DENVER WATER 457 DEFERRED COMPENSATION PLAN

Financial Statements

December 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

DENVER WATER 457 DEFERRED COMPENSATION PLAN

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CliftonLarsonAllen

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INDEPENDENT AUDITORS' REPORT

The Board of Water Commissioners, City and County of Denver, Colorado
Denver Water 457 Deferred Compensation Plan
Denver, Colorado

Report on the Financial Statements

We have audited the accompanying statements of net position and statements of changes in net position of the Denver Water 457 Deferred Compensation Plan (the Plan), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 audit 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 relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Plan as of December 31, 2016 and 2015, and the respective changes in net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2017, on our consideration of the Plan's 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 to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on 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 Plan's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Broomfield, Colorado
April 28, 2017

DENVER WATER 457 DEFERRED COMPENSATION PLAN

Management's Discussion and Analysis

December 31, 2016 and 2015

(Unaudited)

This is an analysis and overview of the financial activities of the Denver Water 457 Deferred Compensation Plan (Plan) for the years ended December 31, 2016 and 2015. This information should be read in conjunction with the Plan financial statements and notes, which follow.

Financial Highlights

As of December 31, 2016 and 2015 respectively, $32.5 million and $30.8 million was held in trust for the payment of benefits to the Plan participants.

Total net position increased by $1.7 million or 5.6% in 2016. This compares with a decrease in 2015 of $1.5 million or -4.7%. The increase in 2016 was due to a combination of a decrease of benefits paid to participants and the appreciation of fair values. The decrease in 2015 was due to a combination of an increase of benefits paid to participants and the depreciation of fair values.

In 2016, the Plan had net investment income of $1.9 million compared to $327,800 in 2015. Participant contributions were approximately $2.1 million in 2016 and $2.2 million in 2015.

Deductions from net position totaled $2.3 million in 2016 and $4.2 million in 2015 and were primarily for benefit payments to participants.

The Plan is a deferred compensation plan and its primary purpose is to attract and retain qualified personnel by permitting eligible employees to defer a portion of their current income for their retirement. At December 31, 2016, there were 379 participating employees in the Plan, which constituted 37% of all eligible Denver Water employees. This compares to 352 participating employees in the Plan, constituting 35% of all eligible employees in 2015. There were 1,017 employees eligible for the Plan as of December 31, 2016 compared to 1,000 as of December 31, 2015.

Overview of the Financial Statements

The following discussion and analysis is intended to serve as an introduction to the Plan's financial statements, which follow. The statements include:

1. Statements of Net Position

2. Statements of Changes in Net Position

3. Notes to Financial Statements

The Statements of Net Position presents the Plan's assets, liabilities and net position as of December 31, 2016 and 2015. The Statements of Changes in Net position show the additions to and deductions from Plan net position during 2016 and 2015.

The above financial statements are presented in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, which provides guidance for determining a fair value measurement for financial reporting purposes and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements, Statement No. 67, *Financial Reporting for Pension Plans* (replacing GASB 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and GASB 50, *Pension Disclosures*), and GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis–for State and Local Governments*, and all other applicable GASB pronouncements including GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement requires the reporting of deferred inflows and deferred outflows of resources in separate sections of the Statement of Net Position, which was renamed from Statement of Net Assets. These pronouncements address the requirements for financial statement presentation and certain disclosures for state and local governmental entities. The Plan's financial statements comply with all material requirements of these pronouncements.

These financial statements provide a snapshot of the Plan's assets and liabilities as of December 31 and the activities which occurred during the years presented. Both financial statements were prepared using the accrual basis of accounting as required by GASB. All investment activities have been reported based on trade dates and have been valued based on independent outside sources.

The Notes to Financial Statements provide additional information, which is essential to have a full understanding of the basic financial statements.

Financial Analysis

The following section provides further detail of the activities within the Plan as well as additions and deductions to the Plan. Additions to the Plan consist of participant and employer contributions, participant rollovers, interest income on outstanding participant loans, miscellaneous income, and net investment income. The Plan was amended on May 13, 2015 permitting participants of the Plan to draw loans from their account. For more information on participant loans, please refer to the Plan description of this document. Deductions to the Plan are the result of benefit payments to participants, administrative expenses and participant investment advisory fees. Comparative financial schedules depict the changes between the years 2016, 2015 and 2014.

