

# 2014 ANNUAL REPORT



## DENVER BOARD OF WATER COMMISSIONERS EMPLOYEES' RETIREMENT PROGRAM

Employees' Retirement Plan

Denver Water 401(k) Supplemental Retirement Savings Plan

Denver Water 457 Deferred Compensation Plan

Trust Funds of the Denver Board of Water Commissioners

For Fiscal Year Ended December 31, 2014

TREASURY DEPARTMENT  
DENVER BOARD OF WATER  
1600 W. 12TH AVENUE, DENVER, CO 80204-3412  
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# **I. INTRODUCTORY SECTION (UNAUDITED)**







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## A. LETTER OF TRANSMITTAL

June 10, 2015

To the Board of Water Commissioners and Participants in the Plans of the Denver Water Retirement Program:

We are pleased to present the Annual Report of the Retirement Program of the Denver Board of Water Commissioners for the fiscal year ended December 31, 2013. The Retirement Program includes three trustee funds ("Plans") and two additional, unfunded benefits. The trustee funds are the Employees' Retirement Plan of the Denver Board of Water Commissioners ("Defined Benefit Plan" or "DB Plan"), the Denver Water Supplemental Retirement Savings Plan ("401(k) Plan" or "SRSP") and the Denver Water 457 Deferred Compensation Plan ("457 Plan"). The 401(k) Plan and the 457 Plan are collectively referred to as the "Defined Contribution Plans" or "DC Plans". This report contains audited financial statements only for the trustee plans. The two unfunded benefits are a Retiree Medical Coverage Program and a Retirement Financial Planning Reimbursement Program. Although the two unfunded benefits are discussed briefly in this letter, financial statements were not prepared for either of the unfunded benefits nor are they discussed in the other sections of this Annual Report.

The report is divided into five sections: an *Introductory Section*, a *Financial Section*, an *Investment Section*, an *Actuarial Section*, and a *Statistical Section*.

Management assumes full responsibility for both the accuracy of the data, and the completeness and fairness of the report, including the financial statement presentation, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. To the best of management's knowledge and belief, the data is accurate in all material respects and presents fairly the financial position and results of operations of the Plans.

KPMG LLP audited the three financial statements included in this document, and issued an unqualified ("clean") opinion on each of those financial statements for the year ended December 31, 2014. The independent accountant's report is the first page of each set of statements, all of which are included in the *Financial Section* of this report. Generally accepted accounting principles (GAAP) require that management provide a narrative overview and analysis of the financial status of each plan to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). Each set of financial statements in the *Financial Section* includes the MD&A

just after the auditor's report. The MD&A complements this letter of transmittal and should be read in conjunction with it.

The *Introductory Section* contains information about the administrative organization, the Trustee, or the Sponsor of each Plan included in the Retirement Program, the Denver Water Retirement Program Committee and the Consultants and Advisors who provide advice concerning the various elements of the Retirement Program. The *Financial Section* contains the audited financial statements of the Plans and other required supplementary information. The *Investment Section* contains a report on investment activity, investment policies, investment results, and various investment schedules. The *Actuarial Section* contains the actuarial assumptions and methods used in the DB Plan, a summary of DB Plan provisions, the results of the annual actuarial valuation, and other actuarial statistics. The *Statistical Section* presents other significant data pertaining to the Plans, such as trend information on DB Plan expenses and revenues as well as information about the retired members of the DB Plan.

### **Background of the Retirement Program**

The Denver Board of Water Commissioners ("Board") is a five-member board appointed by the Mayor of Denver, Colorado to oversee the operations of the water utility that serves Denver and a large part of the Denver metropolitan area ("Denver Water"). Denver Water was created by the people of Denver by the Charter of the City and County of Denver, Colorado ("City"). Article X, Section 10.1.6 of the City Charter grants to the Board authority to establish and amend benefit provisions for Denver Water employees.

The ***Employees' Retirement Plan of the Denver Board of Water Commissioners*** was established on June 1, 1944 as a defined benefit, single-employer plan covering substantially all regular and discretionary employees of the Board. The Board is the sponsor, administrator and trustee of the assets of the DB Plan. The assets are held in custody by The Northern Trust Company. When it was first adopted, the DB Plan benefit was set at \$3 for each year of service with a maximum monthly payment of \$100. Employees were required to contribute \$3 per month. Part-time employees and those who were hired after the age of 50 were not permitted to participate in the plan. Payments did not begin until the age of 70 and they could have been delayed for up to three years. Over the years, the DB Plan has improved dramatically. In 1971, cost of living adjustments were added. In 1981, employee contributions were eliminated. In 1985, early retirement at age 55 with 15 years of service became available, but at a reduced amount. In 1995, the Rule of 75 was adopted, permitting an unreduced retirement at the age of 55 with 20 years of service. In 1996, part-time employees were allowed to participate in the DB Plan, and in 2001 the 35-year cap on years of service used for computing benefits was eliminated.

Currently, the DB Plan provides normal, special early (rule-of-75), early, and late retirement benefit options with limited annual cost-of-living adjustments, disability benefits and death benefits. Participants become fully vested after five (5) years of employment. DB Plan benefits are integrated with Social Security benefits and are determined by a formula defined in the DB Plan document. A more detailed explanation of benefits is outlined in the Summary of DB Plan Provisions in the *Actuarial Section* of this report.

As of December 31, 2014 there were 1,711 participants in the DB Plan, including 1,034 active members, 582 retirees and beneficiaries and 90 terminated employees entitled to benefits but not receiving them yet.

The **Denver Water Supplemental Retirement Savings Plan** was established pursuant to Section 401(k) of the Internal Revenue Code (IRC), effective January 1, 1999. It is a single-employer defined contribution plan. All regular and discretionary employees are eligible to participate in the 401(k) Plan upon completion of a required introductory period. Denver Water matches 100% of each Participant's contribution up to 3% of the Participant's published base compensation. The SRSP provides for immediate vesting of all contributions. Participation in the SRSP is voluntary. Empower Retirement (formerly Great-West Retirement Service) is the administrator of the SRSP. At the end of 2014 there were 957 active participants with balances and 185 terminated participants with balances. 90.3% of all eligible Denver Water employees participated in the SRSP Plan as of December 31, 2014.

Denver Water established a 457 Deferred Compensation Plan pursuant to Section 457 of the Internal Revenue Code (IRC) on October 1, 1987. Assets from that plan were transferred to the **Denver Water 457 Deferred Compensation Plan**, when it was established on January 3, 2001. All regular or discretionary employees are eligible to participate in the 457 Plan upon completion of a required introductory period. Denver Water does not contribute to the plan and employee participation is voluntary. Empower Retirement (formerly Great-West Retirement Service) is the administrator of the SRSP. At the end of 2014, there were 476 active participants with balances and 145 terminated participants with balances. 33.2% of all eligible Denver Water employees participated in the 457 Plan as of December 31, 2014.

Denver Water offers a **Retirement Financial Planning Reimbursement Program** designed to encourage eligible employees to consult with a Certified Financial Planner (CFP®) of their choice about their retirement planning needs. Reimbursement requires certification that the services did not include tax preparation, legal, accounting or brokerage services, as the program is designed to be a tax-free reimbursement for "qualified retirement planning services" as described in Internal Revenue Code section 132(m). Until December 2013, employees who were within three years from retirement, were eligible to receive a lifetime maximum reimbursement of \$1,000. Effective December 1, 2013, Denver Water's Retirement Financial Planning Reimbursement Program was expanded to all employees with 5 years of credited service or more and the maximum lifetime benefit was increased to \$2,000. 14 employees used the counseling services during 2014 and 6 of those employees have subsequently retired. The total 2014 expenditures on the Retirement Financial Planning Reimbursement Program were \$12,642.

Denver Water began offering the **Retiree Medical Coverage Program** in 1995, which also was the first year employees were able to retire under the Rule of 75.<sup>1</sup> The benefit is in the form of partially subsidized health care costs, until the retiree attains age 65. After the retiree becomes Medicare-eligible at age 65, the retiree's coverage ceases. At that point, a spouse may elect to remain in the program until age 65, and other dependents may also elect to remain in the program until the dependent attains the cut-off age for active employee dependents. Full cost premiums are charged to the spouse or the dependent if there is an election to remain in the program after the retiree's coverage ends. The benefit is provided through the Board's self-insured health plan to employees and dependents who meet eligibility requirements of the postemployment healthcare benefit plan. The eligibility requirements include retiring under the Special Early Retirement (Rule of 75) provision of the Board's defined benefit pension plan, taking an immediate distribution of

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<sup>1</sup> This provision, known as the Rule of 75, applies if the sum of the retiree's age plus Credited Service equals 75 or more.

pension benefits, and being covered as an employee or dependent under the employee healthcare plan, excluding COBRA coverage, at the time of retirement. The subsidy is separate from the Board's defined benefit retirement plan and is not paid out of retirement plan funds. As of the end of 2013, 178 retirees were receiving this benefit. In January 2012, the Board discontinued its contribution for this benefit for employees hired on or after January 16, 2012. However, these employees can still access this program at full cost upon meeting the Rule of 75. In January 2013, the Board formalized its decision to change eligibility for the retiree medical benefit effective January 1, 2014. Employees with 25 or more years of service on January 1, 2014 are eligible for full Retiree Medical Subsidy when they retire between the ages of 55 and 65. Employees whose age plus service on January 1, 2014 was greater than or equal to 75 may still retire as early as age 55 and participate in the plan, but those retiring prior to age 60 will not be eligible for the Denver Water portion of the contribution, and will pay the full retiree premium. For all other employees, the minimum retirement age in order to be eligible for benefits has been raised to age 60.

Effective with the issuance of the December 31, 2007 financial statements, The Governmental Accounting Standards Board ("GASB") Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions", requires Denver Water to accrue the cost of this benefit over the period of employment, much as a defined pension benefit is now accrued. Denver Water is in compliance with GASB Statement No. 45 and is accruing the liabilities related to health care coverage for Early Retirees as presented in its financial statements. Denver Water is not required to, and has not, established an irrevocable trust to accumulate assets for payment of future retiree health benefits. Payments of benefits are made on a pay-as-you-go basis in amounts necessary to provide current benefits to recipients. The Board of Water Commissioners will make a determination whether to fund this obligation in the near future. The annual expense for this benefit is calculated based on the annual required contribution as computed by the actuary. The expense recorded in 2014 was \$2.0 million; of this amount, \$1.9 million was paid as benefits under the plan (approximately 69% of estimated premium equivalent costs). Retirees receiving benefits contributed \$844,000, or approximately 31% of the estimated premium equivalent costs. The Net OPEB Obligation for postemployment healthcare benefits as of the end of the year was \$11.0 million.

#### **Major Initiatives in 2014**

- **Updated Investment Policy Statements for DB Plan, 401(k) Plan and 457 Plan.**
  - In March 2014, the Board adopted revised investment policies for the retirement plans. The changes to the investment policies resulted from the overall fiduciary review of the retirement plans that began in 2013. The changes to the defined benefit plan investment policy make it consistent with the delegation resolution approved in May 2013. They also address proxy voting, securities trading, and lending policies. The changes to the 401(k) and 457 plans' investment policies articulate how Denver Water will monitor the plans' fees and how plan expenses are allocated to participants at the end of each year. They also address the roles of the Director of Finance and the external investment advisers with regard to the 401(k) and 457 plans. Denver Water's outside counsel reviewed and approved the revised policies.
  - In October 2014, following the recommendation of Watershed Investment Consultants, the Board approved changes to the Investment Policy Statement that reduced the allocation to fixed income to a range of 10%-50%. The targeted range for equities is now set at 35-70% and alternatives at 10-40%.

- **Favorable IRS Determination Letters received.** In August 2014, the Board received a favorable determination letter from the IRS for the 401k and DB Plans.
- **Amendments to Denver Water Retirement Plan, 457 Plan and 401(k) plan.** In August 2014, the Board amended the definition of the a spouse in the plan documents with the effective date of May 1, 2013, to include parties of Colorado civil unions, wherever federal tax law defines “spouse” to include a person of the same sex , as specified in the Colorado Civil Union Act. The applications of the Act “include but are not limited to” ... naming a “beneficiary” under PERA and “survivor benefits under local firefighter and police pensions.”
- **Approval of new asset allocation and rebalancing strategy.** In November 2014, following the recommendations from the Watershed Investment Consultants, Director of Finance approved the new allocation targets for the DB Plan, in line with the new long term allocation ranges approved by the Board at the October 8, 2014 Trustee meeting. Domestic equity target was reduced from 42% to 37%, International Equity target was reduced from 18% to 13%, private equity target was increased from 0% to 5%, hedge fund target was increased from 8% to 10%, real estate target was increased from 9% to 20% (15% Core and 5% Value-add) and Fixed Income target was reduced from 20% to 15%. The rebalancing to achieve the current targets is expected to take a few month/years.
- **Fund Changes in 401(k)/457 Plans:**
  - In April 2014, the Director of Finance, under the advice of the Investment Consultant for the DC Plans, approved and directed the DC Plan custodian and record keeper, Empower Retirement to replace the Domini Social Equity fund with lower cost share class of the same fund. The net operating expense ratio will decrease from 0.90% to 0.80%. Additionally, a recommendation to replace Perkins Small Cap Value fund with American Beacon Small Cap Value fund was made due to organizational changes and underperformance. The changes were effective June 9, 2014.
  - In October 2014, based on the recommendation from Cook Street Consulting, the Director of Finance made the decision to terminate PIMCO Total Return fund in 401K Plan and Denver Water's 457 Plans and replace it with Frost Total Return Bond Inst fund. The reasons behind the termination include unexpected departure of PIMCO's founder Bill Gross, other recent organizational changes, increased client outflows, poor recent performance, and SEC investigation over pricing of securities. The mapping to the new manager took place in December 2014.
- **Manager Changes in the DB Plan.** The Director of Finance, with the assistance of the Investment Consultant for the DB Plan approved the following changes in the investment manager lineup for the DB Plan:
  - Vontobel Emerging Markets Equity Fund was selected as an emerging Market manager in January 2014 with a 3% allocation;
  - Harbert United States Real Estate Fund V, LP, a value-add real estate manager, was added in May 2014 with a 5% allocation, to be funded over the next 2-3 years
  - Two private equity managers were selected in October 2014: FLAG (a buyout fund-of-funds) - 3.5% allocation, and Horsley Bridge (venture capital fund-of-funds) – 1.5% allocation. Watershed developed a pacing model for investments over multiple years in order to achieve and maintain the target.



- PIMCO Unconstrained Bond fund was terminated in October 2014 and proceeds were placed within Denver Investments. The reason for the termination was recent departure of the Fund manager/ Bill Gross, combined with short tenure of the incoming manager.
- In November 2014, the Director of Finance approved 2 new core real estate managers: RREEF and Principal. The initial allocation will be \$15 million each. The initial funding is likely to take place in the first half of 2015.

## **Investments**

As discussed in more detail in both the *Financial Section* and the *Investment Section*, assets of all Plans are held in trust for the exclusive benefit of participants and beneficiaries. Investment activities have been delegated to professional investment managers. The investment managers engaged by the Defined Benefit Plan as of December 31, 2014 are listed on page III-84 of the report; funds included in the Defined Contribution Plans are listed on page III-100 of the report. Activities of the professional managers are reviewed and evaluated quarterly by the investment consultant for each plan, the Retirement Program Committee, and Denver Water's Finance staff.

The investments in the Defined Benefit Plan returned 6.7% during 2014, compared to the target benchmark return of 5.4% and the actuarial assumed rate of return of 7.5%. The annualized rate of return on assets of the Defined Benefit Plan was 11.6% over the last three years and 9.2% over the last five years. Returns on Defined Contribution Plans vary depending on the choices made by each participant.

A summary of the current investment objectives and guidelines for each fund, additional information concerning allocation of the DB Plan's assets, and more detailed information about investment performance is included in the *Investment Section* of this report.

## **Funding**

As of January 1, 2014, the Funded Ratio of the DB Plan was 82.8%, compared to 80.8% the year before. Over the past ten years the Funded Ratio ranged from a low of 72.7% (01/01/09) to a high of 93.4% (01/01/07). More information about funding of the DB Plan, including a multi-year Schedule of Funding Progress, is provided in the *Actuarial Section* of this report.

Funding of the Defined Contribution Plans is primarily from employee contributions. Denver Water currently matches 100% of employee contributions to the 401(k) plan up to 3% of published base pay.

## **Professional Services**

Professional consultants and advisors are engaged as necessary to perform professional services that are essential to the effective and efficient operation of the Plan. Opinions from the Independent Auditor for the Financial Statements of each of the Plans, an opinion from the actuary for the DB Plan, and a report from the Investment Performance Measurement Consultant to the DB Plan are included in this report. The consultants engaged to assist the Manager, various staff members, and the Board are listed on pages I-16 – I-21.

**Acknowledgements**

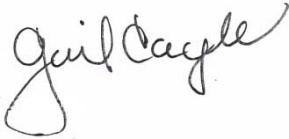
The compilation of this report reflects the combined effort of Denver Water's staff. It is intended to provide complete and reliable information about the Defined Benefit Plan and the Defined Contribution Plans. It will be made available to all members of the Denver Water Retirement Program.

We would like to express our appreciation to the Denver Water staff, specifically the members of the Retirement Program Committee and their support staff, the advisors, and to the many other people who have worked so diligently in the preparation of this report and toward the successful operation of the Denver Water Retirement Program.

Respectfully submitted,



James S. Lochhead, CEO/Manager

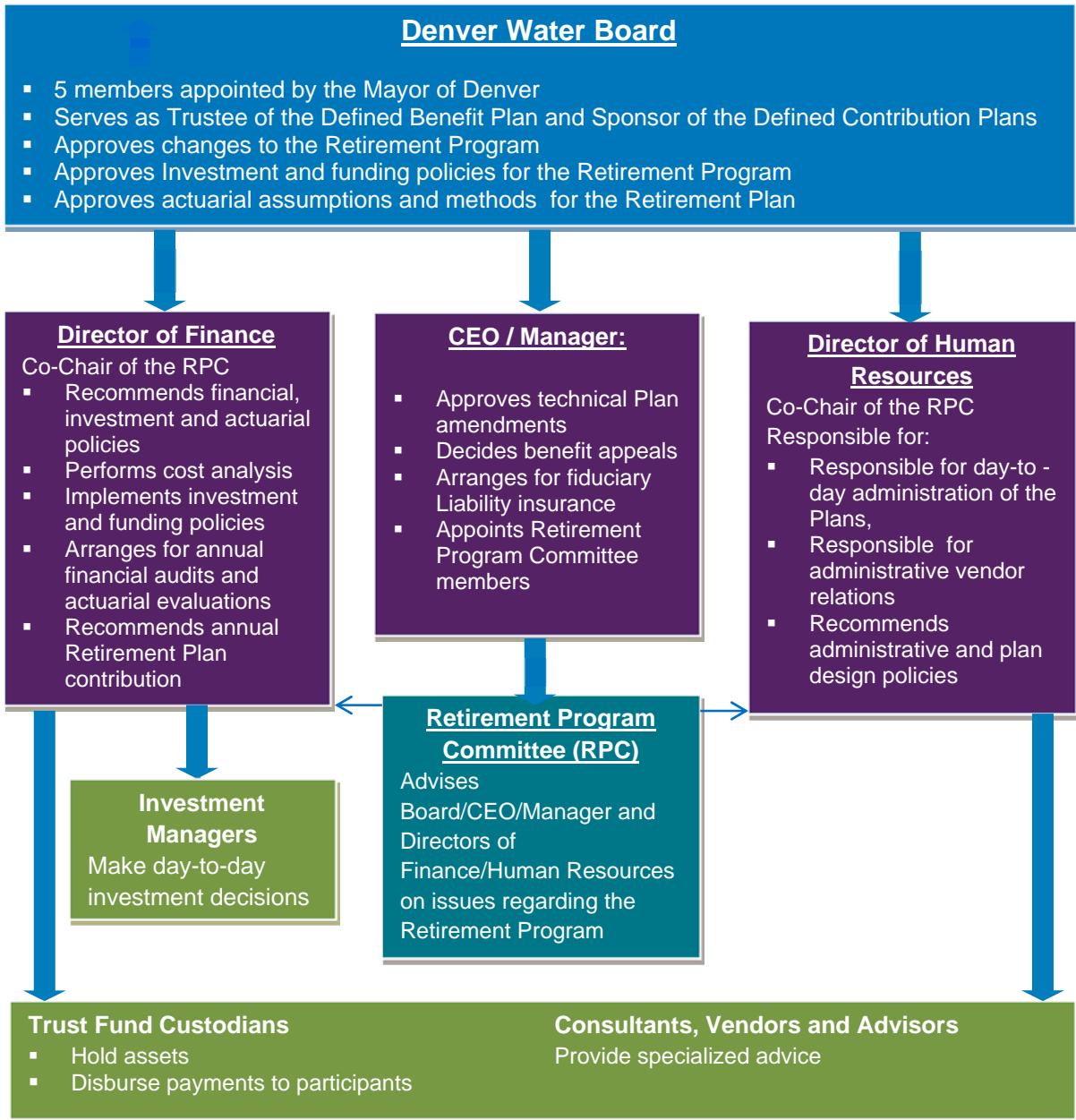


Gail Cagle  
Director of Human Resources, RPC Co-Chair



Angela Bricmont  
Director of Finance, RPC Co-Chair

## B. ORGANIZATIONAL CHART OF THE EMPLOYEES' RETIREMENT PROGRAM



More information about investment professionals who provide services to the Retirement Program and their fees can be found on the following pages: I-21, III-84, III-92, III-100 and III-105.



## C. DENVER BOARD OF WATER COMMISSIONERS

*The Denver Board of Water Commissioners is the Sponsor of the Retirement Program and acts as Trustee of the Defined Benefit Plan.*



### BOARD OF WATER COMMISSIONERS - As of December 31, 2014

**Top from left, Greg Austin, John R. Lucero,  
Bottom from left, Thomas A. Gougeon, Paula Herzmark, Penfield W. Tate III**

H. Gregory Austin, President  
Former Partner, Holland & Hart LLP.

*Commissioner since July 28, 2009;  
Term expires July 10, 2019*

John R. Lucero, First Vice President  
Deputy Director, Mayor's Office of Economic Development

*Commissioner since July 18, 2007;  
Term expires July 10, 2015*

Thomas A. Gougeon  
President, Gates Family Foundation

*Commissioner since August 10, 2004;  
Term expires July 10, 2017.*

Paula Herzmark  
Executive Director, Denver Health Foundation

*Commissioner since April 24, 2009;  
Term expires July 10, 2019.*

Penfield W. Tate III  
Attorney: Greenberg Traurig

*Commissioner since October 18, 2005;  
Term expires July 10, 2017.*

LAST 20 COMMISSIONERS

Charles G. Jordan	Sep 26, 1983 to Jun 28, 1985
D. Dale Shaffer	Aug 9, 1978 to Jul 8, 1985
John A. Yelenick	Jul 14, 1969 to Aug 25, 1987
Marguerite S. Pugsley	May 10, 1978 to Aug 25, 1987
Elizabeth A. Hennessey	Nov 4, 1985 to Jul 28, 1989
Malcolm M. Murray	Aug 25, 1987 to Jul 12, 1993
Donald L. Kortz	Aug 25, 1987 to Jul 12, 1993
Monte Pascoe	Sep 26, 1983 to Jul 10, 1995
Romaine Pacheco	Jul 31, 1989 to Jul 10, 1995
Hubert A. Farbes, Jr.	Jul 8, 1985 to Jul 14, 1997
Ronald L. Lehr	Jul 21, 1993 to Apr 20, 1999
Joe Shoemaker	Jul 10, 1995 to Jul 9, 2001
Andrew D. Wallach	Jul 18, 2001 to Aug 5, 2003
Daniel E. Muse	Feb 10, 2000 to Nov 13, 2003
Richard A. Kirk	Jul 21, 1993 to October 18, 2005
William R. Roberts	Jul 10, 1997 to October 18, 2005
Harris D. Sherman	Dec 6, 2005 to Feb 16, 2007
Denise S. Maes	Jul 10, 1995 to Jul 10, 2007
Susan D. Daggett	Nov 6, 2007 to Jan 22, 2009
George B. Beardsley	Feb 2, 2004 to Mar 13, 2009

## D. KEY MEMBERS OF THE RETIREMENT PROGRAM COMMITTEE

**Retirement Program Committee (“RPC”)** – Responsible for advising the CEO/Manager with respect to retirement issues; The Retirement Program Committee (“RPC”) was created by resolution of the Board passed in September 2005. The terms of the 2005 resolution were revised in 2013. Under the resolution, the Board retained full authority to approve substantive changes to the Retirement Program, investment and funding policies, and actuarial methods and assumptions. The 2013 resolution clarifies that the Retirement Program Committee will make recommendations to the Directors, the CEO/Manager or the Board, as appropriate, but will not have decision-making authority. The RPC is co-chaired by the Director of Human Resources and the Director of Finance and includes key representatives from Treasury, HR Benefits and the Legal Division. The CEO/manager issued an Executive Guideline that further describes the RPC’s purpose, responsibilities, duties and procedures in November 2013. The primary purpose of the RPC, as outlined in the Executive Guideline, is to provide advice and recommendation to the co-chairs regarding proposed changes to the Retirement program, communication strategies, contractual obligations, legal and tax compliance and education and outreach.

James S. Lochhead - CEO/Manager since June 2010. Responsible for approving amendments to the Plans necessary to maintain tax qualified status, deciding benefit appeals, and arranging for fiduciary liability insurance for Plan fiduciaries . The CEO/Manager reports to the Board at least annually regarding the status of the Program and appoints members of the Retirement Program Committee.

Gail Cagle - Director of Human Resources since January 2014; co-chair of the RPC. Gail replaced Carla Elam-Floyd who retired December 31, 2013. The Director of Human Resources administers the Plans with regard to participants, including data maintenance, disclosures, calculations, payment of benefits and other similar duties. She is also responsible for communicating with participants and beneficiaries, recommending to CEO/Manager any changes to the Plans necessary to retain their tax qualified status evaluating and recommending changes in Program design and providing information related to the administration of the Program to the Board and the CEO/manager no less frequently than semi-annually.

Angela C. Bricmont - Director of Finance since July 2010, co-chair of the RPC. The Director of Finance recommends investment policy, actuarial methods and assumptions and annual contributions to the DB Plan. The Director of Finance also analyzes and advises the Board and the CEO/Manager the total cost impact of Program changes recommended by the Director of Finance, implements investment and funding policies approved by the Board, allocates cash flow for the payment of benefits and other obligations, rebalances Plan assets, selects and monitors investment managers, auditors, actuaries and other financial experts. The Director of Finance is responsible for reporting the financial activities and status of the Program to the Board and the CEO/Manager at least semi-annually.

Sandra Miller - Manager of Healthcare and Benefit Administration since September 2008; member RPC; The Director of Human Resources has delegated to Ms. Miller the responsibility for managing employee benefits.

Deb B. Engleman - Senior Benefits Administrator since June 1993; member RPC. The Director of Human Resources has assigned to Ms. Engleman responsibility for daily monitoring, administration

and evaluation of various employee benefit policies and programs and recommending changes to these programs. Ms. Engleman also administers external benefit-related contracts.

Gary L. Brockett - Human Resources Analyst; member of the RPC since 2005. Under the direction of the Director of Human Resources, Mr. Brockett analyzes financial and workforce trends that impact the Retirement Plan.

Usha Sharma – Treasurer since April 2009. The Director of Finance has delegated various responsibilities pertaining to the Plans, including the preparation of this Annual Financial Report, to the Treasurer and her subordinates.

Kris Bates - Attorney; Ms. Bates has been employed by Denver Water since 2004; member RPC. Ms. Bates works with outside subject matter legal experts to advise the Director of Finance and the Director of Human Resources.

Aneta M. Rettig – Treasury Analyst since March 2006; member RPC; supports the Treasurer in fulfilling her responsibilities pertaining to the Plans.

Jeff Bogner - Treasury Analyst since August 2012; member RPC; supports the Treasurer in fulfilling her responsibilities pertaining to the Plans.

Brian Haggerty - Sr. Compensation Analyst. Mr. Haggerty has been employed since 2007. Mr. Haggerty is the point of contact for employees and retirees in matters regarding the DB plan and their participation.

## E. CONSULTANTS AND ADVISORS

### Consulting Services

<b>Actuary</b>	Milliman, Inc.	1099 18th Street, Suite 3100 Denver, Colorado 80202
<b>Benefit Consultant</b>	Gallagher Benefit Services, Inc.	6399 South Fiddler's Green Circle Suite 200 Greenwood Village, CO 80111-4949
<b>Legal Counsel</b>	Ms. Mary Brauer, Esq. Reinhart, Boerner, Van Deuren, Attorneys At Law	8400 E. Prentice Ave., Penthouse Englewood, CO 80111
<b>Performance Evaluation</b>	The Northern Trust Company	50 S. LaSalle Street, Chicago, IL 60675
<b>Investment Advisor (DB Plan)</b>	Mr. Dale Connors Watershed Investment Consultants	6400 S. Fiddler's Green Circle, Ste 500 Greenwood Village, CO 80111
<b>Investment Advisor (DC Plans)</b>	Mr. Sean Waters Cook Street Consulting	5299 DTC Blvd., Suite 1150, Greenwood Village, CO 80111

### Asset Custodian

The Northern Trust Company (DB Plan)	50 S. LaSalle Street, Chicago, IL 60675
Empower Retirement (formerly Great-West Retirement Services ) (DC Plans)	8515 East Orchard Road, 10T2 Greenwood Village, CO 80111

### Independent Auditor

KPMG LLP	707 1 7 <sup>th</sup> Street, Suite 2700 Denver, Colorado 80202
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Information regarding investment managers who provide services to the Plans and information regarding fees paid to the Program's professional service providers and investment managers can be found in the *Investment Section*.

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## **II. FINANCIAL SECTION**





## A. EMPLOYEES' RETIREMENT PLAN

### 1. Independent Auditor's Report



KPMG LLP  
Suite 800  
1225 17th Street  
Denver, CO 80202-5598

#### Independent Auditors' Report

The Board of Water Commissioners, City and County of Denver, Colorado  
Employees' Retirement Plan of the Denver Board of Water Commissioners:

#### Report on the Financial Statements

We have audited the accompanying statements of fiduciary net position and statements of changes in fiduciary net position of the Employee's Retirement Plan of the Denver Board of Water Commissioners (Plan), as of and for the years ended December 31, 2014 and 2013, 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 U.S. generally accepted accounting principles; 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 audit 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Employees' Retirement Plan of the Denver Board of Water Commissioners as of December 31, 2014 and 2013, and the changes in financial position, and cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership,  
the U.S. member firm of KPMG International Cooperative  
(“KPMG International”), a Swiss entity.



***Emphasis of Matters***

As discussed in management's discussion and analysis (unaudited), as of December 31, 2014, Denver Board of Water Commissioners adopted Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*.

***Other Matters***

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 7 and the schedules of changes in net pension liability and related ratios, employer contributions, and investment returns on pages 22 through 24 to 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.

**KPMG LLP**

Denver, Colorado  
April 30, 2015

### 3. Management's Discussion and Analysis

This is an analysis and overview of the financial activities of the Employees' Retirement Plan of the Denver Board of Water Commissioners (Plan) as of and for the years ended December 31, 2014 and 2013. This information should be read in conjunction with the financial statements and notes which follow.

#### Financial Highlights

As of December 31, 2014 and 2013, \$302.3 million and \$289.8 million, respectively, were held in trust for the payment of Plan benefits, and to meet the Plan's future obligations to its participants.

For 2014, the net position restricted for pension of the Plan increased by \$12.5 million or 4.3%. This compares with a \$36.1 million increase or 14.2% in 2013. The increase in the Plan's net position restricted for pension in 2014 and the increase in the Plan's total net position restricted for pension in 2013 are primarily due to changes in the market value of the Plan's investments. Investments increased \$12.9 million or 4.5% in 2014 and increased \$34.3 million or 13.6% in 2013. Plan returns for 2014 and 2013 were 6.7% and 15.7%, respectively.

Additions to the Plan's net position restricted for pension in 2014 included employer contributions of \$14.5 million and a net investment gain of \$18.5 million resulting in total additions to the Plan's net position restricted for pension of \$33.0 million. Additions to the Plan's net position restricted for pension in 2013 included employer contributions of \$15.0 million and a net investment gain of \$39.0 million resulting in total additions to the Plan's net position restricted for pension of \$54.0 million.

