



Independent Auditor's Report

To the Honorable Mayor and Members of City Council
of the 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, 2019, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's 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, 2019, 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, 2019, 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.

Prior Period Financial Statements

The financial statements of the Fund as of and for the year ended June 30, 2018, were audited by Vavrinek, Trine, Day & Co., LLP, who joined with Eide Bailly, LLP on July 22, 2019, and whose report dated November 30, 2018, expressed an unmodified opinion on those statements.

Other Matters

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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's 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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Rancho Cucamonga, California
November 26, 2019



Financial Statements: Water Utility

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 year ended June 30, 2019. 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 2019, the Water Utility's retail revenues decreased by \$2,045 or 4.0% from fiscal year 2018. The decrease in retail revenues was primarily driven by less consumption due to local precipitation exceeding average precipitation by nearly 100%.

During fiscal year 2019, the total operating revenues decreased by \$2,339 or 4.4% and total operating expenses increased by \$1,801 or 3.9% from fiscal year 2018. After adding the net decrease of \$1,689 from non-operating items (net interest expense, capital grants and contributions) to net operating income of \$3,383, total net position increased by \$1,694 in fiscal year 2019.

During fiscal year 2018, the Water Utility's retail revenues increased by \$2,170 or 4.5% from fiscal year 2017. The increase in retail revenues was primarily attributable to a 4% rate increase which became effective July 1, 2017

During fiscal year 2018, the total operating revenues increased by \$1,985 or 3.9% and total operating expenses increased by \$5,156 or 12.7% from fiscal year 2017. After adding the net decrease of \$3,045 from non-operating items (net interest expense, capital grants and contributions) to net operating income of \$7,523, total net position increased by \$4,478 in fiscal year 2018.

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 2019 and 2018 by \$126,969 and \$125,275, respectively, an increase of \$1,694.

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 reported 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.



Financial Statements: Water Utility

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 fiscal year. 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 fiscal year 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 84 to 100 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 \$126,969 and \$125,275 as of June 30, 2019 and 2018, respectively. A portion of the Water Utility's net position (82% and 83% as of June 30, 2019 and 2018, 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 \$23,306 and \$21,796 as of June 30, 2019 and 2018.



Financial Statements: Water Utility

Net Position – Water Utility

The Water Utility’s net position as of June 30, 2019, 2018, and 2017 is as follows:

	2019	2018	2017
Current and other assets	\$ 47,024	\$ 42,702	\$ 37,697
Capital assets	180,472	182,230	183,615
Total assets	<u>227,496</u>	<u>224,932</u>	<u>221,312</u>
Deferred outflows of resources related to pensions	3,462	5,328	4,527
Current liabilities	10,456	8,726	8,676
Long-term debt	74,778	76,809	78,750
Net pension liability	18,206	18,600	16,387
Total liabilities	<u>103,440</u>	<u>104,135</u>	<u>103,813</u>
Deferred inflows of resources related to pensions	549	850	1,229
Net Position:			
Net investment in capital assets	103,663	103,479	105,428
Unrestricted	23,306	21,796	15,369
Total net position	<u>\$ 126,969</u>	<u>\$ 125,275</u>	<u>\$ 120,797</u>

Net position increased by \$1,694 or 1.4% and increased by \$4,478 or 3.7% during the fiscal years 2019 and 2018, respectively. In fiscal year 2019, the increase in net position was primarily due to the funds participation in the City’s investment pool, which resulted in a year over year increase in allocated interest income. In fiscal year 2018, the increase in net position was as expected, driven by a 4% water rate increase partially offset by increases in maintenance and operation expenses to the water transmission and distribution system.



Financial Statements: Water Utility

Changes in Net Position – Water Utility

The Water Utility's changes in net position for the years ended June 30 2019, 2018, and 2017 are as follows:

	2019	2018	2017
Revenues			
Charges for services	\$ 48,726	\$ 50,771	\$ 48,601
Miscellaneous revenues	2,134	2,428	2,613
Non-operating revenues	1,442	161	1,026
Total revenues	<u>52,302</u>	<u>53,360</u>	<u>52,240</u>
Expenses:			
Production	28,624	30,176	30,201
Transmission and distribution	9,367	7,394	2,450
Customer accounting and sales	2,670	2,250	1,458
Depreciation	6,816	5,856	6,411
Non-operating expenses	3,139	3,218	2,792
Total expenses	<u>50,616</u>	<u>48,894</u>	<u>43,312</u>
Excess before Capital contributions	1,686	4,466	8,928
Capital contributions	8	12	61
Changes in net position	<u>1,694</u>	<u>4,478</u>	<u>8,989</u>
Total net position, beginning of year	<u>125,275</u>	<u>120,797</u>	<u>111,808</u>
Total net position, end of year	<u>\$ 126,969</u>	<u>\$ 125,275</u>	<u>\$ 120,797</u>