(Continued)

As of December 31, the Plan net position was:

Net Position

(Amounts expressed in thousands)

	Years ended December 31			2016 – 2015		2015 – 2014	
	2016	2015	2014	Increase (decrease)	Percent change	Increase (decrease)	Percent change
Mutual funds	$ 22,680	21,342	22,467	1,338	6.3%	$ (1,125)	(5.0)%
Commingled fund	8,796	8,982	9,494	(186)	(2.1)	(512)	(5.4)
Money market fund	788	236	305	552	233.9	(69)	(22.6)
Total investments	32,264	30,560	32,266	1,704	5.6	(1,706)	(5.3)
Receivables:							
Contributions	66	100	71	(34)	(34.0)	29	40.8
*Participant loans	209	159	—	50	31.4	159	—
Other receivable	1	3	2	(2)	(66.7)	1	50.0
Total receivables	276	262	73	14	5.3	189	258.9
Total assets	32,540	30,822	32,339	1,718	5.6	(1,517)	(4.7)
Total liabilities	1	7	7	(6)	(85.7)	—	—
Net position	$ 32,539	30,815	32,332	1,724	5.6%	$ (1,517)	(4.7)%

* The Plan was amended on May 13, 2015 permitting participants of the Plan to draw loans from their account

Plan Activities

The increase to net position in 2016 was primarily due to a combination of a decrease of benefits paid to participants and the appreciation of market values. The total increase in Plan net position was $1.7 million or 5.6%. In 2015, Plan net position decreased by $1.5 million or -4.7%, as compared to 2014. Additional details for the change in net position are discussed on the next page.

(Continued)

Additions

The moneys used to pay benefits are accumulated from the contributions made by each participant and from income generated from the participants' investments including investment appreciation, interest and dividends. Earnings on investments are reported net of investment management expenses. Investment income net of investment manager fees during 2016 was $1.9 million as compared to $327,800 in 2015.

Additions to Net Position

(Amounts expressed in thousands)

	Years ended December 31			2016 – 2015		2015 – 2014	
	2016	2015	2014	Increase (decrease)	Percent change	Increase (decrease)	Percent change
Participant contributions	$ 2,070	2,188	1,879	(118)	(5.4)%	$ 309	16.4%
Employer contributions	36	36	35	—	—	1	2.9
Participant rollovers	2	82	9	(80)	(97.6)	73	811.1
Participant loan interest	8	2	—	6	300.0	2	—
Miscellaneous income	12	10	6	2	20.0	4	66.7
Net investment income	1,854	327	1,746	1,527	467.0	(1,419)	(81.3)
Total additions	$ 3,982	2,645	3,675	1,337	50.5%	$ (1,030)	(28.0)%

Deductions

Benefits paid to participants of $2.2 million in 2016 and $4.1 million in 2015 represent the majority of the deductions from the Plan. Benefits paid to participants were 46.0% less in 2016 compared to 2015 and 151.2% more in 2015 compared to 2014. The change in the amount of benefits paid to participants from year to year is attributed to the number of participants choosing to take lump sum distributions at retirement in any one year and to changes in the number of participants receiving benefits in the Plan.

(Continued)

Administrative expenses for 2016 and 2015 were $22,700 and $28,600, respectively. Administrative fees are calculated based upon a percentage of the fair value of investments. In 2016, participant investment advisory fees were $4,500 as compared to $6,200 in 2015. Please refer to note 4 of the financial statements for information regarding administrative expenses.

Deductions from Net Position

(Amounts expressed in thousands)

		Years ended December 31			2016 – 2015		2015 – 2014	
		2016	2015	2014	Increase (decrease)	Percent change	Increase (decrease)	Percent change
Benefits paid to participants	$	2,231	4,127	1,643	(1,896)	(45.9)%	2,484	151.2%
Administrative expenses		22	29	28	(7)	(24.1)	1	3.6
Participant investment advisory fees		5	6	6	(1)	(16.7)	—	—
Total deductions	$	2,258	4,162	1,677	(1,904)	(45.7)%	2,485	148.2%

Requests for Information

This discussion and analysis is designed to provide a general overview of the net position and changes in net position as of December 31, 2016 and 2015 and for the years then ended. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Treasurer
Denver Water
1600 W. 12th Ave.
Denver, CO 80204

