gender adjustments of a 73.0% factor applied to ages below 80 and a 108.0% factor applied to age 80 and above, projected to 2018, for males and a 78.0% factor applied to ages below 80 and a 109.0% factor applied to age 80 and above, projected to 2020, for females.
- For disabled retirees, the mortality assumption was changed to reflect 90.0% of RP-2014 Disabled Retiree Mortality Table.
- The mortality assumption for active members was changed to RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70.0% factor applied to male rates and a 55.0% factor applied to female rates.
- The rates of retirement, withdrawal and disability were revised to reflect more closely actual experience.
- The estimated administrative expense as a percentage of covered payroll was increased from 0.35% to 0.40%.
- The single equivalent interest rate was lowered from 7.50% to 7.25%, reflecting the change in the long-term expected rate of return.

2015 Changes in Plan Provisions, Assumptions or Other Inputs Since 2014

The following programming changes were made:

- Valuation of the full survivor benefit without any reduction for possible remarriage
- Reflection of the employer match on separation benefits for all eligible years
- Reflection of one year of service eligibility for survivor annuity benefit
- Refinement of the 18-month annual increase timing
- Refinements to directly value certain and life, modified cash refund and pop-up benefit forms

The following methodology changes were made:

- Recognition of merit salary increases in the first projection year
- Elimination of the assumption that 35.0% of the future disabled members elect to receive a refund
- Removal of the negative value adjustment for liabilities associated with refunds of future terminating members
- Adjustments to the timing of the normal cost and unfunded actuarial accrued liability payment calculations to reflect contributions throughout the year

2014 Changes in Plan Provisions, Assumptions or Other Inputs Since 2013

- There were no changes made to plan provisions, actuarial methods or assumptions, or other inputs that had a significant effect on trends in actuarial information.

Colorado PERA Health Care Trust Fund

2019 Changes in Plan Provisions, Assumptions or Other Inputs Since 2018

- There were no changes made to plan provisions, actuarial methods or assumptions, or other inputs that had a significant effect on trends in actuarial information.

2018 Changes in Plan Provisions, Assumptions or Other Inputs Since 2017

- There were no changes made to plan provisions, actuarial methods or assumptions, or other inputs that had a significant effect on trends in actuarial information.

2017 Changes in Plan Provisions, Assumptions or Other Inputs Since 2016

- There were no changes made to plan provisions, actuarial methods or assumptions, or other inputs that had a significant effect on trends in actuarial information.

Utilities' Single-Employer OPEB Plan

2019 Changes in Assumptions or Other Inputs Since 2018

- The discount rate decreased from 4.10% to 2.74% based on changes in the 20-year municipal bond rate.
- The future trend rates on the PERA premiums were lowered.

2018 Changes in Assumptions or Other Inputs Since 2017

- The discount rate increased from 3.44% to 4.10%, based on changes in the 20-year municipal bond rate.
- Future trend rates for PERA and Medicare Part B premiums were updated.

2017 Changes in Assumptions or Other Inputs Since 2016

- The discount rate decreased from 3.78% to 3.44%, based on changes in the 20-year municipal bond rate.

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Audit Committee of
Colorado Springs Utilities

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Colorado Springs Utilities, an enterprise fund of the City of Colorado Springs, Colorado, as of and for the year ended December 31, 2020, and have issued our report thereon dated March 9, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Colorado Springs Utilities' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Colorado Springs Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of Colorado Springs Utilities' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal controls such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of Colorado Springs Utilities are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Colorado Springs Utilities in a separate letter dated March 9, 2021.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly US, LLP

Madison, Wisconsin
March 9, 2021