Deductions from the Plan's net position restricted for pension for 2014 were \$20.5 million compared to \$18.0 million in 2013, an increase of 14.2%. Retirement benefit payments were \$20.2 million in 2014 and \$17.6 million in 2013 resulting in an increase in benefit payments of \$2.6 million or 14.6%.

The Plan's investment objective is to preserve actuarial soundness of the Plan by achieving a long-term return of at least the actuarial earnings rate and to prudently manage the inherent investment risks that are related to the achievement of this goal. As of January 1, 2014 and 2013, the dates of the latest actuarial valuations, the funded ratio for the Plan was 80.8% and 78.9%, respectively.

#### 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 the following:

1. Statements of Fiduciary Net Position
2. Statements of Changes in Fiduciary Net Position
3. Notes to Financial Statements
4. Required Supplementary Information by U.S. generally accepted accounting principles

The Statements of Fiduciary Net Position include information about Plan assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position restricted for pension, as applicable as of December 31, 2014 and 2013.

The Statements of Changes in Fiduciary Net Position show the additions to, deductions from, and net increase (or decrease) in the Plan's net position restricted for pension during 2014 and 2013.

The above financial statements are presented in accordance with the Governmental Accounting Standards Board (GASB) 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. 40, Deposit and investment Risk Disclosures and 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 Fiduciary Net Position, which was renamed from Statement of Net Position. 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, 2014 and 2013, and the activities that occurred during the years. Both financial statements were prepared using the accrual basis of accounting as required by GASB. All investment activities have been reported based on the trade dates and have been valued by independent outside sources.

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

Required Supplementary Information prepared in accordance with U.S. generally accepted accounting principles, provides additional information about the Plan's progress in funding its future obligations and the history of the Denver Board of Water Commissioners (Board) contributions to the Plan.

### **Changes in Net Position Restricted for Pension**

The Statements of Fiduciary Net Position display Plan assets, deferred outflows of resources, liabilities, deferred inflows of resources, and the net position restricted for pension, as applicable at year-end. The Statements of Changes in Fiduciary Net Position provide information on the source of the change in net position restricted for pension during the year. The increase in total assets of \$13.1 million or 4.5% in 2014 was the result of a combination of an increase in the fair value of investments, an increase in cash and cash equivalents as well as an increase in receivables. Comparatively, in 2013, total assets increased \$35.8 million or 14.1%. The increase in 2013 was the result of a combination of an increase in the fair value of investments and an increase in cash and cash equivalents offset by a decrease in receivables.

Winslow Capital Management, Inc., Advisory Research, Inc. and Denver Investment Advisors LLC reported cash and cash equivalents as of December 31, 2014. Cash and cash equivalents are also held in the custodial cash account used for disbursement of benefit payments and administrative expenses. Many of the other managers have cash holdings from time to time but do not specifically identify them in their reporting.

As of December 31, the Plan's net positions restricted for pension were as follows

**Net Position Restricted for pension**

(amounts expressed in thousands)

	Years ended December 31,			2014-2013			2013-2012		
	2014	2013	2012	Increase (Decrease)	% Change		Increase (Decrease)	% Change	
	Cash and equivalents	\$3,716	\$3,580	\$1,664	136	3.8 %		1,916	115.1 %
Dividends, interest & other receivables	364	299	707	65	21.7 %		(408)	(57.7) %	
Investments, at fair value	299,073	286,162	251,864	12,911	4.5 %		34,298	13.6 %	
Total assets	303,153	290,041	254,235	13,112	4.5 %		35,806	14.1 %	
Total liabilities	814	215	467	599	278.6 %		(252)	(54.0) %	
Plan position	\$302,339	289,826	\$253,768	12,513	4.3 %		36,058	14.2 %	

Liabilities of the Plan for 2014 and 2013 consisted primarily of unpaid, but earned investment manager fees and amounts related to unsettled investment trades. In 2014, liabilities consisted of unsettled trades of \$598,600 and outstanding investment expenses of \$214,200. In comparison, in 2013, liabilities consisted of unsettled trades of \$16,800 and outstanding investment expenses of \$193,400. The change in the net position restricted for pension is a function of the change in total assets offset by the change in total liabilities. The Plan recorded an increase in net position restricted for pension of \$12.5 million in 2014 and \$36.1 million in 2013

**Additions**

The funds needed to pay benefits are accumulated from the contributions made by the Board and the income generated from the Plan's investments, including interest, dividends, and proceeds from the sale of individual investments. Any earnings on investments are reported net of investment management expenses. Board contributions for 2014 and 2013 totaled \$14.5 million and \$15.0 million, respectively. The Board has contributed more than the actuarially determined contribution for nine of the last ten years.

**Additions to Net Position Restricted for Pension**

(amounts expressed in thousands)

	Years ended December 31,			2014-2013			2013-2012		
	2014	2013	2012	Increase (Decrease)	% Change		Increase (Decrease)	% Change	
	Employer contributions	\$14,500	\$15,000	\$14,300	(500)	(3.3) %		700	4.9 %
Investment income	18,523	39,023	28,171	(20,500)	(52.5) %		10,852	38.5 %	
Total additions, net	\$33,023	\$54,023	\$42,471	(21,000)	(38.9) %		11,552	27.2 %	

**Deductions**

Annual Plan expenditures include retirement benefits, death benefits, refunds of employee contributions with associated interest and administrative expenses. The Plan's normal benefit is a single life annuity to retired members, but members may elect to receive benefits in various other forms, including a lump sum or annuities that provide spousal benefits. Please refer to the Plan document for detailed information regarding the Plan. For the year ended December 31, 2014, annual Plan deductions totaled \$20.5 million which compares with \$18.0 million in 2013. This represents an increase in deductions in 2014 of 14.2% as compared to an increase in 2013 over

2012 of 6.2%. The increase in total deductions in 2014 was primarily due to an increase in benefit payments.

**Deductions to Net Position Restricted for Pension**

(amounts expressed in thousands)

	Years ended December 31,			2014-2013		2013-2012	
				Increase	%	Increase	%
	2014	2013	2012	(Decrease)	Change	(Decrease)	Change
Retirement benefits	\$20,214	\$17,644	\$16,604	2,570	14.6 %	1,040	6.3 %
Death benefits	85	55	100	30	54.5 %	(45)	(45.0) %
Refunds of employee contributions	66	151	94	(85)	(56.3) %	57	60.6 %
Administrative expenses	144	116	124	28	24.1 %	(8)	(6.5) %
Total deductions	\$20,509	\$17,966	\$16,922	2,543	14.2 %	1,044	6.2 %

**Investment Activities**

Despite steep selloffs in October and early December, U.S. equity markets reached new all-time highs at the end of 2014 on strong corporate profit growth and continued expectations for accommodative Federal Reserve policies. Interest rates, especially on long-dated bonds, finished 2014 lower than they began the year, which benefitted fixed income markets. The international markets, especially Europe, were negatively impacted by turmoil following the Russian invasion of Ukraine and subsequent conflict within the country. The strong U.S. dollar further detracted from international market returns.

Denver Water's Retirement Plan posted a 6.7% gain (6.4% net of fee return) compared to the Plan's customized benchmark return of 5.4% for 2014. The Real Estate was the best absolute performer posting a 10.8% gain, compared to its benchmark, NCREIF ODCE index return of 12.5%. Equities were the best relative performer during the year, posting 7.6% return and beating the benchmark, MSCI ACWI index by 3.4 percentage points. Fixed Income segment reported 3.7% return for the year versus the Barclays Aggregate Bond index return of 6.0%. The Hedge Fund segment gained 4.4% beating its benchmark by 1.1 percentage points.

**Requests for Information**

This discussion and analysis is designed to provide a general overview of the Plan's financial status as of December 31, 2014 and 2013, and changes in financial status 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



#### 4. Basic Financial Statements

##### a) Statements of Fiduciary Net Position

<b>Assets</b>	December 31,	
	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$3,716,400	\$3,579,800
Dividends, interest and other receivables	364,300	298,600
Investments, at fair value		
Equities:		
Common stock	15,754,300	14,681,300
Common stock - funds	151,126,400	160,662,300
Preferred stock	138,100	227,800
Other equities	9,551,600	-
Total equities	<u>176,570,400</u>	<u>175,571,400</u>
Fixed income:		
Government bonds	9,373,500	5,214,800
Government bonds-funds	18,617,300	17,783,400
Municipal/provincial bonds	1,772,200	399,300
Corporate bonds	16,657,300	12,638,400
Corporate bonds-funds	-	13,831,400
Other fixed income	15,091,600	14,140,600
Total fixed income	<u>61,511,900</u>	<u>64,007,900</u>
Real estate	30,858,800	25,132,300
Hedge funds of funds	30,131,600	21,450,600
Total Investments	<u>299,072,700</u>	<u>286,162,200</u>
 Total assets	 <u>303,153,400</u>	 <u>290,040,600</u>
 <b>Liabilities</b>		
Accrued administrative expense	1,600	5,000
Accrued investment expense	214,200	193,400
Securities payable	598,600	16,800
Total liabilities	<u>814,400</u>	<u>215,200</u>
 Net position restricted for pension	 <u>\$302,339,000</u>	 <u>\$289,825,400</u>

See accompanying notes to financial statements.

**b) Statements of Changes in Fiduciary Net Position**

	Years Ended December 31,	
	<u>2014</u>	<u>2013</u>
<b>Additions</b>		
Employer contributions	\$14,500,000	\$15,000,000
Investment income		
Net appreciation in fair value of investments	15,102,800	35,062,100
Interest	2,422,100	1,964,800
Dividends	2,199,500	2,512,300
Real estate income, net of operating expenses	1,283,700	1,226,000
	<u>21,008,100</u>	<u>40,765,200</u>
Less investment expense	(2,484,900)	(1,742,200)
Net investment income	<u>18,523,200</u>	<u>39,023,000</u>
Total additions	<u>33,023,200</u>	<u>54,023,000</u>
<b>Deductions</b>		
Retirement benefits	20,214,200	17,644,200
Death benefits	85,000	55,000
Refunds of contributions	66,400	151,400
Administrative expense	144,000	115,500
	<u>20,509,600</u>	<u>17,966,100</u>
Total deductions	<u>20,509,600</u>	<u>17,966,100</u>
<b>Net Increase in fiduciary net position</b>	12,513,600	36,056,900
<b>Net position restricted for pension</b>		
Beginning of year	289,825,400	253,768,500
End of year	<u>\$302,339,000</u>	<u>\$289,825,400</u>

See accompanying notes to financial statements.



## 5. Notes to the Financial Statements

### Note 1 - Plan Description

#### *a. Plan Administration*

The Board of Water Commissioners, City and County of Denver, Colorado (the Board), adopted the Employees' Retirement Plan of the Denver Board of Water Commissioners (Plan) in 1944. It is a defined benefit, single-employer plan covering substantially all regular employees of the Board.

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, administrator and trustee of the assets of the Plan. The Board has delegated certain responsibilities regarding the Plan administration through a delegation resolution to the Director of Human Resources and to the Director of Finance. 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 Director of Finance and the Director of Human Resources regarding the Retirement Program. The advisory committee, in and of itself, has no decision-making authority. The Plan is exempt from compliance with the Employee Retirement Income Security Act of 1974, as amended, as it is a governmental plan.

Various asset classes and investment manager styles are used to create a broadly diversified portfolio. The Board develops long-term asset allocation ranges, while the Director of Finance is charged with developing and implementing a current asset allocation and rebalancing strategy which is designed to reflect, and be consistent with the Board-approved long term asset allocation ranges. Please refer to the notes of the financial statements under "Investment Policy" for more information on asset allocations.

#### *b. Plan Membership*

All regular and discretionary employees of the Board become participants of the Plan upon completion of the required introductory period. As of January 1, 2014, there were 1,672 Plan participants: 84 were deferred vested participants, 558 participants were retired, 1,023 participants were active and 7 were on long term disability.

#### *c. Benefits Provided*

Participants become fully vested after 5 years of employment. The normal retirement age is 65. An employee who reaches age 55 and has 5 years of service is eligible to receive a reduced early retirement benefit. Unreduced retirement benefits prior to age 65 are provided for employees who are a minimum of age 55, whose age and years of service totaled 75 on the last day of employment and whose employment ends at age 50 or later. The service requirement for entitlement to spousal benefits is 5 years of service with the benefit commencing when the employee would have reached age 55. The Plan also provides for retirement benefits in the event of total and permanent disability, as determined by the Board.

Terminated vested participants or surviving spouses whose severance date occurs before the attainment of age 55 shall be eligible to elect a full single lump sum payment only in lieu of a monthly pension within 90 days of his or her severance date.

Plan benefits are integrated with Social Security benefits and are determined by a formula defined in the Plan document. The minimum normal benefit amount is calculated by multiplying the Plan participant's number of years of credited service times the amount of the participant's average final

compensation times 1.5%. Employees with final income exceeding covered compensation receive an additional 0.45% times years of credited service times average final compensation in excess of covered compensation. The Plan also includes a benefit provision in the event a participant dies prior to the date the member quits, retires or is discharged. In general the participant's spouse or beneficiary will receive 50% of the participant's accrued benefit. The Plan document contains detailed provisions regarding Plan benefits.

Benefits paid by the Plan are adjusted annually by the change in the Consumer Price Index, subject to a minimum payment equal to the amount of the initial benefit and a maximum annual increase of 4.4% for employees retiring on or after September 1, 1995 and 5% for employees who retired before September 1, 1995. Changes in the Consumer Price Index in excess of the amount of the maximum annual adjustment are applied toward future adjustments.

The Board reserves the right to amend the Plan, including its benefit provisions; however, any amendment that substantially impairs the property rights of participants will not become effective until approved by two-thirds of the participants.

#### ***d. Contributions***

The Plan was established, and is sponsored and administered by the Board, under authority of Article X, Section 10.1.6 of the Charter of the City and County of Denver, Colorado. The Plan document provides for periodic Board contributions at actuarially determined amounts sufficient to accumulate the necessary assets to pay benefits when due. The Board's funding policy during 2013 and in prior years provided for periodic Board contributions of at least the actuarial required contribution (ARC) sufficient to accumulate the necessary assets to pay benefits when due. On August 28, 2013, the Board adopted the Employees' Retirement Plan Funding Policy effective for 2014 and future years. The policy defines the objectives of the Board in funding the benefits to be paid by the Plan. In accordance with the policy the Board will base its contributions to the Plan on Actuarially Determined Contributions (ADC) calculated annually by an independent actuary, using agreed upon methods and assumptions developed by the Actuarial Standards Board and specified in the funding policy.

The Board made contributions totaling \$14.5 million and \$15.0 million during 2014 and 2013, respectively, in accordance with actuarial valuations performed as of January 1, 2014 and 2013, respectively.

Prior to January 1, 1992, employees were required to contribute to the Plan. The Board amended the Plan to disallow further employee contributions and determined that all amounts previously contributed to the Plan by employees would be refunded, with interest at 5% per annum, upon termination or retirement. Payments of \$66,400 and \$151,400 were made in 2014 and 2013, respectively, for employees who had retired or were terminated during the respective year. As of December 31, 2014 and 2013, total remaining employee contributions including accrued interest was \$84,700 and \$127,400, respectively. These amounts are not accrued as liabilities in the accompanying financial statements.

## **Note 2 - Summary of Significant Accounting Policies**

### ***a. 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 benefit plans. Employer contributions are recognized when made, because there are no required due dates for contributions. Other additions are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan document. Plan expenses, other than benefits and refunds are recognized on the accrual basis in accordance with generally accepted accounting principles.

***b. Plan Expenses***

Certain expenses are paid from the assets of the Plan and are recorded as administrative expenses on the financial statements. These expenses include actuarial fees, auditing expenses, benefit payment processing fees, legal fees and other miscellaneous expenses.

Additionally, investment manager fees and investment consulting expenses are recorded as investment expenses.

***c. Fair Value of Investments***

Plan investments are reported at fair value. The Plan's custodian provides pricing for all Plan investments. Plan investments in market-traded securities, including U.S. government and agency securities, municipal and corporate bonds and debentures, and common stock are reported at last quoted sales/bid prices provided by independent pricing vendors. Holdings in SEC-registered external investment pools are reported at fair value based upon the Net Asset Value (NAV) of shares/units held at year end, provided by independent pricing vendors. Unitized external investment pools that are not SEC-registered are reported at fair value based upon the NAV of shares/units held at year end, provided by fund administrators. Nonunitized external investment pools are reported at total market values provided by investment managers. Certain individual holdings contained in the pooled funds, such as real estate holdings, bank loans, private financial derivative contracts, etc. are not traded in active markets and/or market quotes are not readily available. These holdings are valued by investment managers in accordance with the authoritative guidance on fair value measurements and disclosures. Valuation policies and procedures are generally described in the investment managers' financial statements. Cash equivalents are valued at cost, which approximates fair value.

***d. Income Taxes***

Pursuant to a determination letter received from the Internal Revenue Service (IRS) dated June 11, 2014 for amendments enacted through June 27, 2012, the Plan is exempt from federal income taxes. Although the Plan has been subsequently amended, management of the Board is of the opinion that the Plan, as amended, meets the IRS requirements and, therefore, continues to be tax exempt.

***e. Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Plan's management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, disclosure of contingent assets and liabilities, and the actuarial values at the date of the financial statements. Actual results could differ from these estimates.

### Note 3 - Investments

#### a. Investment Policy

The Plan's investment policy and any changes to the policy are adopted by the Board acting in its capacity as Trustee of the Plan. The most recent version of the policy was approved on October 8, 2014 and contains updated long-term asset allocation ranges.

The primary objective of the Board's investment policy is to preserve the actuarial soundness of the Plan by achieving a long-term return of at least the actuarial return rate and to prudently manage the inherent investment risks that are related to the achievement of this goal. The Board recognizes that the investment objective is long term in nature, and that actual year-to-year returns achieved may be above or below the actuarially assumed rate of return.

Long-term asset allocation ranges are developed based on several factors including: the long-term investment goals of the Plan; the Board's tolerance for short-term losses; the Plan's liquidity needs; and any legal or regulatory requirements.

As of December 31, the Plan's long-term asset allocation ranges were as follows

Asset Segment	Long Term Asset Allocation Ranges	
	Allowable range	
	Years ended December 31	
	2014	2013
Equities	35%-70%	- 35%-70%
Fixed Income	10-50	20-50
Alternatives	10-40	- 5-30

In 2014, the minimum range in fixed income was lowered by 10 percentage points and the minimum and maximum range in alternative investments was increased by 5 and 10 percentage points, respectively.

#### b. Concentrations

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government and investments in diversified mutual funds, external investment pools, and other pooled investments are excluded. As of December 31, 2014, the Plan had no investments in any one organization that represented 5% or more of the Plan's net position restricted for pension.

#### c. Money-Weighted Rate of Return

For the years ended December 31, 2014 and 2013, respectively, the annual money-weighted rate of return on Plan investments, net of investment expense, was 6.4% and 15.4%. The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur at the end of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month. The money-weighted rate of return is calculated net of investment expenses.

### **e. Custody and Management of Assets**

During 2014 and 2013, the Northern Trust Company served as asset custodian for all Plan assets. The Board has elected to hire professional investment managers to invest the assets of the Plan on a fully discretionary basis, subject to the investment policy of the Board. Each manager is evaluated periodically against the appropriate benchmark for his/her asset class and style. Failure to achieve the desired result does not necessitate, nor does achievement of the desired result preclude, termination of investment managers.

During 2014 and 2013, the Plan assets were managed by the following investment managers:

Advisory Research Inc.*	Since January 2012
Babson Capital, LLC	Since August 2013
Blackrock Alternative Investors	Since March 2012
Denver Investment Advisors, LLC	Hired prior to 1978
Dimensional Fund Advisors, LP	Since February 2008
GAM Fund Management Limited	Since March 2012
Harbert Management Corporation	Since July 2014
Harding Loevner Funds, Inc.	Since August 2011
Heitman Capital Management Corporation	Closed October 2013
JP Morgan Investment Management, Inc.	Since November 2005
Lazard Asset Management, LLC	Terminated August 2013
Northern Trust Investments, N.A.	Since July 2006
Pacific Investment Management Company, LLC	Since July 2006
Prudential Real Estate Investors	Since March 2006
Pyramis Global Advisors	Since July 2011
UBS Global Asset Management Global Real Estate	Since May 1998
Vanguard Group, INC.	Since February 2012
Vontobel Asset Management, Inc.	Since February 2014
Winslow Capital Management, Inc./SEI Trust Company	Since August 2011

*\* Effective January 1, 2014, Fiduciary Asset Management Inc., a Division of Advisory Research team formally changed its name to Advisory Research Inc*

### **f. 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.

All securities are held in a bank trust account in the Plan's name by the Plan's custodian except for investments in mutual and commingled funds, and limited partnerships, which by their nature, may have an independent custodian for the fund assets. Investments in short-term investment funds and in a domestic equity index fund are held in a SEC-registered pooled fund managed by the fund's custodian bank. At December 31, 2014 and 2013, there were no deposits subject to custodial credit risk.

### **g. Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Since the debt investment portfolio may contain holdings with prepayments and

variable cash flows, an analysis of interest rate risk using the segmented time distribution method is presented in the schedule below:

**Schedule of Interest Rate Risk - Segmented Time Distribution of Investment Maturities  
as of December 31, 2014**

Investment Type	Fair value	Less than 1 year	1 to 6 years	6 to 10 years	10 + years	Maturity not determined**
Asset-backed securities	\$450,560	-	356,142	-	94,418	-
Corporate bonds	15,727,049	465,118	8,335,367	5,215,193	1,711,370	1
Government agencies	18,895,762	-	-	278,498	-	18,617,264
Government bonds	8,149,584	569,547	4,732,057	289,502	2,558,478	-
Government mortgage-backed securities	945,463	-	--	-	945,463	-
Municipal bonds	1,772,189	-	-	-	1,772,189	-
Nongovernment-backed C.M.O.'s	479,714	-	-	-	479,714	-
Short term investments	3,716,134	-	-	-	-	3,716,134
Other fixed income	15,091,637	-	-	-	-	15,091,637
<b>Total</b>	<b>\$65,228,092</b>	<b>1,034,665</b>	<b>13,423,566</b>	<b>5,783,193</b>	<b>7,561,632</b>	<b>37,425,036</b>

\*\* Amounts represent investments in commingled funds. Maturities of individual securities held by the funds are not reported by the funds.

***h. Concentration of Credit Risk***

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. As of December 31, 2014, the Plan has no single issuer that exceeds 5% of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in diversified mutual funds, external investment pools, and other pooled investments are excluded.

***i. Credit Risk***

Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations to the Plan. There are no Plan wide policy limitations for credit risk exposures within the portfolio. Each portfolio is managed in accordance with an investment contract that is specific as to permissible credit quality ranges, the average credit quality of the overall portfolios, and issuer concentration.

The quality ratings of investments in fixed income securities as described by Standard and Poor's and Moody's rating organization as of December 31, 2014 are listed below. For securities with split ratings, the lowest rating is shown.

## Schedule of Credit Risk as of December 31, 2014

Investment type	Quality rating	Fair value	Percentage of portfolio
Asset-backed securities	AAA/Aaa	\$ 30,603	0.1%
	AA/Aa	94,418	0.1
	NR/NA <sup>2</sup>	325,540	0.5
Corporate bonds	AA/Aa	1,441,776	2.2
	A/A	5,843,784	9.0
	BBB/Baa	6,234,502	9.6
	BB/Ba	1,867,337	2.9
	NR/NA <sup>2</sup>	339,649	0.5
Government agencies	AA/Aa	278,498	0.4
	NR/NA <sup>3</sup>	18,617,264	28.5
Government bonds	AA/Aa	8,149,583	12.5
Government mortgage-backed securities	NR/NA <sup>1</sup>	945,463	1.5
Municipal bonds	AAA/Aaa	429,346	0.7
	AA/Aa	992,500	1.5
	A/A	138,147	0.2
	BBB/Baa	212,197	0.3
Nongovernment-backed C.M.O.'s	NR/NA <sup>3</sup>	479,714	0.7
Short-term investments	NR/NA <sup>2</sup>	3,716,134	5.7
Other fixed income	NR/NA <sup>3</sup>	15,091,637	23.1
Total fixed income securities		\$ <u>65,228,092</u>	<u>100.0%</u>

<sup>1</sup>These ratings are implicitly or explicitly guaranteed by the U.S. government and currently a rating is not provided by the nationally recognized statistical rating organization. The agencies invested in are FHLMC and FNMA.

<sup>2</sup>NR/NA indicates the securities were either not able to be categorized into any other ratings or the rating was not available to the custodian.

<sup>3</sup>NR/NA indicates the securities were either not able to be categorized into any other ratings or the rating was not available because the assets are held in a mutual fund.

#### ***j. Foreign Currency Risk***

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment or a deposit.

The following table provides the Plan's maximum exposure to foreign currency risk in U.S. dollars as of December 31, 2014:



<b>Schedule of assets in foreign currencies</b>		
	<b>Dollar allocation invested in foreign securities</b>	<b>Percentage of fund invested in foreign currencies</b>
Equities	40,234,237	22.8%
Hedge funds	4,337,334	14.4
Total	\$ 44,571,571	

**k. Derivatives**

Derivatives are financial instruments whose values depend upon, or are derived from, the value of something else, such as one or more underlying investments, indexes or currencies. Derivatives may be used both for hedging and to enhance returns. Derivatives may be traded on organized exchanges, or individually negotiated transactions with other parties, known as over-the-counter derivatives. Derivatives involve special risks and costs and may result in losses to the Plan. The successful use of derivatives requires sophisticated management, and, to the extent that derivatives are used, the Plan will depend on the investment managers and their advisors to analyze and manage derivatives transactions.

Certain commingled funds held by the Plan at the year-end were permitted through their individual investment guidelines to use derivative instruments, including forwards, futures, swaps, and options. Disclosures about derivative holdings of the commingled fund managers can be found in their respective audited financial statements. The Plan did not directly own any derivatives as of December 31, 2014 and 2013.

**Note 4 - Commitments**

Plan is a party to five private equity limited partnership agreements. Under the terms of the partnership agreements, the Plan has pledged to invest \$56,700,300 in portfolios of limited partnerships as of December 31, 2014. Failure by the Plan to fund a capital call is considered a default under the agreements and various penalties, as defined, may be imposed upon the Plan for such failure. The commitment period for all partnerships extends until the Plan's capital commitment is fulfilled, or the partnership's term is reached. At December 31, 2014, the Plan had remaining unfunded capital commitments of \$52,475,300. Subsequent to December 31, 2014 but prior to release of the financial statements \$10,580,700 was called and paid resulting in a remaining unfunded amount of \$41,894,600.

**Note 5 - Net Pension Liability of Denver Water**

The components of the net pension liability of Denver Water at December 31, 2014 and 2013 were as follows:



	<b>Years ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
Total pension liability	348,593,869	337,844,301
Plan net position restricted for pension	(302,339,000)	(289,825,400)
Denver Water's net pension liability	<u>46,254,869</u>	<u>48,018,901</u>
Plan net position restricted for pension as a percentage of the total pension liability	86.73%	85.79%

**a. Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of January 1, 2015 and January 1, 2014, respectively, calculated based on the discount rate and actuarial assumptions below.

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
Inflation	3.00%	3.00%
Salary increases	3.50	3.50
Investment rate of return	7.50	7.50

The mortality rates for years 2014 and 2013 were based on the RP-2000 Combined Healthy Mortality Table, blended 50% Blue Collar adjusted and 50% White Collar adjusted, and projected to 2021 using Scale AA.

The actuarial assumptions used in the January 1, 2015 and January 1, 2014 valuation were based on the results of an actuarial experience study for the period 2005 – 2009.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the annualized 30-year geometric mean return for each major asset class included in the pension plan's target asset allocation as of December 31, 2014 and 2013 are summarized in the following table.

Asset class	<b>January 1,</b>	
	<b>2015</b>	<b>2014</b>
Domestic equity	4.2%	4.2%
International equity	4.2	4.2
Fixed income	2.0	2.0
Hedge funds	2.7	2.7
Real estate	3.7	3.7
Domestic equity	4.2	4.2

**b. Discount Rate**

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed contributions would be made at the current actuarially determined contribution rate. Based on these assumptions, the pension plan's net position restricted for pension was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**c. Other Key Actuarial Assumptions**

The other key actuarial assumptions that determined the total pension liability as of December 31, 2014 and December 31, 2013 include:

Valuation date	January 1, 2014	January 1, 2013
Measurement date	December 31, 2013	December 31, 2012
Inflation	3.00%	3.00%
Salary increased including inflation	3.50%	3.50%

**d. Sensitivity of the Net Pension Liability to changes in the Discount Rate**

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.50%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate.

	<b>1% Decrease 6.50%</b>	<b>Current Discount Rate 7.50%</b>	<b>1% Increase 8.50%</b>
2014 Net pension liability	\$ 84,924,350	\$ 46,254,869	\$ 13,420,282
2013 Net pension liability	\$ 85,925,373	\$ 48,018,901	\$ 15,871,536

**Note 6 - Related Party Transactions**

An affiliate of the Plan's custodian, Northern Trust Investments, N.A., is an investment manager for the Plan, which managed \$55.4 million and \$54.9 million of the Plan's investments at December 31, 2014 and 2013, respectively. For the years ended December 31, 2014 and 2013, the Plan incurred approximately \$27,800 and \$15,100, respectively, in management fees with this investment manager.

**Note 7 - Plan Amendment**

The Plan was amended on August 13, 2014, with the effective date of May 1, 2013, to define "spouse" to include Colorado civil unions wherever federal tax law defines "spouse" to include a person of the same sex.

## 6. Required Supplementary Information

### a) Schedule of Changes in Net Pension Liability and Related Ratios

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Total pension liability</b>										
Service cost	6,071,395	6,046,257								
Interest on total pension liability	25,043,773	24,051,100								
Effect of plan changes	-	-								
Effect of assumption changes or inputs	-	-								
Effect of economic/demographic (gains) or losses	-	2,037,171								
Benefit payments	(20,365,600)	(17,850,600)								
<b>Net change in total pension liability</b>	<b>10,749,568</b>	<b>14,283,928</b>	-	-	-	-	-	-	-	-
<b>Total pension liability, beginning</b>	<b>337,844,301</b>	<b>323,560,373</b>								
<b>Total pension liability, ending (a)</b>	<b>348,593,869</b>	<b>337,844,301</b>								
<b>Plan fiduciary net position</b>										
Employer contributions	14,500,000	15,000,000								
Member contributions	-	-								
Investment income net of investment expenses	18,523,200	39,023,000								
Benefit payments	(20,365,600)	(17,850,600)								
Administrative expenses	(144,000)	(115,500)								
<b>Net change in plan fiduciary net position</b>	<b>12,513,600</b>	<b>36,056,900</b>	-	-	-	-	-	-	-	-
<b>Fiduciary net position, beginning</b>	<b>289,825,400</b>	<b>253,768,500</b>								
<b>Fiduciary net position, ending (b)</b>	<b>302,339,000</b>	<b>289,825,400</b>	-	-	-	-	-	-	-	-
<b>Net pension liability, ending = (a) - (b)</b>	<b>46,254,869</b>	<b>48,018,901</b>								
<b>Plan fiduciary net position as a % of total pension liability</b>	<b>86.73%</b>	<b>85.79%</b>								
<b>Covered payroll</b>	<b>71,847,268</b>	<b>71,940,163</b>	<b>71,172,362</b>	<b>69,926,961</b>	<b>\$70,372,085</b>	<b>65,721,304</b>	<b>60,346,577</b>	<b>58,578,510</b>	<b>57,224,980</b>	<b>55,998,351</b>
<b>Plan's net pension liability as a % of covered payroll</b>	<b>64.38%</b>	<b>66.75%</b>								

**b) Schedule of Employer Contributions**

<b>Year Ended December 31</b>	<b>Actuarially Determined contribution</b>	<b>Actual employer contribution</b>	<b>Contribution Deficiency (excess)</b>	<b>Covered payroll</b>	<b>Contribution as a % Of covered payroll</b>
2005	8,738,577	8,738,635	(58)	55,998,351	15.61%
2006	8,268,755	8,269,119	(364)	57,224,980	14.45%
2007	6,981,523	7,277,159	(295,636)	58,578,510	12.42%
2008	7,233,450	7,590,475	(357,025)	60,346,577	12.58%
2009	11,871,976	14,500,000	(2,628,024)	65,721,304	22.06%
2010	12,638,827	12,638,827	27	70,372,085	17.96%
2011	12,414,279	15,400,000	(2,985,721)	69,926,961	22.02%
2012	12,256,238	14,300,000	(2,043,762)	71,172,362	20.09%
2013	11,957,548	15,000,000	(3,042,452)	71,940,163	20.85%
2014	13,532,013	14,500,000	(967,987)	71,847,268	20.18%

See accompanying independent auditors' report.