DENVER WATER 457 DEFERRED COMPENSATION PLAN

Statements of Net Position

Years Ended December 31, 2016 and 2015

		2016	2015
Assets:			
Investments, at fair value:			
Mutual funds	$	22,680,100	21,341,800
Commingled fund		8,796,400	8,982,000
Money market fund		787,600	236,300
Total investments		32,264,100	30,560,100
Receivables:			
Participant contributions		66,400	99,500
Other receivable		700	3,400
Participant loans		209,200	159,400
Total receivables		276,300	262,300
Total assets		32,540,400	30,822,400
Liabilities:			
Accrued administrative expenses		1,200	6,900
Net position	$	32,539,200	30,815,500

See accompanying notes to financial statements.

DENVER WATER 457 DEFERRED COMPENSATION PLAN

Statements of Changes in Net Position

December 31, 2016 and 2015

	2016	2015
Additions:		
Investment income:		
Net appreciation (depreciation) in fair value of investments	$ 1,136,700	(708,100)
Dividends	717,600	1,035,900
Net investment income	1,854,300	327,800
Contributions:		
Participant contributions	2,069,700	2,187,500
Employer discretionary contributions	36,000	36,000
Participant rollovers	2,000	82,100
Total contributions	2,107,700	2,305,600
Other additions:		
Miscellaneous income	11,500	9,500
Participant loan interest	8,300	2,300
Total other additions	19,800	11,800
Total additions	3,981,800	2,645,200
Deductions:		
Benefits paid to participants	2,230,900	4,126,900
Administrative expenses	22,700	28,600
Participant investment advisory fees	4,500	6,200
Total deductions	2,258,100	4,161,700
Net increase(decrease)	1,723,700	(1,516,500)
Net position:		
Beginning of year	30,815,500	32,332,000
End of year	$ 32,539,200	30,815,500

See accompanying notes to financial statements.

(1) Plan Description

The Denver Board of Water Commissioners, City and County of Denver, Colorado (Board) operates a water utility created by the Charter of the City and County of Denver. In 1987, the Board initiated a deferred compensation plan and adopted the Conference of Mayors' 457 Plan. The termination of the administrator of the Plan in December of 2000 required the Board to adopt a new plan. In January 2001, the Board adopted the Denver Water 457 Deferred Compensation Plan (Plan). All of the investments in the old Plan were sold and the proceeds were used to purchase like kind investments in the new Plan.

The Board is made up of five members appointed by the Mayor of the City and County of Denver for staggered six-year terms. The Board is the sponsor of the Plan. The Board has delegated certain responsibilities regarding the Plan administration through a delegation resolution to the Chief Human Resources Officer and to the Chief Finance Officer. The delegation resolution instructs the CEO/Manager to create an advisory committee, with representation from the Finance, the Human Resources, and the Legal divisions, for the purpose of making recommendations to the CEO/Manager, the Chief Finance Officer and the Chief Human Resources Officer regarding the Retirement Program, including this Plan. The advisory committee, in and of itself, has no decision-making authority.

The Board has engaged with Great-West Life & Annuity Insurance Company d/b/a Empower Retirement (Empower Retirement) to provide recordkeeping and communication services for the Plan. The Board engages investment experts to monitor and recommend changes in the investment options included in the Plan.

The following description of the Plan provides general information. Participants and others should refer to the Plan document for a more complete description of the Plan provisions.

(a) General

The Plan is a deferred compensation plan covering all regular and discretionary employees of the Board who have completed the required introductory period. The Plan's primary purpose is to attract and retain qualified personnel by permitting them to provide for benefits in the event of their retirement or death.

The Plan is exempt from compliance with the Employee Retirement Income Security Act of 1974, as amended, as it is a governmental plan.

(b) Contributions

Each year a participant may defer up to an annual maximum amount as codified by the Internal Revenue Service. The Plan will accept transfers, pursuant to Section 457 of the Internal Revenue Code (Code), of amounts deferred by an individual under another eligible deferred compensation plan. Participants direct the investment of their contributions into various investment options offered by the Plan. The Plan was amended in 2013 to authorize employer discretionary contributions to qualifying participants. In 2016 and 2015, a discretionary contribution was made of $36,000. Employer contributions must be made no later than the last day of the Plan Year for which the contribution is made. The employer may suspend, reduce or eliminate future employer contributions and may rescind such action at any time.

