



## 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 (Fund) of the City of Glendale, California (City), as of and for the year ended June 30, 2017, 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, 2017, 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***

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, 2017, 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.

## ***Other Matters***

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

We have previously audited the Fund's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 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 miscellaneous plan 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 22, 2017, 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

Vavrinik, Trine, Day & Co. LLP

November 22, 2017

## **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, 2017 and June 30, 2016. 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 2017, the Water Utility’s retail revenues decreased by \$1,371 or 2.7% from fiscal year 2016. The decrease in retail revenues was primarily attributable to continued water conservation by customers and cessation of the drought rates billing on October 1, 2016. These decreases were partially offset by a 4% rate increase which became effective July 1<sup>st</sup>.

During fiscal year 2017, the total operating revenues decreased by \$1,618 or 3% and total operating expenses increased by \$405 or 1% from fiscal year 2016. After adding the net decrease of \$1,705 from non-operating expenses and capital grants and contributions to net operating income of \$10,694, total net position increased by \$8,989 in fiscal year 2017.

During fiscal year 2016, the Water Utility’s retail revenues increased by \$2,452 or 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 or 6% and total operating expenses decreased by \$2,409 or 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.

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 2017 and 2016 by \$120,797 and \$111,808, respectively, an increase of \$8,989.

### **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 35 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 \$120,797 and \$111,808 as of June 30, 2017 and 2016, respectively. A portion of the Water Utility's net position (87% and 99% as of June 30, 2017 and 2016, 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 \$15,369 and \$1,361 as of June 30, 2017 and 2016.

## Net Position – Water Utility

The Water Utility's net position as of June 30, 2017, 2016, 2015 is as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 37,697	\$ 27,954	\$ 24,617
Capital assets	<u>183,615</u>	<u>185,472</u>	<u>184,851</u>
Total assets	<u>221,312</u>	<u>213,426</u>	<u>209,468</u>
Deferred outflows of resources related to pensions	<u>4,527</u>	<u>1,229</u>	<u>986</u>
Current liabilities	8,676	7,637	13,771
Long-term debt	78,750	80,622	82,033
Net pension liability	<u>16,387</u>	<u>13,228</u>	<u>11,768</u>
Total liabilities	<u>103,813</u>	<u>101,487</u>	<u>107,572</u>
Deferred inflows of resources related to pensions	<u>1,229</u>	<u>1,360</u>	<u>3,222</u>
Net Position:			
Net investment in capital assets	105,428	110,447	113,524
Unrestricted	<u>15,369</u>	<u>1,361</u>	<u>(13,864)</u>
Total net position	<u>\$ 120,797</u>	<u>\$ 111,808</u>	<u>\$ 99,660</u>

Net position increased by \$8,989 or 8% and increased by \$12,148 or 12% during the fiscal years 2017 and 2016, respectively. In fiscal year 2017, the increase in net position was attributable to a reduction in water purchases resulting from continued customer conservation efforts and an \$800 litigation settlement. 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.

## Changes in Net Position – Water Utility

The Water Utility's changes in net position for the years ended June 30 2017, 2016, 2015 are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues:			
Retail sales	\$ 48,601	\$ 49,972	\$ 47,520
Miscellaneous revenues	2,613	2,860	2,244
Non-operating revenues	<u>1,026</u>	<u>87</u>	<u>15</u>
Total revenues	<u>52,240</u>	<u>52,919</u>	<u>49,779</u>
Expenses:			
Production	30,201	29,609	31,837
Transmission and distribution	2,450	2,895	2,774
Customer accounting and sales	1,458	1,767	2,095
Depreciation	6,411	5,844	5,818
Non-operating expenses	<u>2,792</u>	<u>2,689</u>	<u>2,871</u>
Total expenses	<u>43,312</u>	<u>42,804</u>	<u>45,395</u>
Net operating revenue	<u>10,694</u>	<u>12,717</u>	<u>7,240</u>
Capital grants and contributions	<u>61</u>	<u>300</u>	<u>1,978</u>
Transfer in	<u>-</u>	<u>1,733</u>	<u>-</u>
Changes in net position	<u>8,989</u>	<u>12,148</u>	<u>6,362</u>
Total net position, beginning of year	<u>111,808</u>	<u>99,660</u>	<u>93,298</u>
Total net position, end of year	<u>\$ 120,797</u>	<u>\$ 111,808</u>	<u>\$ 99,660</u>