**Notes to Schedule**

Valuation date: Actuarially determined contribution rates are calculated as of July 1st of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar
Amortization period	Layered
Amortization period at 01/01/2014	15 years
Asset valuation method	3-year smoothed market
Inflation	3.00%
Salary increases	Graded from 6.1% at 1 year of service to 3.6% at 10+ years of service
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost of living adjustments	3.00%
Retirement age	Table of rates by age and eligibility
Turnover	Table of rates graded by years of service
Mortality	RP-2000 Combined healthy mortality table, blended 50% blue collar adjusted, and projected to 2021 using scale AA.

**c) Schedule of Investment Returns**

<u>Fiscal Year Ending December 31,</u>	<u>Net Money-Weighted Rate of Return</u>
2005	N/A
2006	N/A
2007	N/A
2008	N/A
2009	N/A
2010	N/A
2011	N/A
2012	N/A
2013	15.35%
2014	6.44%

**7. Additional Supplementary Information (unaudited)**

**a) Schedule of Administrative Expenses**

	<u>2014</u>	<u>2013</u>
Actuarial Services	\$24,300	\$20,000
Benefit Payment Processing	97,900	89,300
Audit Services	<u>21,800</u>	<u>6,250</u>
Total Administrative Expenses	144,000	115,550
Average Assets <sup>1</sup>	<u>\$296,189,800</u>	<u>\$272,030,241</u>
Administrative Expenses as a percentage of Average Assets	<u>0.049%</u>	<u>0.042%</u>

<sup>1</sup>Average Assets are calculated based on total assets less securities payable.

**b) Schedule of Investment Expenses**

	<u>2014</u>	<u>2013</u>
Advisory Research Inc.	125,338	106,800
Babson Capital, LLC	69,560	\$25,800
Blackrock Alternative Investors	150,489	135,300
Denver Investment Advisors, LLC	65,923	78,300
Dimensional Fund Advisors LP	136,580	147,900
GAM Fund Management Limited	132,088	122,500
Harbert Management Corporation	670,878	
Harding Loevner Funds, Inc.	186,174	205,100
JP Morgan Investment Management, Inc.	84,804	74,300
Lazard Asset Management LLC	-	139,800
Northern Trust Investments, N. A.	27,785	15,100
Pacific Investment Management Company, LLC	198,218	178,000
Prudential Real Estate Investors	90,069	73,900
Pyramis Global Advisors	97,959	96,200
UBS Trumbull Property Fund LP	107,106	106,900
Vanguard Group, INC.	48,864	42,500
Vontobel Asset Management Inc.	81,355	
Winslow Capital Management, Inc./SEI Trust Company	<u>121,354</u>	<u>110,300</u>
Total payments to investment advisors	2,394,545	1,658,700
Investment Consulting Expense	77,600	76,500
Investment Performance Reporting Expense	<u>12,800</u>	<u>7,000</u>
Total Investment Expenses	<u>\$2,484,945</u>	<u>\$1,742,200</u>
Average Assets <sup>1</sup>	<u>\$296,189,800</u>	<u>\$272,030,241</u>
Investment Expenses as a Percentage of Average Assets	<u>0.839%</u>	<u>0.640%</u>

<sup>1</sup>Average Assets are calculated based on total assets less securities payable.

## B. DENVER WATER SUPPLEMENTAL RETIREMENT SAVINGS PLAN

### 1. Independent Auditor's Report



KPMG LLP  
Suite 800  
1225 17th Street  
Denver, CO 80202-5598

#### Independent Auditors' Report

The Board of Water Commissioners, City and County of Denver, Colorado  
Denver Water Supplemental Retirement Savings Plan:

#### 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 Supplemental Retirement Savings Plan (Plan), as of and for the years ended December 31, 2014 and 2013, 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 U.S. generally accepted accounting principles; 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 audit 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Denver Water Supplemental Retirement Savings Plan as of December 31, 2014 and 2013, and the changes in financial position, and cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.



***Emphasis of Matters***

As discussed in management's discussion and analysis (unaudited), as of December 31, 2014, Denver Board of Water Commissioners adopted Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*.

***Other Matters***

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 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.

**KPMG LLP**

Denver, Colorado  
April 30, 2015



## 2. Management's Discussion and Analysis (unaudited)

This is an analysis and overview of the financial activities of the Denver Water Supplemental Retirement Savings Plan (SRSP) for the years ended December 31, 2014 and 2013. This information should be read in conjunction with the financial statements and notes which follow.

### Financial Highlights

As of December 31, 2014, \$77.8 million was held in trust for the payment of SRSP benefits to the participants as compared to \$70.3 million in 2013. This represents an increase in total SRSP net position held in trust of \$7.5 million or 10.7%.

Additions to the SRSP net position for 2014 and 2013 included participant contributions of \$4.2 million and the Denver Board of Water Commissioners (Board) matching contributions of \$2.0 million in 2014 and \$1.8 million in 2013. The net investment income for 2014 was \$4.6 million compared to \$10.8 million investment income in 2013.

Total deductions from the SRSP net position were \$3.7 million in 2014 and \$5.0 million in 2013. The deductions were comprised of retirement benefit payments of \$3.6 million and administrative expense of \$67,200 in 2014. In 2013, the deductions were comprised of retirement benefit payments of \$4.9 million and administrative expense of \$58,700. Total deductions in 2014 were 26.5% less than those in 2013. Total deductions in 2013 were 98.1% more than those in 2012.

The SRSP is a defined contribution plan and its purpose is to enable the participants to accumulate financial assets for their retirement. The Board matches 100% of employee contributions up to 3% of the participating employee's published hourly base pay and salary. As of December 31, 2014, there were 926 employees contributing to the SRSP or 90% of all eligible Denver Water employees. In comparison, as of December 31, 2013, there were 897 employees contributing to the SRSP or 88.5% of all eligible Denver Water employees. There were 1,029 employees eligible to participate in the SRSP as of December 31, 2014 and 1,013 as of December 31, 2013.

### Overview of the Financial Statements

The following discussion and analysis is intended to serve as an introduction to the SRSP 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 present the SRSP assets, liabilities and net position as of December 31, 2014 and 2013. The Statements of Changes in Net Position show the additions to and deductions from SRSP net position during 2014 and 2013.

The above financial statements are presented in accordance with the Governmental Accounting Standards Board (GASB) 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 SRSP 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 the 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 SRSP as well as additions and deductions to the Plan. Additions to the SRSP consist of participant and employer contributions, participant rollovers and net investment income. 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 2014, 2013 and 2012.

As of December 31, the SRSP's net position was:

	<b>Net Position</b>							
	<b>(amounts expressed in thousands)</b>							
	as of December 31,			2014-2013			2013-2012	
	2014	2013	2012	Increase (Decrease)	% Change		Increase (Decrease)	% Change
Mutual funds	\$64,041	\$57,346	\$44,448	6,695	11.7 %		\$12,898	29.0 %
Commingled fund	12,618	12,433	12,963	185	1.5 %		(530)	(4.1)
Money market fund	916	212	188	704	332.1		24	12.8
Total investments	<u>77,575</u>	<u>69,991</u>	<u>57,599</u>	<u>7,584</u>	10.8 %		<u>12,392</u>	21.5 %
Receivables:								
Contributions	232	285	207	(53)	(18.6) %		78	37.7 %
Other receivable	3	9	19	(6)	(66.7)		(10)	(52.6)
Total receivables	<u>235</u>	<u>294</u>	<u>226</u>	<u>(59)</u>	(20.1)		<u>68</u>	30.1
Total assets	<u>77,810</u>	<u>70,285</u>	<u>57,825</u>	<u>7,525</u>	10.7 %		<u>12,460</u>	21.5 %
Total liabilities	<u>18</u>	<u>16</u>	<u>13</u>	<u>2</u>	12.5 %		<u>3</u>	23.1
Net assets	<u>77,792</u>	<u>\$70,269</u>	<u>57,812</u>	<u>7,523</u>	10.7 %		<u>12,457</u>	21.5 %

## SRSP Activities

The net position increased by \$7.5 million or 10.7% in 2014 and by \$12.5 million or 21.5% in 2013. Additional details for the change in net position are discussed below.

### Additions

The moneys used to pay benefits are accumulated from the contributions made by the Board and each participant and from income generated by investments, including investment valuation appreciation, interest, and dividends. Earnings on investments are reported net of investment

management expenses. The Board's matching contribution for 2014 and 2013 was \$2.0 million and \$1.8 million, respectively. Net investment income was \$4.6 million in 2014 as compared to net investment income of \$10.8 million in 2013. The decrease of net investment income from 2013 to 2014 was primarily due to a slower pace in market appreciation offset with an increase of dividends.

#### Additions to Net Position

(amounts expressed in thousands)

	Years ended December 31,			2014-2013			2013-2012		
				Increase		%	Increase		%
	2014	2013	2012	(Decrease)	Change		(Decrease)	Change	
Employer contributions	\$1,978	\$1,835	\$1,743	143	7.8	%	92	5.3	%
Participant contributions	4,246	4,153	3,827	93	2.2	%	326	8.5	%
Participant rollovers	342	694	275	(352)	(50.7)	%	41.9	152.4	%
Net Investment (loss) income	4,617	10,752	5,544	(6,135)	(57.1)	%	5,208	93.9	%
Total additions	\$11,183	\$17,434	\$11,389	(6,251)	(35.9)	%	6,045	53.1	%

#### Deductions

Benefits paid to participants during the year represent the majority of the deductions from the SRSP. In 2014 and 2013, benefits paid were \$3.6 million and \$4.9 million respectively, a decrease of 27.2% and an increase of 99.6% in 2013 over 2012. The change in the amount of benefit payments 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 SRSP.

Administrative expenses for the SRSP were \$67,200 in 2014 and \$58,700 in 2013. Administrative fees are calculated based upon a percentage of the fair value of investments. The increase in administrative expenses is due to an overall increase in fair market values of the investments. In 2014 and 2013, participant investment advisory fees were \$19,900 and \$10,900, respectively. Please refer to note 4 of the financial statements for a detailed explanation of SRSP administrative expenses.

#### Deductions from Net Position

(amounts expressed in thousands)

	Years ended December 31,			2014-2013			2013-2012		
				Increase		%	Increase		%
	2014	2013	2012	(Decrease)	Change		(Decrease)	Change	
Benefits paid to participants	\$3,573	\$4,908	2,459	(1,335)	(27.2)	%	2,449	99.6	%
Administrative expenses	67	58	49	9	15.5	%	9	18.4	%
Participant investment advisory fees	20	11	534	9	81.8	%	7	175.0	%
Total deductions	\$3,660	\$4,977	\$2,512	(1,317)	(26.5)	%	2,465	98.1	%

#### Requests for Information

This discussion and analysis is designed to provide a general overview of the SRSP net position and changes in net position as of December 31, 2014 and 2013 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

**3. Basic Financial Statements**

**a) Statements of Net Position**

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
Investments, at fair value		
Mutual funds	\$64,040,600	\$57,346,200
Commingled fund	12,618,400	12,432,600
Money market fund	915,900	212,100
Total investments	<u>77,574,900</u>	<u>69,990,900</u>
Receivables		
Employer contributions	73,500	68,600
Employee contributions	158,500	217,100
Other receivables	2,600	8,500
Total receivables	<u>234,600</u>	<u>294,200</u>
Total assets	77,809,500	70,285,100
<b>Liabilities</b>		
Accrued administrative expense	17,500	15,700
Net position	<u>\$77,792,000</u>	<u>\$70,269,400</u>

See accompanying notes to financial statements.

**b) Statements of Changes in Net Position**

	<b>Years Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Additions</b>		
Investment income		
Net appreciation in fair value of investment	\$1,942,800	\$9,381,400
Dividends	2,662,600	1,355,900
Miscellaneous	11,100	14,700
	<u>4,616,500</u>	<u>10,752,000</u>
Contributions		
Employer contributions	1,977,800	1,834,900
Participant contributions	4,245,800	4,153,300
Participant rollovers	342,600	694,200
	<u>6,566,200</u>	<u>6,682,400</u>
	<u>11,182,700</u>	<u>17,434,400</u>
<b>Deductions</b>		
Benefits paid to participants	3,573,000	4,907,800
Administrative expenses	67,200	58,700
Participant investment advisory fees	19,900	10,900
	<u>3,660,100</u>	<u>4,977,400</u>
	7,522,600	12,457,000
	<u>7,522,600</u>	<u>12,457,000</u>
<b>Net Position</b>		
Beginning of year	70,269,400	57,812,400
End of year	<u>\$77,792,000</u>	<u>\$70,269,400</u>

See accompanying notes to financial statements.

## 4. Notes to the Financial Statements

### Note 1 - Plan Description

The Board of Water Commissioners, City and County of Denver, Colorado (the Board), adopted the Denver Water Supplemental Retirement Savings Plan in 1999 (SRSP). The Board operates a water utility created by the Charter of the City and County of Denver, Colorado.

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 Director of Human Resources and to the Director of Finance. 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 Director of Finance and the Director of Human Resources regarding the Retirement Program, including this SRSP. The advisory committee, in and of itself, has no decision-making authority. The Plan is exempt from compliance with the Employee Retirement Income Security Act of 1974, as amended, as it is a governmental plan.

The Board has engaged Empowerment Retirement Services 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 SRSP provides only general information. Participants and all others should refer to the SRSP agreement for a more complete description of the SRSP provisions.

#### **a. General**

The SRSP is a defined contribution plan covering all regular and discretionary employees of Denver Water who have completed the required introductory period and is qualified under section 401(a) paragraph (k) in accordance with the regulations of the Internal Revenue Code of 1986, as amended (IRC). The purpose of the SRSP is to provide supplemental retirement and other related benefits for eligible employees. As of December 31, 2014, there were 926 active employees out of 1,029 eligible employees participating in the SRSP. This compares with 897 active employees out of 1,013 eligible employees participating in the SRSP as of December 31, 2013. The SRSP and the trust established by the SRSP are maintained for the exclusive purpose of providing benefits to eligible employees and their beneficiaries, and for defraying reasonable administrative expenses. The SRSP provisions and contribution requirements are established and may be amended by the Board.

The SRSP 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 contribute up to 97% of pretax annual compensation, but not less than \$10 per pay period up to an annual maximum amount as codified by the Internal Revenue Service (IRS). Participants direct the investment of their contributions into various investment options offered by the SRSP. The SRSP offered as investment options twenty four mutual funds (including twelve target date funds), one money market fund and one commingled fund as of December 31, 2014 and 2013. The Board makes a matching contribution in an amount equal to 100% of the first 3% of base compensation that each participant contributes to the SRSP. The SRSP was amended in 2013 to authorize employer discretionary contributions to qualifying participants. In 2014 and

2013, a discretionary contribution of \$26,000 and \$25,850, respectively, was made. 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. The matching contribution is allocated to the participants' accounts and is participant directed. Although it has not expressed any intent to do so, the Board may change the amount of or discontinue the matching or discretionary contribution at any time.

**c. Participant Accounts**

Each participant's account reflects the cumulative amount of each participant's contribution along with the employer's matching and discretionary contribution including any income, gains, losses, or increases or decreases in market value attributable to the investment of contributions, 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 subject to Treasury Regulations under IRS Code §415 and 401(a)(17).

**d. Vesting**

A participant's interest in his/her participant and employer matching contributions is fully vested and nonforfeitable.

In addition to the participant's and employer contributions, in 2013 the SRSP was amended to allow the Board to make discretionary contributions to qualifying participants. The qualifying participant's interest in his/her discretionary contributions 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 the event of forfeitures due to termination of the qualifying participant prior to vesting the nonvested 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 SRSP does not permit participant loans.

**f. Payment of Benefits**

On termination of service, a participant with a balance of \$1,000 or less will have the amount automatically 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 single lump-sum amount equal to the value of the participant's interest in his or her account at termination or take periodic distributions provided they meet minimum distribution requirements of IRC code section 401(a)(9). Distributions must start no later than age 70½. Participants may also specify that funds roll directly from their account to an eligible retirement plan. Upon the death of a participant, the account is paid to the participant's beneficiaries in a single lump sum.

**g. Record Keeping, Custody and Management of Assets**



The Board approved a five year contract with Great-West Retirement Services (Great-West) to provide recordkeeping and communication services related to the SRSP effective December 29, 2010. 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. SRSP Termination***

Though it has not expressed any intent to do so, the Board has the right under the SRSP to terminate the SRSP at any time with respect to any or all participants by resolution of the Board. Upon discontinuance of the SRSP, the account of each participant would remain fully vested and nonforfeitable.

**Note 2 - Summary of Significant Accounting Policies**

***a. Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 SRSP 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. Certain prior year amounts have been re-classified to conform to the current year presentation.

***c. Investment Valuation***

The SRSP investments in mutual funds (including a money market fund) and one commingled fund are reported at fair value, which is based on the net asset value (NAV) of shares/units held at year-end. The NAV is used as a practical expedient to fair value. This computation of NAV is performed by the fund company and is reported daily to Great-West.

***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 IRS has determined and informed the Board by a letter dated August 11, 2014, that the SRSP and related trust are designed in accordance with applicable sections of the IRC (Internal Revenue Code) for amendments through June 12, 2013. The SRSP has been amended since receiving the determination letter. The Board and the SRSP tax counsel believe that the SRSP with subsequent

amendments is currently designed and operating in compliance with applicable requirements of the IRC.

### Note 3 - Investments

The following table lists the investment options available to participants and the value of each option at December 31, 2014 and 2013 (amounts are expressed in thousands)

	2014	2013
American Beacon Small Cap Value	\$3,422	
American Funds Washington Mutual	8,050	6,643
Baron Growth Institutional	1,832	1,941
Cohen & Streers Institutional Global Realty	308	264
Domini Social Equity	820	398
Dreyfus Cash Management	916	212
Frost Total Return Bond	4,138	
Galliard Retirement Income	12,618	12,433
Harbor International	4,889	5,149
Perkins Small Cap Value	—	3,331
PIMCO High Yield	1,391	1,176
PIMCO Total Return	—	4,258
T. Rowe Price Growth Stock	5,702	5,024
Vanguard Inflation Protected Bond	1,116	5,476
Vanguard Institutional Index Fund	6,114	1,261
Vanguard Mid Cap Index	7,915	6,935
Vanguard Target Retirement 2010	48	31
Vanguard Target Retirement 2015	2,666	2,604
Vanguard Target Retirement 2020	709	407
Vanguard Target Retirement 2025	6,684	5,349
Vanguard Target Retirement 2030	148	36
Vanguard Target Retirement 2035	3,456	2,973
Vanguard Target Retirement 2040	506	351
Vanguard Target Retirement 2045	2,852	2,659
Vanguard Target Retirement 2050	34	13
Vanguard Target Retirement 2055	438	376
Vanguard Target Retirement 2060	293	223
Vanguard Target Retirement Income	510	468
Total Investments	<u>\$77,575</u>	<u>\$69,991</u>

During 2014 and 2013, the net investment income (including gains and losses on investments bought and sold, as well as income received on investments during the year) was approximately \$4.6 million and \$10.8 million, respectively.

#### **Note 4 - Administrative Expenses**

The majority of investment options available to participants in the SRSP are registered mutual funds. The dollar amount of fees paid by the SRSP for investment management and administrative services on these funds is not separately disclosed. The current recordkeeper, Great-West, assesses 0.0225% of the value of participant account balances as of the last day of each calendar quarter for recordkeeping and communication services to the SRSP. Effective April 2, 2012, most investment options were converted to the lowest cost share class, which nearly eliminated the revenue sharing used to offset Great-West administration fees. The assessed recordkeeping and communication fee for the preceding quarter is now being deducted directly from each participant's account in January, April, July and October. Three funds which continue revenue sharing arrangements with Great-West (T. Rowe Price Growth Stock Fund, Baron Growth Institutional and Cohen & Steers Institutional Global Realty) are excluded from this new fee arrangement. Any revenue from revenue sharing is calculated quarterly and deposited in an unallocated SRSP account. The unallocated account is also used to accumulate any recordkeeping and communication fees withdrawn from Participant accounts, any fund credits received and any income received on excess balances. Excesses and shortages in the unallocated account are disbursed to the SRSP participants at year end at the discretion of the Board. In 2014 and 2013, total disbursements to participants at year-end were \$2,600 and \$8,500, respectively.

The assessed recordkeeping and communication fee for 2014 totaled \$67,200. Revenue sharing from 12(b) (1) fees reported by Great-West for the same period was \$11,400 and participant wrap fees totaled \$56,600. The assessed recordkeeping and communication fee for 2013 totaled \$58,700. Revenue sharing from 12(b) (1) fees reported by Great-West for the same period was \$9,500 and participant wrap fees totaled \$52,900.

In 2011, the Plan Sponsor's authorized investment advisory services for Plan participants. The 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 administrator. 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 2014 and 2013, total participant investment advisory fees paid were \$19,900 and \$10,900, respectively.

#### **Note 5 - Risks and Uncertainties**

##### ***a. Custodial Credit Risk***

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the SRSP 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 SRSP, and are held by either the counterparty or the counterparty's trust department or agent but not in the SRSP name.

The SRSP 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 mutual funds should be disclosed but not categorized because they are not evidenced by securities that exist in physical or book-entry form. The SRSP investment is the mutual fund share and commingled fund unit, not the underlying security. Additionally, investments in open-end mutual 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 SRSP 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 SRSP investment options are all diversified mutual funds and one commingled fund and are not subject to 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 SRSP 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 SRSP investment options are all diversified mutual funds and one commingled fund and therefore do not have credit risk. The mutual funds and commingled fund have not been rated by any nationally recognized rating agency (Moody's, Fitch and Standard & Poor's rating agencies).

**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 SRSP 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**

	<b>Average effective maturity</b>	<b>Average effective duration</b>	<b>Average credit quality</b>
Target Date Funds:			
Vanguard Target Retirement 2010	6.77	5.24	AA
Vanguard Target Retirement 2015	7.08	5.43	AA
Vanguard Target Retirement 2020	7.76	5.85	AA
Vanguard Target Retirement 2025	7.76	5.85	AA
Vanguard Target Retirement 2030	7.76	5.85	AA
Vanguard Target Retirement 2035	7.76	5.85	AA
Vanguard Target Retirement 2040	7.76	5.85	AA
Vanguard Target Retirement 2045	7.76	5.85	AA
Vanguard Target Retirement 2050	7.76	5.85	AA
Vanguard Target Retirement 2055	7.76	5.85	AA
Vanguard Target Retirement 2060	7.76	5.85	AA
Vanguard Target Retirement Income	6.67	5.18	AA
Fixed Income Mutual Funds:			
Frost Total Return Bond Institutional	6.94	3.82	BB
PIMCO High Yield	5.93	4.25	NR
Vanguard Inflation Protected	8.60	7.92	AAA

*NR means the credit quality was either not rated or not available*

**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 SRSP diversified selection of mutual 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.

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

<b>Schedule of assets invested in foreign securities</b>		
	<b>Dollar allocation invested in foreign securities</b>	<b>Percentage of fund invested in foreign securities</b>
American Beacon Small Cap Value	\$38	1.1%
American Funds Washington Mutual	427	5.3
Baron Growth	77	4.2
Cohen & Steers Global Realty	171	55.4
Domini Social Equity	50	6.1
Frost Total Return Bond	445	10.8
Harbor International	4,770	97.6
Perkins Small Cap Value	242	17.4
PIMCO High Yield	525	9.2
T. Rowe Price Growth Stock Fund	63	1.0
Vanguard Institutional Index Fund	139	1.8
Vanguard Mid Cap Index	10	20.1
Vanguard Target Retirement 2010	541	20.3
Vanguard Target Retirement 2015	147	20.8
Vanguard Target Retirement 2020	1,388	20.8
Vanguard Target Retirement 2025	31	20.8
Vanguard Target Retirement 2030	720	20.8
Vanguard Target Retirement 2035	105	20.8
Vanguard Target Retirement 2040	594	20.8
Vanguard Target Retirement 2045	7	20.8
Vanguard Target Retirement 2050	91	20.8
Vanguard Target Retirement 2055	61	20.8
Vanguard Target Retirement 2060	102	20.0
Vanguard Target Retirement Income	38	1.1%
Total	\$ <u>10,74</u>	

**Note 6 - SRSP Amendments**

The SRSP was amended on August 13, 2014, with the effective date of May 1, 2013, to define "spouse" to include Colorado civil unions wherever federal tax law defines "spouse" to include a person of the same sex.

Effective June 12, 2013, the SRSP was amended to provide a mechanism whereby the employer may make discretionary contributions to a qualified participant's account. The Board may decide the amount of contributions to the qualified participant's account annually, based upon annual performance evaluations, subject to annual contribution limits announced by the IRS.

## C. DENVER WATER 457 DEFERRED COMPENSATION PLAN

### 1. Independent Auditor's Report



KPMG LLP  
Suite 800  
1225 17th Street  
Denver, CO 80202-5598

#### Independent Auditors' Report

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

#### 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 (Plan), as of and for the years ended December 31, 2014 and 2013, 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 U.S. generally accepted accounting principles; 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 audit 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Denver Water 457 Deferred Compensation Plan as of December 31, 2014 and 2013, and the changes in financial position, and cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.





***Emphasis of Matters***

As discussed in management's discussion and analysis (unaudited), as of December 31, 2014, Denver Board of Water Commissioners adopted Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*.

***Other Matters***

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 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.

**KPMG LLP**

Denver, Colorado  
April 30, 2015



## 2. Management's Discussion and Analysis (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, 2014 and 2013. This information should be read in conjunction with the Plan financial statements and notes which follow.

### Financial Highlights

As of December 31, 2014 and 2013 respectively, \$32.3 million and \$30.3 million was held in trust for the payment of benefits to the Plan participants.

Total net position increased \$2.0 million or 6.6% in 2014. This compares with an increase in 2013 of \$3.5 million or 13.2%. The increase in 2014 was due to an increase in participant contributions and an increase in dividends. The increase in net position in 2013 was due to a combination of the appreciation in the fair value of investments, an increase in participant contributions and an increase in participant rollovers.

In 2014, the Plan had net investment income of \$1.8 million compared to \$3.9 million in 2013. Participant contributions were approximately \$1.9 million in 2014 and \$1.8 million in 2013.

Deductions from net position totaled \$1.7 million in 2014 and \$2.4 million for 2013 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, 2014 there were 343 participating employees in the Plan which constituted 33.3% of all eligible Denver Water employees. This compares to 310 participating employees in the Plan, constituting 30.6% of all eligible employees in 2013. There were 1,029 employees eligible for the Plan as of December 31, 2014 compared to 1,013 as of December 31, 2013.

### 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, 2014 and 2013. The Statements of Changes in Net position show the additions to and deductions from Plan net position during 2014 and 2013.

The above financial statements are presented in accordance with the Governmental Accounting Standards Board (GASB) 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 and net investment income. 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 2012, 2013 and 2014.

As of December 31, the Plan's net assets were:

	Net Position								
	(amounts expressed in thousands)								
	as of December 31,			2014-2013			2013-2012		
2014	2013	2012	Increase (Decrease)	% Change		Increase (Decrease)	% Change		
Mutual funds	\$22,467	20,397	\$16,539	2,070	10.1 %	3,858	23.3 %		
Commingled fund	9,494	9,686	10,039	(192)	(2.0) %	(353)	(3.5) %		
Money market fund	305	122	159	183	150.0 %	(37)	(23.3) %		
Total investments	32,266	30,205	26,737	2,061	6.8 %	3,468	13.0 %		
Receivables:									
Contributions	71	126	61	(55)	(43.7) %	65	106.6 %		
Other receivable	2	9	11	(7)	(77.8) %	(2)	(18.2) %		
Total receivables	73	135	72	(62)	(45.9) %	63	87.5 %		
Total assets	32,339	30,340	26,809	1,999	6.6 %	3,531	13.2 %		
Total liabilities	7	7	6	-	- %	1	16.7 %		
Plan net assets	\$32,332	30,333	26,803	1,999	6.6 %	3,530	13.2 %		

## Plan Activities

Net position increased in 2014, primarily due to an increase in dividends and participant contributions. The total increase in Plan net position was \$2.0 million or 6.6%. In 2013, Plan net position increased by \$3.5 million or 13.2%, as compared to 2012. Additional details for the change in net position are discussed below.

## 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 2014 was \$1.8 million as compared to \$3.9 million in 2013.

**Additions to Net Position**  
(amounts expressed in thousands)

	Years ended December 31,			2014-2013			2013-2012		
				Increase		%	Increase		%
	2014	2013	2012	(Decrease)	Change		(Decrease)	Change	
Participant contributions	\$1,879	\$1,840	\$1,708	39	2.1	%	132	7.7	%
Employer contributions	35	23	-	12	52.2	%	23	100.0	%
Participant rollovers	9	110	12	(101)	(91.8)	%	98	816.7	%
Net investment income	1,752	3,937	2,268	(2,185)	(55.5)	%	1,679	74.4	%
Total additions	<u>\$3,675</u>	<u>\$5,910</u>	<u>\$3,978</u>	<u>(2,235)</u>	(37.8)	%	<u>1,932</u>	48.6	%

### **Deductions**

Benefits paid to participants of \$1.6 million in 2014 and \$2.3 million in 2013 represent the majority of the deductions from the Plan. Benefits paid to participants were 30.1% less in 2014 compared to 2013 and 20.1% more in 2013 compared to 2012. 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.

Administrative expenses for 2014 and 2013 were \$28,400 and \$25,900, respectively. Administrative fees are calculated based upon a percentage of the fair value of investments. The increase in administrative expenses is due to an overall increase in fair market values of the investments. In 2014, participant investment advisory fees were \$5,600 as compared to \$3,200 in 2013. 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,			2014-2013			2013-2012		
				Increase		%	Increase		%
	2014	2013	2012	(Decrease)	Change		(Decrease)	Change	
Benefits paid to participants	\$1,643	\$2,349	\$1,956	(706)	(30.1)	%	393	20.1	%
Administrative expenses	28	26	25	2	7.7	%	2	8.3	%
Participant investment advisory fees	6	3	1	2	100.0	%	2	200.0	%
Total deductions	<u>\$1,677</u>	<u>\$2,378</u>	<u>\$1,981</u>	<u>(701)</u>	(29.5)	%	<u>397</u>	20.0	%

### **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, 2014 and 2013 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

**3. Basic Financial Statements**

**a) Statements of Net Position**

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
Investments, at fair value		
Mutual funds	\$22,467,400	\$20,397,300
Commingled fund	9,493,800	9,685,800
Money market fund	305,400	122,000
Total investments	<u>32,266,600</u>	<u>30,205,100</u>
Receivables		
Participant contributions	71,100	126,200
Other receivable	1,600	9,300
Total receivables	<u>72,700</u>	<u>135,500</u>
Total assets	<u>32,339,300</u>	<u>30,340,600</u>
<b>Liabilities</b>		
Accrued administrative expense	7,300	6,800
Net position	<u>\$ 32,332,000</u>	<u>\$30,333,800</u>

See accompanying notes to financial statements.

**b) Statements of Changes in Net Position**

	<b>Years Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Additions</b>		
Investment income		
Net appreciation in fair value of investments	\$ 620,400	\$3,463,100
Dividends	1,125,500	461,000
Miscellaneous income	6,200	12,600
Net investment income	1,752,100	3,936,700
Contributions		
Participant contributions	1,878,600	1,839,600
Employer discretionary contributions	35,000	23,000
Participant rollovers	9,400	110,200
Total contributions	1,923,000	1,972,800
Total additions	3,675,100	5,909,500
<b>Deductions</b>		
Benefits paid to participants	1,642,900	2,349,500
Administrative expenses	28,400	25,900
Participant investment advisory fees	5,600	3,200
Total deductions	1,676,900	2,378,600
<b>Net Increase</b>	1,998,200	3,530,900
<b>Net Position</b>		
Beginning of year	30,333,800	26,802,900
End of year	<u>\$32,332,000</u>	<u>\$30,333,800</u>

See accompanying notes to financial statements.

## 4. Notes to the Financial Statements

### Note 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 Director of Human Resources and to the Director of Finance. 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 Director of Finance and the Director of Human Resources regarding the Retirement Program, including this Plan. The advisory committee, in and of itself, has no decision-making authority. The Plan is exempt from compliance with the Employee Retirement Income Security Act of 1974, as amended, as it is a governmental plan.

The Board has engaged Empowerment Retirement Services 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 2014 and 2013 a discretionary contribution was made of \$35,000 and 23,000, respectfully. 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. The Plan offered twenty four mutual fund investment options (including twelve target date funds), one money market fund and one commingled fund as of December 31, 2014 and 2013.