(Continued)

(c) Participant Accounts

Each participant's account reflects the cumulative amount of each participant's deferred compensation and employer discretionary contribution (if any), including any income, gains, losses, or increases or decreases in fair value attributable to the investment of the participant's deferred compensation and employer discretionary contribution (if any), and further reflects any distributions to the participant or his or her beneficiary and any fees or expenses charged against the participant's account. The amount of the discretionary contribution, if any, for a Plan year is determined by the employer, and is subject to Treasury Regulations under IRS Code §415 and 401(a)(17).

(d) Vesting

A participant's interest in his/her participant contributions is fully vested and non-forfeitable.

In addition to the participant's contributions, any discretionary contributions to qualifying participants become fully vested upon completing seven years of service, the qualifying participant attaining the age of 65 while employed by the employer, by termination due to the qualifying participant's death or disability, by termination of employment due to serious health conditions of the qualifying participants spouse and by termination by the employer for reasons other than serious cause.

In December of 2016, the Plan was amended to allow a specified dollar amount of the qualifying participant's discretionary employer contribution to become fully vested and non-forfeitable.

In the event of forfeitures due to termination of the qualifying participant prior to vesting the non-vested portion of the qualifying participant's discretionary employer contribution account will be used to pay Plan administrative expenses. Any excess, after paying Plan administrative expenses, will be allocated to participant accounts as employer contributions on the last day of the Plan year during the year of the forfeiture.

(e) Participant Loans

The Plan was amended on May 13, 2015 permitting participants of the Plan to draw loans from their account. Only active Plan participants may request a loan and the participant must have a minimum vested account balance of $2,000.

The minimum loan amount that a participant may request is $1,000 and the maximum is $50,000 or 50% of the vested account balance, whichever is less. The $50,000 maximum loan amount is reduced by the highest loan balance during the past 12 months minus the loan balance on the date a new loan is made. If a participant has an outstanding loan through another qualified plan, 403(b) plan, or a 401(k) plan maintained by the same employer, the maximum loan amount available must be reduced by the highest outstanding loan balance during the past 12 months. The participant is responsible for ensuring that the aggregated loan amount on all plans sponsored by the same employer is the lesser of $50,000 or 50% of the vested account balance.

The Plan offers two loan options to the participants. One is a General Purpose Loan that has a term of twelve to sixty (12-60) months. No reason or documentation, other than a signed promissory note, is required when a participant requests a General Purpose Loan. The other is a Principal Residence Loan that has a term of seventy-two to one hundred eighty (72-180) months, which must be utilized for the purchase of a primary residence only.

(Continued)

Participants are charged a loan origination fee and it is deducted from the original loan amount as well as an annual administrative fee that is deducted quarterly and is assessed to each participant's account. The interest rate assessed to the loans is 1% over the prime rate published in the Wall Street Journal on the first business day of the month before the loan is originated. The interest rate for General Purpose Loans is fixed for the life of the loan. For more information regarding the loan policy, participants may refer to the Plan Document.

(f) Payment of Benefits

On termination of service, a participant with a balance of $1,000 or less will have the amount distributed in a lump-sum as soon as feasibly possible. A participant whose account is greater than $1,000 may elect to receive either a lump-sum amount equal to the value of the participant's interest in his or her account, or leave the balance in the Plan. Distributions from balances left in the Plan must begin no later than age 70½. When balances are paid, participants will receive payment under various payment options defined by the Plan. Upon the death of a participant, a death benefit equal to the value of the participant's account shall be payable to a designated beneficiary. The beneficiary may select from various payment options defined by the Plan.

(g) Recordkeeping, Custody and Management of Assets

Effective December 29, 2015, the Board amended the original agreement with Empower Retirement for an additional five years of recordkeeping and communication services related to the Plan. Trust services are provided by Orchard Trust Company, LLC through a separate contract with the Board. Fees for the trust services are paid by the participants. Assets allocated to the various funds are managed by investment professionals hired by the fund.

(h) Plan Termination

Though it has not expressed any intent to do so, the Board has the right under the Plan to terminate the Plan at any time with respect to any or all participants by resolution of the Board.

(2) Summary of Significant Accounting Policies

(a) Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the Board to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(b) Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting and in accordance with generally accepted accounting principles that apply to governmental accounting for defined contribution plans. Contributions are recognized when earned without regard to the date of actual collection. Expenses are recognized when due and payable. Benefit payments and refunds are recognized upon distribution.

