



## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council  
of the City of Glendale  
City of Glendale, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Water Enterprise Fund (the Fund) of the City of Glendale, California (the City), as of and for the year ended June 30, 2016, and the related notes to the financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund, as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

### ***Individual Fund Financial Statements***

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the City of Glendale, California, as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Implementation of New Accounting Standards***

As discussed in Note 1 to the financial statements, the Fund implemented Governmental Accounting Standards Board (GASB) Statements No. 72, *Fair Value Measurement and Application*, and No. 82, *Pension Issues – an Amendment of GASB Statement No. 67, No. 68, and No. 73*, effective July 1, 2015. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Report on Summarized Comparative Information***

We have previously audited the Fund's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 30, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis, Schedule of the Fund's Proportionate Share of the City's Net Pension Liability and Schedule of Contributions, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the financial statements of the Fund. The introductory and operating statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory and operating statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2016, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

*Vavrinik, Trine, Day & Co. LLP*

Rancho Cucamonga, California  
November 28, 2016

## **MANAGEMENT’S DISCUSSION AND ANALYSIS – WATER UTILITY**

The management of Glendale *Water & Power* (a department of the City of Glendale), offers the readers of the City of Glendale Water Enterprise Fund (Water Utility) financial statements, a narrative overview and analysis of the financial activities of the Water Enterprise for the fiscal years ended June 30, 2016 and June 30, 2015. We encourage our readers to consider the information presented here in conjunction with the accompanying financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### **Financial Highlights**

During fiscal year 2016, the Water Utility’s retail revenues increased by \$2,452 (5%) from fiscal year 2015. The increase in retail revenues was primarily attributable to a 4% rate increase and the drought surcharge instituted by the Glendale City Council.

During fiscal year 2016, the total operating revenues increased by \$3,068 (6%) and total operating expenses decreased by \$2,409 (6%) from fiscal year 2015. After adding the net decrease of \$569 from non-operating expenses and capital grants and contributions to net operating income of \$12,717, total net position increased by \$12,148 in fiscal year 2016.

During fiscal year 2015, the Water Utility’s retail revenues increased by \$4,451 (10%) from fiscal year 2014. The increase in retail revenues was primarily attributable to a significant increase in retail rates and in fire line revenues.

During fiscal year 2015, total operating revenues increased by \$4,098 (9%) and total operating expenses decreased by \$2,489 (6%) from fiscal year 2014. After adding the net decrease of \$878 from non-operating expenses and capital grants and contributions to operating income of \$7,240, total net position increased by \$6,362 in fiscal year 2015.

Water usage decreased 9% during fiscal year 2016, compared to fiscal year 2015. The drought surcharge went into effect in March of 2015 as part of the mandatory water conservation mandates by the state of California and the Glendale City Council. Water Utility customers were being charged \$0.75 per hundred cubic feet or per 748 gallons. The drought surcharge was in effect during all of fiscal year 2015-2016.

The total assets and deferred outflow of resources of the Water Utility exceeded its total liabilities and deferred inflow of resources (i.e. net position) at the close of fiscal years 2016 and 2015 by \$111,808 and \$99,660, respectively, an increase of \$12,148.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Glendale Water Utility financial statements. The Water Utility is a business-type activity of the City, and its activities are recorded in a separate enterprise fund. These financial statements include only the activities for the City of Glendale’s Water Utility. Information on city wide financial results is available in the City of Glendale’s Comprehensive Annual Financial Report.

The Water Utility's financial statements are comprised of two components: 1) financial statements and 2) notes to the financial statements. In addition, this report also contains required supplementary information and other information to provide our readers additional information about the Water Utility including sales statistics and other relevant data. Included as part of the financial statements are three separate statements which collectively provide an indication of the Water Utility's financial health.

The ***Statement of Net Position*** presents information on assets and deferred outflows of resources less liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the utility is improving or deteriorating.

The ***Statement of Revenues, Expenses and Changes in Net Position*** presents information showing how the Water Utility's net position changed during the most recent two fiscal years. Results of operations are recorded under the accrual basis of accounting whereby transactions are reported as underlying events occur, regardless of the timing of cash flows. Thus, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods, i.e. accounts payable and accounts receivable. The accrual basis of accounting is more fully described in the accompanying Notes to the Financial Statements.

The ***Statement of Cash Flows*** presents the flows of cash and cash equivalents during the last two fiscal years including certain restricted amounts.

The ***Notes to the Financial Statements*** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 18 to 37 of this report.

The required supplementary information is presented immediately following the notes to the financial statements.

### **Financial Analysis**

As noted in the overview of financial statements, net position may serve over time as a useful indicator of the Water Utility's financial condition. In the case of the Water Utility, assets and deferred outflow of resources exceeded liabilities and deferred inflow of resources by \$111,808 and \$99,660 as of June 30, 2016 and 2015, respectively. A portion of the Water Utility's net position (99% and 114% as of June 30, 2016 and 2015, respectively) reflects its net investment in capital assets such as production, transmission, and distribution facilities, less any related outstanding debt used to acquire those assets, plus any remaining unspent bond proceeds. The Water Utility uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the statement of net position must come from other sources such as operations since the capital assets themselves cannot be used to liquidate these long-term liabilities. Unrestricted net position was \$1,361 and negative \$13,864 as of June 30, 2016 and 2015. The negative unrestricted net position as of June 30, 2015 means no net position was available to meet the Water Utility's ongoing obligations to creditors and customers. This produced the uncommon result that the portion of Water Utility's net position reflecting its net investment in capital assets was greater than total net position.

**Net Position – Water Utility**

The Water Utility's net position as of June 30, 2016, 2015, 2014 are as follows:

	2016	2015	2014
Current and other assets	\$ 27,954	\$ 24,617	\$ 31,626
Capital assets	185,472	184,851	180,801
Total assets	213,426	209,468	212,427
Deferred outflows of resources related to pensions	1,229	986	-
Current liabilities	7,637	13,771	21,466
Long-term debt	80,622	82,033	83,404
Net pension liability	13,228	11,768	-
Total liabilities	101,487	107,572	104,870
Deferred inflows of resources related to pensions	1,360	3,222	-
Net Position:			
Net investment in capital assets	110,447	113,524	115,459
Unrestricted	1,361	(13,864)	(7,902)
Total net position	\$ 111,808	\$ 99,660	\$ 107,557

A prior period adjustment of (\$14,259) was made to decrease the beginning net position of the Water Utility in fiscal year 2015 to record the beginning net pension liability and deferred outflows of resources for contributions subsequent to the measurement date as a result of the implementation of GASB 68. Net position increased by \$12,148 (12%) and increased by \$6,362 (7%) during the fiscal years 2016 and 2015, respectively. In fiscal year 2016, the increase in net position was attributable to a 6% increase in total revenues, capital grants and contributions and transfers in and a 6% decrease in total expenses from the prior year. In fiscal year 2015, the decrease in net position was attributable to an 11% increase in total revenues and capital grants and contributions and a 5% decrease in total expenses from the prior year.