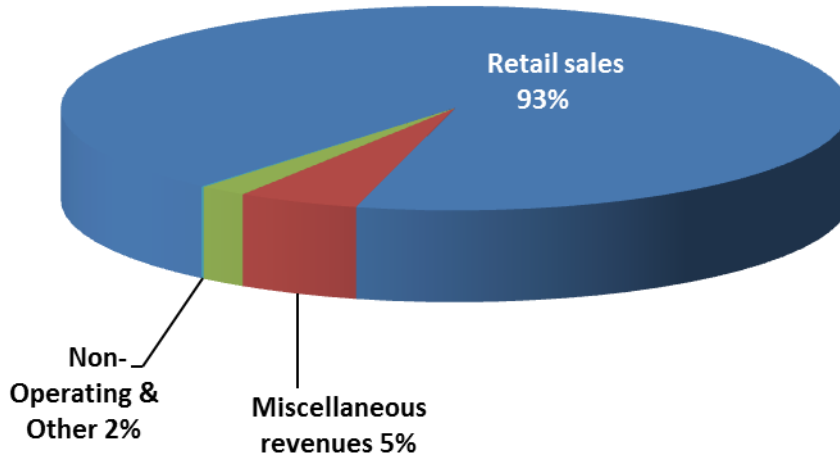
## Revenues by Source – Water Utility

### *Year ended June 30, 2017*

Total revenues for the Water Utility decreased 1% from the prior year level. Retail revenues are the primary revenue source for the Water Utility, making up 93% of total revenue sources. Retail revenues showed a decrease of 3% from the prior year primarily due to customer water conservation efforts partially offset by water rate increases.

Miscellaneous revenues and non-operating revenues make up 7% of total revenue sources. Miscellaneous and non-operating revenues increased by 14% from the prior year due to the settlement of litigation, the water fund recognized \$800 as a result of the settlement of litigation with a consultant. Capital grants and contributions make up less than 1% of total revenue sources.

## 2017 Revenues



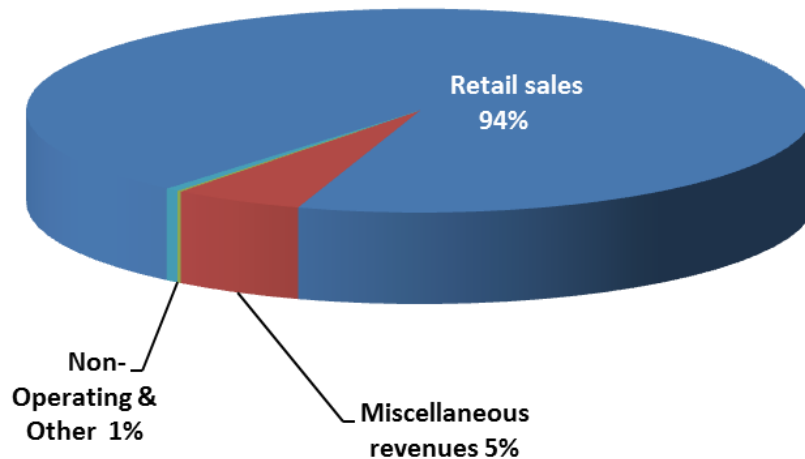
### *Year ended June 30, 2016*

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



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

*Year ended June 30, 2017*

Total expenses for the Water Utility increased 1% 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 an increase of 2% from the prior year due to increases in personal and related pension liability, partially offset by a reduction in contractual services.