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(c) Fair Value Measurement

The Governmental Accounting Standards Board (GASB) implemented Statement No. 72, which addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining a fair value measurement for financial reporting purposes and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Plan has adopted GASB Statement No. 72 and categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Plan has the following recurring fair value measurements as of December 31, 2016:

Investments and Derivative Instruments Measured at Fair Value
($ in thousands)

			Fair Value Measurements Using		
		December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level					
Mutual Funds	$	22,680	22,680	-	-
Commingled funds		8,796	-	8,796	-
Total investments by fair value level	$	31,476	22,680	8,796	-
Investments measured at amortized cost					
Money market funds	$	788			
Total investments measured at fair val	$	32,264			

		December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level					
Mutual Funds	$	21,342	21,342	-	-
Commingled funds		8,982	-	8,982	-
Total investments by fair value level	$	30,324	21,342	8,982	-
Investments measured at amortized cost					
Money market funds	$	236			
Total investments measured at fair val	$	30,560			

Funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Funds classified in Level 2 of the fair value hierarchy are valued based on evaluated prices using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Level 3 inputs are significant unobservable inputs.

(d) Income Recognition

Purchases and sales are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized and unrealized gains and losses are reflected as net appreciation or depreciation in fair value of investments in the accompanying statements of changes in net position. This is determined as the difference between fair value at the beginning of the year (or date purchased during the year) and selling price or year-end fair value.

(e) Tax Status

The Plan is intended to be an eligible deferred compensation plan under Section 457(b) of the Code. The Board and the Plan's tax counsel believe that the Plan is currently designed and operating in compliance with the applicable requirements of the Code.

(Continued)

(3) Investments

The following table lists the investment options available to participants and the value of each option at December 31, 2016 and 2015 (amounts are expressed in thousands).

		2016	2015
American Beacon Small CP Val Institutional	$	1,097	1,005
American Funds Washington Mutual		1,891	1,866
Baron Growth Institutional		427	596
Cohen & Steers Institutional Global Realty		200	119
Domini Impact Equity Institutional		368	384
Dreyfus Cash Management Fund Institutional		—	236
Frost Total Return Bond Institutional		1,624	1,422
Galliard Retirement Income Fund		8,796	8,983
Harbor International Institutional		1,430	1,554
PIMCO High Yield Institutional		838	697
T. Rowe Price Growth Stock Fund		3,256	3,829
Vanguard Inflation Protected		462	361
Vanguard Institutional Index Fund		3,558	2,847
Vanguard Mid Cap Index		1,611	1,642
Vanguard Target Retirement 2010 Inv		5	70
Vanguard Target Retirement 2015 Inv		614	657
Vanguard Target Retirement 2020 Inv		699	234
Vanguard Target Retirement 2025 Inv		1,967	1,691
Vanguard Target Retirement 2030 Inv		164	92
Vanguard Target Retirement 2035 Inv		746	625
Vanguard Target Retirement 2040 Inv		169	103
Vanguard Target Retirement 2045 Inv		871	758
Vanguard Target Retirement 2050 Inv		53	3
Vanguard Target Retirement 2055 Inv		42	74
Vanguard Target Retirement 2060 Inv		261	215
Vanguard Target Retirement Income Inv		327	497
Vanguard Treasury Money Market Inv		788	—
Total investments	$	32,264	30,560

The Plan offered 26 mutual fund investment options (including twelve target date funds), one money market fund and one commingled fund as of December 31, 2016 and 2015. The Plan investments (including gains and losses on investments bought and sold, as well as income received on investments held during the year) during 2016 and 2015 generated investment income of approximately $1.9 million and $327,800, respectively.

(4) Administrative Expenses

The majority of investment options available to participants in the Plan are registered mutual funds. The dollar amount of fees paid by the Plan for investment management and administrative services on these funds is not separately disclosed. Effective January 2016, the total fee for recordkeeping and communication services was reduced to 0.075% annually (0.00625% monthly). The fee is being calculated and withdrawn from all participant accounts on a monthly basis. Revenue generated from the funds which had revenue sharing arrangements with the recordkeeper (Frost Total Return Bond Institutional, Harbor International Institutional Fund, T. Rowe Price Growth Stock Fund, Baron Growth Institutional and Cohen & Steers Institutional Global Realty) were credited to participants with account balances in the revenue-paying fund, based on the average daily balance of the participant's investment in such fund(s) for the month.