**Changes in Net Position – Water Utility**

The Water Utility's changes in net position for the years ended June 30 2016, 2015, 2014 are as follows:

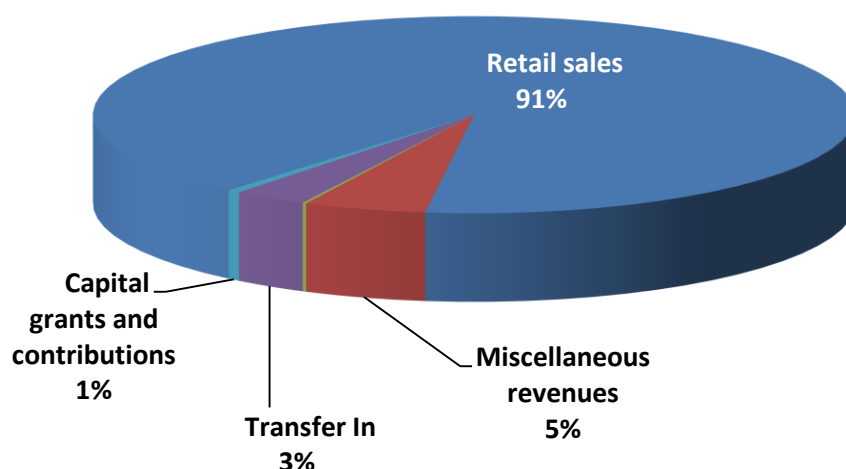
	2016	2015	2014
Revenues:			
Retail sales	\$ 49,972	\$ 47,520	\$ 43,069
Miscellaneous revenues	2,860	2,244	2,597
Non-operating revenues	87	15	66
Total revenues	52,919	49,779	45,732
Expenses:			
Production	29,609	31,837	33,632
Transmission and distribution	2,895	2,774	3,697
Customer accounting and sales	1,767	2,095	2,282
Depreciation	5,844	5,818	5,402
Non-operating expenses	2,689	2,871	2,569
Total expenses	42,804	45,395	47,582
Net operating revenue	12,717	7,240	653
Capital grants and contributions	300	1,978	766
Transfer in	1,733	-	-
Changes in net position	12,148	6,362	(1,084)
Total net position, beginning of year	99,660	93,298	108,641
Total net position, end of year	\$ 111,808	\$ 99,660	\$ 107,557

**Revenues by Source – Water Utility*****Year ended June 30, 2016***

Total revenues for the Water Utility increased 6% from the prior year level. Retail revenues are the primary revenue source for the Water Utility, making up 91% of total revenue sources. Retail revenues showed an increase of 5% from the prior year primarily due to rate increases and the implementation of drought charge that went into effect in March 2015.

Miscellaneous revenues and non-operating revenues make up 5% of total revenue sources. It increased by 30% from the prior year due to an increase in the number of customer paid projects. Capital grants and contributions make up 1% of total revenue sources. It decreased by 85% as a result of receiving less grant revenue in 2016. The water fund received a transfer from the City's general fund of \$1,733 as a result of litigation regarding Glendale's transfer of funds from the Electric Fund to the City's General Fund. *Glendale Coalition for a Better Government v. City of Glendale, L.A. Superior Court Case No. 147376*; *Saavedra et al. v. City of Glendale, L.A. Superior Court Case No. BC539160*. The Petitioners contend that the transfer from the Electric Fund to the General Fund violates Proposition 26. The Petitioners also challenge Glendale's fund and accounting procedures contending the transfers violate the Glendale Charter. Additionally, the Petitioners challenge Glendale's prior transfers of revenue from the Water Fund to the General Fund, a practice which was discontinued in 2011.

### **2016 Revenues**



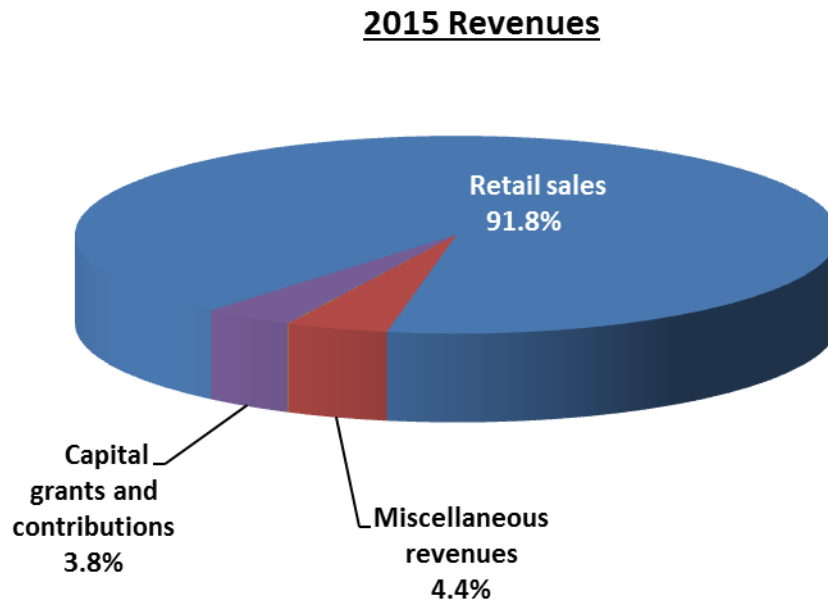
### ***Year ended June 30, 2015***

Total revenues for the Water Utility increased 9% from the prior year level. Retail revenues are the primary revenue source for the Water Utility, making up 92% of total revenue sources. Retail revenues showed an increase of 10% from the prior year primarily due to rate increases, implementation of drought charge that went into effect on March 2015, and the positive impact of the completion of fire line refund in fiscal year 2014.

Miscellaneous and non-operating revenues make up 4% of total revenue sources. It decreased by 15% from prior year due to lower interest income as a result of the GASB 31 adjustment and lower operating grants received from Chromium 6 study and research.



Capital grants and contributions make up 4% of total revenue sources. It increased by 158% as a result of LADWP reimbursements to City of Glendale for all construction costs to extend the recycled water pipeline to provide recycled water to Bette Davis park in City of Los Angeles.



### **Expenses by Source – Water Utility**

***Year ended June 30, 2016***

Total expenses for the Water Utility decreased 6% from the prior year level. Production expenses are the primary expense source for the Water Utility, making up 69% of total expenses. Production expenses showed a decrease of 7% from the prior year due to a decrease in purchased water volume supplied by Metropolitan Water District (MWD) as a result of the water conservation mandates.