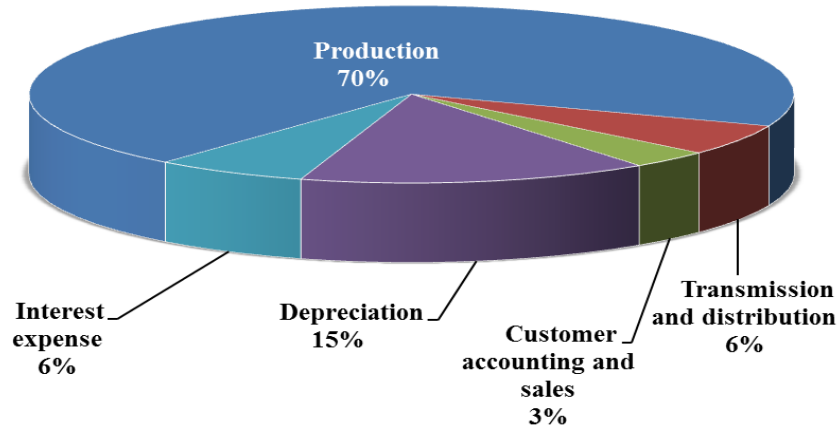
Transmission and distribution expenses comprised 6% of total expenses and showed a decrease of 15% from the prior year level, as a result of decrease in maintenance and operation projects.

Customer accounting and sales expenses make up 3% of total expenses and showed a decrease of 17% compared to prior year due to a reduction of overall customer service expenses.

Depreciation expense comprised 15% of total expenses and increased by 10% compared to the prior year level.

Interest on bonds make up 6% of total expenses and increased by 4% compared to prior year level due to less interest being capitalized to capital projects.

### 2017 Expenses



### *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.

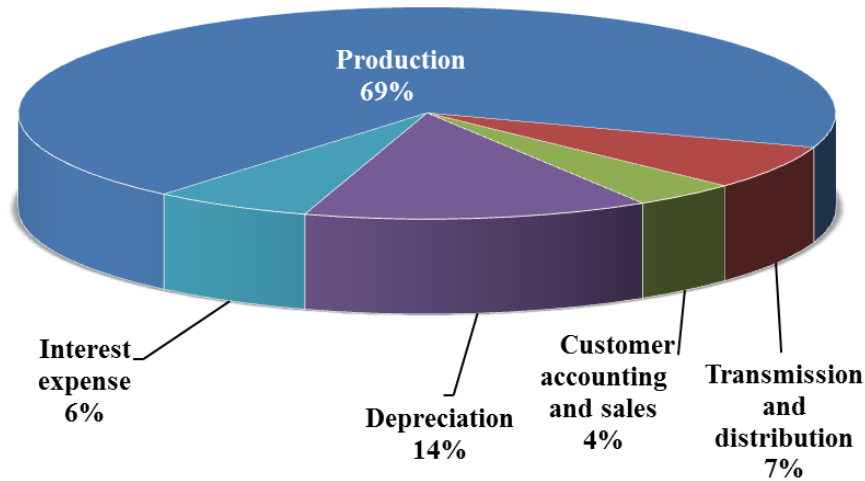
Transmission and distribution expenses comprised 7% of total expenses and showed an increase of 4% from the prior year level, as a result an increase in maintenance and operation projects.

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



### Capital Assets and Debt Administration

#### *Capital Assets*

The Water Utility's investment in capital assets as of June 30, 2017 and 2016 was \$183,615 and \$185,472, 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 1% decrease and a .3% increase as of June 30, 2017 and 2016 respectively. The Water utility has adopted a multi-year capital improvement program for water works projects, beginning in fiscal years 2017-2018 through 2026-2027.

The Water Utility's capital assets as of June 30, 2017, 2016 and 2015 are as follows:

	Balance at June 30, 2016	Additions	Retirements	Balance at June 30, 2017
Production plant	\$ 57,866	992	(128)	58,730
Transmission & distribution plant	192,562	3,337		195,899
General plant	15,429	224	(134)	15,519
Total	265,857	4,553	(262)	270,148
Less allowance for accumulated depreciation	(80,385)	(6,410)	262	(86,533)
Net book value of water fund	\$ 185,472	(1,857)	-	183,615

	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

Additional information on the Water Utility's capital assets can be found in Note 3 on pages 27 of this report.