In 2015, the unallocated account was used to accumulate any recordkeeping and communication fees withdrawn from participant accounts, any fund credits received and any income received on excess balances. Any remaining balance in the unallocated account was reclassified as other receivables and was disbursed to the Plan participants after year-end at the discretion of the Board.

Effective 2016, the unallocated account was no longer used to accumulate fees and fund credits. Any fees or fund credits were directly debited or credited to the participant’s account based on their account balance. At the year-end of 2016, the remaining balance in the unallocated account of $700 was reclassified as other receivables and disbursed to Plan participants. In 2015, total disbursements to participants at year-end were $3,400.

The assessed recordkeeping and communication fee for 2016 totaled $22,700. Revenue sharing from 12(b)(1) fees reported by the recordkeeper for the same period was $9,100. The assessed recordkeeping and communication fee for 2015 totaled $28,600. Revenue sharing from 12(b) (1) fees reported by the recordkeeper for the same period was $9,600 and participant fees collected totaled $21,900.

(5) Participant Investment Advisory Fees

The Plan participants may use an online investment advice tool or they can choose to have their account managed as an ancillary service available through the Plan recordkeeper. Participants who choose to use the online investment advice tool pay an annual fee assessed quarterly. Participants choosing to have their account managed pay an annual tiered fee, assessed quarterly, based on the participant’s account balance. In 2016 and 2015, total participant investment advisory fees paid were $4,500 and $6,200, respectively.

(6) Risks and Uncertainties

(a) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Plan will not be able to recover its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Plan, and are held by either the counterparty or the counterparty’s trust department or agent but not in the Plan’s name.

The Plan investments are evidenced by mutual fund shares and commingled fund units. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, investments in these funds should be disclosed but not categorized because they are not evidenced by securities that exist in physical or book-entry form. The Plan's investment is the mutual fund share or the commingled fund unit, not the underlying security. Additionally, investments in open-end mutual or commingled funds are not subject to custodial credit risk disclosures.

(b) Concentration Risk

Concentration risk is the credit risk of loss attributed to the magnitude of an investment in a single issuer. If 5% or more of the total assets of the Plan are invested with one issuer then the investment is considered to have concentration risk. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds or pools are excluded from concentration of credit risk requirements. The Plan investment options consist of diversified mutual funds, a commingled fund, and one money market fund and therefore do not have concentration risk.

(c) Credit Risk

Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. The Plan investment policy does not specifically address the quality rating of the investments. Each participant is responsible for determining the risks and commensurate returns of their portfolio. The Plan investment options consist of diversified mutual funds and one commingled fund, and one money market fund and therefore do not have credit risk. The mutual funds, commingled fund, and money market fund have not been rated by any nationally recognized rating agency (Moody's, Fitch and Standard & Poor's rating agencies).

(Continued)

(d) Interest Rate Risk

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Some of the mutual funds held by the Plan invest in debt instruments that are subject to interest rate risk. The schedule presented below provides an indication of the interest rate risk associated with the funds holding debt obligations as of the most recent information available:

Schedule of maturity, duration and credit quality

	Average effective maturity (years)	Average effective duration (years)	Average credit quality
Target date funds:			
Vanguard Target Retirement 2010 Inv	7.16	5.59	AA
Vanguard Target Retirement 2015 Inv	7.48	5.80	AA
Vanguard Target Retirement 2020 Inv	8.21	6.29	AA
Vanguard Target Retirement 2025 Inv	8.52	6.48	AA
Vanguard Target Retirement 2030 Inv	8.52	6.48	AA
Vanguard Target Retirement 2035 Inv	8.52	6.48	AA
Vanguard Target Retirement 2040 Inv	8.52	6.48	AA
Vanguard Target Retirement 2045 Inv	8.52	6.49	AA
Vanguard Target Retirement 2050 Inv	8.52	6.48	AA
Vanguard Target Retirement 2055 Inv	8.52	6.48	AA
Vanguard Target Retirement 2060 Inv	8.51	6.47	AA
Vanguard Target Retirement Income Inv	7.10	5.55	AA
Fixed income mutual funds:			
Frost Total Return Bond Institutional	5.96	3.63	BB
PIMCO High Yield Institutional	5.14	3.51	B+
Vanguard Inflation Protected	8.80	6.78	AAA
Commingled funds:			
Galliard Retirement Income Fund	—	2.58	AA

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Plan's diversified selection of funds encourages the participants to employ diversification, asset allocation, and quality strategies to minimize risks. Each participant is responsible for determining the risks and commensurate returns of their portfolio.