Financial Statements: Water Utility

Revenues by Source – Water Utility

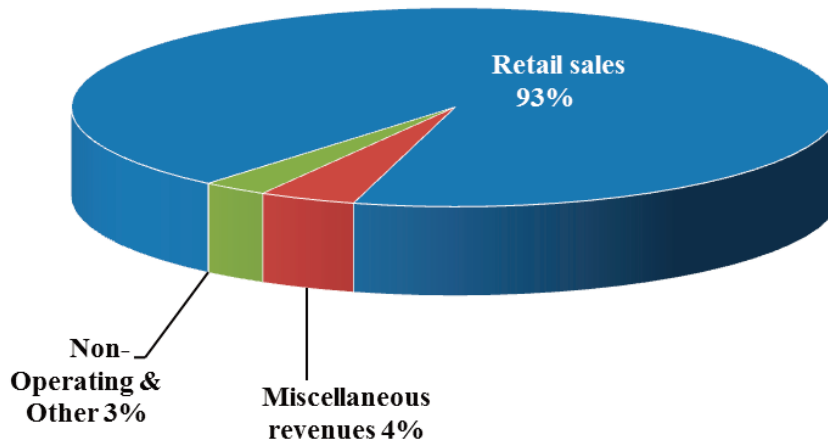
Year ended June 30, 2019

In 2019, total revenues for the Water Utility decreased 2% 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 4.0% from the prior year primarily driven by a decrease in consumption due to local precipitation exceeding average precipitation by nearly 100%.

Miscellaneous revenues and non-operating revenues make up 7% of total revenue sources. Miscellaneous and non-operating revenues increased by 38% from the prior year due to the funds participation in the City’s investment pool, which resulted in a year over year increase in allocated interest income.

Capital grants and contributions make up less than 1% of total revenue sources.

2019 Revenues





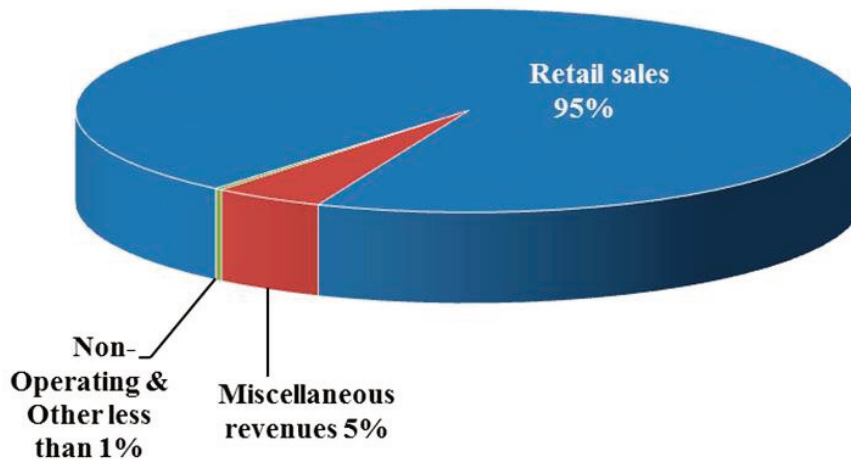
Financial Statements: Water Utility

Year ended June 30, 2018

In 2018, total revenues for the Water Utility increased 2% from the prior year level. Retail revenues are the primary revenue source for the Water Utility, making up 95% of total revenue sources. Retail revenues showed an increase of 4.5% from the prior year primarily due to a 4% water rate increases which became effective July 1, 2017.

Miscellaneous revenues and non-operating revenues make up 5% of total revenue sources. Miscellaneous and non-operating revenues decreased by 30% from the prior year due to the settlement of litigation in 2017, 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.

2018 Revenues





Financial Statements: Water Utility

Expenses by Source – Water Utility

Year ended June 30, 2019

In 2019, total expenses for the Water Utility increased 4% from the prior year level. Production expenses are the primary expense source for the Water Utility, making up 57% of total expenses. Production expenses decreased from the prior year due to lower water consumption resulting in a reduction in water purchases.