### *Long-Term Debt*

As of June 30, 2017, 2016 and 2015, the Water Utility had outstanding long-term debt of \$78,750, \$80,622, and \$82,033, respectively. The Water Utility's outstanding debt as of June 30 is as follows:

	2017	2016	2015
Water Revenue Bonds	\$ 78,760	\$ 80,085	\$ 81,370
Less: current portion	(1,871)	(1,411)	(1,371)
Unamortized bond premium	1,861	1,948	2,034
Total long-term debt	\$ 78,750	\$ 80,622	\$ 82,033

During fiscal year 2017, 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 28 to 30 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, 2017 (in thousands)

(with comparative amounts for 2016)

	<u>2017</u>	<u>2016</u>
Assets		
Current assets:		
Pooled cash and investments	\$ 14,913	\$ 3,794
Cash and investments with fiscal agent	5,157	5,136
Interest receivable	57	4
Accounts receivable, net	3,239	2,940
Unbilled receivable	4,033	4,070
Due from other agencies	364	419
Due from other funds of the City	-	1,733
Total current assets	<u>27,763</u>	<u>18,096</u>
Noncurrent assets:		
Capital assets:		
Land	1,034	1,034
Buildings and improvements	60,940	60,466
Machinery and equipment	43,084	37,952
Infrastructure	152,130	146,476
Accumulated depreciation	(86,533)	(80,385)
Construction in progress	12,960	19,929
Total capital assets	<u>183,615</u>	<u>185,472</u>
Pooled designated & invested cash	7,500	2,850
Restricted cash	2,434	7,008
Total noncurrent assets	<u>193,549</u>	<u>195,330</u>
Total assets	<u>221,312</u>	<u>213,426</u>
Deferred outflow of resources:		
Deferred outflow of resources related to pensions	<u>4,527</u>	<u>1,229</u>

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, 2017 (in thousands)  
(with comparative amounts for 2016)

	<u>2017</u>	<u>2016</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 3,931	\$ 3,715
Contracts-retained amount due	13	151
Accrued wages and withholding	415	-
Interest payable	1,389	1,411
Bonds payable, due in one year	1,871	1,411
Deposits	1,057	949
Total current liabilities	<u>8,676</u>	<u>7,637</u>
Noncurrent liabilities:		
Net pension liability	16,387	13,228
Long term debt	78,750	80,622
Total noncurrent liabilities	<u>95,137</u>	<u>93,850</u>
Total liabilities	<u>103,813</u>	<u>101,487</u>
Deferred inflows of resources:		
Deferred inflows of resources related to pensions	1,229	1,360
Net position:		
Net investment in capital assets	105,428	110,447
Unrestricted	15,369	1,361
Total net position	<u>\$ 120,797</u>	<u>\$ 111,808</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, 2017 (in thousands)  
(with comparative amounts for 2016)

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Charges for services:		
Metered sales	\$ 45,452	\$ 47,225
Metered sales-recycled	2,106	1,871
Private fire	632	557
Other sales	411	319
Miscellaneous revenues	2,613	2,860
Total operating revenues	<u>51,214</u>	<u>52,832</u>
Operating expenses:		
Production	30,201	29,609
Transmission & distribution	2,450	2,895
Customer accounting and sales	1,458	1,767
Depreciation	6,411	5,844
Total operating expenses	<u>40,520</u>	<u>40,115</u>
Operating income	<u>10,694</u>	<u>12,717</u>
Non operating revenues (expenses):		
Interest Income	226	85
Litigation settlement	800	-
Sales of property	-	2
Interest expense	(2,792)	(2,689)
Total non operating expenses	<u>(1,766)</u>	<u>(2,602)</u>
Income before capital contributions and transfers	<u>8,928</u>	<u>10,115</u>
Capital contributions	61	300
Transfer in	-	1,733
Change in net position	8,989	12,148
Net position at beginning of year	<u>111,808</u>	<u>99,660</u>
Net position at end of year	<u>\$ 120,797</u>	<u>\$ 111,808</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, 2017 (in thousands)  
(with comparative amounts for 2016)