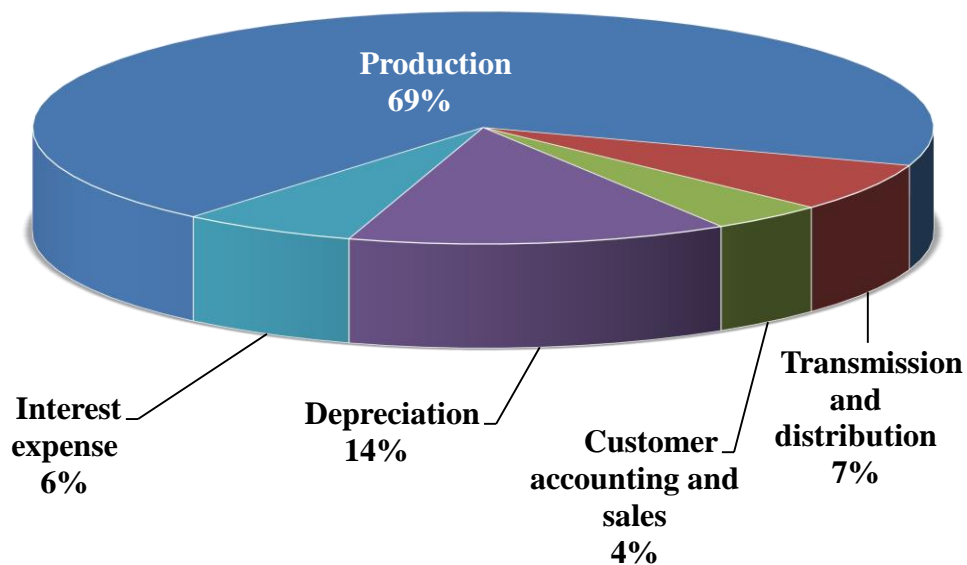
Transmission and distribution expenses comprised 7% of total expenses and showed an increase of 4% from the prior year level, as a result an increase in maintenance and operation projects.

Customer accounting and sales expenses make up 4% of total expenses and showed a decrease of 16% compared to prior year due to a reduction of overall customer service expenses.

Depreciation expense comprised 14% of total expenses and increased by 0.5% compared to the prior year level.

Interest on bonds make up 6% of total expenses and decreased by 6% compared to prior year level due to more interest being capitalized to capital projects.

### **2016 Expenses**



### ***Year ended June 30, 2015***

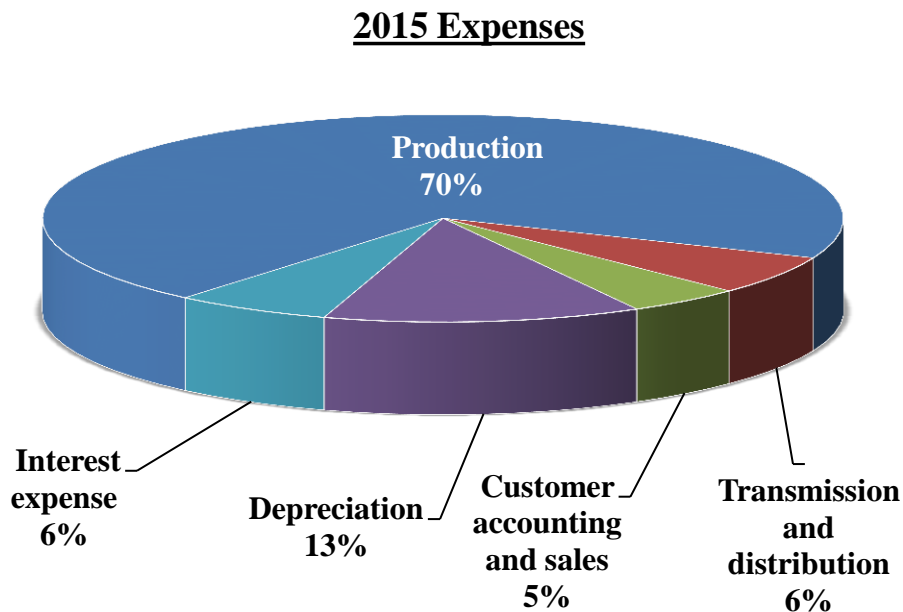
Total expenses for the Water Utility decreased 5% from the prior year level. Production expenses are the primary expense source for the Water Utility, making up 70% of total expenses. Production expenses showed a decrease of 5% from the prior year due to a decrease in purchased water volume supplied by Metropolitan Water District (MWD) as a result of the water conservation mandates.

Transmission and distribution expenses comprised 6% of total expenses and showed a decrease of 25% from the prior year level, as a result of the Water Utility's final payment in fiscal year 2014 of the Gladys Drive liability insurance contribution associated to the private homes claims related to the 2000 rainstorm damages.

Customer accounting and sales expenses make up 5% of total expenses and showed a decrease of 8% compared to prior year due to a reduction of overall customer service expenses.

Depreciation expense comprised 13% of total expenses and increased by 8% compared to the prior year level.

Interest on bonds make up 6% of total expenses and increased by 12% compared to prior year level due to less interest being capitalized to capital projects.



## Capital Assets and Debt Administration

### *Capital Assets*

The Water Utility's investment in capital assets as of June 30, 2016 and 2015 was \$185,472 and \$184,851, respectively (net of accumulated depreciation). This included investments in production, transmission, and distribution related facilities, as well as general items such as office equipment, furniture, etc. Capital assets showed a 0.3% and 2% increase as of June 30, 2016 and 2015, respectively. The Water utility has adopted a multi-year capital improvement program for water works projects, beginning in fiscal years 2014-2015 through 2017-2018.

The Water Utility's capital assets as of June 30, 2016, 2015 and 2014 are as follows:

	Balance at June 30, 2015	Additions	Retirements	Adjustments	Balance at June 30, 2016
Production plant	\$ 58,021	1,191	(1,346)	-	57,866
Transmission & distribution plant	187,475	5,087	-	-	192,562
General plant	15,280	187	(19)	(19)	15,429
Total	260,776	6,465	(1,365)	(19)	265,857
Less allowance for accumulated depreciation	(75,925)	(5,844)	1,365	19	(80,385)
Net book value of water fund	\$ 184,851	621	-	-	185,472

	Balance at June 30, 2014	Additions	Retirements	Balance at June 30, 2015
Production plant	\$ 55,700	2,564	(243)	58,021
Transmission & distribution plant	180,919	6,556	-	187,475
General plant	14,803	747	(270)	15,280
Total	251,422	9,867	(513)	260,776
Less allowance for accumulated depreciation	(70,621)	(5,817)	513	(75,925)
Net book value of water fund	\$ 180,801	4,050	-	184,851

Additional information on the Water Utility's capital assets can be found in Note 3 on pages 28 to 29 of this report.

#### *Long-Term Debt*

As of June 30, 2016, 2015 and 2014, the Water Utility had outstanding long-term debt of \$80,622, \$82,033, and \$83,404, respectively. The Water Utility's outstanding debt as of June 30 is as follows:

	2016	2015	2014
Water Revenue Bonds	\$ 80,085	\$ 81,370	\$ 82,615
Less: current portion	(1,411)	(1,371)	(1,331)
Unamortized bond premium	1,948	2,034	2,120
Total long-term debt	<u>\$ 80,622</u>	<u>\$ 82,033</u>	<u>\$ 83,404</u>

During fiscal year 2016, the Water Utility maintained an "A+" credit ratings from Standard & Poor's, maintained an "A+" credit rating from Fitch, Inc., and maintained an "A1" credit rating from Moody's Investors Service for its water revenue bonds. Additional information on the Water Utility's long-term debt can be found in Note 4 on pages 29 to 31 of this report.