**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 market 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 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 nonforfeitable.

In addition to the participant's contributions, in 2013 the Plan was amended to allow the Board to make discretionary contributions to qualifying participants. The qualifying participant's interest in his/her discretionary contributions 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 the event of forfeitures due to termination of the qualifying participant prior to vesting the nonvested 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 does not permit participant loans.

**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**

The Board approved a five year contract with Great-West Retirement Services (Great-West) to provide recordkeeping and communication services to the Plan through December 29, 2015. 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.

**Note 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. Certain prior year amounts have been re classified to conform with the current year presentation.

***c. Investment Valuation***

The Plan investments in mutual funds (including a money market fund) and one commingled fund are reported at fair value, which is based on the net asset value (NAV) of shares/units held at year end. The NAV is used as a practical expedient to fair value. This computation of NAV is performed by the fund company and is reported daily to Empower Retirement.

***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.

**Note 3 - Investments**

The following table lists the investment options available to participants and the value of each option at December 31, 2014 and 2013 (amounts are expressed in thousands).

	2014	2013
American Beacon Small Cap Value	1,196	—
American Funds Washington Mutual	2,234	1,667
Baron Growth	572	546
Cohen & Steers Institutional Global Realty	92	131
Domini Social Equity	925	766
Dreyfus Cash Management	305	122
Frost Total Return Bond	1,987	—
Galliard Retirement Income	9,494	9,685
Harbor International	1,512	1,678
Perkins Small Cap Value	—	1,111
PIMCO High Yield	667	526
PIMCO Total Return	—	2,152
T. Rowe Price Growth Stock	3,628	3,363
Vanguard Inflation Protected Bond	343	440
Vanguard Institutional Index Fund	2,483	2,307
Vanguard Mid Cap Index	1,896	1,657
Vanguard Target Retirement 2010	63	50
Vanguard Target Retirement 2015	1,081	1,022
Vanguard Target Retirement 2020	186	139
Vanguard Target Retirement 2025	1,428	1,198
Vanguard Target Retirement 2030	35	21
Vanguard Target Retirement 2035	642	481
Vanguard Target Retirement 2040	73	22
Vanguard Target Retirement 2045	748	667
Vanguard Target Retirement 2050	4	—
Vanguard Target Retirement 2055	94	7
Vanguard Target Retirement 2060	208	172
Vanguard Target Retirement Income	371	275
Total Investments	\$32,267	\$30,205

During 2014 and 2013, the Plan investments (including gains and losses on investments bought and sold, as well as income received on investments held during the year) generated investment income of approximately \$1.8 and \$3.9 million, respectively.

#### **Note 4 - Administrative Expense**

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. The current recordkeeper, Great-West, assesses 0.0225% of the value of participant account balances as of the last day of each calendar quarter for recordkeeping and communication services to the Plan. Effective April 2, 2012, most investment options were converted to the lowest cost share class, which nearly eliminated the revenue sharing used to offset Great-West administration fees. The assessed recordkeeping and communication fee for the preceding quarter is now being deducted directly from each participant's account in January, April, July and October. Three funds which continue revenue sharing arrangements with Great-West (T. Rowe Price Growth Stock Fund, Baron Growth Institutional and Cohen & Steers

Institutional Global Realty) are excluded from this new fee arrangement. Any revenue from revenue sharing is calculated quarterly and deposited in an unallocated Plan account. The unallocated account is also used to accumulate any recordkeeping and communication fees withdrawn from Participant accounts, any fund credits received and any income received on excess balances. Excesses and shortages in the unallocated account are disbursed to the Plan participants at year-end at the discretion of the Board. In 2014 and 2013, total disbursements to participants at year-end were \$1,600 and \$9,300, respectively.

The assessed recordkeeping and communication fee for 2014 totaled \$28,400. Revenue sharing from 12(b) (1) fees reported by Great-West for the same period was \$6,200 and participant wrap fees collected totaled \$22,800. The assessed recordkeeping and communication fee for 2013 totaled \$25,900. Revenue sharing from 12(b) (1) fees reported by Great-West for the same period was \$5,300 and participant wrap fees collected totaled \$22,600.

### **Note 5 - Participant Investment Advisory Fees**

In 2011, the Plan Sponsor's authorized investment advisory services for Plan participants. The 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 administrator. 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 2014 and 2013, total participant investment advisory fees paid were \$5,600 and \$3,200, respectively.

### **Note 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 are all diversified mutual funds and a commingled 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 are all diversified mutual funds and one commingled fund and therefore do not have credit risk. The mutual funds and commingled fund have not been rated by any nationally recognized rating agency (Moody's, Fitch and Standard & Poor's rating agencies).

**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:

<b>Schedule of maturity, duration and credit quality</b>			
	<b>Average effective maturity</b>	<b>Average effective duration</b>	<b>Average credit quality</b>
Target date funds:			
Vanguard Target Retirement 2010	6.77	5.24	AA
Vanguard Target Retirement 2015	7.08	5.43	AA
Vanguard Target Retirement 2020	7.76	5.85	AA
Vanguard Target Retirement 2025	7.76	5.85	AA
Vanguard Target Retirement 2030	7.76	5.85	AA
Vanguard Target Retirement 2035	7.76	5.85	AA
Vanguard Target Retirement 2040	7.76	5.85	AA
Vanguard Target Retirement 2045	7.76	5.85	AA
Vanguard Target Retirement 2050	7.76	5.85	AA
Vanguard Target Retirement 2055	7.76	5.85	AA
Vanguard Target Retirement 2060	7.76	5.85	AA
Vanguard Target Retirement Income	6.67	5.18	AA
Fixed income mutual funds:			
Frost Total Return Bond	6.94	3.82	BB
PIMCO High Yield	5.93	4.25	NR
PIMCO Total Return	8.60	7.92	AAA
Vanguard Inflation Protected	6.77	5.24	AA

*NR means the credit quality was either not rated or not available*

**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.

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).

<b>Schedule of assets invested in foreign securities</b>		
	<b>Dollar allocation invested in foreign securities</b>	<b>Percentage of portfolio invested in foreign securities</b>
American Beacon Small Cap value	\$13	1.1%
American Funds Washington Mutual	118	5.3
Baron Growth	24	4.2
Cohen and Steers Global Realty	51	55.4
Domini Social Equity	56	6.1
Frost Total Return Bond	215	10.8
Harbor International	1,476	97.6
PIMCO High Yield	116	17.4
T. Rowe Price Growth Stock Fund	334	9.2
Vanguard Institutional Index Fund	25	1.0
Vanguard Mid Cap Index	34	1.8
Vanguard Target Retirement 2010	13	20.1
Vanguard Target Retirement 2015	220	20.3
Vanguard Target Retirement 2020	39	20.8
Vanguard Target Retirement 2025	297	20.8
Vanguard Target Retirement 2030	7	20.8
Vanguard Target Retirement 2035	134	20.8
Vanguard Target Retirement 2040	15	20.8
Vanguard Target Retirement 2045	156	20.8
Vanguard Target Retirement 2050	1	20.8
Vanguard Target Retirement 2055	19	20.8
Vanguard Target Retirement 2060	43	20.8
Vanguard Target Retirement Income	74	20.0
Total	\$ <u>3,480</u>	

### Note 7 - Plan Amendments

Effective June 12, 2013, the Plan was amended to provide a mechanism whereby the employer may make discretionary contributions to a qualified participant's account. The Board may decide the amount of contributions to the qualified participant's account annually, based upon annual performance evaluations, subject to annual contribution limits announced by the IRS.

# **III. INVESTMENT SECTION (UNAUDITED)**



## A. EMPLOYEES' RETIREMENT PLAN

### 1. Report on Investment Activity

The Northern Trust Company  
50 South La Salle Street Chicago, Illinois 60603  
(312) 630-6000



March 31, 2015

Plan Members, the Board of Trustees & Retirement Program Committee, Denver, Colorado

This letter reviews the performance for the Denver Water Employees Retirement Plan (DWERP) for the year ended December 31, 2014.

Northern Trust calculates time-weighted performance statistics based on our accounting system's data using the BAI iterative methodology (CFA Institute accepted). Northern Trust evaluates DWERP's performance in relation to market indices, appropriate manager peer groups and other public funds of similar size.

DWERP's primary investment objective is to prudently and expertly invest assets, in accordance with government law and industry practices, in a manner that will help ensure DWERP's ability to pay promised benefits to its members and their beneficiaries. A policy benchmark is constructed that mirrors DWERP's strategic asset allocation policy.

#### Market Environment

The U.S. equity markets had a tremendous rally in the fourth quarter as nearly all segments gained at least 5%. Small Cap led equities in the quarter while Large Cap performed significantly better for the full year of 2014. S&P 500 returned 13.7% for one year while the Russell 2000 gained 4.9%. For the year, growth stocks were nearly identical to their value counterparts with the Russell 1000 Growth returning 13.0% and the Russell 1000 Value adding 13.5%.

The U.S. economy grew impressively in the 3rd quarter with similar results expected for 4th quarter, both pointing towards sustained growth in 2015. Real U.S. gross domestic product (GDP) grew at an annual rate of 5.0% in the third quarter, the unemployment rate declined to 5.6% in December, and inflation held below the Fed's 2.0% target (thanks to declining energy prices). Overall, economic growth in 2015 is expected to be similar to 2014, led by consumer spending.

Within the fixed income markets, corporate bonds mostly outgained government bonds and longer dated bonds out-returned shorter dated bonds. The Barclay's Capital Aggregate index gained 6.0% for the year and the Barclay's Capital Government Credit index matched this return also gaining 6.0%.



The International equity markets trailed the U.S. equity markets during 2014. The MSCI ACWI ND index gained 4.2% for the year in U.S. dollar terms.

#### DWERP Performance

For the calendar year, DWERP's total fund had a time-weighted rate of return of 6.7%. DWERP's performance compared to the median return of 6.7% of the TUCS Universe of Public Funds valued at \$500. The plan outperformed its strategic policy benchmark target return of 5.4% for 2014 by 1.3%.

The policy benchmark at year end was comprised of the following indices in the percentages as follows: MSCI ACWI (59.5%), HFR Fund of Funds Composite (10%), BC U.S. Aggregate (20%), and NCREIF-ODCE (10.5%).

Over the trailing three years ending 12/31/14, DWERP earned an 11.6% annualized return. The trailing 5-year return now stands at 9.2% and is 0.8% ahead of the policy target return. The 10-year trailing return is 5.4% and it trails the benchmark by 0.6%.

DWERP's equity composite gained 7.6% in 2014, above the benchmark return of 4.1%. The 3-year return of 16.2% exceeded the benchmark return of 14.1%.

DWERP's real estate investments had success returning of 10.8% for the year. The real estate benchmark return was 12.5%.

DWERP's fixed income composite gained 3.7% for the year. This return trailed the BC U.S. Aggregate index return of 6.0%. Longer term results are impressive as the fixed income program leads the target index for the three and five year periods.

DWERP's hedge fund composite gained 4.4% for the year. This return outpaced the HFR Fund of Funds Composite rate of 3.4%.

In summary, the portfolio outperformed the total fund benchmark in 2014 and its performance ranks near the median of the TUCS Universe of Public Funds valued at \$500 million or less. Overall it was a year driven by double-digit returns in Domestic Equity and Real Estate while very weak International Equity results.

Sincerely,  
Jim Bailey  
Consultant and 2nd Vice President

The Northern Trust Company is a wholly owned subsidiary of Northern Trust Corporation, Chicago. Member FDIC. Equal Housing Lender

## 2. Outline of Investment Policies

*Excerpted from the "Statement of Investment Objectives, Policy and Guidelines for the Investment of the Retirement Trust Fund of the Employees' Retirement Plan of Denver Board of Water Commissioners", approved by the Board on October 8, 2014 ("IPS.")*

The purpose of the IPS is to provide the Director of Finance, and other staff with a foundation from which to effectively engage and evaluate the performance of Investment Managers and to oversee the management of the Fund in a prudent manner.

The investment objective of the Fund is to preserve the actuarial soundness of the Plan by achieving a long-term return of at least the actuarial return rate and to prudently manage the inherent investment risks that are related to the achievement of this goal. The Board recognizes that the investment objective is long term in nature, and that actual year-to-year returns achieved may be above or below the actuarially-assumed rate of return.

All transactions that utilize assets of the Fund will be undertaken for the sole benefit of the Fund and its beneficiaries. The assets will be invested in a manner consistent with the Plan Document and any applicable Federal, State, or Internal Revenue Service laws or regulations. The Fund's assets will be managed with that degree of care, prudence and diligence that a prudent person, acting in a like capacity and familiar with such matters, would use in a similar situation. Investment decisions with respect to individual assets should be evaluated not in isolation but in the context of the entire portfolio and as part of an overall investment strategy having risk and return objectives reasonably suited to the Fund.

The Board, in its capacity as Trustee to the Plan, is a fiduciary of the Fund. The Board may, from time to time, delegate some of its Trustee duties. All persons or entities to which duties are delegated will have a fiduciary duty to the Trust and will follow the Prudent Conduct requirements of the Plan Document.

The asset allocation strategy is designed to reflect, and be consistent with, the long-term investment objective expressed in the "Objectives" section of this Policy. In order to achieve this objective, various asset classes and investment manager styles are selected by the Director of Finance to create a broadly diversified portfolio. Both the actuarial return assumption and the asset allocation strategy will change through time to reflect current investment objectives and market conditions. The Board has developed long-term asset allocation ranges based on several factors including: the long-term investment goals of the Plan; the Board's risk tolerance; the Plan's liquidity needs; and any legal or regulatory issues. The allowable long-term asset allocation ranges are outlined in the appendix to the IPS. The current long-term allocation ranges are as follows: equities: 35-70%, fixed income: 10-50%, alternatives: 10-40%. Although there is no specific allocation to cash, the Board recognizes that it is necessary to hold a portion of the Fund as immediately available funds to pay scheduled and unscheduled benefits and administrative expenses. The appropriate level of cash reserves will depend upon anticipated liquidity needs as determined by the Director of Finance on an ongoing basis.

Investment Managers are given full discretionary authority over the management of their assigned investment portfolio, subject to the Fiduciary Standard stated above and any other policies and guidelines within this Policy and within other guidelines agreed upon by the Director of Finance and the Investment Managers. Separate accounts or pooled funds may be used based upon the most favorable approach for the Fund's circumstances. If pooled funds are used, the pooled funds'

investment goals, policies, guidelines and restrictions are set forth in a separate document governing the investments of the pooled fund rather than in the IPS.

Active Investment Managers are expected to outperform their respective passive index designated by the Director of Finance, with the assistance of the Investment Consultant, and rank above median within a peer universe of active Investment Managers over rolling three-to-five year periods. Passive products are expected to produce returns that have minimal tracking error to their target index returns

The Board has delegated implementation of this Policy to the full time staff member occupying the position of the Director of Finance. Details concerning the Board's delegation may be found in the 2013 Denver Water Delegation Resolution Regarding the Retirement Program ("Resolution") approved on May 8, 2013. The Director of Finance may assign members of his/her Treasury staff to perform the day to day actions necessary to implement his/her decisions/actions, while retaining his/her fiduciary status. The Director of Finance is directed to review this Policy, including the asset allocation ranges, at a minimum, annually with the Investment Consultant for continued appropriateness, and to recommend changes to the Board when appropriate.

As a supplement to the IPS, the Operating Procedure document created and maintained by the Treasury section since October 2009, is intended to provide the operating instructions to the investment professionals at Denver Water responsible for oversight and day-to-day management of the Fund. The Procedure defines the risk and returns objectives of the Fund, expands on the underlying principles of the Board in the management of the Fund, describes the approved categories of investments and asset mix guidelines, provides guidance for the prudent and effective management of the Fund including constraints, and establishes the process for hiring and monitoring investment managers.

### 3. Schedule of Investment Managers

Manager	Strategy/Product	Vehicle	Date funded
<b>Domestic Equity Managers</b>			
Advisory Research, Inc. <sup>1</sup>	Master Limited Partnership	Separately managed account	since 01/2012
Winslow Capital Management, LLC	Winslow Large Cap Growth Portfolio	Separately managed account <sup>2</sup>	since 08/2011
Pyramis Global Advisors	Small/Mid Cap Core	Commingled fund	since 07/2011
Vanguard Group, Inc	Vanguard Dividend Growth Fund (VDIGX)	Mutual fund	since 02/2012
Northern Trust Investments, N.A.	NTGI-QM Collective Daily S&P 500 Equity Index Fund	Commingled fund	since 07/2006
<b>International Equity Managers</b>			
Vontobel Asset Management, Inc.	Vontobel Global Emerging Markets Fund	Commingled Fund	Since 02/2014
Dimensional Fund Advisors LP	World ex U.S. Value Portfolio (DFWVX )	Institutional mutual fund	since 02/2008
Harding Loevner Funds, Inc.	International Equity Portfolio (HLMIX)	Institutional mutual fund	since 08/2011
<b>Fixed Income Managers</b>			
Babson Capital Management LLC	Senior Secured Loans	Commingled Fund	Since 08/2013
Denver Investment Advisors, LLC	U.S. Fixed income - Core	Separately managed account	hired before 1978
Pacific Investment Management Company LLC	PIMCO Total Return Institutional Fund (PTTRX)	Institutional mutual fund	since 06/2009
<b>Real Estate Managers</b>			
JP Morgan Investment Management, Inc.	Strategic Property Fund	Commingled fund	since 11/2005
Harbert Management Corporation	Harbert United States Real Estate Fund V, LP	Commingled fund	Since 07/2014
Prudential Real Estate Investors	PRISA	Commingled fund	since 03/2006
UBS Realty Investors, LLC	Trumbull Property Fund	Commingled fund	since 05/1998
<b>Hedge Fund-of-Funds</b>			
BlackRock Alternative Advisors	BlackRock Appreciation IV	Commingled fund	since 03/2012
GAM Limited	GAM US Institutional Trading II	Commingled fund	since 03/2012
<b>Cash and Equivalent</b>			
Northern Trust Investments, N.A.	The Northern Trust Collective Government STIF	Commingled fund	since 1988
<b>Managers terminated during 2014</b>			
Pacific Investment Management Company LLC	PIMCO Unconstrained Bond Fund	Institutional mutual fund	Terminated 10/2014

<sup>1</sup> Formerly Fiduciary Asset Management Company, LLC

<sup>2</sup> Converted from a commingled fund to a separately managed account in January 2014  
Fees paid to investment managers are included in the Investment Section on page III-92.

#### 4. Schedule of Investment Results

The investment returns for the Employees' Retirement Plan are calculated by the Plan's custodian, The Northern Trust Company. Northern Trust calculates time-weighted performance statistics based on the company's accounting system's data using the BAI iterative methodology (CFA Institute accepted). Northern Trust evaluates the Plan's performance in relation to market indices, appropriate manager peer groups and other public funds of similar size. Returns are reported gross of fees, except for institutional mutual funds.

	Rates of return (%)		
	1-year	Annualized	
		3-year	5-year
<b>Denver Board of Water</b>	<b>6.72</b>	<b>11.65</b>	<b>9.22</b>
<i>Denver Target Index<sup>1</sup></i>	5.36	10.45	8.37
<i>Median TUCS Public Funds (&lt;\$500 Million)</i>	6.72	12.15	9.89
Total Equity	7.59	16.26	10.90
<i>MSCI ACWI ND<sup>2</sup></i>	4.16	14.10	9.17
Total Fixed Income	3.71	3.29	5.01
<i>Fixed Income Benchmark<sup>3</sup></i>	5.97	2.66	4.45
Real Estate	10.84	12.03	13.31
<i>Real Estate Benchmark<sup>4</sup></i>	12.50	12.45	13.93
Hedge Fund-of-Funds	4.41	-	-
<i>HFR Fund of Funds Composite</i>	3.37	-	-
Cash	0.01	0.02	0.04
<i>90 Day T-Bill</i>	0.03	0.06	0.08

Source: Northern Trust

	Rates of return (%)				
	2014	2013	2012	2011	2010
<b>Denver Board of Water</b>	<b>6.72</b>	<b>15.74</b>	<b>12.68</b>	<b>-0.52</b>	<b>12.23</b>
<i>Denver Target Index<sup>1</sup></i>	5.36	14.32	11.84	-0.53	11.53
<i>Median TUCS Public Funds (&lt;\$500 Million)</i>	6.72	18.27	12.30	0.62	12.63
Total Equity	7.59	25.56	16.31	-6.45	14.14
<i>MSCI ACWI ND<sup>2</sup></i>	4.16	22.80	16.13	-7.35	12.67
Total Fixed Income	3.71	-1.53	7.91	6.86	8.41
<i>Fixed Income Benchmark<sup>3</sup></i>	5.97	-2.02	4.21	7.84	6.54
Real Estate	10.84	13.50	11.76	14.36	16.18
<i>Real Estate Benchmark<sup>4</sup></i>	12.50	13.94	10.94	15.98	16.36
Hedge Fund-of-Funds	4.41	4.68	-	-	-
<i>HFR Fund of Funds Composite</i>	3.37	8.96	-	-	-
Cash	0.01	0.01	0.03	0.02	0.11
<i>90 Day T-Bill</i>	0.03	0.06	0.09	0.07	0.14

Source: Northern Trust

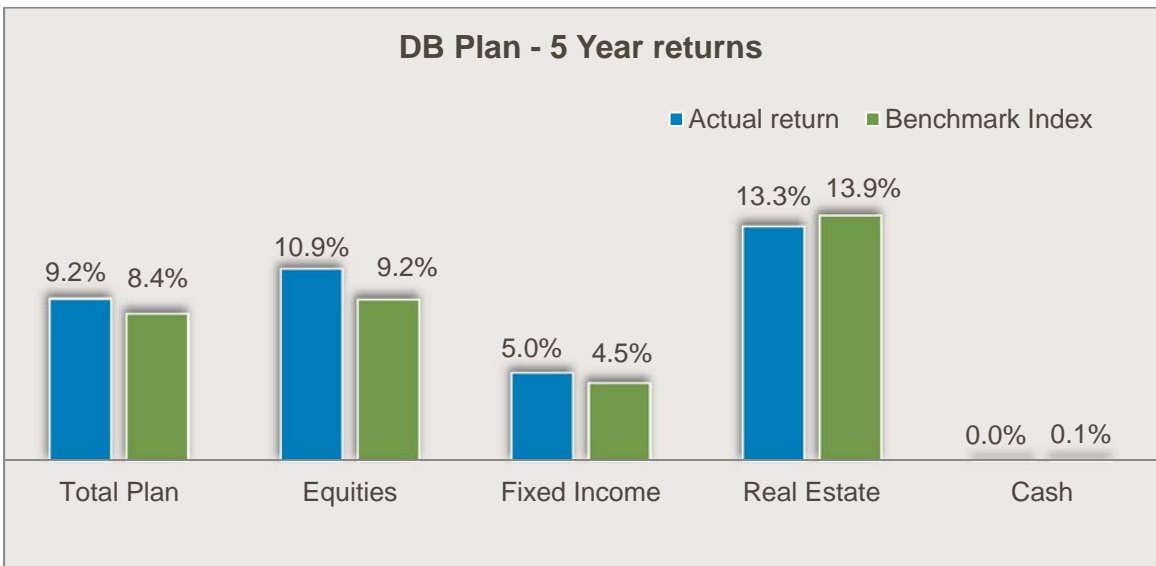
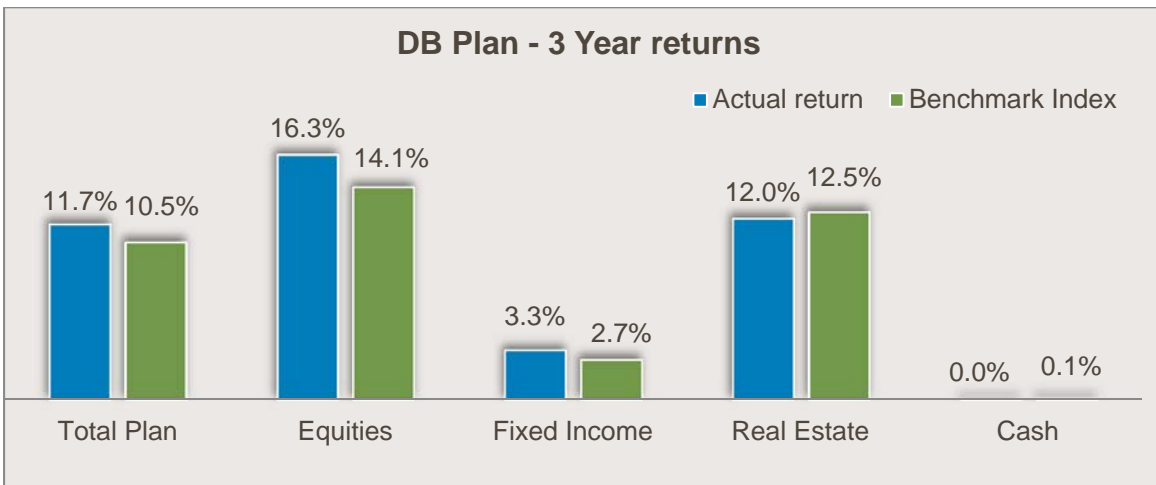
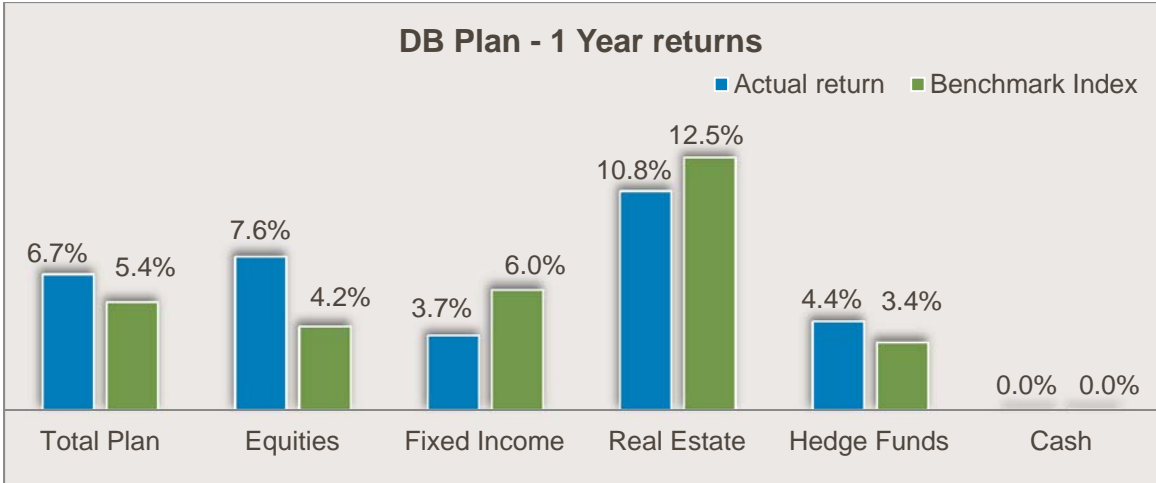
<sup>1</sup> *Denver Target Index* is a combination of current segment benchmark indices, weighted at the target asset allocations.

<sup>2</sup> *Benchmark for equities* replaces separate benchmarks for domestic and international equities for all periods beginning November 1, 2009 to better reflect the impact of tactical changes to asset allocation on portfolio performance.

<sup>3</sup> *Fixed Income Benchmark* is a custom blend BC US Agg Govt/Credit index performance from inception until 10/30/2009. From 10/30/2009 forward, BC Aggregate Bond Index is used.

<sup>4</sup> *Real Estate Benchmark* is a custom blend of NCREIF NPI Index performance from inception until 06/30/2008. From 10/30/2009 forward, NFI ODCE Gross of Fee Index is used.

Current benchmark indices for all asset classes and individual managers are outlined in the Operating Procedure for the DB Plan.



## 5. Asset Allocation

	Market Value As of 12/31/2014	% of Portfolio	Long Term Asset Allocation Ranges <sup>4</sup>	Target Allocation <sup>5</sup>
<b>Equities</b>	<b>176,667,335</b>	<b>58.4%</b>	<b>35-70%</b>	<b>59.5%</b>
Domestic Equity	125,325,739	41.4%		41.5%
Advisory Research MLP	15,776,757	5.2%		6.0%
Winslow Large Cap Growth	21,838,515	7.2%		7.0%
Pyramis SMID	15,843,399	5.2%		5.0%
Vanguard Dividend Growth	16,484,528	5.4%		5.0%
NTGI S&P 500	55,382,540	18.3%		18.5%
International Equity	51,341,596	17.0%		18.0%
Vontobel Global Emerging Markets Fund	9,551,593	3.2%		3.0%
Harding Loevner International Equity Portfolio	20,983,095	6.9%		7.5%
DFA World ex US Value Fund	20,806,908	6.9%		7.5%
<b>Fixed Income</b>	<b>61,861,038</b>	<b>20.4%</b>	<b>10-50%</b>	<b>20.0%</b>
Babson Capital Floating Rate Income Fund	15,091,637	5.0%		5.0%
Denver Inv Advisors	28,152,137	9.3%		9.0%
PIMCO Total Return Fund	18,617,264	6.2%		6.0%
PIMCO UBT	1	0.0%		0.0%
<b>Alternatives</b>	<b>61,052,262</b>	<b>20.2%</b>	<b>10-40%</b>	<b>20.5%</b>
Real Estate	30,920,643	10.2%		10.5%
JP Morgan SPF	8,532,818	2.8%		3.0%
Harbert United States Real Estate Fund V, LP	3,923,602	1.3%		1.5%
Prudential PRISA I	8,649,904	2.9%		3.0%
UBS TPF	9,814,320	3.2%		3.0%
Hedge Funds	30,131,618	10.0%		10.0%
BlackRock Alternative Advisors	15,008,076	5.0%		5.0%
GAM US institutional II	15,123,543	5.0%		5.0%
Cash <sup>1</sup>	2,955,296	1.0%	N/A	--
<b>Total Portfolio<sup>2</sup></b>	<b>302,535,931</b>	<b>100.0%</b>		<b>100.0%</b>

Source: Northern Trust; data as of 12/31/2014

<sup>1</sup> While the IPS does not quantify an allocation to cash, the Operating Procedure for the DB Plan sets the current target level for cash and cash equivalents at the amount equal to two months of pension payments, or approximately \$3 million.

<sup>2</sup> The total market value of the assets in the DB Plan reported by Northern Trust is higher than the net position restricted for pension reported in the Statement of Fiduciary Net Position due to certain accrued administrative and investment expenses not reported by the custodian until paid.

<sup>3</sup> Long Term Asset Allocation ranges are approved by the Board and outlined in the IPS.

<sup>4</sup> The Board charged the Director of Finance with developing and implementing a current asset allocation and rebalancing strategy which is designed to reflect, and be consistent with the long-term investment objective and the long term asset allocation ranges outlined in the IPS. These target allocation weights are contained in the Operating Procedure.

At December 31, 2014, all asset classes were within their stipulated operational ranges.