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities:</b>		
Cash from customers	\$ 51,007	\$ 51,087
Cash from litigation settlement	800	-
Cash paid to employees	(7,046)	(7,348)
Cash paid to suppliers	(26,732)	(27,350)
Net cash provided by operating activities	<u>18,029</u>	<u>16,389</u>
<b>Cash flows from noncapital financing activities:</b>		
Amounts paid to other funds	-	(6,375)
Amounts received from other funds	1,733	-
Transfers in	-	1,733
Operating grant received	-	300
Net cash provided (used) by noncapital financing activities	<u>1,733</u>	<u>(4,342)</u>
<b>Cash flows from capital and related financing activities:</b>		
Interest on long term debt	(2,814)	(2,706)
Principal payments and premiums	(1,412)	(1,371)
Capital grants and contributions	61	-
Acquisition of property, plant, and equipment	(4,554)	(6,465)
Net cash used by capital and related financing activities	<u>(8,719)</u>	<u>(10,542)</u>
<b>Cash flows from investing activities</b>		
Interest received	<u>173</u>	<u>83</u>
Net increase in cash and cash equivalents	11,216	1,588
Cash and cash equivalents at July 1	<u>18,788</u>	<u>17,200</u>
Cash and cash equivalents at June 30	<u>\$ 30,004</u>	<u>\$ 18,788</u>
<b>Reconciliation of operating income to net cash</b>		
provided by operating activities:		
Operating income	<u>\$ 10,694</u>	<u>\$ 12,717</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Litigation Settlement	800	
Depreciation	6,411	5,844
Pension expense (credit)	(270)	(645)
(Increase) Decrease Accounts receivable net	(299)	135
(Increase) Unbilled Services	37	272
(Increase) Decrease Due from other agencies	55	(419)
(Decrease) Accrued salaries and withholding	415	-
Increase Accounts payable	216	167
Increase (Decrease) Contracts - retention	(138)	3
Increase (Decrease) Deposits	108	48
Total adjustments	<u>7,335</u>	<u>3,672</u>
<b>Net cash provided by operating activities</b>	<u>\$ 18,029</u>	<u>\$ 16,389</u>
Noncash investing, capital, and financing activities:		
Increase (Decrease) in fair value of investments	(1)	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 Investments**

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. 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, 2017, the total interest incurred was \$3,279 of which \$487 was capitalized. For fiscal year ended June 30, 2016, the total interest incurred was \$3,324 of which \$635 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 2017 and 2016, the City's contribution in benefit payments was \$492 and \$2,991, 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, 2017 and 2016, the Fund's allowance for doubtful accounts was \$29 and \$35, respectively.

### **Unbilled Receivable**

The Water Utility records revenues for utility services delivered to customers but not billed. As of June 30, 2017 and 2016, the Fund's unbilled receivables were \$4,033 and \$4,070, 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, 2017 the Water Utility's due from other funds was \$0 and as of June 30, 2016 the Water Utility's due to other funds was \$1,733.

### **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, 2017 and 2016, the Water Utility's deposits were \$1,057 and \$949, 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, 2017 and 2016, the Water Utility's contracts – retained amount due were \$13 and \$151, 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, 2017 and 2016, the Water Utility's net investments in capital assets were \$105,428 and \$110,447, 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) issued pronouncements that have an effective date that may impact future financial presentation. Management has not determined what, if any, impact implementation of the following statements may have on the financial statements of the Water Utility.

- 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. 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.
- GASB Statement No. 83 – *Certain Asset Retirement Obligations*. The objective of this Statement is to address accounting and financial reporting for certain asset retirement obligations. The Statement is effective for periods beginning after June 15, 2018.

- GASB Statement No. 84 – *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Statement is effective for periods beginning after December 15, 2018.
- GASB Statement No. 85 – *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. The Statement is effective for periods beginning after June 15, 2017.
- GASB Statement No. 86 – *Certain Debt Extinguishment Issues*. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. The Statement is effective for periods beginning after June 15, 2017.
- GASB Statement No. 87 – *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The Statement is effective for periods beginning after December 15, 2019.

## **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, 2017 and June 30, 2016 is \$4,527 and \$1,229 respectively, which are 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 \$1,229 as of June 30, 2017 and \$1,360 as of June 30, 2016 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, \$24,847 and \$13,652 pertains to the Water Utility for fiscal year 2017 and 2016, respectively. Pooled cash and investments are stated at the fair value.