#### **Economic Factors and Rates**

Although inflationary trends in the Glendale region continue to remain relatively stable, the Water Utility's cost escalation is not strictly attributable to inflation. The main drivers of the increasing costs associated with providing water relates to the reduced ability to utilize local water sources due to drought conditions in the region, purchased water and energy costs increases, the need for capital investment in the water distribution system, the increased costs of infrastructure replacement and rehabilitation projects, and increased costs of health care and retirement benefits.

Approximately 60% of the water demand in Glendale is met by water purchased from the Metropolitan Water District of Southern California (MWD). The remaining is supplied from pumping water from local wells and from the use of recycled water.

MWD increased its rates by 2% in January 2016. In addition to the costs to purchase water, a large part of the total operating expenses is comprised of energy for pumping and for treatment to maintain water quality.

On August 5, 2014, Glendale City Council approved a series of new water revenue rate increases of 4% for each of the fiscal years 2014/2015, 2015/2016, 2016/2017 and 2017/2018. The new rates were effective September 1, 2014 and take effect on July 1<sup>st</sup> of each fiscal year.

The new rates will cover costs essential to the operation and maintenance of the water system; such as wells, main pipes, motors/pumps, reservoirs, main connections, and storage tanks. These costs are allocated between customers based on the COSA.

The approved revenue increase also includes a drought surcharge. Glendale City Council implemented Phase 2 of the drought rate in March 2015, and lifted it in October of 2016 pending the State Water Board actions related to permanent water conservation measures, which are due for release in February of 2017.

### **Requests for Information**

This financial report is designed to provide a general overview of the Water Utility's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the General Manager of Glendale Water & Power – 141 North Glendale Avenue, Level 4, Glendale, California 91206.

**CITY OF GLENDALE**  
**WATER ENTERPRISE FUND**

Statement of Net Position

June 30, 2016 (in thousands)

(with comparative amounts for 2015)

	<u>2016</u>	<u>2015</u>
Assets		
Current assets:		
Pooled cash and investments	\$ 3,794	\$ -
Cash with fiscal agent	5,136	5,123
Interest receivable	4	-
Accounts receivable, net	2,940	3,075
Unbilled receivable	4,070	4,342
Due from other agencies	419	-
Due from other funds of the City	1,733	-
	<u>18,096</u>	<u>12,540</u>
Total current assets		
Noncurrent assets:		
Capital assets:		
Land	1,034	1,034
Buildings and improvements	60,466	60,476
Machinery and equipment	37,952	30,410
Infrastructure	146,476	140,976
Accumulated depreciation	(80,385)	(75,925)
Construction in progress	19,929	27,880
	<u>185,472</u>	<u>184,851</u>
Total capital assets		
Pooled designated & invested cash	2,850	-
Restricted cash	7,008	12,077
	<u>195,330</u>	<u>196,928</u>
Total noncurrent assets		
Total assets	<u>213,426</u>	<u>209,468</u>
Deferred outflow of resources:		
Deferred outflow of resources related to pensions	1,229	986

The notes to the financial statements are an integral part of this statement.

**CITY OF GLENDALE**  
**WATER ENTERPRISE FUND**

Statement of Net Position

June 30, 2016 (in thousands)

(with comparative amounts for 2015)

	<u>2016</u>	<u>2015</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 3,715	\$ 3,548
Contracts-retained amount due	151	148
Due to other funds	-	6,375
Interest payable	1,411	1,428
Bonds payable, due in one year	1,411	1,371
Deposits	949	901
	<u>7,637</u>	<u>13,771</u>
Total current liabilities		
Noncurrent liabilities:		
Net pension liability	13,228	11,768
Long term debt	80,622	82,033
	<u>93,850</u>	<u>93,801</u>
Total noncurrent liabilities		
Total liabilities	<u>101,487</u>	<u>107,572</u>
Deferred inflows of resources:		
Deferred inflows of resources related to pensions	1,360	3,222
Net position:		
Net investment in capital assets	110,447	113,524
Unrestricted	1,361	(13,864)
	<u>111,808</u>	<u>(12,540)</u>
Total net position	<u>\$ 111,808</u>	<u>\$ 99,660</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF GLENDALE**  
**WATER ENTERPRISE FUND**

Statement of Revenues, Expenses and Changes in Net Position  
Year Ended June 30, 2016 (in thousands)  
(with comparative amounts for 2015)

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Charges for services:		
Metered sales	\$ 47,225	\$ 44,422
Metered sales-recycled	1,871	1,813
Private fire	557	739
Other sales	319	546
Miscellaneous revenues	2,860	2,244
Total operating revenues	<u>52,832</u>	<u>49,764</u>
Operating expenses:		
Production	29,609	31,837
Transmission & distribution	2,895	2,774
Customer accounting and sales	1,767	2,095
Depreciation	5,844	5,818
Total operating expenses	<u>40,115</u>	<u>42,524</u>
Operating income	<u>12,717</u>	<u>7,240</u>
Non operating revenues (expenses):		
Interest Income	85	-
Sales of property	2	15
Interest expense	(2,689)	(2,871)
Total non operating expenses	<u>(2,602)</u>	<u>(2,856)</u>
Income before capital contributions and transfers	<u>10,115</u>	<u>4,384</u>
Capital contributions	300	1,978
Transfer in	1,733	-
Change in net position	12,148	6,362
Net position at beginning of year	<u>99,660</u>	<u>93,298</u>
Net position at end of year	<u><u>\$ 111,808</u></u>	<u><u>\$ 99,660</u></u>

The notes to the financial statements are an integral part of this statement.



**CITY OF GLENDALE**  
**WATER ENTERPRISE FUND**  
Statement of Cash Flows  
Year Ended June 30, 2016 (in thousands)  
(with comparative amounts for 2015)

	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Cash from customers	\$ 51,087	\$ 49,459
Cash paid to employees	(7,348)	(7,443)
Cash paid to suppliers	(27,350)	(36,469)
Net cash provided by operating activities	<u>16,389</u>	<u>5,547</u>
<b>Cash flows from noncapital financing activities:</b>		
Amounts paid to other funds	(6,375)	(7,144)
Amounts received from other funds	-	6,375
Transfers in	1,733	-
Operating grant received	300	-
Net cash used by noncapital financing activities	<u>(4,342)</u>	<u>(769)</u>
<b>Cash flows from capital and related financing activities:</b>		
Interest on long term debt	(2,706)	(2,886)
Principal payments and premiums	(1,371)	(1,331)
Capital grants and contributions	-	1,978
Acquisition of property, plant, and equipment	(6,465)	(9,868)
Net cash used by capital and related financing activities	<u>(10,542)</u>	<u>(12,107)</u>
<b>Cash flows from investing activities</b>		
Interest received	<u>83</u>	<u>15</u>
Net cash provided by investing activities	<u>83</u>	<u>15</u>
Net increase (decrease) in cash and cash equivalents	1,588	(7,314)
Cash and cash equivalents at July 1	<u>17,200</u>	<u>24,514</u>
Cash and cash equivalents at June 30	<u><u>\$ 18,788</u></u>	<u><u>\$ 17,200</u></u>
<b>Reconciliation of operating income to net cash</b>		
provided by operating activities:		
Operating income	<u>\$ 12,717</u>	<u>\$ 7,240</u>
Adjustments to reconcile operating income to		
net cash used by operating activities:		
Depreciation	5,844	5,818
Pension expense (credit)	(645)	-
(Increase) Accounts receivable net	135	(230)
(Increase) Unbilled Services	272	(75)
(Increase) Decrease Due from other agencies	(419)	-
Increase (Decrease) Accounts payable	167	(6,988)
Increase Contracts - retention	3	(255)
Increase (Decrease) Deposits	48	37
Total adjustments	<u>3,672</u>	<u>(1,693)</u>
<b>Net cash provided by operating activities</b>	<u><u>\$ 16,389</u></u>	<u><u>\$ 5,547</u></u>
<b>Noncash investing, capital, and financing activities:</b>		
Increase in fair value of investments	13	-