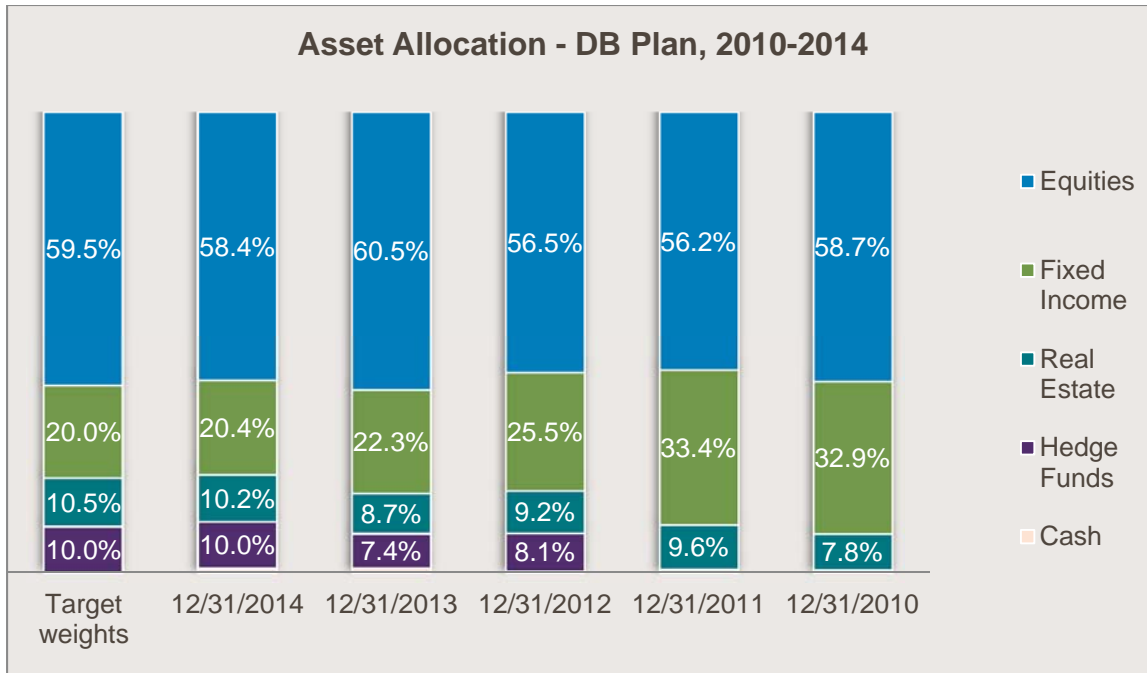
**Employees' Retirement Plan – Asset Allocation by Asset Class, 2010-2014**

	Market Value As of 12/31/2014	Market Value As of 12/31/2013	Market Value As of 12/31/2012	Market Value As of 12/31/2011	Market Value As of 12/31/2010
Equities	176,667,335	175,532,590	143,515,420	128,307,471	135,404,640
Fixed Income	61,861,038	64,742,492	64,814,045	76,350,840	75,978,919
Real Estate	30,920,643	25,193,029	23,263,259	21,893,682	18,007,123
Hedge Funds	30,131,618	21,450,588	20,460,760	-	-
Cash <sup>1</sup>	2,955,296	3,086,411	1,057,949	1,796,973	1,420,321
<b>Total Portfolio<sup>2</sup></b>	<b>302,535,931</b>	<b>290,005,110</b>	<b>253,910,487</b>	<b>228,348,965</b>	<b>230,811,004</b>

Source: Northern Trust

<sup>1</sup> Cash in this schedule differs from the amount reported in the financial statement due to classification differences. The amount of cash and money market mutual funds held within an individual investment portfolio (e.g. equity, fixed income) is reported in the portfolio classification in this schedule, but reported as Cash in the financial statements.

<sup>2</sup> The total market value of the assets in the DB Plan reported by Northern Trust is higher than the net asset value reported in the Statement of Plan Net Assets due to certain accrued administrative and investment expenses not reported by the custodian until paid.



Percentages may not add to 100% due to rounding



## 6. Investment Summary

### Employees' Retirement Plan – Portfolio by Asset Type as of 12/31/2014

	Cost	Market Value	Accrued Income/Expense	Market Value including accruals	% of Total
<b>Equities</b>	<b>135,378,679</b>	<b>176,570,336</b>	<b>13,323</b>	<b>167,032,067</b>	<b>58%</b>
Common stock	40,771,640	46,931,748	11,392	37,391,547	16%
Common stock- funds	94,468,989	129,500,470	0	129,500,470	43%
Preferred stock	138,050	138,118	1,932	140,050	0%
<b>Fixed income</b>	<b>61,662,625</b>	<b>61,511,957</b>	<b>289,056</b>	<b>71,352,605</b>	<b>20%</b>
Government Bonds	7,943,752	8,149,583	40,391	8,1875	3%
Government Agencies-Funds	272,489	278,498	2,266	280,764	0%
Municipal/Provincial Bonds	1,696,160	1,772,189	25,598	1,797,787	1%
Corporate Bonds	15,697,680	15,727,048	172,415	15,899,463	5%
Corporate Bonds-Funds	1	1	0	1	0%
Government Mortgage Backed Securities	935,042	945,463	2,660	948,122	0%
Asset Backed Securities	445,161	450,561	681	451,242	0%
Non-Government Backed C.M.O.s	477,986	479,714	1,503	481,217	0%
Other fixed income	15,500,000	15,091,637	0	24,643,230	5%
Other fixed income-funds	18,694,354	18,617,264	43,541	18,660,805	6%
<b>Real Estate</b>	<b>29,560,214</b>	<b>30,858,758</b>	<b>61,883</b>	<b>30,920,641</b>	<b>10%</b>
<b>Hedge Funds of Funds</b>	<b>27,775,591</b>	<b>30,131,618</b>	<b>0</b>	<b>30,131,618</b>	<b>10%</b>
<b>Cash and Cash Equivalents</b>	<b>3,716,134</b>	<b>3,716,134</b>	<b>-18,528</b>	<b>3,697,606</b>	<b>1%</b>
Funds-short term investment	3,716,134	3,716,134	319	3,716,453	1%
Currency	0	0	-18,847	-18,847	0%
<b>Adjustments to Cash</b>	<b>-598,606</b>	<b>-598,606</b>	<b>0</b>	<b>-598,606</b>	<b>0%</b>
Pending trade purchases	-675,011	-675,011	0	-675,011	0%
Pending trade - sales	163,652	163,652	0	163,652	0%
Other Receivables	1	1	0	1	0%
Other Payables	-87,249	-87,249	0	-87,249	0%
<b>Total</b>	<b>257,494,635</b>	<b>302,190,197</b>	<b>345,734</b>	<b>302,535,931</b>	<b>100%</b>

Source: Northern Trust

Totals may not add up due to rounding.

The total market value of the assets in the DB Plan reported by Northern Trust is higher than the net position restricted for pension reported in the Statement of Fiduciary Net Position due to certain accrued administrative and investment expenses not reported by the custodian until paid.

## 7. List of Largest Holdings by Asset Type

The lists of largest equity and fixed income holdings do not include mutual fund holdings and commingled funds.

### Employees' Retirement Plan - Top 10 Equity Holdings (by Market Value) as of 12/31/2014

Security Description	CUSIP	Country	Cost	Market Value*	% of Total equities*	% of Total portfolio value*
Energy Transfer Equity LP	192446102	United States	580,250	1,534,628	0.9%	0.5%
Kinder Morgan Inc	20030N101	United States	1,276,532	1,430,628	0.8%	0.5%
DCP Midstream Partners LP	22160N109	United States	1,307,982	1,241,602	0.7%	0.4%
MLP Plains GP Hldgs LP	22160K105	United States	1,047,471	1,191,424	0.7%	0.4%
MLP Western Gas Equity Partners LP	226344109	United States	811,620	1,178,882	0.7%	0.4%
Apple Inc	126650100	United States	893,864	1,162,301	0.7%	0.4%
MLP Enterprise Prods Partners LP	235851102	United States	827,171	1,157,646	0.7%	0.4%
MLP: Buckeye Partners LP	23311P100	United States	777,839	969,583	0.5%	0.3%
Williams CO Inc	247361702	United States	708,364	897,002	0.5%	0.3%
Visa Inc	256677105	United States	735,357	871,815	0.5%	0.3%
<b>Total top 10 Equities</b>				<b>11,635,511</b>	<b>5.9%</b>	<b>3.6%</b>
<b>Total value of equities*</b>				<b>176,570,336</b>	<b>100.0%</b>	<b>60.6%</b>
<b>Total value of portfolio*</b>				<b>302,190,197</b>	<b>N/A</b>	<b>100.0%</b>

Source: Northern Trust

\*Market value excluding accruals

Totals may not add up due to rounding.

The complete schedule of holdings at year-end is available upon request.

### Employees' Retirement Plan - Top 10 Fixed Income Holdings (by Market Value) as of 12/31/2014

Security Description	CUSIP	Country	Cost	Market Value*	% of Total Fixed income*	% of Total portfolio value*
Treasury Note 1% 08-31-2016	882722VP3	United States	2,715,306	2,710,175	4.4%	0.9%
Treasury Bond 2.625% 04-30-2016	915137X73	United States	850,771	843,960	1.4%	0.3%
Treasury Bond 4.5% 02-15-2036	93974CPM6	United States	696,346	773,620	1.3%	0.3%
Treasury Bond 3.125% 11-15-2041	93976AAH5	United States	650,060	685,304	1.1%	0.2%
Treasury Bond 0.375% 02-15-2016	952845AE5	United States	599,180	600,235	1.0%	0.2%
Treasury Bond 2.875% 05-15-2043	89114QAG3	United States	496,662	583,003	0.9%	0.2%
Treasury Note 1.25% 10-31-2015	02364WAX3	United States	578,188	569,547	0.9%	0.2%
Treasury Note 3.125% 01-31-2017	25244SAC5	United States	462,752	446,184	0.7%	0.1%
VALERO ENERGY CORP 6.125% 06-15-2017	05565QBY3	United States	356,480	356,984	0.6%	0.1%
CMO SEQUOIA MTG TR 2013-12 MTG PASSTHRU 144A 4% 12-25-2043	881575AC8	United States	355,239	356,721	0.6%	0.1%
<b>Total top 10 Bond holdings</b>				<b>7,925,731</b>	<b>7.1%</b>	<b>1.6%</b>
<b>Total value of fixed income*</b>				<b>61,511,957</b>	<b>100.0%</b>	<b>22.1 %</b>
<b>Total value of portfolio*</b>				<b>302,190,197</b>	<b>N/A</b>	<b>100.0%</b>

Source: Northern Trust

\*Market value excluding accruals

Totals may not add up due to rounding.

The complete schedule of holdings at year-end is available upon request.

## 8. Schedule of Fees and Commissions

### Employees' Retirement Plan - Schedule of Fees, 2014

Manager	Assets as of 12/31/2014	Assets as of 12/31/2013	Fees	Annual Management Fee
Advisory Research, Inc.	15,776,757	14,870,575	125,338	0.75%
Babson Capital Management	15,091,637	14,140,576	69,560	0.475%
BlackRock Alternative Advisors	15,008,076	11,283,288	150,489	1.25%
Denver Investment Advisors, LLC	28,152,137	18,987,109	65,923	1st \$25 mil – 0.30%; above – 0.25%
Dimensional Fund Advisors LP	20,983,095	26,771,449	136,580	0.60%
GAM Limited	15,123,543	10,167,300	132,088	1.20%-This includes a 30bps annual rebate
Harbert Management Corporation	3,923,602	-	670,878	1.5% management fee on committed capital during acquisition period; thereafter, annual 1.5% management fee applied only to unreturned, contributed capital
Harding Loevner Funds, Inc.	20,806,908	26,661,828	186,174	0.87%
JP Morgan Investment Management, Inc.	8,532,818	8,073,374	84,804	1% of NAV+0.15% on cash balances above 7.5%
Northern Trust Investments, N. A.- S&P 500	55,382,540	54,881,164	27,785	0.05%
Pacific Investment Management Company, LLC – Total Return Fund	18,617,264	17,783,367	84,258	0.46%
Pacific Investment Management Company, LLC- Unconstrained Bond Fund	1	13,831,440	113,960	0.90%
Prudential Real Estate Investors	8,649,904	7,984,568	90,069	1st \$10 mil – 0.75% of Cost Basis + performance fee of 6.00%* Operating Cash Flow +0.10%* cash holdings (max 1.20%)

Manager	Assets as of 12/31/2014	Assets as of 12/31/2013	Fees	Annual Management Fee
Pyramis Global Advisors	15,843,399	15,878,509	97,959	0.65%
UBS Realty Investors, LLC	9,814,320	9,135,087	107,106	1 <sup>st</sup> \$10 mil – 0.95%*NAV + 0.20% on cash above 7.5% of NAV + incentive fee of 0.075% for each 1% of outperformance above CPI+5%
Vanguard Group, Inc	16,484,528	15,213,182	48,864	0.31%
Vontobel Asset Management, Inc.	9,551,593	-	81,355	0.60%
Winslow Capital Management	21,838,515	21,255,881	121,354	0.95%
<b>Total Assets<sup>1</sup></b>	<b>302,535,931</b>	<b>290,005,110</b>		
<b>Total payments to investment managers</b>			<b>2,394,545</b>	
Investment Consulting Expense			77,600	N/A
Investment Performance Reporting Expense <sup>2</sup>			12,800	N/A
<b>Total Investment Expenses</b>			<b>2,484,945</b>	
<b>Investment Expenses as a percentage of average assets</b>			<b>0.84%</b>	
Actuarial Services			24,300	N/A
Benefit Payment Processing			97,900	N/A
Audit Services			21,800	N/A
<b>Total Administrative Expenses</b>			<b>144,000</b>	
<b>Total Expenses as a percentage of average assets</b>			<b>0.89%</b>	

Source: Denver Water

<sup>1</sup>Includes cash account. The total market value of the assets in the DB Plan reported by Northern Trust is higher than the net asset value reported in the Statement of Plan Net Assets due to certain accrued administrative and investment expenses not reported by the custodian until paid.

<sup>2</sup>Includes custody fees.

**Employees' Retirement Plan - Schedule of Broker Commissions by Broker, 2014**

<b>Broker</b>	<b>Total Shares</b>	<b>Net Base Amount (\$)</b>	<b>Commission (\$)</b>	<b>Per Share<sup>1</sup></b>	<b>% Cost of Trade</b>
Unassigned Broker	19,607,593	83,453,712	0	0.00	0.000%
Barclays Capital Fixed Inc	4,735,000	4,786,202	0	0.00	0.000%
Barclays Capital Le	70,792	3,846,056	1,864	0.03	0.048%
Baypoint Trading LLC	25,243	613,124	509	0.02	0.083%
Bernstein, Sanford C. & Co	11,755	1,041,985	353	0.03	0.034%
Blair, William & Co	25,000	25,721	0	0.00	0.000%
BNP Paribas Securities Bond	425,000	451,683	0	0.00	0.000%
BNY Capital Markets 443	250,000	279,478	0	0.00	0.000%
BNY ESI Securities Co.	7,840	274,273	157	0.02	0.057%
Brown Brothers, Harriman & Co New York	241,310	20,807,870	0	0.00	0.000%
Buckingham Research Group	350	34,638	11	0.03	0.030%
Cantor Fitzgerald & Co 7311	25,000	32,139	0	0.00	0.000%
Chase Securities Inc (CSI)	1,250,000	1,418,165	0	0.00	0.000%
Citigroup Global Markets Inc/Salomon B	1,445,000	1,602,027	0	0.00	0.000%
Citigroup Global Markets Inc/Smith Barn	176,060	1,544,836	550	0.00	0.036%
Cowen LLC	5,390	495,962	162	0.03	0.033%
Credit Suisse First Boston Corporation	641,326	8,690,775	3,241	0.01	0.037%
Daiwa Capital Markets America Inc	265,550	277,707	0	0.00	0.000%
Db Alex Brown	3,295,000	3,448,396	0	0.00	0.000%
Deutsche Bank Securities Inc	472,605	1,699,402	678	0.00	0.040%
First Miami Securities	55,000	76,313	0	0.00	0.000%
First Tennessee Securities Corp	25,000	27,644	0	0.00	0.000%
Goldman Sachs & Company	1,352,805	2,720,869	584	0.00	0.021%
Investec (Us) Incorporated	50,000	51,392	0	0.00	0.000%
Investment Technology Group Inc	6,876	563,202	206	0.03	0.037%
Isi Group Inc.	500	38,164	15	0.03	0.039%
J.P. Morgan Securities Llc 57079	21,226	1,589,143	620	0.03	0.039%
Janney Montgomery Scott	75,000	78,563	0	0.00	0.000%
Jefferies & Co Bonds Direct Division	250,000	287,327	0	0.00	0.000%
Jefferies & Company	60,777	3,485,597	1,215	0.02	0.035%
Jonestrading Inst Serv	11,511	383,815	230	0.02	0.060%
Keybanc Capital Markets Inc	250,000	283,236	0	0.00	0.000%
Kgs Alpha Capital Markets LLC	50,000	60,371	0	0.00	0.000%
Liquidnet Inc	120,049	5,395,582	2,401	0.02	0.044%
Loop Capital Markets LLC	25,000	32,115	0	0.00	0.000%
Merrill Lynch Pierce Fenner & Smith	48,100	1,731,405	612	0.01	0.035%
Merrill Professional Clearing Corp.	425,300	488,166	9	0.00	0.002%
Millennium Advisors LC	3,125,000	3,471,450	0	0.00	0.000%
Mitsubishi UFI Securities USA	50,250	59,074	0	0.00	0.000%
Mizuho Securities USA Inc.	200,000	203,625	0	0.00	0.000%
MLPFS Inc/Fixed Income	7,380,000	7,944,684	0	0.00	0.000%

Broker	Total Shares	Net Base Amount (\$)	Commission (\$)	Per Share <sup>1</sup>	% Cost of Trade
Morgan Stanley & Co Inc. New York	738,436	3,137,830	806	0.00	0.026%
Morgan Stanley DW Inc	215,000	265,256	0	0.00	0.000%
Nomura Securities Intl Fixed	425,000	503,459	0	0.00	0.000%
Oppenheimer And Company	100	6,949	3	0.03	0.043%
Pierpont Securities LLC	50,000	57,256	0	0.00	0.000%
Piper Jaffray Inc	177,500	301,118	75	0.00	0.025%
Raymond James	15,549	590,257	466	0.03	0.079%
Raymond James/Fi	560,000	652,321	0	0.00	0.000%
RBS Dain Rauscher	54,372	1,724,497	881	0.02	0.051%
RBS Securities Inc	17,165,000	18,180,885	0	0.00	0.000%
Robert W. Baird & Company Inc Milwaukee	3,490	178,383	105	0.03	0.059%
Seaport Group Securities LLC	325,000	358,560	0	0.00	0.000%
Southwest Securities Inc	150,000	157,316	0	0.00	0.000%
Sterne Agee And Leach Inc	250,000	328,286	0	0.00	0.000%
Stifel Nicolaus And Company	1,200,700	1,374,062	21	0.00	0.002%
Sumridge Partners LLC	350,000	380,886	0	0.00	0.000%
TMC Bonds LLC	35,000	42,649	0	0.00	0.000%
Toronto Dominion	125,000	125,554	0	0.00	0.000%
UBS Warburg LLC	314,099	3,805,277	1,897	0.01	0.050%
us Bancorp Investments Inc	325,000	363,038	0	0.00	0.000%
wells Fargo Securities LLC	1,944,576	2,924,858	302	0.00	0.010%

Source: Northern Trust

<sup>1</sup> The table lists all transactions and commissions recorded by Northern Trust. It does not include commissions paid by mutual funds and commingled funds or spread on any fixed income transactions. Transactions for which a broker was not specified (including sales and purchases of shares of mutual funds and commingled funds) are grouped under "Unassigned Broker".

The Trustees of the Employees' Retirement Plan have determined that because neither they nor staff are to be involved in the day-to-day investment of the Fund assets, neither they nor staff are in a position to determine with which brokers an investment manager can obtain the best execution of a transaction. For that reason, the Trustees do not direct commissions to any firm.

## B. DENVER WATER 401(K) SUPPLEMENTAL RETIREMENT SAVINGS PLAN/ DENVER WATER 457 DEFERRED COMPENSATION PLAN

### 1. Report on Investment Activity

*This section was prepared by the Denver Water staff*

On December 31, 2014, the market value of assets in the 401(k) Plan totaled \$77.6 million, a 10.8%

In 2013, employee contributions to the 401(k) Plan amounted to \$4.3 million, while Denver Water's matching contributions totaled \$2.0 million.

increase in the Plan asset value compared to December 31, 2013. At year-end, the Plan had 1,142 participants, including 957 active participants<sup>2</sup>. Total employee contributions to the 401(k) Plan amounted to \$4.3 million in 2014, or an average of \$4,498 per year per active participant, while Denver Water's matching contributions totaled \$2.0 million (an average of \$2,062 per year per active participant)<sup>3</sup>. Over 90%

of the eligible Denver Water employees participated in the 401(k) Plan at year-end, compared to an 89% participation rate in 2013.<sup>4</sup>

On December 31, 2014, the market value of assets in the 457 Plan totaled \$32.3 million, a 6.8% increase in the Plan asset value compared to December 31, 2013. The Plan had 621 participants, including 476 active participants. During 2014, participant contributions totaled \$1.9 million (or an average of \$4,062 per year per active participant).<sup>2</sup> Over 33% of the eligible Denver Water employees participated in the 457 Plan at year-end, compared to a 30% participation rate in 2013.

Both plans were amended in 2013 to allow employer discretionary contributions to qualifying participants. In 2014, a discretionary Board contribution to 401(K) Plan totaled \$26,000 and 457 Plan contribution amounted to 35,000. In general, the qualifying participant's interest in his/her discretionary contributions become fully vested upon

The investment of all contributions in the DC Plans is directed by each participant. Returns vary by participant based upon the timing of contributions and the funds selected by the participant.

<sup>2</sup> Total participants are defined as those participants who had cash value at the end of the reporting period. Active participants are defined as those participants who were actively employed and had a balance at the end of the reporting period.

<sup>3</sup> In 2014, an eligible employee was able to make a tax-deferred contribution of up to \$17,500 to each Defined Contribution Plan in which he or she was a participant. Participants age 50 or older could contribute an additional \$5,500 to each plan as catch-up contributions. For more information on limitation on elective deferrals see "401(k) Resource Guide - Plan Participants - Limitation on Elective Deferrals", "IRS Announces Pension Plan Limitations for 2014" IR-2013-86, Oct. 31, 2013, available on [www.irs.gov](http://www.irs.gov).

<sup>4</sup> For more statistical information about Retirement Program, see the Statistical Section of this Report.



completing seven years of service or upon attaining the age of 65, which differs from vesting schedule for regular employee/employer contributions, which are always fully vested and nonforfeitable.

As noted in the policy statements for both the 401(k) and 457 Plans, the primary objective of the Board is to offer investment options having diverse risk and return expectations so that each participant may construct a portfolio that can be expected to meet his or her individual needs. Investment managers are selected by the Director of Finance, with the assistance of the Retirement Program Committee and the investment consultant for the DC Plans, Cook Street Consulting. As of December 31, 2014, participants in either plan had access to twenty-six (26) investment options representing all major asset classes (of which twelve were Target Retirement Funds focused on various retirement dates). The schedule of investment options available in the DC Plans can be found on page III-100. The investment of both employee contributions and the employer-matching contributions is directed by the participants. Pages III-101 and III-102 contain investment return information on each fund available to participants. Returns vary by participant based upon the timing of contributions and the funds selected by the participant. Most funds in the lineup had rates of return above the median for their peer group over 1-, 3-, and 5-year periods.

Empower Retirement (formerly Great-West Retirement Services) ("Empower") is the custodian/trustee and the administrator for the Denver Water 401(k) and 457 Plans. By contract, the total compensation for providing the above services equals 0.0225% of the total value of assets as of the last day of each calendar quarter, or 0.09% per year. The assessed recordkeeping and communication fee for the preceding quarter is being deducted directly from each participant's account in January, April, July and October. Funds which continue revenue sharing arrangements with Empower (Frost Total Return Bond Fund, T. Rowe Price Growth Stock Fund, Baron Growth and Cohen & Steers Institutional Global Realty) are excluded from this new fee arrangement. Any revenue from revenue sharing is calculated quarterly and deposited in an unallocated Plan account. The unallocated account is also used to accumulate any recordkeeping and communication fees withdrawn from Participant accounts, any fund credits received and any income received on excess balances. Excesses and shortages in the unallocated account are disbursed to the Plan participants at year end at the discretion of the Board. Total revenue sharing from 12(b) (1) fees collected by Empower in 2014 was \$17,600 for both plans. Participant wrap fees withdrawn amounted to \$79,400. Combined Great-West administration fees amounted to approximately \$95,600. Additionally, participants paid a total of \$25,500 in investment advisory fees, which were withdrawn directly from their accounts.

Expense ratios for all funds in the lineup, as well as the revenue sharing amounts received by the Plan administrator, are disclosed to participants in the enrollment package and through the HR page on Inflow. They are disclosed to the general public in the audited financial statements. Current expense ratios, wrap fees and revenue sharing levels are presented in more detail on page III-105.

## 2. Outline of Investment Policies

### Denver Water 401(k) Supplemental Retirement Savings Plan

*Excerpted from the "Investment Policy Statement for Denver Water Supplemental Retirement Savings Plan (401(k) Plan) ["401(k) IPS"], approved by the Board on March 12, 2014*

The purpose of the 401(k) Plan is to enable each Plan participant to accumulate financial assets for retirement. The Board acknowledges that participants may have diverse current and projected needs and objectives. For that reason, the primary objective of the Board is to offer investment options having diverse risk and return expectations so that each participant may construct a portfolio that can be expected to meet his or her individual needs. Within this overall objective, the Board identified the following additional objectives:

- To undertake all transactions solely in the interest of the participants;
- To maintain flexibility in meeting the future needs of participants;
- To enable participants to exercise investment control;
- To allow participants to maximize return within reasonable and prudent levels of risk by selecting from the investment options offered;
- To monitor administration costs to ensure they remain reasonable;
- To arrange for investment education to be available to Participants.

The Board is a fiduciary of the 401(k) Plan. As such, the Board is authorized to delegate certain responsibilities to professional experts in various fields. As a sponsor of the 401(k) Plan, the Board is responsible for establishing investment policy objectives and guidelines. By resolution dated September 14, 2005 and updated on May 8, 2013, the Board has delegated certain duties related to implementation of the 401(k) IPS to the Director of Finance and the Director of Human Resources. Among the responsibilities delegated to the Director of Finance is the responsibility and authority to determine which investment options will be chosen, and to monitor the continued acceptability of the investment options. It is the policy of the Board to engage experts to assist with these duties.

In the 401(k) IPS, the Board directs the Director of Finance, with the assistance of the Investment Consultant to review long-term performance characteristics of various asset classes and to select broad asset classes for inclusion in the 401(k) Plan which have a long-term return history that is reasonably useful with respect to evaluating its probable future return, its standard deviation, and its correlation with the other selected asset classes. With a focus on balancing the risk and rewards of market behavior, it is the policy of the Board that the investment options made available to participants in the 401(k) Plan be chosen from no fewer than the following asset classes: Domestic Equities, International Equities, Domestic Fixed Income, and Fixed Interest or Stable Value Products. Within each of the broad asset classes, the 401(k) IPS requires that included investment options be diversified with respect to market capitalization, fixed income maturities, and investment style. Investment options that combine various asset classes are also included.

Over a complete market cycle, each investment option's overall annualized total return should perform above the median of portfolios in their Peer Universe. The Director of Finance shall continually monitor and review investment options against this expectation. The Director of Finance has authority to take corrective action by replacing an option if deemed appropriate at any time, on a case-by-case basis.

When evaluating quarterly performance of each investment option, the Director of Finance is directed to focus on:

- Consistency with expected style mandate;
- Material changes in the manager's organization, investment philosophy, and/or personnel;
- Comparisons of the investment option's results to its benchmark;
- The risk associated with each investment option;
- The investment option's performance relative to its Peer Universe.

The Director of Finance is directed to review the 401(k) IPS annually, to consult as necessary with expert advisors, and to suggest updates to the Manager and the Board as necessary.

### **Denver Water 457 Deferred Compensation Plan**

*Excerpted from the "Investment Policy Statement for the Denver Water 457 Deferred Compensation Plan (the "457 Plan, ["457 IPS"])", approved by the Board on March 12, 2014*

The Board's involvement in the Denver Water 457 Plan is solely to offer employees an opportunity to make voluntary payroll deferrals to the extent permitted by Internal Revenue Code section 457. The Board's objective is to offer employees reasonable choice in the 457 Plan funding products, and to control the administrative burdens and costs of the 457 Plan to Denver Water and its employees.

For these reasons, it is the policy of the Board that:

- The investment options offered in the 457 Plan will be the same as those offered in the 401(k) Plan;
- The same Record keeper will be used for the 457 Plan as for the 401(k) Plan and recordkeeping information;
- Participants will receive a consolidated participant statement for the two Plans, so that participants can see the effect of their investment allocation decisions more comprehensively.
- In order to maintain the 457 Plan as an eligible deferred compensation plan under section 457 of the Internal Revenue Code, assets of the 457 Plan will be held by an independent custodian and the Board will take such other actions as are necessary to maintain the tax deferred status of the 457 Plan;
- In all investment-related matters not specifically addressed in the 457 IPS, the investment policy for the 401(k) Plan shall be followed.

### 3. Schedule of Investment Managers

Fund	Ticker	Asset class
<b>Global Real Estate</b>		
Cohen & Steers Instl Global Realty	GRSIX	Global Real Estate
<b>International Equity</b>		
Harbor International Instl	HAINX	Foreign Stock
<b>Domestic Equity</b>		
Baron Growth Instl	BGRIX	Small Cap Growth
American Beacon Small Cp Val Inst <sup>1</sup>	AVFIX	Small Cap Value
T. Rowe Price Growth Stock	PRGFX	Large Cap Growth
American Funds Washington Mutual R6	RWMGX	Large Cap Value
Domini Social Equity Instl	DIEQX	Large Cap Blend w/ Social Screening
Vanguard Mid Cap Index I	VMCIX	Mid Cap Blend
Vanguard Institutional Index I	VINIX	Large Cap Blend
<b>Fixed Income</b>		
PIMCO High Yield Instl	PHIYX	High Yield Bond
Vanguard Inflation Protected Securities Admin	VAIPX	High Quality Bond – TIPS
Frost Total Return Bond Inst <sup>2</sup>	FIJEX	High Quality Bond
<b>Target Date Retirement Funds</b>		
Vanguard Target Retirement Income	VTINX	Multiple Asset Classes
Vanguard Target Retirement 2010	VTENX	Multiple Asset Classes
Vanguard Target Retirement 2015	VTXVX	Multiple Asset Classes
Vanguard Target Retirement 2020	VTWNX	Multiple Asset Classes
Vanguard Target Retirement 2025	VTTVX	Multiple Asset Classes
Vanguard Target Retirement 2030	VTHRXX	Multiple Asset Classes
Vanguard Target Retirement 2035	VTTTHX	Multiple Asset Classes
Vanguard Target Retirement 2040	VFORX	Multiple Asset Classes
Vanguard Target Retirement 2045	VTIVX	Multiple Asset Classes
Vanguard Target Retirement 2050	VFIFX	Multiple Asset Classes
Vanguard Target Retirement 2055	VFFVX	Multiple Asset Classes
Vanguard Target Retirement 2060	VTTTSX	Multiple Asset Classes
<b>Cash and Equivalent</b>		
Dreyfus Cash Management Instl	DICXX	Money Market
Galliard Retirement Income	n/a	Stable Value

As of December 31, 2014

<sup>1</sup> American Beacon Small Cp Val Inst replaced Perkins Small Cap Value on June 9, 2014.

<sup>2</sup> Frost Total Return Bond Inst<sup>2</sup> replaced PIMCO Total Return Instl on December 22, 2014.

#### 4. Schedule of Investment Results

The investment returns for the Denver Water 401(k) Supplemental Retirement Savings Plan/ Denver Water 457 Deferred Compensation Plan are provided by the Plans' Investment Consultant, Cook Street Consulting. Cook Street derives the information about returns from Morningstar Principia. Total return is calculated by taking the change in a fund's Net Asset Value (NAV), assuming the reinvestment of all income and capital gains distributions during the period, and then dividing by the initial NAV. Total returns account for management, administrative, and 12b-1 fees and other costs automatically deducted from fund assets. Cook Street evaluates the Plans' performance in relation to market indices and appropriate manager peer groups. Returns are reported net of fees.