Cash and investments as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Pooled Cash and investments	\$ 14,913	\$ 3,794
Cash with fiscal agents	5,157	5,136
Designated and invested cash	7,500	2,850
Restricted Cash	2,434	7,008
Total	<u>\$ 30,004</u>	<u>\$ 18,788</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 account in the City Treasury was established to deposit the proceeds of the Water Revenue Bonds, 2012 Series. As of June 30, 2017 and 2016 there is \$2,434 and \$7,088 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.

Deposit and withdrawals to the City’s Treasury Pool are made on the basis of \$1 and not fair value. Accordingly, the fair value measurement of the City’s proportionate share in the pool is based on uncategorized inputs 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 and Investments 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, 2017, the Fund had \$5,157 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	\$ 5,157	Less than 1 yr	Aaa

As of June 30, 2016, the Water Utility had \$5,136 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	\$ 5,136	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, 2017 Capital Assets are as follows:

	Balance at June 30, 2016	Increases	Decreases	Reclass / Transfers	Balance at June 30, 2017
Capital assets not being depreciated:					
Land	\$ 1,034	\$ -	\$ -	\$ -	\$ 1,034
Construction in progress	19,929	1,364	-	(8,333)	12,960
Total assets not being depreciated	20,963	1,364	-	(8,333)	13,994
Depreciable capital assets:					
Buildings and improvements	60,466	369	-	105	60,940
Infrastructure	146,476	1,438	-	4,216	152,130
Machinery and equipment	37,952	1,382	(262)	4,012	43,084
Total other capital assets at cost	244,894	3,189	(262)	8,333	256,154
Less accumulated depreciation:					
Buildings and improvements	15,671	1,018	-	-	16,689
Infrastructure	48,877	3,369	-	-	52,246
Machinery and equipment	15,837	2,023	(262)	-	17,598
Total other capital assets at cost	80,385	6,410	(262)	-	86,533
Total assets being depreciated	164,509	(3,221)	-	8,333	169,621
Water Fund capital assets, net	\$ 185,472	\$ (1,857)	\$ -	\$ -	\$ 183,615

A summary of the changes in Water Utility's June 30, 2016 Capital Assets are 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

#### 4. Long-Term Debt

The Water Utility's outstanding principal as of June 30, 2017 and 2016 consists of the following:

Investments	Remaining Interest Rates	Original Issue	Outstanding June 30, 2017	Outstanding June 30, 2016
Water Revenue Bonds, 2008 Series	3.10% - 5.00%	\$ 50,000	\$ 43,760	\$ 45,085
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 \$3,507.

The bonds mature in regularly increasing amounts ranging from \$1,370 to \$3,060 annually from 2018 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 \$1,650.

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, 2016	Additions	Retirements	Amount outstanding June 30, 2017	Due within one year
Water Revenue Bonds, 2008 Series	\$ 45,085	-	1,325	43,760	1,370
Water Revenue Bonds, 2012 Series	35,000	-	-	35,000	415
Bond Premium	1,948	-	87	1,861	86
Total bonds payable	<u>\$ 82,033</u>	<u>-</u>	<u>1,412</u>	<u>80,621</u>	<u>1,871</u>

	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>

The annual debt service requirements to amortize long-term bonded debt at June 30, 2017 are as follows:

Fiscal Year	Revenue Bonds		
	Interest	Principal	Total
2018	\$ 3,304	1,785	5,089
2019	3,226	1,855	5,081
2020	3,134	1,945	5,079
2021	3,039	2,040	5,079
2022	2,948	2,135	5,083
2023-2027	13,191	12,175	25,366
2028-2032	10,590	15,055	25,645
2033-2037	7,584	18,705	26,289
2038-2042	3,804	23,065	26,869
	<u>\$ 50,820</u>	<u>78,760</u>	<u>129,580</u>

## **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, 2017. For the year ended June 30, 2017, net income as defined in the indenture, was \$16,321 and the debt service requirement was \$4,712. 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.