The notes to the financial statements are an integral part of this statement.

# Notes to Financial Statements

## *1. Summary of Significant Accounting Policies*

The following is a summary of significant accounting policies of the City of Glendale (the City) as they pertain to the Water Utility. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### **Fund**

The accounts of the City are organized on the basis of funds, each of which is considered to be an independent fiscal and accounting entity with a self-balancing set of accounts for recording cash and other resources together with all related liabilities, obligations and net position that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

### **Basis of Presentation**

The City's Water Enterprise Fund is used to account for the construction, operation and maintenance of the City-owned water utility. The Fund is considered to be an enterprise fund, proprietary fund type, and uses flow of economic resources measurement focus to determine net income and financial position, as defined under accounting principles generally accepted in the United States of America. Accordingly, the accrual basis of accounting is followed by the Water Utility, where revenues are recorded when earned and expenses are recorded when incurred. The Water Utility is included in the City's Comprehensive Annual Financial Report (CAFR), and therefore, these financial statements do not purport to represent the financial position and changes in financial position, and where applicable, cash flow thereof of the City.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

## **Pooled Cash and Investment**

The Water Utility pools its cash with the City. The Water utility values its cash and investments at fair value in the statement of net position and recognizes the corresponding change in the fair value of investments in the year in which the change occurred. As of July 1, 2015, the City retrospectively applied Government Accounting Standards Board (“GASB”) Statement No. 72, *Fair Value Measurement and Application*. GASB statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. The Water Utility follows the City’s policy when categorizing the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City manages its pooled idle cash and investments under a formal investment policy that is reviewed by the Investment Committee and adopted by the City Council and follows the guidelines of the State of California Government Code. Individual investments cannot be identified with any single fund because the City may be required to liquidate its investments at any time to cover large outlays required in excess of normal operating needs.

Interest income from the investment of pooled cash is allocated to the Water Utility on a monthly basis based upon the prior month end cash balance of the Fund as a percent of the month end total pooled cash balance. The City normally holds the investment to maturity; therefore, no realized gain/loss is recorded.

For purposes of statement of cash flows of the Water Utility, cash and cash equivalents include all pooled cash and investments, restricted cash, and cash with fiscal agents with an original maturity of three months or less. The Water Utility considers the cash and investments pool to be a demand deposit accounts where funds may be withdrawn and deposited at any time without prior notice or penalty.

## **Capital Assets**

The Water Utility’s capital assets include land, building, improvements, and equipment that are reported in the financial statements. The Water Utility follows the City’s asset capitalization policy. Capital assets are defined by the City as assets with an initial, individual cost of \$5 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated assets representing utility service assets, which are donated to the Water Utility by

independent contractors, are recorded at acquisition cost. Depreciation for both purchased and contributed assets are computed using a straight-line method, based upon average estimated useful life of an asset. Interest incurred during the construction phase of the capital assets is included as part of the capitalized value of the assets constructed. Capitalized interest is recorded as part of the asset to which it relates and is depreciated over the asset's useful life. For fiscal year ended June 30, 2016, the total interest incurred was \$3,324 of which \$635 was capitalized. For fiscal year ended June 30, 2015, the total interest incurred was \$3,361 of which \$490 was capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

A summary of the useful lives of the capital assets of the Water Utility is as follows:

Assets	Years
Building and Improvements	10-50
General Structure & Parking Lot Landscaping Improvements	10
Building Improvements	20
Land Improvements	30
Transmission-Off System	50
Machinery and Equipment	6-10
Passenger Cars, Pickup	6
Cargo Vans	7
Dump/Tractor/Trailer Trucks	10
Infrastructure	20-75
Potable-Services	20
Supply-Mains and Wells	25
Supply-Structure Improvements	30
Supply-Springs & Tunnels & Potable-Hydrants	40
Potable-Mains	75

## **Long-Term Debt**

The long-term debt and other obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period when the debt is issued.

## **Compensated Absences**

The Water Utility records and funds a liability for its employees' earned but unused accumulated vacation and overtime.

The Water Utility also provides sick leave conversion benefits through the Retiree Health Saving Plan (RHSP). Unused sick leave is converted to a dollar amount and deposited in the employee's RHSP account at retirement. The account is used to pay healthcare premiums for the retiree and beneficiaries. After the account is exhausted, the retirees can terminate coverage or elect to continue paying the healthcare premiums from personal funds. The Water Utility records expenses as the benefit is earned and probable of being paid out.

For additional details on the Compensated Absences, please refer to the City of Glendale Comprehensive Annual Financial Report.

### **Post-Employment Benefits**

The Water Utility participates in the City's Retiree Healthcare Plan which is a single-employer defined benefit healthcare plan administered by the City. The plan provides healthcare benefits to eligible retirees and their dependents. Benefit provisions are established by and may be amended by the City. The City does not have a separate audited GAAP-basis post-employment benefit plan report for this defined-benefit plan. No separate obligations are calculated for the Water Utility, and no obligation is presented herein. The City's contribution is currently based on a pay-as-you-go funding method, that is, benefits are payable when due. This pay-as-you-go method is recorded in the Water Utility based on the Water Utility's share of current employees to total city employees. For fiscal year 2016 and 2015, the City's contribution in benefit payments was \$2,991 and \$3,133, respectively.

For additional details on the post-employment benefit, please refer to the City of Glendale Comprehensive Annual Financial Report.

### **Pensions**

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City of Glendale's California Public Employees Retirement System (CalPERS) plans and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## **Accounts Receivable**

The Water Utility records revenues that have already been earned but not yet received as of June 30 from individual customers, private entities & government agencies. Also, recoveries to utility customer receivables previously written off are recorded when received. An allowance for doubtful account is maintained for utility and miscellaneous accounts receivable. The allowance for doubtful account is adjusted at fiscal year-end based on the amount equal to the annual uncollectible accounts. As of June 30, 2016 and 2015, the Fund's allowance for doubtful accounts was \$35 and \$28, respectively.