Fund	Ticker	Rates of Return (%)		
		Current Year	3-year	5-year
<b>Global Real Estate</b>				
Cohen & Steers Instl Global Realty	GRSIX	14.11	14.35	9.82
<i>Global Real Estate Peer Group</i>		11.67	14.58	9.912
<b>International Equity</b>				
Harbor International Instl	HAINX	-6.81	9.59	5.54
<i>Foreign Large Blend Peer Group</i>		-4.98	10.22	5.04
<i>MSCI ACWI EX NR USD Index</i>		-3.87	8.99	4.43
<b>Domestic Equity</b>				
Baron Growth Instl	BGRIX	4.66	19.22	16.42
<i>Small Growth Peer Group</i>		2.44	18.07	15.53
American Beacon Small Cp Val Inst	AVFIX	4.70	19.55	15.65
<i>Small Value Peer Group</i>		3.34	17.72	13.97
T. Rowe Price Growth Stock	PRGFX	8.83	21.68	15.84
<i>Large Growth Peer Group</i>		10.00	19.41	14.09
American Funds Washington Mutual R6	RWMGX	11.53	18.54	15.25
<i>Large Value Peer Group</i>		10.21	18.33	13.45
Domini Social Equity Instl	DIEQX	14.40	19.52	14.56
<i>Large Blend Peer Group</i>		10.96	19.00	13.88
Vanguard Mid Cap Index I	VMCIX	13.78	21.29	17.096
<i>Spliced Mid Cap Index</i>		13.83	21.32	17.10
<i>Mid-Cap Blend Peer Group</i>		7.80	18.99	14.77
Vanguard Institutional Index I	VINIX	13.65	20.38	15.43
<i>S&amp;P 500 TR Index</i>		13.69	20.41	15.45
<b>Fixed Income</b>				
PIMCO High Yield Instl	PHIYX	3.31	7.77	8.26
<i>High Yield Bond Peer Group</i>		1.11	7.41	7.86
Vanguard Inflation Protected Securities Admin	VAIPX	3.97	0.43	4.06
<i>Inflation-Protected Bond Peer Group</i>		1.80	-0.16	3.19
Frost Total Return Bond Inst	FIJEX	4.75	6.34	6.54
PIMCO Total Return Instl	PTTRX	4.69	4.26	5.14
<i>Intermediate-Term Bond Peer Group</i>		5.18	3.38	4.78
<b>Target Date Retirement Funds</b>				
Vanguard Target Retirement Income	VTINX	5.54	6.54	6.84
<i>Retirement Income Peer Group</i>		4.36	7.17	6.53
Vanguard Target Retirement 2010	VTENX	5.93	8.37	7.95
<i>Target Date 2000-2010 Peer Group</i>		4.10	7.54	6.83
Vanguard Target Retirement 2020	VTWNX	7.11	11.71	9.67
<i>Target Date 2015-2020 Peer Group</i>	-	4.72	9.20	7.91

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Fund	Ticker	Rates of Return (%)		
		Current Year	3-year	5-year
Vanguard Target Retirement 2030	VTHR	7.17	13.84	10.76
<i>Target Date 2026-2030 Peer Group</i>	-	5.04	11.54	9.12
Vanguard Target Retirement 2040	VFOR	7.15	15.48	11.57
<i>Target Date 2036-2040 Peer Group</i>	-	5.25	12.99	9.83
Vanguard Target Retirement 2050	VFIF	7.18	15.49	11.58
<i>Target Date 2046-2050 Peer Group</i>	-	5.42	13.49	10.07
Vanguard Target Retirement 2060	VTTS	7.16	-	-
<i>Target Date 2056-2060 Peer Group</i>	-	5.49	14.49	10.06
<b>Cash and Equivalent</b>				
Dreyfus Cash Management Instl	DICXX	0.03	0.05	0.08
<i>Money Market Taxable Peer Group</i>	-	0.01	0.02	0.02
Galliard Retirement Income (gross)	n/a	1.96	2.28	2.83
Galliard Retirement Income (net)	n/a	1.61	1.93	2.47
<i>USTREAS T-Bill Auction Ave 3 Mon Index</i>		0.03	0.06	0.08

Source: Cook Street Consulting

## 5. Asset Allocation

### Denver Water 401(k) Supplemental Retirement Savings Plan

Fund	Ticker	Total Assets as of 12/31/2014	% of the Total Assets	Total Assets as of 12/31/2013	% of the Total Assets
<b>Globa Real Estate</b>					
Cohen & Steers Instl Global Realty	GRSIX	\$308,036	0.4%	\$264,480	0.4%
<b>International Equity</b>					
Harbor International Instl	HAINX	\$4,889,331	6.3%	\$5,148,748	7.4%
<b>Domestic Equity</b>					
Baron Growth Instl	BGRIX	\$1,832,115	2.4%	\$1,941,300	2.8%
Perkins Small Cap Value N	JDSNX	\$0	0.0%	\$3,330,819	4.8%
American Beacon Small Cp Val Inst	AVFIX	\$3,422,111	4.4%	\$0	0.0%
T. Rowe Price Growth Stock	PRGFX	\$5,702,122	7.4%	\$5,024,375	7.2%
American Funds Washington Mutual R6	RWMGX	\$8,049,833	10.4%	\$6,642,988	9.5%
Domini Social Equity R	DSFRX	\$0	0.0%	\$398,477	0.6%
Domini Social Equity Fund Inst'l	DIEQX	\$819,412	1.1%	\$0	0.0%
Vanguard Mid Cap Index I	VMCIX	\$7,914,329	10.2%	\$6,935,377	9.9%
Vanguard Institutional Index I	VINIX	\$6,114,137	7.9%	\$5,475,465	7.8%
<b>Fixed Income</b>					
PIMCO High Yield Instl	PHIYX	\$1,390,931	1.8%	\$1,175,891	1.7%
Vanguard Inflation Protected Securities Admin	VAIPX	\$1,116,192	1.4%	\$1,261,270	1.8%
PIMCO Total Return Instl	PTTRX	\$0	0.0%	\$4,257,727	6.1%
Frost Total Return Bond Inst	FIJEX	\$4,137,934	5.3%	\$0	0.0%
<b>Target Date Retirement Funds</b>					
Vanguard Target Retirement Income	VTINX	\$509,570	0.7%	\$468,243	0.7%
Vanguard Target Retirement 2010	VTENX	\$48,271	0.1%	\$31,405	0.0%
Vanguard Target Retirement 2015	VTXVX	\$2,665,629	3.4%	\$2,604,103	3.7%
Vanguard Target Retirement 2020	VTWNX	\$709,330	0.9%	\$406,710	0.6%
Vanguard Target Retirement 2025	VTTVX	\$6,684,331	8.6%	\$5,348,742	7.6%
Vanguard Target Retirement 2030	VTHRXX	\$147,805	0.2%	\$36,093	0.1%
Vanguard Target Retirement 2035	VTTTHX	\$3,456,041	4.5%	\$2,972,418	4.2%
Vanguard Target Retirement 2040	VFORX	\$506,110	0.7%	\$350,750	0.5%
Vanguard Target Retirement 2045	VTIVX	\$2,851,851	3.7%	\$2,658,809	3.8%
Vanguard Target Retirement 2050	VFIFX	\$34,273	0.0%	\$13,155	0.0%
Vanguard Target Retirement 2055	VFFVX	\$438,282	0.6%	\$375,513	0.5%
Vanguard Target Retirement 2060	VTTTSX	\$292,627	0.4%	\$223,338	0.3%
<b>Cash and Equivalent</b>					
Dreyfus Cash Management Instl	DICXX	\$915,941	1.2%	\$212,128	0.3%
Galliard Retirement Income	n/a	\$12,618,383	16.3%	\$12,432,616	17.8%
<b>Total</b>		<b>\$77,574,927</b>	<b>100.0%</b>	<b>\$69,990,940</b>	<b>100.0%</b>

Source: Empower Retirement

## Denver Water 457 Deferred Compensation Plan

Fund	Ticker	Total Assets as of 12/31/2014	% of the Total Assets	Total Assets as of 12/31/2013	% of the Total Assets
<b>Global Real Estate</b>					
Cohen & Steers Instl Global Realty	GRSIX	\$91,655	0.3%	\$130,874	0.4%
<b>International Equity</b>					
Harbor International Instl	HAINX	\$1,512,354	4.7%	\$1,678,176	5.6%
<b>Domestic Equity</b>					
Baron Growth Instl	BGRIX	\$571,702	1.8%	\$546,478	1.8%
Perkins Small Cap Value N	JDSNX	\$0	0.0%	\$1,110,945	3.7%
American Beacon Small Cp Val Inst	AVFIX	\$1,196,002	3.7%	\$0	0.0%
T. Rowe Price Growth Stock	PRGFX	\$3,628,059	11.2%	\$3,362,927	11.1%
American Funds Washington Mutual R6	RWMGX	\$2,234,229	6.9%	\$1,666,703	5.5%
Domini Social Equity R	DSFRX	\$0	0.0%	\$765,691	2.5%
Domini Social Equity Fund Inst'l	DIEQX	\$925,449	2.9%	\$0	0.0%
Vanguard Mid Cap Index I	VMCIX	\$1,896,345	5.9%	\$1,657,022	5.5%
Vanguard Institutional Index I	VINIX	\$2,483,475	7.7%	\$2,307,433	7.6%
<b>Fixed Income</b>					
PIMCO High Yield Instl	PHIYX	\$666,545	2.1%	\$525,571	1.7%
Vanguard Inflation Protected Securities Admin	VAIPX	\$342,693	1.1%	\$439,698	1.5%
PIMCO Total Return Instl	PTTRX	\$0	0.0%	\$2,152,237	7.1%
Frost Total Return Bond Inst	FIJEX	\$1,987,198	6.2%	\$0	0.0%
<b>Target Date Retirement Funds</b>					
Vanguard Target Retirement Income	VTINX	\$370,831	1.1%	\$274,693	0.9%
Vanguard Target Retirement 2010	VTEVX	\$62,935	0.2%	\$50,066	0.2%
Vanguard Target Retirement 2015	VTXVX	\$1,081,366	3.4%	\$1,022,216	3.4%
Vanguard Target Retirement 2020	VTWNX	\$185,984	0.6%	\$139,082	0.5%
Vanguard Target Retirement 2025	VTTVX	\$1,428,095	4.4%	\$1,197,746	4.0%
Vanguard Target Retirement 2030	VTHR X	\$34,545	0.1%	\$20,571	0.1%
Vanguard Target Retirement 2035	VTTHX	\$641,910	2.0%	\$481,285	1.6%
Vanguard Target Retirement 2040	VFORX	\$73,392	0.2%	\$21,876	0.1%
Vanguard Target Retirement 2045	VTIVX	\$747,913	2.3%	\$667,169	2.2%
Vanguard Target Retirement 2050	VFIFX	\$3,754	0.0%	\$0	0.0%
Vanguard Target Retirement 2055	VFFVX	\$93,536	0.3%	\$6,522	0.0%
Vanguard Target Retirement 2060	VTTSX	\$207,478	0.6%	\$172,367	0.6%
<b>Cash and Equivalent</b>					
Dreyfus Cash Management Instl	DICXX	\$305,436	0.9%	\$121,998	0.4%
Galliard Retirement Income	n/a	\$9,493,771	29.4%	\$9,685,794	32.1%
<b>Total</b>		<b>\$32,266,652</b>	<b>100.0%</b>	<b>\$30,205,140</b>	<b>100.0%</b>

Source: Empower Retirement



## 6. Schedule of Fees and Commissions

### Schedule of fees paid by Plan Participants as of 12/31/2014<sup>1</sup>

Fund	Ticker	Expense Ratio <sup>2</sup>	Wrap Fess (%) <sup>3</sup>	Revenue sharing – paid to Great-West by fund managers (%) <sup>4</sup>	Average Expense Ratio in the Peer Group
<b>Global Real Estate</b>					
Cohen & Steers Instl Global Realty	GRSIX	1.00	0.00	0.10	1.42
<b>International Equity</b>					
Harbor International Instl	HAINX	0.74	0.09	0.00	1.32
<b>Domestic Equity</b>					
Baron Growth	BGRIX	1.05	0.00	0.15	1.40
American Beacon Small Cap Val Inst	AVFIX	0.84	0.09	0.00	1.39
T. Rowe Price Growth Stock	PRGFX	0.69	0.00	0.15	1.23
American Funds Washington Mutual R6	RWMGX	0.30	0.09	0.00	1.16
Domini Social Equity Fund Inst'l	DIEQX	0.80	0.09	0.00	1.14
Vanguard Mid Cap Index Ins	VMCIX	0.08	0.09	0.00	1.26
Vanguard Institutional Index I	VINIX	0.04	0.09	0.00	1.14
<b>Fixed Income</b>					
PIMCO High Yield Instl	PHIYX	0.55	0.09	0.00	1.11
Vanguard Inflation Protected Securities Admin	VAIPX	0.10	0.09	0.00	0.80
Frost Total Return Bond Inst	FIJEX	0.50	0.00	0.10	0.89
<b>Target Date Retirement Funds</b>					
Vanguard Target Retirement Income	VTINX	0.16	0.09	0.00	0.96
Vanguard Target Retirement 2010	VTEVX	0.16	0.09	0.00	0.92
Vanguard Target Retirement 2020	VTWNX	0.16	0.09	0.00	0.97
Vanguard Target Retirement 2030	VTHR X	0.17	0.09	0.00	1.02
Vanguard Target Retirement 2040	VFORX	0.18	0.09	0.00	1.04
Vanguard Target Retirement 2050	VFIFX	0.18	0.09	0.00	1.04
Vanguard Target Retirement 2060	VTTSX	0.18	0.09	0.00	0.98
<b>Cash and Equivalent</b>					
Dreyfus Cash Management Instl	DICXX	0.21	0.09	0.00	0.56
Galliard Retirement Income	N/A	0.63	0.09	0.00	0.74
<b>Weighted average (both plans)</b>		<b>0.38</b>	<b>0.08</b>	<b>0.01</b>	

Source: Cook Street Consulting

<sup>1</sup> The dollar amount of fees paid by the Plans for investment management and administrative services on the funds is not separately disclosed. Revenue sharing arrangements with Great-West are discussed in more detail in the Report on Investment Activity for the DC Plans (pages III-96 to III-97).

<sup>2</sup> Expense ratios provided by Cook Street Consulting

<sup>3</sup> Effective April 2, 2012, most investment options were converted to the lowest cost share class, which nearly eliminated the revenue sharing used to offset Great-West administration fees. Wrap fees were added to all investment options that do not have revenue sharing. Wrap fees are recorded as administrative expenses in

*the Plans' financial statements. These fees are deducted directly from each participant's account in April, July, October and January.*

*<sup>4</sup> Revenue sharing fees are recorded as administrative expenses in the Plans' financial statements. These fees are included in a fund expense ratio.*

# **IV. ACTUARIAL SECTION (UNAUDITED)**



## A. ACTUARY'S CERTIFICATION LETTER

*This section is excerpted from the January 1, 2014 Actuarial Valuation Report prepared by Milliman and pertains only to the DB Plan*



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May 9, 2014

Ms. Usha Sharma  
Treasurer  
Denver Water  
1600 West 12<sup>th</sup> Avenue  
Denver, CO 80204

Dear Usha:

As requested, we have performed an actuarial valuation of the Employees' Retirement Plan of the Denver Board of Water Commissioners as of January 1, 2014, for the plan year ending December 31, 2014. Our findings are set forth in this report. This report reflects the benefit provision and contribution rates in effect as of January 1, 2014.

In preparing this report, we relied, without audit, on information (some oral and some in writing) supplied by the Plan's staff. This information includes, but is not limited to, statutory provisions, employee data, and financial information. We found this information to be reasonably consistent and comparable with information used for other purposes. The valuation results depend on the integrity of this information. If any of this information is inaccurate or incomplete our results may be different and our calculations may need to be revised.

All costs, liabilities, rates of interest, and other factors for the Plan have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the Plan and reasonable expectations); and which, in combination, offer our best estimate of anticipated experience affecting the Plan. Further, in our opinion, each actuarial assumption used is reasonably related to the experience of the Plan and to reasonable expectations which, in combination, represent our best estimate of anticipated experience under the Plan.

This valuation report is only an estimate of the Plan's financial condition as of a single date. It can neither predict the Plan's future condition nor guarantee future financial soundness. Actuarial valuations do not affect the ultimate cost of Plan benefits, only the timing of Plan contributions. While the valuation is based on an array of individually reasonable assumptions, other assumption sets may also be reasonable and valuation results based on those assumptions would be different. No one set of assumptions is uniquely correct. Determining results using alternative assumptions is outside the scope of our engagement.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the Plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements. The Board of Trustees has the final decision regarding the appropriateness of the assumptions and has adopted them.

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Ms. Usha Sharma  
May 9, 2014  
Page 2

Actuarial computations presented in this report are for purposes of determining the recommended funding amounts for the Plan. Actuarial computations presented in this report under Statements No. 25, 27 and 50 are for purposes of fulfilling financial accounting requirements. The computations prepared for these two purposes may differ as disclosed in our report. The calculations in the enclosed report have been made on a basis consistent with our understanding of the Plan's funding requirements and goals. The calculations in this report have been made on a basis consistent with our understanding of the plan provisions described in Appendix A of this report, and of GASB Statements No. 25, 27 and 50. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

Milliman's work is prepared solely for the internal business use of the Employees' Retirement Plan of the Denver Board of Water Commissioners ("Plan"). To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exception(s):

- (a) The Plan may provide a copy of Milliman's work, in its entirety, to the Plan's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the Plan.
- (b) The Plan may provide a copy of Milliman's work, in its entirety, to other governmental entities, as required by law.

No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

The signing actuaries are independent of the plan sponsor. We are not aware of any relationship that would impair the objectivity of our work.

On the basis of the foregoing, I hereby certify that, to the best of my knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices. I am a member of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

We respectfully submit the following report, and we look forward to discussing it with you.

Sincerely,

A handwritten signature in blue ink, appearing to read "Joel E. Stewart".

Joel E. Stewart, ASA, EA, MAAA  
Consulting Actuary  
JES:kea

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## B. SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

The actuarial assumptions used in the valuation are intended to estimate future experience affecting projected benefit flow and investment earnings. Any variations in future experience from that expected from these assumptions will result in corresponding changes in the estimated costs of the plan's benefits.

The tables in this section give rates of decrement, referred to in actuarial notation by the general symbol "q'." The underlying theory is described more fully in Jordan, Life Contingencies, Society of Actuaries (Second Edition, 1967), page 277. Any age referred to in a table is always the age of the person at his or her nearest birthday.

### **Actuarial Cost Method**

The actuarial cost method we use to calculate the funding requirements of the Plan is called the entry age normal actuarial cost method.

Under this cost method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age. The portion of this actuarial present value allocated to a valuation year is called the Normal Cost. The portion of the actuarial present value not provided for at the valuation date by future Normal Costs is called the actuarial accrued liability.

### **Actuarial Value of Assets**

The actuarial value of assets is determined by calculating the expected return on the prior year's market value of assets, adjusted for cash flows of contributions and benefit payments for the year, and assuming a 7.5% interest return. The difference between this expected value and the actual return for the plan year is recognized over 3 years. The actuarial value of assets is then the actual market value minus the gains and losses for prior years that are still deferred. The resulting value is limited to between 80% and 120% of the market value of assets.

### **Annual Required Contribution (Adopted January 1, 2014)**

The Actuarially Determined Contribution (ADC) is calculated in accordance with the Funding Policy adopted by the Board. The unfunded actuarial accrued liability (UAAL) is amortized as a level dollar amount over a 15-year period using a layered approach beginning January 1, 2014. The UAAL as of January 1, 2014 will be amortized over a 15-year closed period. Future fluctuations in the UAAL due to plan experience different than assumed or changes in actuarial assumptions, methods or plan provisions will be amortized over a 15-year period beginning with the first valuation date following such change. In the event of a surplus (Actuarial Value of Assets greater than the Actuarial Accrued Liability), all prior amortization bases will be eliminated and the surplus will be amortized over a 30-year open period as a level-dollar amount.

### **Investment Earnings**

7.50% per annum, compounded annually, net of investment expenses.

### **Inflation/Cost-of-Living Adjustments**

3.00% per annum, compounded annually.

### **Compensation Increase**



Annual salary increases are based on a table graded by service, as displayed below. Merit increases are based on the District's step increase program, and assume on average three step increases at years 3, 6 and 9.

Service	Percentage Increase			Total
	Inflation	Productivity	Merit	
1	3.0%	0.5%	2.6%	6.1%
2	3.0	0.5	2.6	6.1
3	3.0	0.5	4.7	8.2
4	3.0	0.5	2.6	6.1
5	3.0	0.5	2.6	6.1
6	3.0	0.5	3.3	6.8
7	3.0	0.5	0.1	3.6
8	3.0	0.5	0.1	3.6
9	3.0	0.5	1.9	5.4
10+	3.0	0.5	0.1	3.6

### Expenses

Expenses other than investment expenses are assumed to be \$120,000 per year.

### Interest Credit for Employee Contributions

5.00% per annum, compounded annually.

### Mortality

Healthy Lives – RP-2000 Combined Healthy Mortality Table, blended 50% Blue Collar adjusted and 50% White Collar adjusted, and projected to 2021 using Scale AA

Disabled Lives – RP-2000 Disabled Retiree Mortality Table projected to 2021 using Scale AA. Scale AA is used to project mortality improvements in the future.

### Retirement

Graduated rates by age, based on eligibility for early or unreduced retirement, as follows:

Age	Early Retirement	Unreduced Retirement
50		2%
51		2
52		1
53		1
54		9
55	5%	25
56	2	10
57	2	10
58	2	10
59	2	15
60	2	15
61	10	10
62	0	20
63	0	20
64	0	15



65		30
66-69		25
70+		100

Vested inactive members are assumed to retire at age 65. Surviving spouses of vested inactive members are assumed to begin benefit payments at first eligibility.

**Disablement**

Graduated rates are used. Sample rates are as follows:

Age	Probability of Disability
25	0.027%
35	0.109
45	0.255
55	0.792
65	0.000

**Withdrawal Rates**

Graduated rates based on years of service are used. Sample rates are as follows:

Years of Service	Probability of Termination
1	9%
2	9
3	9
4	5
5	5
6	3
7-10	3
10-15	2
15-30	1
30+	0

**Marital Assumptions**

75% of active and deferred vested members not currently receiving benefits are assumed to be married. Male spouses are assumed to be three years older than their female spouses.

**Form of Payment Assumption**

The following form of payment elections are assumed, based on age at termination/retirement.

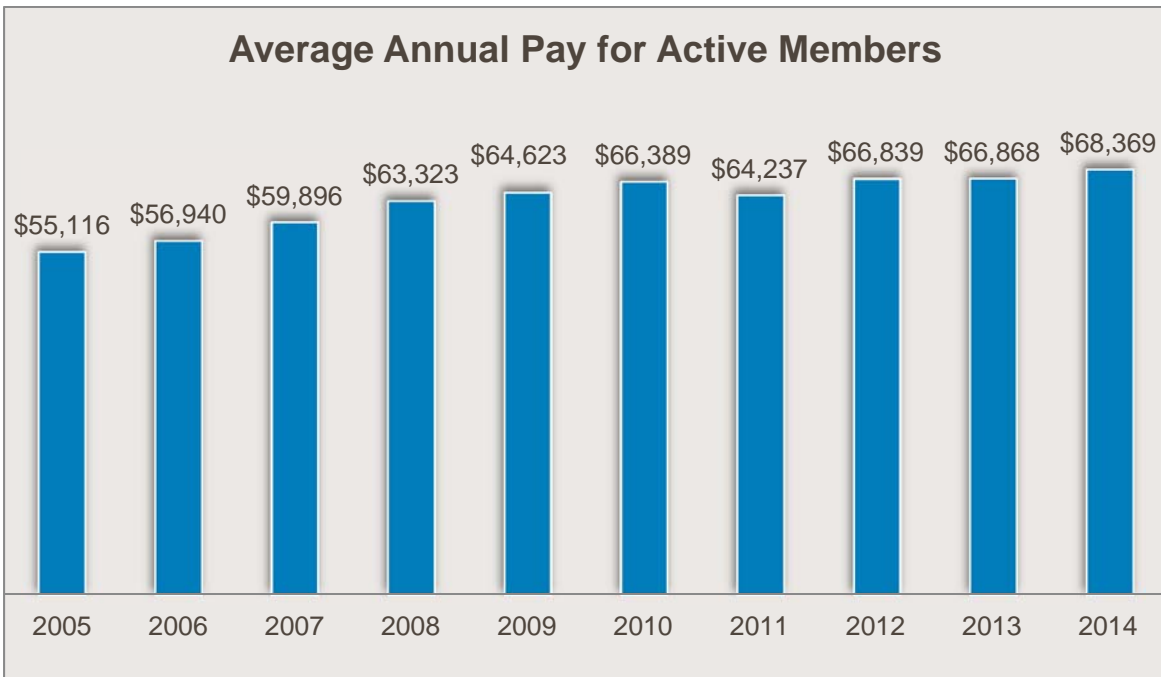
Age at Termination/Retirement	% Electing Lump Sum	% Electing Annuity
<40	75%	25%
40+	35%	65%

## C. CHANGES IN ACTUARIAL METHODS AND ASSUMPTIONS SINCE PRIOR YEAR

- The investment return assumption has been changed to be net of investment expenses only.
- An explicit administrative expenses assumption of \$120,000 per year has been added.
- The amortization method of the Unfunded Actuarial Accrued Liability (UAAL) has been changed from a rolling 30-year level dollar amortization period to a 15-year (layered) level dollar amortization.
- The calculation of an individual member's entry age was modified to reflect GASB Statements No. 67 and 68.

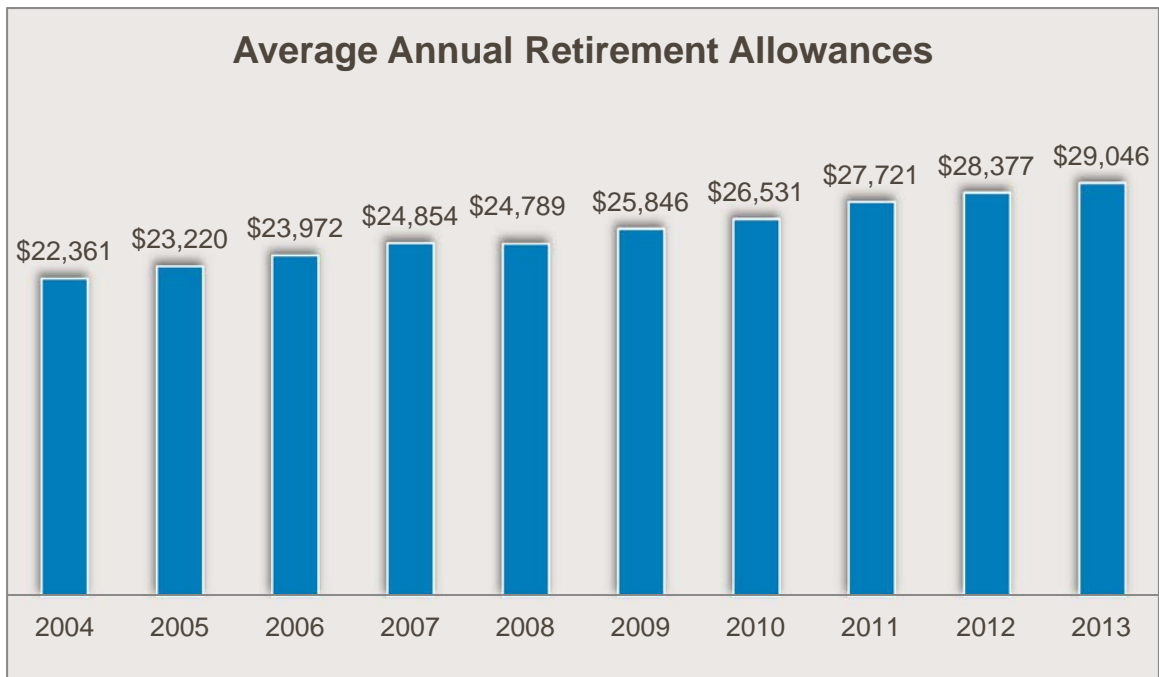
### E. SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Number of Active Members	Annual Payroll	Annual Average Pay	% Increase in Average Pay	Number of Deferred Vesteds
1/1/2005	1,016	55,998,351	55,116	2.20	54
1/1/2006	1,005	57,224,980	56,940	3.31	61
1/1/2007	978	58,578,510	59,896	5.19	62
1/1/2008	953	60,346,577	63,323	5.72	80
1/1/2009	1,017	65,721,304	64,623	2.05	77
1/1/2010	1,060	70,372,085	66,389	2.73	79
1/1/2011	1,063	69,926,961	64,237	(3.24)	82
1/1/2012	1,043	71,172,362	66,839	4.05	83
1/1/2013	1,045	71,940,163	66,868	3.30	82
1/1/2014	1,023	71,847,268	68,369	4.60	84



F. SCHEDULE OF RETIREES AND BENEFICIARIES ADDED AND REMOVED FROM ROLLS

Plan Year Ending	Number Added to Rolls	Annual Allowances Added to Rolls	Number Removed from Rolls	Annual Allowances Removed from Rolls	Number at End of Year	Annual Allowances	% Increase in Annual Allowances	Average Annual Allowances
12/31/2004	36	1,071,629	10	266,227	395	8,832,415	17.38	22,361
12/31/2005	35	892,330	14	253,150	416	9,659,366	9.36	23,220
12/31/2006	35	1,068,629	24	524,884	427	10,236,256	5.97	23,972
12/31/2007	34	943,437	22	401,607	434	10,786,746	5.38	24,854
12/31/2008	21	600,765	14	334,219	441	10,931,756	1.34	24,789
12/31/2009	24	918,144	19	322,450	446	11,527,450	5.45	25,846
12/31/2010	32	1,066,810	11	204,272	467	12,389,988	7.48	26,531
12/31/2011	31	1,261,199	11	151,079	487	13,500,108	8.96	27,721
12/31/2012	45	1,511,056	13	283,394	519	14,727,770	9.09	28,377
12/31/2013	56	1,856,554	10	173,084	565	16,411,240	11.43	29,046



G. SOLVENCY TEST

Valuation Date	Actuarial Accrued Liabilities For			Valuation Assets	Portion of Accrued Liabilities Covered by Valuation Assets		
	(1) Active Member Contributions	(2) Deferred Vesteds, Retirees and Beneficiaries	(3) Active Members		(1)	(2)	(3)
1/1/2005	814,700	93,769,001	151,439,206	205,448,203	100	100	73.2
1/1/2006	746,500	102,162,352	156,656,355	228,774,927	100	100	80.3
1/1/2007	664,800	107,425,967	156,423,105	247,159,884	100	100	88.9
1/1/2008	520,500	119,028,961	155,696,471	255,768,194	100	100	87.5
1/1/2009	495,900	124,774,259	163,394,642	209,770,560	100	100	51.7
1/1/2010	499,600	132,568,017	168,189,298	228,083,245	100	100	56.4
1/1/2011	408,200	142,084,100	153,777,087	218,757,059	100	100	49.6
1/1/2012	353,600	154,303,402	156,786,401	238,384,139	100	100	53.4
1/1/2013	274,800	168,146,325	152,183,674	252,919,993	100	100	55.5
1/1/2014	127,900	191,230,293	146,486,108	272,829,275	100	100.0	55.6

## H.ANALYSIS OF FINANCIAL EXPERIENCE

Plan Year Ending	Actuarial (Gains)/Losses			Changes in Plan Provisions	Changes in Assumptions/Methods	Total (Gain)/Loss
	Asset Sources	Liability Sources	Total			
12/31/2004	391,140	813,741	1,204,881	0	(5,502,072)	(4,297,191)
12/31/2005	(8,695,021)	(731,174)	(9,426,195)	0	0	(9,426,195)
12/31/2006	(4,831,200)	(5,567,912)	(10,399,112)	0	(2,740,658)	(13,139,770)
12/31/2007	(658,453)	3,245,715	2,587,262	0	0	2,587,262
12/31/2008	57,469,750	1,677,274	59,147,024	0	814,878	59,961,902
12/31/2009	(710,044)	(1,354,240)	(2,064,284)	(956,258)	0	(3,020,542)
12/31/2010	24,758,527	(6,215,755)	18,542,772	0	(13,585,635)	4,957,137
12/31/2011	(3,318,033)	2,464,819	(853,214)	0	0	(853,214)
12/31/2012	751,281	(3,476,652)	(2,725,371)	0	0	(2,725,371)
12/31/2013	(3,897,780)	2,052,114	(1,845,666)	0	2,795,982	950,316

...continued on next page

## I. ANALYSIS OF FINANCIAL EXPERIENCE -PLAN YEAR

UAAL, January 1, 2013	\$ 67,684,806
Expected Changes during 2013	<u>(3,620,096)</u>
Expected UAAL, January 1, 2014	\$ 64,064,710
Changes During 2013	
• Investment (gains)/losses	\$ (3,897,780)
• Salary changes different than assumed	(1,336,445)
• New and Rehired members	283,665
• Withdrawal Experience	13,393
• Retirement Experience	3,767,341
• Disability Experience	360,094
• Non-retired Mortality Experience	209,229
• Pensioner Mortality Experience	1,088,528
• Cost of Living Adjustment different than assumed	(2,885,733)
• Miscellaneous demographic (gains)/losses	552,042
• Individual entry age calculation modification	<u>2,795,982</u>
Total Changes	\$ 950,316
Unfunded Actuarial Accrued Liability, January 1, 2014	\$ 65,015,026

## J. SUMMARY OF PLAN PROVISIONS

### Plan Provisions as of December 31, 2013

All actuarial calculations are based upon our understanding of the provisions of Employees' Retirement Plan of the Denver Board of Water Commissioners, as amended through December 31, 2013. This summary does not attempt to cover all of the detailed provisions.

#### Plan Year

The Plan Year is the 12-month period beginning January 1 and ending December 31.