(Continued)

The Plan exposure to foreign currency risk is measured by fund allocation to foreign securities as of the most recent information available is summarized in the table (amounts are expressed in thousands).

Schedule of assets invested in foreign securities

	Dollar allocation invested in foreign securities	Percentage of fund invested in foreign securities
American Beacon Small CP Val Institutional	$ 21	1.95%
American Funds Washington Mutual	143	7.57
Baron Growth Institutional	13	2.93
Cohen and Steers Institutional Global Realty	83	41.33
Domini Social Equity	5	1.31
Frost Total Return Bond Institutional	222	13.69
Harbor International Institutional	1,157	80.96
PIMCO High Yield Institutional	155	18.49
T. Rowe Price Growth Stock Fund	193	5.91
Vanguard Institutional Index Fund	27	0.77
Vanguard Mid Cap Index	8	0.51
Vanguard Target Retirement 2010 Inv	2	30.20
Vanguard Target Retirement 2015 Inv	202	33.00
Vanguard Target Retirement 2020 Inv	250	35.75
Vanguard Target Retirement 2025 Inv	724	36.80
Vanguard Target Retirement 2030 Inv	61	37.06
Vanguard Target Retirement 2035 Inv	279	37.38
Vanguard Target Retirement 2040 Inv	64	37.89
Vanguard Target Retirement 2045 Inv	332	38.08
Vanguard Target Retirement 2050 Inv	20	38.19
Vanguard Target Retirement 2055 Inv	16	38.25
Vanguard Target Retirement 2060 Inv	100	38.21
Vanguard Target Retirement Income Inv	97	29.75
Total	$ 4,174	

(7) Plan Amendments

On November 16, 2016 with an effective date of September 2, 2016, the Plan was amended to define the terms spouse, husband, and wife as an individual lawfully married to another individual for federal tax purposes and to define spouse to include a party to a Colorado civil union.

On December 14, 2016 the Plan was amended with an effective date for distributions after December 18, 2015, to allow rollover contributions from the Plan to a SIMPLE IRA.

Effective January 1, 2016, the Plan was amended to redefine the term compensation to include accumulated sick pay, accumulated vacation pay, and back pay. In addition, the Plan was amended to specify that leave cash-outs and regular pay paid after severance from employment are included in includible compensation.

Effective December 16, 2016, the Plan was amended to allow for special vesting of a qualifying participant's discretionary employer contributions to the Plan.

Effective December 9, 2015, the Plan was revised to ensure that the Plan is consistent with Denver Water's practices and with requirements of the Internal Revenue Code and IRS Regulations and Revenue Rulings. The revisions allowed for electronic forms of communication to alternate payees, reflects the updated maximum deferral limit of $18,000 and catch-up limit of $6,000, permits investment of funds in group trusts, provides that revenue sharing is reallocated to the participant account which generated the revenue sharing and is not credited to the unallocated account, and permits the distribution of funds to a civil union partner, dependent upon a qualified domestic relations order and a distributable event for the Participant.

On October 9, 2015 with an effective date of January 1, 2016, the Plan was amended to reflect a change in annual administrative expenses and revenue sharing distributions. The Plan's fees will be paid through an administrative fee, which will be debited directly from participants accounts based on each participant's account balance.

On May 13, 2015, the Plan was amended to permit participants of the Plan to draw loans from their account with an effective date of June 1, 2015. Participants that draw a loan are charged origination fees, administrative expenses and are assessed an interest rate for any outstanding balances.

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*

The Board of Water Commissioners, City and County of Denver, Colorado
Denver Water 457 Deferred Compensation Plan
Denver, Colorado

We have audited, in accordance with the 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 net position, and the related statements of changes in net position of the Denver Water 457 Deferred Compensation Plan, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements, and have issued our report thereon dated April 28, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's 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 the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's 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 control, 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 Plan's financial statements are free from 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*.

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 result 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Broomfield, Colorado
April 28, 2017