## **Unbilled Receivable**

The Water Utility records revenues for utility services delivered to customers but not billed. As of June 30, 2016 and 2015, the Fund's unbilled receivables were \$4,070 and \$4,342, respectively.

## **Due to/from Other Funds**

These accounts are used when a fund has a temporary cash overdraft. It is also used to record receivables for advances made to other funds of the City. As of June 30, 2016 the Water Utility's due from other funds was \$1,733 and as of June 30, 2015 the Water Utility's due to other funds was \$6,375.

## **Deposits**

The Water Utility requires all new or existing utility customers that have not or failed to establish their credit worthiness with the Water Utility to place a deposit. The deposits are refunded after these customers establish their credit worthiness to the Water Utility. As of June 30, 2016 and 2015, the Water Utility's deposits were \$949 and \$901, respectively.

## **Contracts - Retained Amount Due**

The Water Utility withholds 10% of each progress payment on construction contracts. These retained amounts are not released until final inspection is completed and sufficient time has elapsed for sub-contractors to file claims against the contractor. As of June 30, 2016 and 2015, the Water Utility's contracts – retained amount due were \$151 and \$148, respectively.

## **Net Position**

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets, plus any remaining unspent debt proceeds. As of June 30, 2016 and 2015, the Water Utility's net investments in capital assets were \$110,447 and \$113,524, respectively. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Water Utility first applied restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

## **Revenue Recognition**

Revenues are recognized for water services provided to customers, and customers are billed either monthly or bi-monthly. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

## **Budgets and Budgetary Accounting**

The Water Utility presents and the City Council adopts an annual budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Water Utility's budget in June each year via a resolution.

## **Pronouncements Issued But Not Yet Implemented**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the Fund.

- GASB Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for

making decisions and assessing accountability. The Statement is effective for periods beginning after June 15, 2016.

- GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for OPEB. This Statement replaces the requirements of Statements No. 45 and No. 57. The Statement is effective for periods beginning after June 15, 2017.
- GASB Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. The Statement is effective for periods beginning after December 15, 2015.
- GASB Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. The Statement is effective for periods beginning after December 15, 2015.
- GASB Statement No. 80 – *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended. The Statement is effective for periods beginning after June 15, 2016.
- GASB Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this statement is to improve accounting and financial reporting for irrevocable split interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement is effective for periods beginning after December 15, 2016.

## **Implementation of Pronouncements**

The Fund has adopted and implemented the following GASB Statements during the year ended June 30, 2016:



- GASB Statement No. 72 – *Fair Value Measurement and Application*. The objective of this Statement is to address accounting and financial reporting issues related to fair value measurements. This statement was implemented effective July 1, 2015.
- GASB Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*. The principal objectives of this Statement is to improve the information provided in the general purpose external financial reports of state and local governments about pensions and related assets that are not within the scope of statement No. 68. This statement did not have a material effect on the financial statements.
- GASB Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). This statement did not have a material effect on the financial statements.
- GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. The Statement is effective for periods beginning after June 15, 2015. This statement did not have a material effect on the financial statements.
- GASB Statement No. 82 – *Pension Issues-an amendment of GASB Statements No. 67, No. 68 and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements*. This statement was implemented effective July 1, 2015.

## **Deferred Outflows and Inflows of Resources**

The statement of net position reports a separate section for deferred outflows of resources, in addition to assets. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources, or expenses, until then. For current or advance refunding resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debts (i.e.,

deferred charges) is reported as a deferred outflow of resources and amortized to interest expense based on the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter. When the Water Utility pays the pension contribution that is not recognized as pension expense, the Water Utility reports deferred outflows of resources. The Water Utility's deferred outflow of resources related to pensions at June 30, 2016 and June 30, 2015 is \$1,229 and \$986 respectively, which is the pension contribution made after the measurement date of the net pension liability.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources, or revenues, until then. When there is a decrease in pension expense arising from the recognition of differences between projected and actual earnings on pension plan investments, the Water Utility reports a deferred inflow of resources until such time as the decrease in expense is recognized. The Water Utility's deferred inflow of resources related to pension is \$1,360 as of June 30, 2016 and \$3,222 as of June 30, 2015 respectively.

## *2. Pooled Cash and Investments*

Cash resources of the Water Utility are combined with other City funds to form a pool of cash and investments, which is managed by the City Treasurer under a formal investment policy that is reviewed by the Investment Committee and adopted annually by the City Council. Therefore, individual investments cannot be identified with any single fund. Income from the investment of pooled cash is allocated to the Water Utility on a monthly basis, based upon the month-end cash balance of the fund as a percent of the month-end total pooled cash balance. Of this total pooled cash and investment, \$3,794 and \$2,850 pertains to the Water Utility for fiscal year 2016 and \$0 pertains to the Water utility for fiscal year 2015, respectively. Pooled cash and investments are stated at the fair value.

Cash and investments as of June 30, 2016 and 2015:

	2016	2015
Pooled Cash and investments	\$ 3,794	\$ -
Cash with fiscal agents	5,136	5,123
Designated and invested cash	2,850	-
Restricted Cash	7,008	12,077
Total	<u>\$ 18,788</u>	<u>\$ 17,200</u>

For additional details on the City investment pool including disclosure relating to interest rate risk, credit risk, custodial credit risk, investment in state investment pool and fair value measurement, please refer to the City of Glendale Comprehensive Annual Financial Report.

## **Restricted Cash**

A separate Local Agency Investment Fund (LAIF) in the City Treasury was established to deposit the proceeds of the Water Revenue Bonds, 2012 Series. As of June 30, 2016 and 2015 there is \$7,008 and \$12,077 recorded, respectively. The amounts set aside in this account shall remain therein until from time to time expended for the projects and purposes of paying for the costs of acquisition and construction of certain improvements to the Water System of the City. Any remaining unspent bond proceeds once the purposes of the Water Revenue Bonds are accomplished will be available for debt service.

The restricted cash is in governmental investment pools, such as LAIF and LACPIF are made on the basis of \$1 and not fair value. Accordingly, the City's proportionate share in these types of investments is an uncategorized input not defined as a Level 1, Level 2, or Level 3 input.

For additional details on the Investment in State Investment Pool and Fair Value Measurement, please refer to Note 3 of the City of Glendale Comprehensive Annual Financial Report.

## **Cash with Fiscal Agent**

The Water Utility has monies held by trustees or fiscal agents pledged to the payment or security of certain bonds. These are subject to the same risk category as the invested cash. The California Government Code provides that these funds, in the absence of specific statutory provisions governing the issuance of bonds or certificates, may be invested in accordance with the ordinances, resolutions or indentures specifying the types of investments its trustees or fiscal agents may make. These funds are governed by the bond indenture. These ordinances are generally more restrictive than the City's general investment policy.