#### Accrued Benefit

The Accrued Benefit for each member is the members Normal Retirement Benefit calculated using Average Final Compensation and Credited Service as of the calculation date.

#### Average Final Compensation

A member's Average Monthly Salary, as of a given date, is the average of the highest 36 consecutive completed calendar months of compensation during the last 120 months of employment.

#### Compensation

Salary is the total compensation paid to a member for services rendered to the Employer, prior to any pre-tax contributions to any qualified cash or deferred compensation arrangement, eligible deferred compensation plan or under a cafeteria plan.

#### Credited Service

A member shall be credited with one year of Credited Service for each Plan Year in which the member is credited with 1,000 or more Hours of Service.

#### Effective Date

The original effective date of the plan is June 1, 1944. The plan was most recently restated effective July 1, 2009, and most recently amended effective November 25, 2009.

#### Employee

Discretionary Employee or any person employed by the Employer who has satisfactorily completed a Required Introductory Period.

#### Membership

An Employee shall become a member retroactive to the Employee's date of employment upon the completion of the Required Introductory Period.

#### Employee Contributions

No longer required on or after September 30, 1981.

#### Normal Retirement Date

A member's Normal Retirement Age is the later of age 65 or the date the member completes five years of Credited Service. Normal Retirement Date is the day immediately following the attainment of Normal Retirement Age.

#### Normal Retirement Benefits

Each member who becomes eligible for a Normal Retirement Benefit under the plan will be entitled to receive a monthly retirement pension benefit beginning at the member's Normal Retirement Date and payable in the Normal Benefit Form equal to the larger of the sum of (1) through (4), or (5):

1. \$3 times Credited Service before June 1, 1951,
2. \$4 times Credited Service after May 31, 1951 and before January 1, 1971,
3. The sum of \$2.20 and 2% of Average Final Compensation in excess of \$400, times Credited Service after December 31, 1960 and before January 1, 1971,
4. The sum of 1.25% of Average Final Compensation and 0.45% of Average Final Compensation in excess of Covered Compensation, times Credited Service after December 31, 1970.
5. The sum of 1.5% of Average Final Compensation and 0.45% of Average Final Compensation in excess of Covered Compensation, times Credited Service



Normal Benefit Form

Life Annuity

Regular Early Retirement

(a) Eligibility

Age 55 and age plus service equals 75 or more.

(b) Amount

A member's Regular Early Retirement Benefit is a monthly pension benefit equal to his Accrued Benefit determined as of his Early Retirement Date, reduced by 1/3rd of 1% for each month payments commence prior to the member's Normal Retirement Date.

Special Early Retirement – Rule of 75

(a) Eligibility

Age 55 and age plus service equals 75 or more.

(b) Amount

A member's Special Early Retirement Benefit is a monthly pension benefit equal to his Accrued Benefit determined as of his Special Early Retirement Date, unreduced for earlier commencement.

A member who terminates service after his 50th birthday and the sum of the member's age and Credited Service equals 75 or more may retire on his 55th birthday with a Special Early Retirement Benefit.

Deferred Vested Retirement

(a) Eligibility

5 or more years of Credited Service.

(b) Amount

A member's Deferred Vested Retirement shall be equal to the member's Accrued Benefit, payable at the member's Normal Retirement Date. The member may retire with an Early Retirement Benefit upon attainment of age 55.

Disability Retirement

(a) Eligibility

Termination due to Disability.

(b) Amount

A member's Disability Retirement shall be equal to the member's Normal Retirement Benefit based on Average Final Compensation and Covered Compensation at time of Disability and Credited

Service member would have accrued had he continued employment through his Normal Retirement Date (or date of discontinuance of disability benefits, if earlier).

#### Optional Benefit Forms

Optional Benefit Forms are available and equal to the Actuarial Equivalent of the Normal Benefit Form and may be in an amount more than or less than that provided by the Normal Benefit Form depending on the option selected. Such distribution may be as a Joint & 50%, 75%, or 100% Survivor Annuity, with or without a Pop-up Feature, Level Income Option, or a Lump Sum.

#### Pre-Retirement Death Benefit

If a member dies prior to commencing benefits, the member's spouse will receive a monthly benefit payable as a Life Annuity in an amount equal to 50% of the member's Accrued Benefit.

#### Lump Sum Death Benefit

Upon the death of a Retired member receiving a monthly pension, \$5,000 shall be paid in a single sum to the member's designated beneficiary.

#### Cost of Living Adjustment

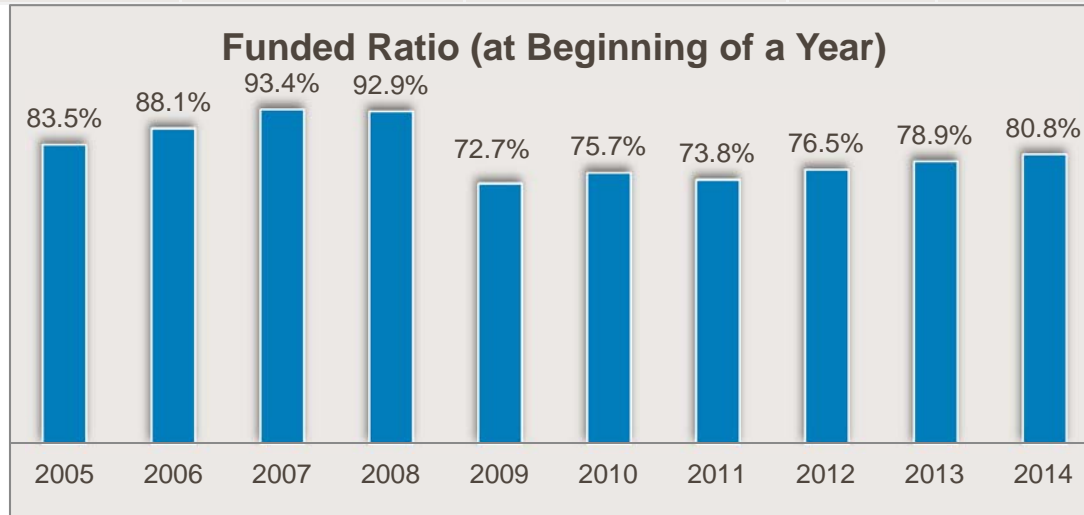
The monthly amount of any Pension provided by the Plan shall be increased or decreased annually of the first day of each January by the change in the U.S. Consumer Price Index as reported the preceding November. Annual increases may not exceed 5% for members whose severance date occurs prior to September 1, 1995 and 4.4% for members whose severance date occurs after August 31, 1995.

### **K. CHANGES IN PLAN PROVISIONS**

None.

L. SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Accrued Liabilities (UAL) (b-a)	Funded Ratio (a/b)	Covered payroll (c)	UAL as a % of Covered Payroll1 ((b-a)/c)
1/1/2005	205,448,203	246,022,907	40,574,704	83.5	55,998,351	72.5
1/1/2006	228,774,927	259,565,207	30,790,280	88.1	57,224,980	53.8
1/1/2007	247,159,884	264,513,872	17,353,988	93.4	58,578,510	29.6
1/1/2008	255,768,194	275,245,932	19,477,738	92.9	60,346,577	32.3
1/1/2009	209,770,560	288,664,801	78,894,241	72.7	65,721,304	120.0
1/1/2010	228,083,245	301,256,915	73,173,670	75.7	70,372,085	104.0
1/1/2011	218,757,059	296,269,387	77,512,328	73.8	69,926,961	110.8
1/1/2012	238,384,139	311,443,403	73,059,264	76.5	71,172,362	102.7
1/1/2013	252,919,993	320,604,799	67,684,806	78.9	71,940,163	94.1
1/1/2014	272,829,275	337,844,301	65,015,026	80.8	71,847,268	90.5



## M. SCHEDULE OF EMPLOYER CONTRIBUTIONS

Plan Year Ending	Annual Required Contribution	Employer Contribution	Percentage Contributed
12/31/2004	8,967,490	9,005,701	100.4
12/31/2005	8,738,577	8,738,635	100.0
12/31/2006	8,268,755	8,269,119	100.0
12/31/2007	6,981,523	7,277,159	104.2
12/31/2008	7,233,450	7,590,475	104.9
12/31/2009	11,871,976	14,500,000	122.1
12/31/2010	12,638,827	12,638,827	100.0
12/31/2011	12,414,279	15,400,000	124.1
12/31/2012	12,256,238	14,300,000	116.7
12/31/2013	11,957,548	15,000,000	125.4

## O. NOTES TO TREND DATA

### Summary of Actuarial Assumptions, Methods and Additional Information

Valuation Date	January 1, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	15 years (layered), as a level dollar amount (beginning January 1, 2014)
Remaining amortization period	15 years (as of January 1, 2014)
Asset valuation method	3-year smoothing of market value gains or losses
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases	3.6% - 8.2%, based on years of service
*Includes inflation at	3.0% and 0.5% productivity

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# **V. STATISTICAL SECTION (UNAUDITED)**





This section provides detailed information about the Retirement Plans of the Denver Board of Water Commissioners as a context for understanding the Program's overall financial condition. "Schedules of Additions by Source", "Schedules of Deductions by Type", "Schedules of Benefit and Refund Deductions from Net Assets by Type" and "Schedules of Changes in Net Assets" provide detailed information about the trends of key sources of additions and deductions to assets of Denver Water Retirement Plans, as well as their overall growth. "Schedule of Retired Members by Type of Benefit" contains information regarding the number and type of benefit recipients, and benefit amount for those who retired in 2014. "Schedule of Average Benefit Payment Amounts for Retirees" contains information on the average monthly benefit, average final monthly salary, and number of retired members of the Employees' Retirement Plan of Denver Water (DB Plan) over the last 10 years. Finally, the section entitled "Other Information" contains various tables showing member data for the Plans for the years 2005-2014. All non-accounting data was derived from Denver Water's internal sources and vendor reports and has been updated as of the end of 2014, as available.

## A. EMPLOYEES' RETIREMENT PLAN

### 1. Schedule of Additions by Source, 2005-2014

Fiscal Year Ending	Member Contributions <sup>2</sup>	Employer Contributions <sup>1</sup>		Net Investment and Other Income <sup>4</sup>	Total
		Dollars	Percentage of Annual Covered Payroll <sup>3</sup>		
2005	N/A	8,738,600	15.6%	14,875,000	23,613,600
2006	N/A	8,269,100	14.5%	29,511,400	37,780,500
2007	N/A	7,277,200	12.4%	19,208,700	26,485,900
2008	N/A	7,590,500	12.6%	(77,309,700)	(69,719,200)
2009	N/A	14,500,000	22.1%	31,558,700	46,058,700
2010	N/A	12,638,800	18.0%	24,118,400	36,757,200
2011	N/A	15,400,000	22.0%	(2,094,700)	13,305,300
2012	N/A	14,300,000	20.1%	28,171,400	42,471,400
2013	N/A	15,000,000	20.9%	39,023,000	54,023,000
2014	N/A	14,500,000	20.2%	18,523,200	33,023,200

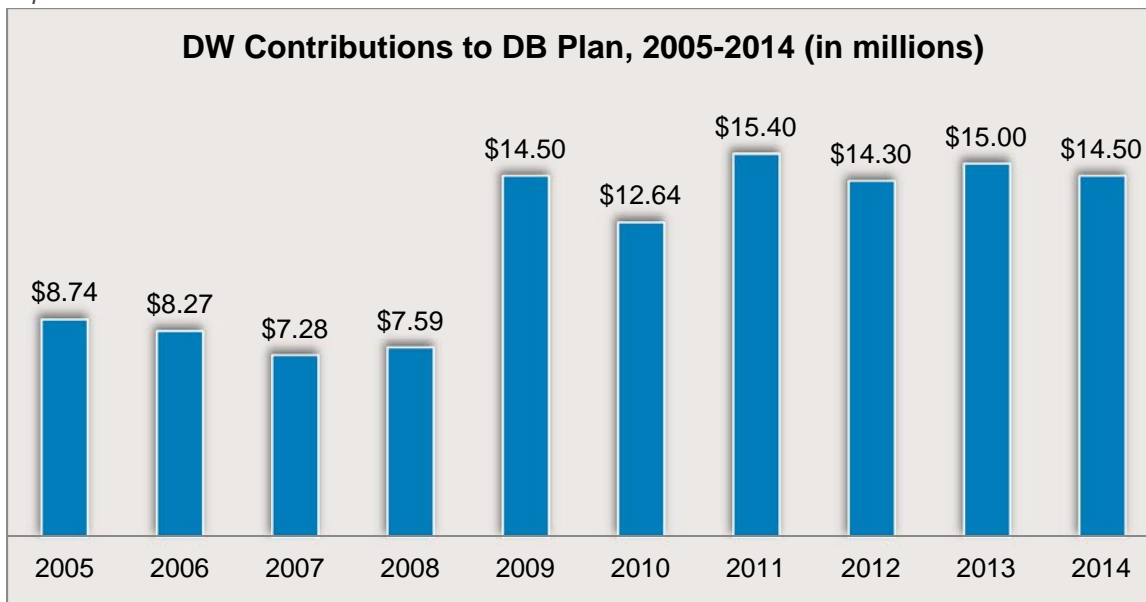
Source: Financial Statements for the Employees' Retirement Plan

<sup>1</sup> Employer cash contributions are made at actuarially determined amounts sufficient to accumulate the necessary assets to pay benefits when due. Contribution amounts are rounded to the nearest \$100 dollars and do not include interest earned for early payment of contribution.

<sup>2</sup> Effective September 1, 1995, members had the ability to make a voluntary after-tax contributions to the Plan to purchase an additional monthly benefit (pension purchase feature). The additional benefit was in the form of a monthly annuity with no cost-of-living adjustment. No contributions were made under this provision in 1999-2008. The pension purchase feature was eliminated effective July 1, 2009.

<sup>3</sup> Percentage is calculated based on contribution payment made on December 31 of each year. Actual percentage may be lower due to earlier payment of contribution.

<sup>4</sup> Investment and miscellaneous income (including realized and unrealized gains/losses) net of investment expense.



### 3. Schedule of Deductions by Type, 2005-2014

Fiscal Year Ending	Deductions by Type			Total
	Benefit Payments	Administrative Expenses	Refunds <sup>1</sup>	
2005	10,371,300	43,300	131,600	10,546,200
2006	12,768,700	180,700	109,600	13,059,000
2007	20,099,700	45,500	205,500	20,350,700
2008	15,281,500	47,900	64,600	15,394,000
2009	12,640,900	52,400	88,400	12,781,700
2010	14,143,900	59,800	108,300	14,312,000
2011	15,416,200	123,200	78,000	15,617,400
2012	16,704,300	123,800	93,700	16,921,800
2013	17,699,200	115,500	151,400	17,966,100
2014	20,299,200	144,000	66,400	20,509,600

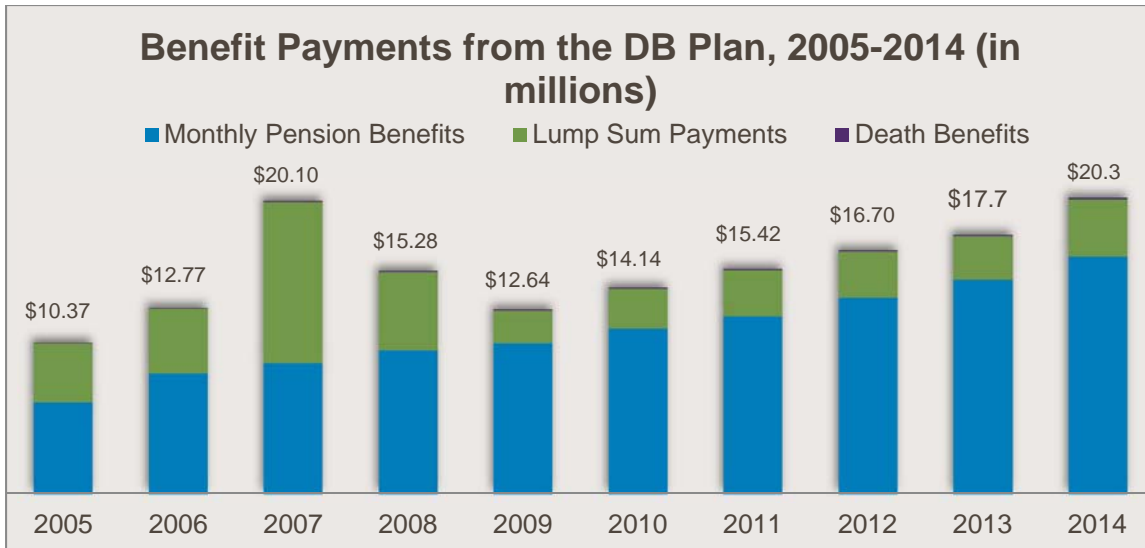
Source: Financial Statements for the Employees' Retirement Plan

<sup>1</sup>Effective January 1, 1992, the Board determined that all employee contributions to the Denver Water Employees' Retirement Plan would be refunded, with interest at 5%, upon termination or retirement. An amount of \$2,480,000 was paid in 1992 to refund amounts contributed by employees who had retired prior to December 1992 or were terminated during 1992. Amounts listed subsequent to 1992 were paid to employees who were terminated or retired in the year listed. Employees stopped making mandatory contributions after September 1981. As of December 31, 2014 and 2013, total remaining employee contributions including accrued interest was \$84,700 and \$127,400, respectively.

### 4. Schedule of Benefit Deductions from Net Assets by Type, 2005-2014

Fiscal Year Ending	Monthly Pension Benefits	Lump Sum Payments	Death Benefits	Total Benefits	Refunds
2005	6,284,900	4,046,400	40,000	10,371,300	131,600
2006	8,241,800	4,451,900	75,000	12,768,700	109,600
2007	8,952,600	11,067,100	80,000	20,099,700	205,500
2008	9,837,000	5,379,500	65,000	15,281,500	64,600
2009	10,350,800	2,215,100	75,000	12,640,900	88,400
2010	11,338,400	2,740,500	65,000	14,143,900	108,300
2011	12,184,400	3,176,800	55,000	15,416,200	78,000
2012	13,442,000	3,167,300	100,000	16,704,340	93,700
2013	14,670,900	3,028,300	55,000	17,699,200	151,400
2014	16,264,600	3,929,600	105,000	20,299,200	66,400

Source: Financial Statements for the Employees' Retirement Plan, Custody Reports



### 5. Schedule of Changes in Fiduciary Net Position, 2005-2014

Fiscal Year Ending	Total Additions	Total Deductions	Change in Net Assets	Net position restricted for pension, Beginning of Year	Net position restricted for pension, End of Year
2005	23,613,600	10,546,200	13,067,400	215,997,900	229,065,300
2006	37,780,500	13,059,000	24,721,500	229,065,300	253,786,800
2007	26,485,900	20,350,700	6,135,200	253,786,800	259,922,000
2008	(69,719,200)	15,394,000	(85,113,200)	259,922,000	174,808,800
2009	46,058,700	12,781,700	33,277,000	174,808,800	208,085,800
2010	36,757,200	14,312,000	22,445,200	208,085,800	230,531,000
2011	13,305,300	15,617,400	(2,312,100)	250,531,000	228,218,900
2012	42,471,400	16,921,800	25,549,600	228,218,900	253,768,500
2013	54,023,000	17,966,100	36,056,900	253,768,500	289,825,400
2014	33,023,200	20,509,600	12,513,600	289,825,400	302,339,000

Source: Financial Statements for the Employees' Retirement Plan

## 6. Schedule of Retired Members by Type of Benefit

Data as of January 1, 2015

Amount of monthly benefit	Number of retirees	Type of retirement*					Option selected #				
		1	2	3	4	5	Life	Opt. 1	Opt. 2	Opt. 3	Def
Deferred	95	0	0	1	5	89	0	0	0	0	95
\$1 – \$249	9	0	5	4	0	0	7	0	0	2	0
\$250 – \$499	36	8	22	6	0	0	32	1	1	2	0
\$500 – \$749	36	9	20	6	1	0	31	0	1	4	0
\$750 – \$999	32	6	19	6	1	0	23	4	2	3	0
\$1,000 – \$1,249	36	6	18	11	1	0	28	1	2	5	0
\$1,250 – \$1,499	38	8	20	10	0	0	25	6	1	6	0
\$1,500 – \$1,749	34	7	20	7	0	0	27	3	1	3	0
\$1,750 – \$1,999	33	5	22	5	1	0	24	4	3	2	0
over \$2,000	<u>328</u>	<u>36</u>	<u>264</u>	<u>21</u>	<u>7</u>	<u>0</u>	<u>197</u>	<u>81</u>	<u>16</u>	<u>34</u>	<u>0</u>
Totals	677	85	410	77	16	89	394	100	27	61	96

\*Type of Retirement

- 1-Normal retirement
- 2-Early and special early retirement
- 3-Survivor
- 4-Disability
- 5-Vested terminations with deferred benefits

# Option Selected

- Life or leveling option
- Opt. 1 – 50% J&S with and without pop up
- Opt. 2 – 75% J&S with and without pop up
- Opt. 3 – 100% J&S with and without pop up
- Def. – Deferred benefits

Source: January 1, 2014 Actuarial Valuation Report for Employees' Retirement Plan prepared by Milliman

### 7. Schedule of Average Benefit Payment Amounts for Retirees, 2005-2014

Retirement Effective Dates	Years of Credited Service						Total	
	5-9	10-14	15-19	20-24	25-29	30-34		35+
<b>January 1, 2005 to December 31, 2005:</b>								
Average Monthly Benefit	\$0.00	\$0.00	\$889.51	\$2,072.72	\$2,071.02	\$2,279.90	\$3,063.27	\$2,235.02
Number of Active Retirants	0	0	2	6	4	4	5	21
<b>January 1, 2006 to December 31, 2006:</b>								
Average Monthly Benefit	\$347.80	\$0.00	\$0.00	\$2,256.22	\$2,128.89	\$2,783.37	\$2,425.29	\$2,393.76
Number of Active Retirants	1	0	0	1	4	8	4	18
<b>January 1, 2007 to December 31, 2007:</b>								
Average Monthly Benefit	\$144.99	\$625.86	\$0.00	\$1,774.83	\$2,102.49	\$3,047.84	\$3,587.81	\$2,462.23
Number of Active Retirants	1	1	0	7	7	10	5	31
<b>January 1, 2008 to December 31, 2008:</b>								
Average Monthly Benefit	\$408.19	\$0	\$2,277.10	\$2,177.18	\$3,102.16	\$2,718.25	\$3,274.88	\$2,439.48
Number of Active Retirants	2	0	2	4	4	4	2	18
<b>January 1, 2009 to December 31, 2009</b>								
Average Monthly Benefit	\$0	\$1,379.36	\$0	\$0	\$3,031.65	\$3,711.94	\$3,416.99	\$3,224.64
Number of Active Retirants	0	2	0	0	4	6	8	20
<b>January 1, 2010 to December 31, 2010</b>								
Average Monthly Benefit	\$457.36	\$1,018.89	\$2,257.99	\$1,410.37	\$2,424.95	\$2,565.34	\$3,901.13	\$2,676.96
Number of Active Retirants	1	4	2	1	2	7	10	27
<b>January 1, 2011 to December 31, 2011</b>								
Average Monthly Benefit	\$0.00	\$892.08	\$1,235.41	\$1,494.81	\$2,216.83	\$3,747.31	\$3,472.47	\$2,713.81
Number of Active Retirants	0	3	4	1	1	9	5	23
<b>January 1, 2012 to December 31, 2012</b>								
Average Monthly Benefit	\$447.58	\$551.04	\$1,431.77	\$2,077.38	\$3,022.27	\$3,230.24	\$4,105.24	\$3,097.40
Number of Active Retirants	2	1	1		8	11	11	33
<b>January 1, 2013 to December 31, 2013</b>								
Average Monthly Benefit	\$676.26	\$770.75	\$1,809.36	\$2,273.52	\$2,916.17	\$3,144.23	\$4,463.10	\$3,053.70
Number of Active Retirants	1	4	7	7	3	8	18	48
<b>January 1, 2014 to December 31, 2014</b>								
Average Monthly Benefit	\$0.00	\$951.89	\$2,051.16	\$1,636.05	\$1,843.68	\$2,824.24	\$3,568.32	\$2,297.64
Number of Active Retirants	0	6	3	1	5	3	8	26

## 8. Other Information

### Employees' Retirement Plan – Member Count

As of	Total	Active <sup>1</sup>	Inactive		
			With Deferred Benefits	Retired Members and Beneficiaries	On Long Term Disability
01/01/2006	1,485	1,008	61	385	31
01/01/2007	1,472	983	62	394	33
01/01/2008	1,470	956	80	410	24
01/01/2009	1,536	1,018	77	424	17
01/01/2010	1,588	1,063	79	435	11
01/01/2011	1,613	1,063	83	456	11
01/01/2012	1,613	1,043	83	477	10
01/01/2013	1,646	1,045	82	511	8
01/01/2014	1,672	1,023	84	558	7
01/01/2015	1,711	1,034	90	582	5

Source: 2005-2015 Actuarial Valuation reports; extracted from "Member Data Reconciliation"

<sup>1</sup> Includes members on leave of absence as of January 1.

### Employees' Retirement Plan – Active members

As of	Number of Members on Leave of Absence	Active Only	Average Age	Average Vesting Service	Average Earnings	Average Entry Age
01/01/2006	3	1,005	46.3	15.3	\$56,940	31.0
01/01/2007	5	978	46.8	15.5	\$59,896	31.3
01/01/2008	3	953	46.5	14.9	\$63,323	N/A
01/01/2009	1	1,018	46.1	14.1	\$64,623	N/A
01/01/2010	3	1,060	45.9	13.7	\$66,389	N/A
01/01/2011	N/A	1,063	46.0	13.4	\$64,237	N/A
01/01/2012	N/A	1,043	46.4	13.8	\$66,839	N/A
01/01/2013	N/A	1,045	46.3	13.4	\$66,868	N/A
01/01/2014	N/A	1,023	46.2	12.9	\$68,369	N/A
01/01/2015	N/A	1,034	46.3	12.7	\$74,611	N/A

Source: 2005-2014 Actuarial Valuation reports; extracted from "Active Member Averages"

**Employees' Retirement Plan – Retiring Members by Type of Benefit elected, 2005-2014**

Fiscal Year Ending	Lump Sum	Partial Lump/Annuity	Annuity Only	Total Retirements
2004	7	0	22	29
2005	9	2	19	30
2006	10	3	15	28
2007	26	7	24	57
2008	5	3	15	23
2009	5	4	16	25
2010	17	2	25	44
2011	7	0	23	30
2012	12	3	30	45
2013	19	5	43	67
2014	10	4	23	37

Source: 2006-2015 Actuarial Valuation reports; extracted from "Retirements by Type"

**Employees' Retirement Plan – Retiring Members by Type of Retirement, 2005-2014**

Fiscal Year Ending	Normal Retirement	Early Retirement	Special Early (Rule of 75)	Special Early (Rule of 75 Grow-In)	Total Retirements
2005	5	0	25	0	30
2006	5	1	19	3	28
2007	8	2	47	0	57
2008	1	2	20	0	23
2009	0	2	23	0	25
2010	7	11	26	0	44
2011	8	3	19	0	30
2012	9	6	30	0	45
2013	6	14	47	0	67
2014	8	8	20	1	37

Source: 2006-2015 Actuarial Valuation report; extracted from "Retirements by Type"



**Retired Members (Inactive Plan Members) – By Type of Retirement**

As of	Normal Retirement <sup>1</sup>	Early and Special Early Retirement	Survivor	Disability Retirements	Vested Terminations	Total Inactive Members
01/01/2006	235	99	51	31	61	477
01/01/2007	220	124	50	33	62	489
01/01/2008	73	276	53	32	80	514
01/01/2009	72	290	54	25	77	518
01/01/2010	68	307	52	19	79	525
01/01/2011	73	316	59	20	82	550
01/01/2012	75	334	60	19	82	570
01/01/2013	83	353	66	18	81	601
01/01/2014	85	396	68	17	83	649
01/01/2015	85	410	77	16	89	677

Source: 2006-2015 Actuarial Valuation reports; extracted from "Schedules of Retired Members by Type of Benefit".

<sup>1</sup> Retirees who met the Special Early Retirement rule (Rule of 75) were classified incorrectly in the "Normal Retirement" category until 2007.

**Retired Members (Inactive Plan Members) – By Option Selected**

As of	Life or leveling option	50% J&S	75% J& S	100% J&S	Total
01/01/2005	323	81	14	31	449
01/01/2006	342	79	16	40	477
01/01/2007	355	79	15	40	489
01/01/2008	374	80	15	45	514
01/01/2009	367	90	15	46	518
01/01/2010	370	88	16	51	525
01/01/2011	398	92	15	45	550
01/01/2012	413	96	15	46	570
01/01/2013	345	98	18	50	511
01/01/2014	372	98	25	63	558
01/01/2015	394	100	27	61	582

Source: 2006-2015 Actuarial Valuation reports; extracted from "Schedules of Retired Members by Type of Benefit"; the 2010 data retrieved from Denver Water's internal database."

## B. DENVER WATER 401(K) SUPPLEMENTAL RETIREMENT SAVINGS PLAN

### Schedule of Additions by Source, 2005-2014

Fiscal Year Ending	Employee Contributions	Employee Rollovers	Employer Contributions <sup>1</sup>	Net Investment and Other Income <sup>2</sup>	Total
2005	3,035,900	-	1,445,600	1,362,100	5,843,600
2006	3,087,300	-	1,480,300	2,420,300	6,987,900
2007	3,247,900	104,100	1,486,500	2,248,000	7,086,500
2008	3,253,500	18,200	1,554,200	(8,453,300)	(3,627,400)
2009	3,294,300	62,400	1,647,700	6,157,200	11,161,600
2010	3,562,000	89,200	1,671,100	4,952,000	10,274,300
2011	3,694,600	9,100	1,735,100	(90,900)	5,348,800
2012	3,827,400	275,200	1,743,300	5,543,600	11,389,500
2013	4,153,300	694,200	1,834,900	10,752,000	17,434,400
2014	4,245,800	342,600	1,977,800	4,616,500	11,182,700

Source: Financial Statements for 401(k) Supplemental Retirement Savings Plan

<sup>1</sup> Employer's matching contribution is currently 100% of each Participant's contribution up to 3% of the Participant's published base pay for the 401(k) Plan year. Employer's contribution also includes discretionary contributions, as described in the financial statements for the DC Plans.

<sup>2</sup> Investment and miscellaneous income (including realized and unrealized gains/losses) net of investment expense.

### Schedule of Deductions by Type, 2005-2014

Fiscal Year Ending	Deductions by Type			Total
	Benefit Payments	Expenses <sup>1</sup>	Participant investment advisory fees	
2005	922,500	71,200	-	993,700
2006	1,562,700	87,400	-	1,650,100
2007	2,986,100	71,500	-	3,057,600
2008	1,836,400	75,300	-	1,911,700
2009	2,106,300	79,600	-	2,185,900
2010	2,911,200	83,800	-	2,995,000
2011	3,004,500	44,700	-	3,049,200
2012	2,458,700	49,700	3,900	2,512,300
2013	4,907,800	58,700	10,900	4,977,400
2014	3,573,000	67,200	19,900	3,660,100

Source: Financial Statements for 401(k) Supplemental Retirement Savings Plan

<sup>1</sup> Includes imputed amount of investment and recordkeeping fees.

## 2. Schedule of Benefit Deductions from Net Assets by Type, 2005-2014

Fiscal Year Ending	Retirement	Age 70 1/2 Minimum	Termination of Employment	Hardship Withdrawal	Other <sup>1</sup>	Total Benefits
2005	539,400	300	252,000	111,400	19,400	922,500
2006	466,000	11,800	868,000	141,100	75,800	1,562,700
2007	1,820,400	1,200	885,600	137,200	53,700	2,986,100
2008	1,422,200	900	244,000	98,700	70,600	1,836,400
2009	1,655,300	0	201,700	100,900	148,400	2,106,300
2010	2,163,350	0	257,700	122,250	367,900	2,911,200
2011	2,301,600	4,200	326,600	185,300	186,800	3,004,500
2012	1,757,800	1,900	392,600	197,900	108,500	2,458,700
2013	3,603,000	0	736,700	200,700	367,400	4,907,800
2014	2,3745,000	0	565,500	257,000	375,500	3,573,000

Source: Empower Retirement, Plan Disbursement Summary

<sup>1</sup>"Other" includes beneficiary payments, Qualified Domestic Relations Order (QDRO) payments, death claims, disability payments, early distributions and taxes withheld.