## *5. Pension Plan*

### **Plan Description**

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 plan 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, 2017, are summarized as follows:

	<b>Miscellaneous</b>		
	Prior to January 1, 2011	Between January 1, 2011 and December 31, 2012	On or after January 1, 2013
Hire date			
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 % of eligible compensation	2.0% to 2.5%	1.43% to 2.42%	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, 2017, the Water Utility's contributions to the City's Miscellaneous Plan were \$1,387.

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

As of June 30, 2017, the Water Utility reported a liability of \$16,387 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, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016. The Water Utility's proportion of the City's Miscellaneous Plan net pension liability was based on the Water Utility's fiscal year 2016 contributions to the City's Miscellaneous Plan relative to the total City contribution as a whole. At June 30, 2016 the Water Utility's proportion was 6.0 percent for 2016 & 2017

For the year ended June 30, 2017, the Water Utility recognized pension expense of \$1,118. At June 30, 2017, the Water Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	\$	
Pension contributions subsequent to measurement date	1,387	-
Net differences between projected and actual earnings on plan investments	3,140	
Changes of assumptions	-	437
Net differences between expected and actual experience	-	792
Total	\$ 4,527	1,229

The amount of \$1,387 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, 2018.

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,	Amounts
2018	\$ (372)
2019	196
2020	1,332
2021	755
Total	\$ 1,911

## Actuarial Assumptions

The Water Utility's proportion of the City's total pension liability in the June 30, 2015 Miscellaneous Plan actuarial valuation was determined using the following actuarial assumptions:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
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
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 underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period of 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.

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, staff 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. These geometric rates of return are net of administrative expenses.

Asset Class	Target Allocation	Real Return Years 1 - 10 *	Real Return Years 11+ **
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	(0.55)%	(1.05)%
Total	100.00%		

\*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>Sensitivity of the Net Pension Liability to changes in the discount rate</b>	
1% Decrease	6.65%
Net Pension Liability	\$ 24,667
Current Discount Rate	7.65%
Net Pension Liability	\$ 16,387
1% Increase	8.65%
Net Pension Liability	\$ 9,560

## Pension Plan Fiduciary Net Position

Detailed information about the City's collective net pension liability is available in the City's separately issued Comprehensive Annual Financial Report (CAFR). The City's financial statements may be obtained by contacting the City of Glendale's Finance Department. The report may also be obtained on the internet at [www.glendaleca.gov/government/departments/finance/budget/annual-report](http://www.glendaleca.gov/government/departments/finance/budget/annual-report).

## 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 2017-18 is as follows:

Insurance Type	Program Limits	Deductible / SIR (self insured retention)
Excess Liability Insurance	\$ 25,000	\$2,000 SIR per occurrence
D & O Employment Practices	2,000	\$250 SIR Non-safety; \$500 SIR safety
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	3,000	\$25
Cyber Insurance	5,000	\$100

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, 2017 and 2016, premiums charged to the Glendale Water & Power Utility were \$1,206 and \$1,362, 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>2017</u>	<u>2016</u>	<u>2015</u>
Water Utility's proportion of the net pension liability	6.00%	7.00%	6.00%
Water Utility's proportionate share of the net pension liability	\$ 16,387	\$ 13,228	\$ 11,768
Covered payroll	\$ 5,135	\$ 5,100	\$ 5,350
Water Utility's proportionate share for the City's Miscellaneous Plan's net pension liability as a percentage of covered payroll	319.12%	259.35%	219.96%
Miscellaneous Plan fiduciary net position as a percentage of the total pension liability	73.87%	77.94%	79.94%

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

(2) The Water Utility's implemented GASB 82 in FY2016, so covered payroll replaces covered-employee payroll for FY2015. Covered payroll is the payroll on which contributions to pension plan are based.

# WATER UTILITY REQUIRED SUPPLEMENTARY INFORMATION

## Schedule of Contributions Last Ten Years (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contributions	\$ 1,387	\$ 1,229	\$ 986
Contributions in relation to the actuarially determined contribution	<u>1,387</u>	<u>1,229</u>	<u>986</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 5,186	\$ 5,135	\$ 5,100
Contributions as a percentage of covered payroll	26.75%	23.94%	19.33%

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