As of June 30, 2016, the Fund had \$5,136 on deposit with fiscal agent as required by the bond documents. The Water Utility had the following underlying investments:

Investments	Fair Value	Maturity	Moody's Rating
U.S Treasury Notes	\$ 5,136	Less than 1 yr	Aaa

As of June 30, 2015, the Water Utility had \$5,123 on deposit with fiscal agent as required by the bond documents. The Fund had the following underlying investments:

Investments	Fair Value	Maturity	Moody's Rating
U.S Treasury Notes	\$ 5,123	Less than 1 yr	Aaa

For additional details on the Fair Value Measurement, please refer to Note 3 of the City of Glendale Comprehensive Annual Financial Report.

### 3. Capital Assets

A summary of the changes in Water Utility's June 30, 2016 Capital Assets is as follows:

	Balance at June 30, 2015	Increases	Decreases	Reclass / Transfers	Balance at June 30, 2016
Capital assets not being depreciated:					
Land	\$ 1,034	\$ -	\$ -	\$ -	\$ 1,034
Construction in progress	27,880	5,135	-	(13,086)	19,929
Total assets not being depreciated	28,914	5,135	-	(13,086)	20,963
Depreciable capital assets:					
Buildings and improvements	60,476	-	-	(10)	60,466
Infrastructure	140,976	291	-	5,209	146,476
Machinery and equipment	30,410	1,039	(1,365)	7,868	37,952
Total other capital assets at cost	231,862	1,330	(1,365)	13,067	244,894
Less accumulated depreciation:					
Buildings and improvements	14,539	1,132	-	-	15,671
Infrastructure	45,593	3,284	-	-	48,877
Machinery and equipment	15,793	1,428	(1,365)	(19)	15,837
Total other capital assets at cost	75,925	5,844	(1,365)	(19)	80,385
Total assets being depreciated	155,937	(4,514)	-	13,086	164,509
Water Fund capital assets, net	\$ 184,851	\$ 621	\$ -	\$ -	\$ 185,472

A summary of the changes in Water Utility's June 30, 2015 Capital Assets is as follows:

	Balance at June 30, 2014	Increases	Decreases	Reclass / Transfers	Balance at June 30, 2015
Capital assets not being depreciated:					
Land	\$ 1,034	\$ -	\$ -	\$ -	\$ 1,034
Construction in progress	11,586	7,509	-	8,785	27,880
Total assets not being depreciated	12,620	7,509	-	8,785	28,914
Depreciable capital assets:					
Buildings and improvements	60,464	12	-	-	60,476
Infrastructure	140,934	904	-	(862)	140,976
Machinery and equipment	37,404	1,442	(513)	(7,923)	30,410
Total other capital assets at cost	238,802	2,358	(513)	(8,785)	231,862
Less accumulated depreciation:					
Buildings and improvements	13,473	1,066	-	-	14,539
Infrastructure	42,302	3,291	-	-	45,593
Machinery and equipment	14,846	1,460	(513)	-	15,793
Total other capital assets at cost	70,621	5,817	(513)	-	75,925
Total assets being depreciated	168,181	(3,459)	-	(8,785)	155,937
Water Fund capital assets, net	\$ 180,801	\$ 4,050	\$ -	\$ -	\$ 184,851

#### 4. Long-Term Debt

The Water Utility's outstanding principal as of June 30, 2016 and 2015 consists of the following:

Investments	Remaining Interest Rates	Original Issue	Outstanding June 30, 2016	Outstanding June 30, 2015
Water Revenue Bonds, 2008 Series	3.100% - 5.00%	\$ 50,000	\$ 45,085	\$ 46,370
Water Revenue Bonds, 2012 Series	2.75% - 5.00%	\$ 35,000	\$ 35,000	\$ 35,000

#### Water Revenue Bonds, 2008 Series

The Water Utility of Glendale Water & Power issued \$50,000 in revenue bonds in February 2008 to finance the costs of acquisition and construction of certain improvements to the Water System of the City.

The terms of the 2008 Water Revenue Bonds' (2008 Bonds) indenture require the trustee to establish and maintain a reserve equal to the Reserve Fund Requirement. The Reserve Fund Requirement is defined by the Debt Indentures as the maximum annual debt service on the debt

service schedule. The reserve requirement of the bond issue is satisfied by a cash reserve fund with a minimum funding requirement of \$3,493.

The bonds mature in regularly increasing amounts ranging from \$1,325 to \$3,060 annually from 2017 to 2038. The 2008 Bonds maturing on or prior to February 1, 2018 are not subject to redemption prior to maturity. The 2008 bonds maturing on and after February 1, 2019 are subject to redemption prior to maturity, at the option of the City, as a whole or in part, on February 1, 2018, or on any date thereafter, at a redemption price equal to 100% of the principal amount of the 2008 Bonds to be redeemed, together with accrued interest to the redemption date.

### **Water Revenue Bonds, 2012 Series**

The Water Utility of Glendale Water & Power issued \$35,000 in revenue bonds in December 2012 to finance the costs of acquisition and construction of certain improvements to the Water System of the City.

The terms of the 2012 Water Revenue Bonds' (2012 Bonds) indenture require the trustee to establish and maintain a reserve fund equal to the Reserve Fund Requirement. The Reserve Fund Requirement is defined by the Debt Indentures as the maximum annual debt service on the debt service schedule. The reserve requirement of the bond issue is satisfied by a cash reserve fund with a minimum funding requirement of \$1,634.

The bonds mature in regularly increasing amounts ranging from \$415 to \$4,945 annually from 2018 to 2042. The 2012 Bonds maturing on or prior to February 1, 2022 are not subject to redemption prior to maturity. The 2012 bonds maturing on and after February 1, 2023 are subject to redemption prior to maturity, at the option of the City, as a whole or in part, on August 1, 2022, or on any date thereafter, at a redemption price equal to 100% of the principal amount of the 2012 Bonds to be redeemed, together with accrued interest to the redemption date.

	Amount outstanding June 30, 2015	Additions	Retirements	Amount outstanding June 30, 2016	Due within one year
Water Revenue Bonds, 2008 Series	\$ 46,370	\$ -	\$ 1,285	\$ 45,085	\$ 1,325
Water Revenue Bonds, 2012 Series	35,000	-	-	35,000	-
Bond Premium	2,034	-	86	1,948	86
Total bonds payable	<u>\$ 83,404</u>	<u>\$ -</u>	<u>\$ 1,371</u>	<u>\$ 82,033</u>	<u>\$ 1,411</u>

	Amount outstanding June 30, 2014		Additions	Retirements	Amount outstanding June 30, 2015		Due within one year
Water Revenue Bonds, 2008 Series	\$	47,615	\$	-	\$	46,370	\$ 1,285
Water Revenue Bonds, 2012 Series		35,000		-		35,000	-
Bond Premium		2,120		86		2,034	86
Total bonds payable	\$	84,735	\$	-	\$	83,404	\$ 1,371

The annual debt service requirements to amortize long-term bonded debt at June 30, 2016 are as follows:

Fiscal year	Revenue Bonds		
	Interest	Principal	Total
2017	\$ 3,387	1,325	4,712
2018	3,334	1,785	5,119
2019	3,262	1,855	5,117
2020	3,174	1,945	5,119
2021	3,077	2,040	5,117
2022-2026	13,934	11,660	25,594
2027-2031	11,162	14,425	25,587
2032-2036	7,691	17,905	25,596
2037-2042	3,567	27,145	30,712
	\$ 52,588	80,085	132,673

## Rate Covenants

The City has covenanted in the Indenture of Trust that net income of the Water Utility for each fiscal year will be at least equal to 1.25 times the amount necessary to pay principal and interest as the same become due on all Bonds and Parity Obligations for such fiscal year. The Water Utility is in compliance with this requirement as of June 30, 2016. For the year ended June 30, 2016, net income as defined in the indenture, was \$17,947 and the debt service requirement was \$4,711. For the year ended June 30, 2015, net income as defined in the indenture, was \$14,400 and the debt service requirement was \$4,708.