## 3. Schedule of Changes in Net Assets, 2005-2014

Fiscal Year Ending	Total Additions	Total Deductions	Change in Net Assets	Net Assets Held in Trust, Beginning of Year	Net Assets Held in Trust, End of Year
2005	5,843,600	993,700	4,849,900	21,704,000	26,553,900
2006	6,987,900	1,650,100	5,337,800	26,553,900	31,891,700
2007	7,086,500	3,057,600	4,028,900	31,891,700	35,920,600
2008	(3,627,400)	1,911,700	(5,539,100)	35,920,600	30,381,500
2009	11,161,600	2,185,900	8,975,700	30,381,500	39,357,200
2010	10,274,300	2,995,000	7,279,300	39,357,200	46,636,500
2011	5,347,900	3,049,200	2,298,700	46,636,500	48,935,200
2012	11,389,500	2,512,300	8,877,200	48,935,200	57,812,400
2013	17,434,400	4,977,400	12,457,000	57,812,400	70,269,400
2014	11,182,700	3,660,100	7,522,600	70,269,400	77,792,000

Source: Financial Statements for 401(k) Supplemental Retirement Savings Plan

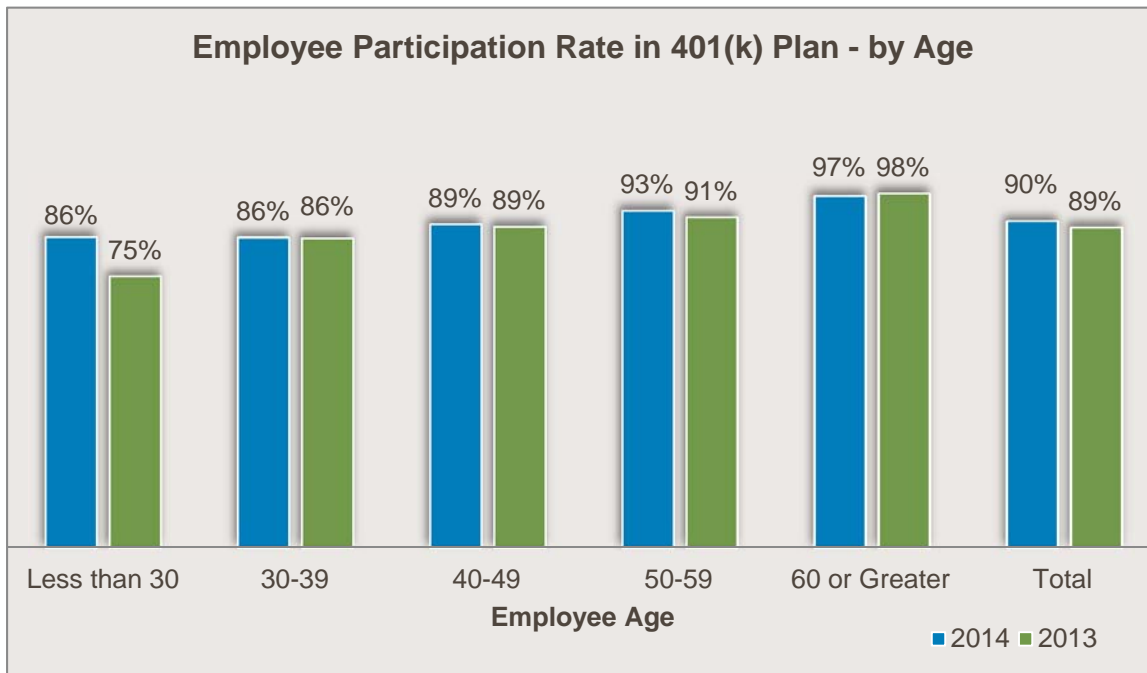
#### 4. Other Information

##### Denver Water 401(k) Supplemental Retirement Savings Plan - Number of Participants

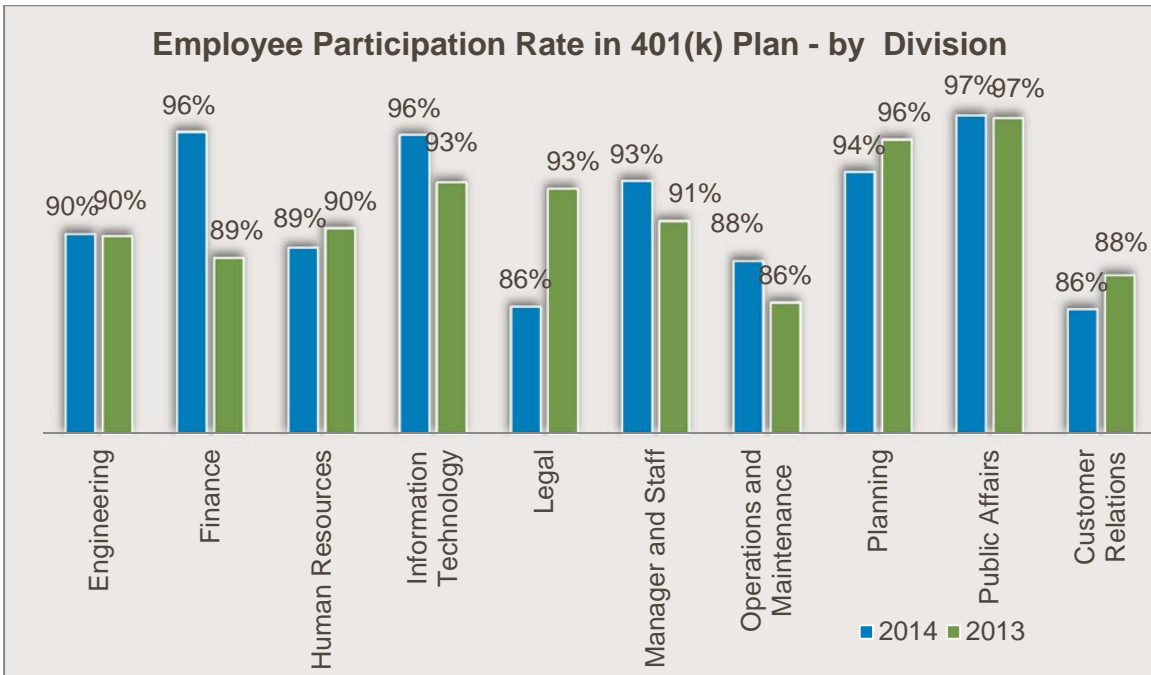
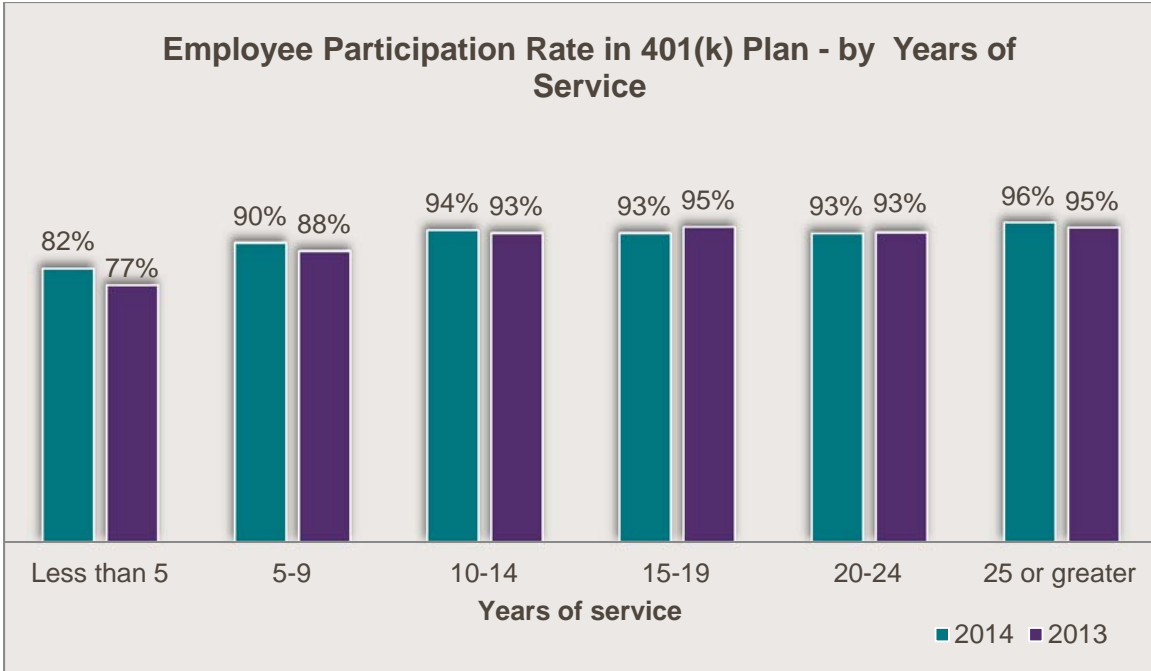
Fiscal Year Ending	Participants <sup>1</sup>			
	Total	Active	Inactive	New enrollments
12/31/2005	1,015	953	62	63
12/31/2006	1,020	935	85	45
12/31/2007	1,003	918	85	39
12/31/2008	1,021	918	103	75
12/31/2009	1,011	926	85	60
12/31/2010	1,010	922	88	N/A
12/31/2011	1,027	930	97	N/A
12/31/2012	1,061	940	121	N/A
12/31/2013	1,092	929	163	N/A
12/31/2014	1,142	957	185	

Source: VALIC/ Great-West

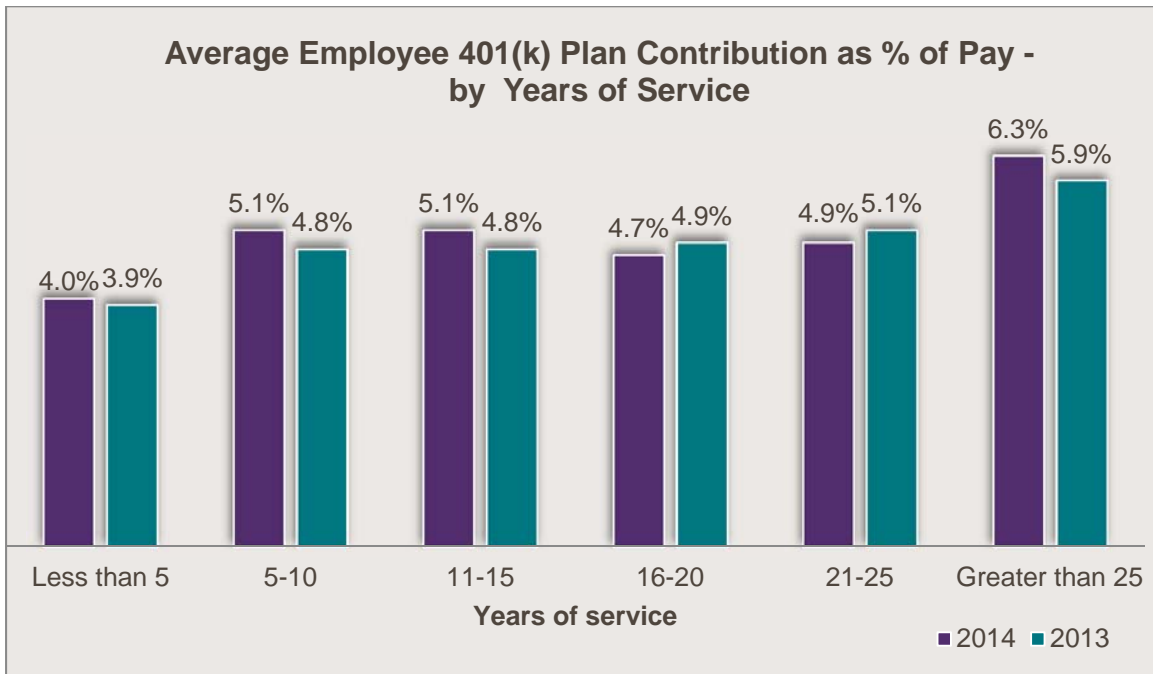
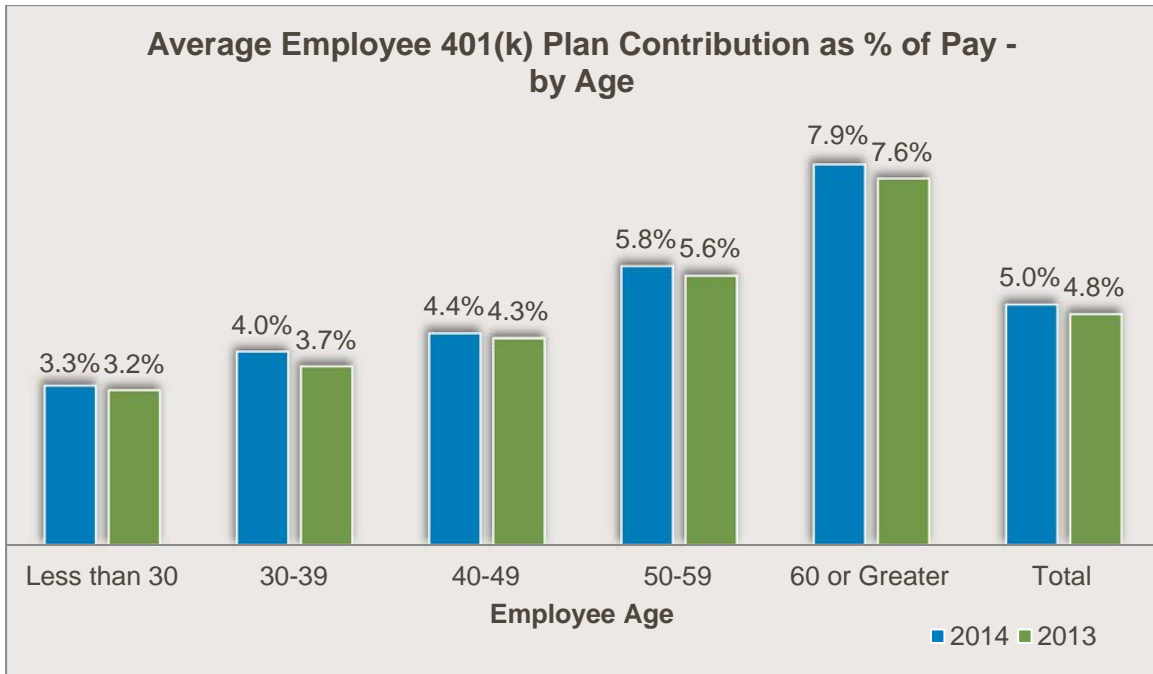
<sup>1</sup> Total participants are defined as those participants who had cash value at the end of the reporting period. Active participants are defined as those participants who were actively employed and had a balance at the end of the year. Inactive participants include plan participants who are no longer employed but have a balance.



Source: Denver Water, Human Resources database; data as of year-end.



Source: Denver Water, Human Resources database; data as of year-end.



Source: Denver Water, Human Resources database; data as of year-end.

## C. DENVER WATER 457 DEFERRED COMPENSATION PLAN

### 1. Schedule of Additions by Source, 2005-2014

Fiscal Year Ending	Participant Contributions	Participant Rollovers	Employer Contributions <sup>1</sup>	Net Investment and Other Income <sup>2</sup>	Total
2005	1,238,300	-	N/A	1,128,700	2,367,000
2006	1,227,700	-	N/A	1,770,900	2,998,600
2007	1,429,700	-	N/A	1,877,300	3,307,000
2008	1,313,500	-	N/A	(4,543,700)	(3,230,200)
2009	1,302,800	-	N/A	3,334,200	4,637,000
2010	1,437,700	-	N/A	2,326,100	3,763,800
2011	1,580,600	1,900	N/A	252,400	1,834,900
2012	1,707,900	12,200	N/A	2,257,800	3,978,000
2013	1,839,600	110,200	23,000	3,936,700	5,909,500
2014	1,878,600	9,400	35,000	1,752,100	3,675,100

Source: Financial Statements for Denver Water 457 Deferred Compensation Plan

<sup>1</sup> Employer's contribution also includes discretionary contributions, as described in the financial statements for the DC Plans.

<sup>2</sup> Investment and miscellaneous income (including realized and unrealized gains/losses) net of investment expense and participant advisory fees.

### 2. Schedule of Deductions by Type, 2005-2014

Fiscal Year Ending	Deductions by Type		Participant investment advisory fees	Total
	Benefit Payments	Administrative Expenses <sup>1</sup>		
2005	1,823,300	50,800	-	1,874,100
2006	2,118,600	83,600	-	2,202,200
2007	3,065,400	60,400	-	3,125,800
2008	2,540,800	57,200	-	2,598,000
2009	2,500,700	54,300	-	2,555,000
2010	2,692,400	49,900	-	2,742,300
2011	2,987,700	23,000	-	3,010,700
2012	1,956,500	23,500	1,200	1,981,200
2013	2,349,500	25,900	3,200	2,378,600
2014	1,642,900	28,400	5,600	1,676,900

Source: Financial Statements for Denver Water 457 Deferred Compensation Plan

<sup>1</sup> Includes imputed amount of investment and recordkeeping fees.

### 3. Schedule of Benefit Deductions from Net Assets by Type, 2005-2014

Fiscal Year Ending	Retirement	Age 70 1/2 minimum	Termination of Employment	Hardship	Other <sup>1</sup>	Total Benefits
2005	1,026,100	15,900	565,900	-	215,400	1,823,300
2006	728,300	26,800	1,156,700	-	206,800	2,118,600
2007	2,094,600	28,300	862,700	-	79,800	3,065,400
2008	2,090,100	7,100	481,000	-	(37,400)	2,540,800
2009	1,846,700	0	337,600	-	316,400	2,500,700
2010	2,085,400	0	372,700	-	234,300	2,692,400
2011	2,761,200	24,300	152,700	8,000	41,500	2,987,700
2012	1,564,900	22,300	279,200	600	88,500	1,956,500
2013	2,147,600	11,100	100,700	17,100	73,000	2,349,500
2014	840,200	11,800	475,000	18,800	297,100	1,642,900

Source: Empower Retirement, Plan Disbursement Summary

<sup>1</sup>"Other" includes beneficiary payments, Qualified Domestic Relations Order (QDRO) payments, death claims, disability payments, early distributions and taxes withheld.

### 4. Schedule of Changes in Net Assets, 2005-2014

Fiscal Year Ending	Total Additions	Total Deductions	Change In Net Assets	Net Assets Held in Trust, Beginning of Year	Net Assets Held in Trust, End of Year
2005	2,367,000	1,874,100	492,900	27,236,200	27,729,100
2006	2,998,600	2,202,200	796,400	27,729,100	28,525,500
2007	3,307,000	3,125,800	181,200	28,525,500	28,706,700
2008	(3,230,200)	2,598,000	(5,828,200)	28,706,700	22,878,500
2009	4,637,000	2,555,000	2,082,000	22,878,500	24,960,500
2010	3,763,800	2,742,300	1,021,500	24,960,500	25,982,000
2011	1,834,900	3,010,700	(1,175,800)	25,982,000	24,806,200
2012	3,977,900	1,981,200	1,996,600	24,806,200	26,802,900
2013	5,909,500	2,378,600	3,530,900	26,802,900	30,333,800
2014	3,675,100	1,676,900	1,998,200	30,333,800	32,332,000

Source: Financial Statements for Denver Water 457 Deferred Compensation Plan



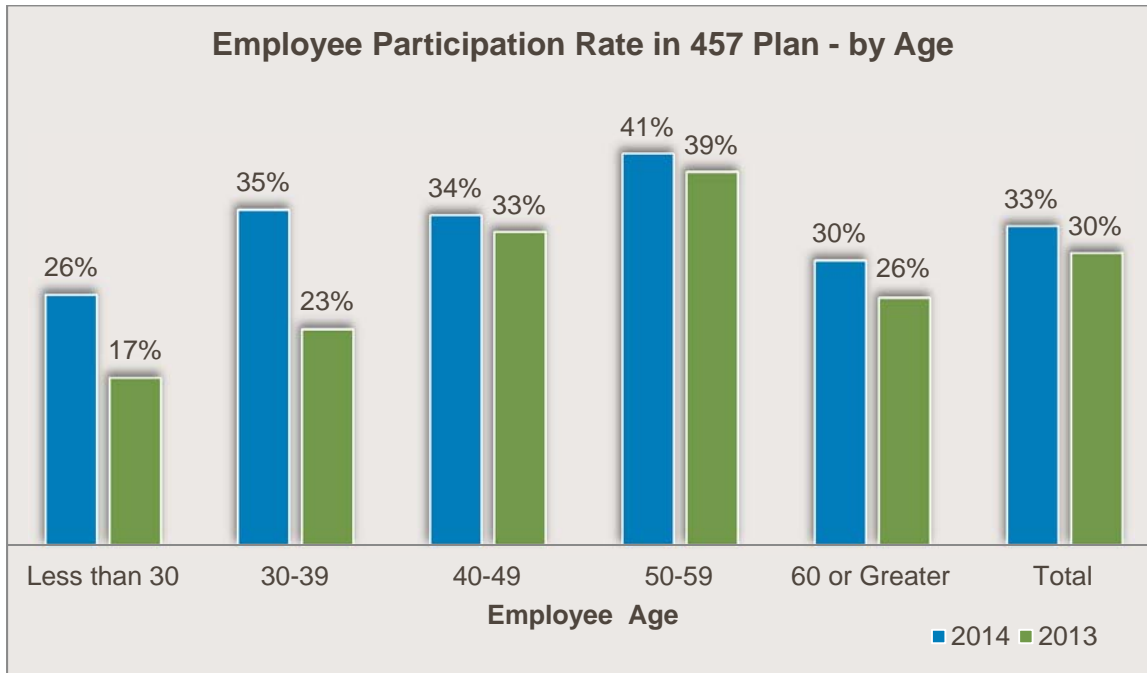
## 5. Other Information

### Denver Water 457 Deferred Compensation Plan- Number of Participants

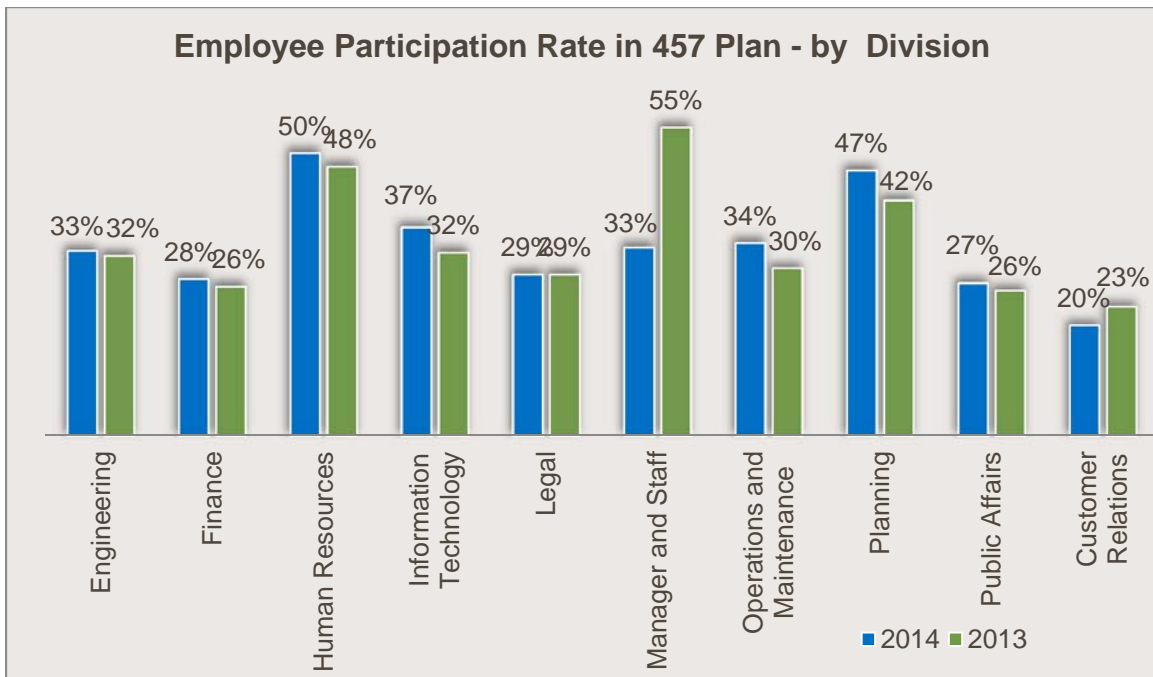
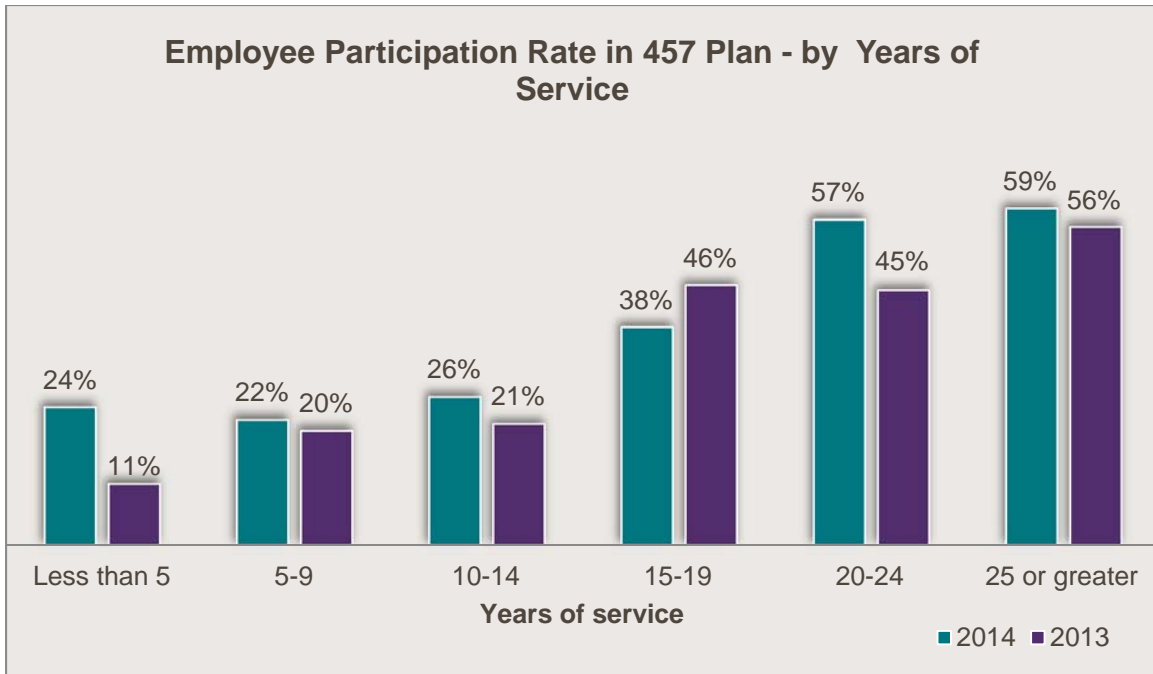
Fiscal Year Ending	Participants <sup>1</sup>			
	Total	Active	Inactive	New Enrollments
12/31/2005	826	364	462	59
12/31/2006	807	351	456	13
12/31/2007	760	348	412	10
12/31/2008	730	336	394	24
12/31/2009	679	314	365	11
12/31/2010	636	278	358	N/A
12/31/2011	619	516	103	N/A
12/31/2012	607	495	112	N/A
12/31/2013	608	467	141	N/A
12/31/2014	621	476	145	N/A

Source: VALIC/ Great-West

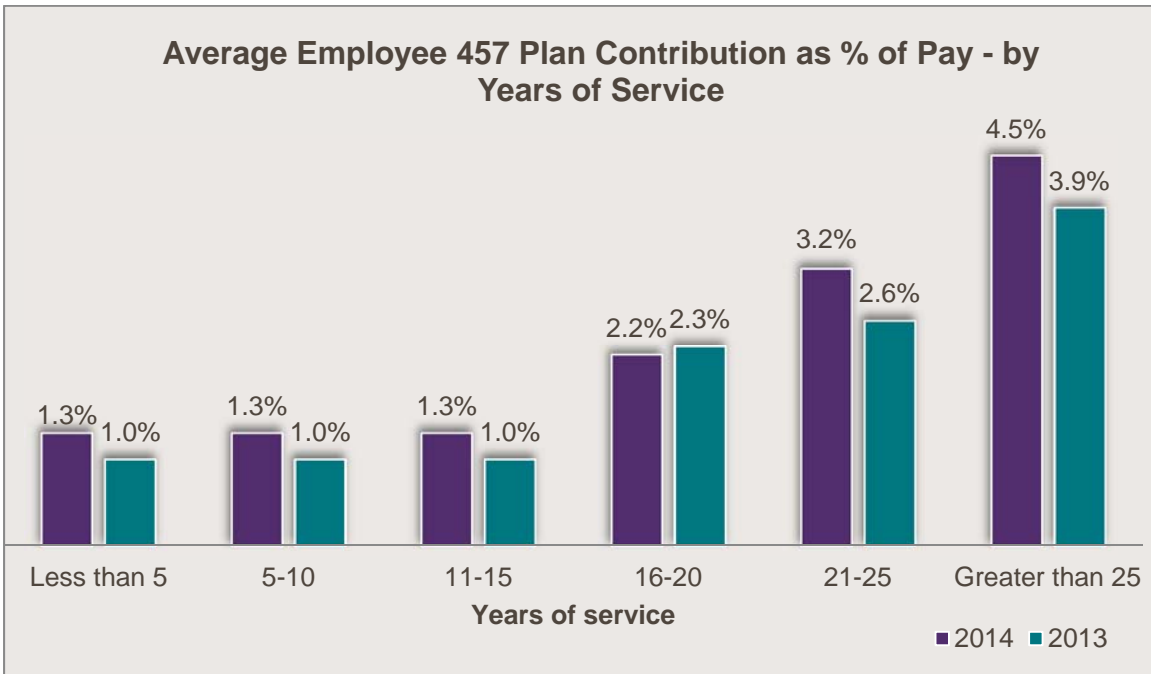
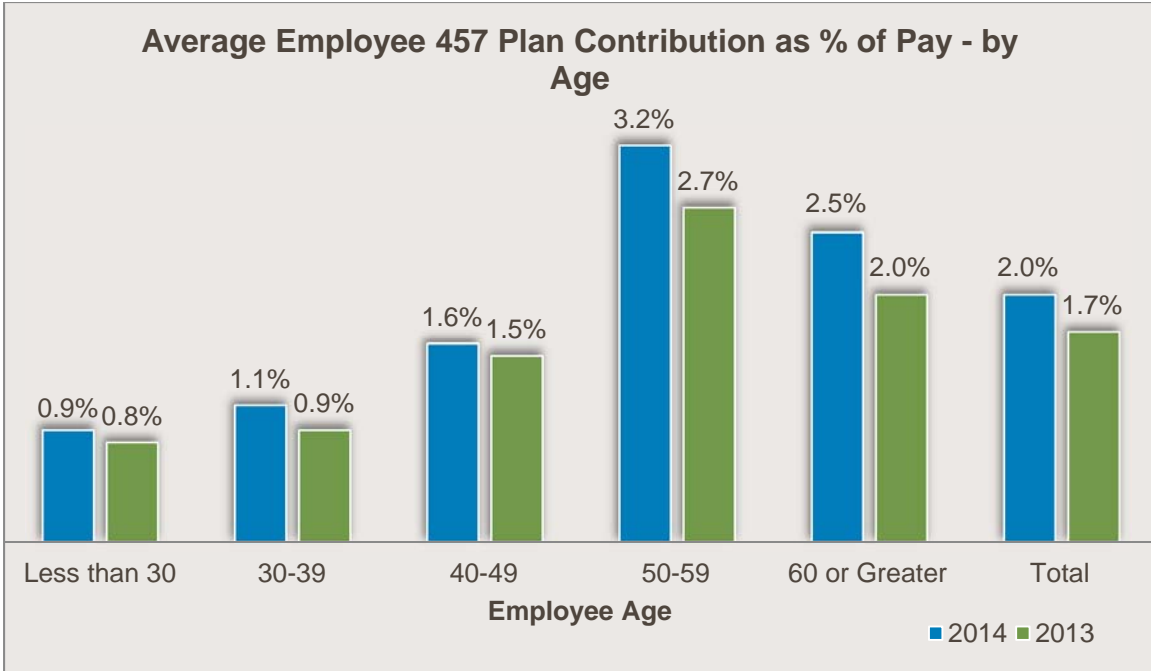
<sup>1</sup>Total participants are defined as those participants who had cash value at the end of the reporting period. Active participants are defined as those participants who were actively employed and had a balance at the end of the year. Inactive participants include plan participants who are no longer employed but have a balance.



Source: Denver Water, Human Resources database; data as of year-end.



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