## 5. Pension Plan

### Plan Descriptions

All qualified permanent and probationary employees of the Water Utility are eligible to participate in the City's Miscellaneous Plan, an agent multiple employer defined benefit pension plans administered by the California Public Employees Retirement System (CalPERS) which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan is established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information can be found on the CalPERS website at: <http://www.calpers.ca.gov>

### Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

<b>Miscellaneous</b>			
Hire date	Prior to January 1, 2011	Between January 1, 2011 and December 31, 2012	On or after January 1, 2013
Benefit formula	2.5% @ 55	2% @ 55	2% @ 62
Benefit vesting Schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50-55+	50-63+	52-67+
Monthly benefits, as a percent of eligible compensation	2.0% to 2.5%	1.426% to 2.418%	1.0% to 2.5%



## Contributions

Section 20814(c) of the California Public Employees' Retirement law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in rate. Funding contributions for both Plans are determined annual on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rates of employees.

For the year ended June 30, 2016, the Water Utility's contribution to the City's Miscellaneous Plan was \$1,229.

## Pension Liability, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the Water Utility reported a liability of \$13,228 for its proportionate share of the City Miscellaneous Plan net pension liability. The net pension liability of the Miscellaneous Plan was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015. The Water Utility's proportion of the City's Miscellaneous Plan net pension liability was based on the Water Utility's fiscal year 2015 contributions to the City's Miscellaneous Plan relative to the total City contribution as a whole. At June 30, 2015 the Water Utility's proportion was 7.0 percent which was an increase of 1.0 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Water Utility recognized pension expense of \$584. At June 30, 2016, the Water Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Pension contributions subsequent to measurement date	\$ 1,229	\$ -
Net differences between projected and actual earnings on pension plan investments	-	107
Changes in assumption	-	834
Differences between expected and actual expenses	-	419
	<u>\$ 1,229</u>	<u>\$ 1,360</u>

The amount of \$1,229 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year ended June 30	
2017	\$ (825)
2018	(825)
2019	(287)
2020	577
Total	<u><u>\$ (1,360)</u></u>

## Actuarial Assumptions

The total pension liability in the June 30, 2014 Miscellaneous Plan actuarial valuation was determined using the following actuarial assumptions:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Actuarial cost method	Entry - Age Normal Cost Method
Actuarial assumptions	
Discount rate	7.65%
Inflation	2.75%
Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.65% Net of Pension Plan Investment; includes inflation
Mortality rate table	Derived using CalPERS' Membership Data for all Funds
Post retirement benefit increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report. All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS website under Forms and Publications.

## **Change of Assumptions**

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

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.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2014.

Asset Class	Target Allocation	Long-term Expected	
		Real Return Years 1 - 10 *	Real Return Years 11+ **
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100.0%		

\* an expected inflation rate of 2.5% used for this period.

\*\* an expected inflation rate of 3.0% used for this period.

## Discount Rate

The discount rate used to measure the total pension liability was 7.65% for each Plan. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that the City's contributions will be made at rates equal to the difference between actuarially determined contributions rates and the employee rate. Based on those assumptions, each pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

## Sensitivity of the Water Utility's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Water Utility's proportionate share of the net pension liability, calculated using the discount rate of 7.65%, as well as what the Water Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<b>Water Utility's Proportionate Share of the Net Pension Liability</b>
1% Decrease	6.65%
Net Pension Liability	\$ 24,511
Current Discount Rate	7.65%
Net Pension Liability	\$ 13,228
1% Increase	8.65%
Net Pension Liability	\$ 7,609

### **Pension Plan Fiduciary Net Position**

Detailed information about each pension plans' fiduciary net position is available in the separately issued CalPERS financial reports.

## ***6. Self-Insurance Program***

The Water Utility participates in the City's unemployment and workers' compensation insurance programs. For purposes of general liability, the Water Utility participates in the City's self-insurance program which is accounted for in an internal service fund of the City. There were no significant settlements or reductions in insurance coverage from settlements for the past three years.

The insurance schedule for fiscal year 2015-16 is as follows:

Insurance Type	Program Limits	Deductible / SIR (self insured retention)
Excess Liability Insurance	\$20,000	\$2,000 SIR per occurrence
D & O Employment Practices	\$2,000	\$250 SIR
Excess Workers' Comp Employer's Liability Insurance	Statutory	\$2,000 SIR per occurrence
Property Insurance	\$250,000	Various deductibles up to \$250
Employee Dishonesty - Crime Policy	\$1,000	\$25

The annual premiums are based primarily on claims experience and are charged to expense when paid. Premiums are evaluated periodically and increases are charged to the Water Utility to reflect recent trends in actual claims experience and to provide sufficient reserve for catastrophic losses. As of June 30, 2016 and 2015, premiums charged to the Water Utility were \$1,362 and \$1,532, respectively.

For additional details on the self-insurance program, please refer to the City of Glendale Comprehensive Annual Financial Report.

# WATER UTILITY

## REQUIRED SUPPLEMENTARY INFORMATION

### Schedule of the Water Utility's Proportionate Share of the City's Net Pension Liability (Miscellaneous Plan) Last Ten Years (1)

	<u>2016</u>	<u>2015</u>
Water Utility's proportion of the net pension liability	7.00%	6.00%
Water Utility's proportionate share of the net pension liability	\$ 13,228	\$ 11,768
Covered payroll	\$ 5,100	\$ 5,350
Water Utility's proportionate share fo the City's Miscellaneous Plan's net pension liability as a percentage of covered payroll	259.35%	219.96%
Miscellaneous Plan fiduciary net position as a percentage of the total pension liability	77.94%	79.94%

(1) FY2015 is the first year of implementation of GASB 68; therefore, only two years of data are shown.

(2) The Water Utility implemented GASB 82 in FY2016, thus covered payroll replaces covered-employee payroll for FY2015 and FY2016.

# **WATER UTILITY** **REQUIRED SUPPLEMENTARY INFORMATION**

## **Schedule of Contributions**

Last Ten Years (1)

	<b>2016</b>	<b>2015</b>
Actuarially determined contributions	\$ 1,229	\$ 986
Contributions in relation to the actuarially determined contribution	1,229	986
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 5,134	\$ 5,100
Contributions as a percentage of covered payroll	23.94%	19.33%

(1) FY2015 is the first year of implementation of GASB 68; therefore, only two years of data are shown.