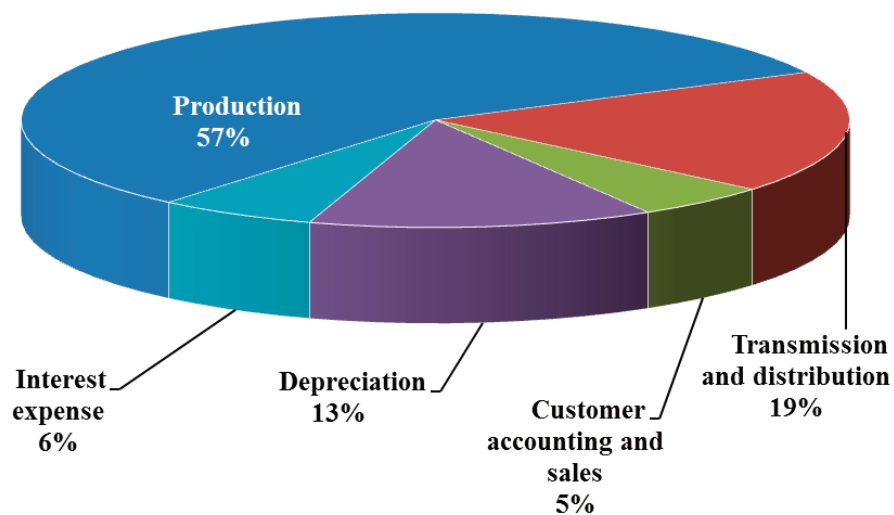
Transmission and distribution expenses comprised 19% of total expenses and showed an increase of 27% from the prior year level, as a result of increases in maintenance and operation expenses resulting from labor expenses, allocated charges, and contractual services.

Customer accounting and sales expenses make up 5% of total expenses and showed an increase of 19% compared to prior year due to increases of customer service expenses resulting from labor expenses, allocated charges, and contractual services.

Depreciation expense comprised 13% of total expenses and increased by 16% compared to the prior year level.

Interest on bonds make up 6% of total expenses and decreased by 2% compared to prior year level.

2019 Expenses





Financial Statements: Water Utility

Year ended June 30, 2018

In 2018, total expenses for the Water Utility increased 13% from the prior year level. Production expenses are the primary expense source for the Water Utility, making up 62% of total expenses. Production expenses did not increase from the prior year.

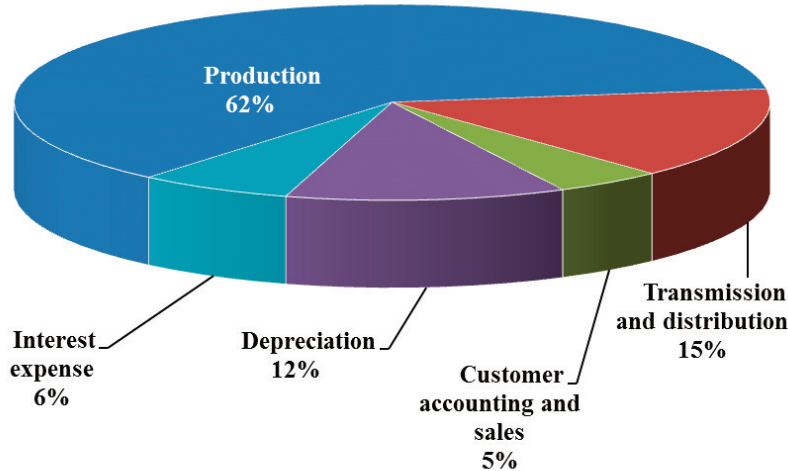
Transmission and distribution expenses comprised 15% of total expenses and showed an increase of 200% from the prior year level, as a result of increases in maintenance and operation projects.

Customer accounting and sales expenses make up 5% of total expenses and showed an increase of 54% compared to prior year due to increases of overall customer service expenses.

Depreciation expense comprised 12% of total expenses and decreased by 9% compared to the prior year level.

Interest on bonds make up 6% of total expenses and increased by 2% compared to prior year level.

2018 Expenses





Financial Statements: Water Utility

Capital Assets and Debt Administration

Capital Assets

The Water Utility’s investment in capital assets as of June 30, 2019 and 2018 was \$180,472 and \$182,230, respectively (net of accumulated depreciation). This included investments in production, transmission, and distribution related facilities, as well as general items such as structure improvements, transportation, communication, and miscellaneous equipment. Capital assets showed slight decreases for June 30, 2019 and 2018. 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, 2019, 2018 and 2017 are as follows:

	2019	2018	2017
Production	\$ 59,511	\$ 59,055	\$ 58,730
Transmission and distribution	203,366	199,672	195,899
General	16,386	15,690	15,519
Less: accumulated depreciation	<u>(98,791)</u>	<u>(92,187)</u>	<u>(86,533)</u>
Total	<u>\$ 180,472</u>	<u>\$ 182,230</u>	<u>\$ 183,615</u>

Additional information on the Water Utility’s capital assets can be found in Note 3 on page of this report.

Long-Term Debt

As of June 30, 2019, 2018 and 2017, the Water Utility had outstanding long-term debt of \$74,778, \$76,809, and \$78,750, respectively. The Water Utility’s outstanding debt as of June 30 is as follows:

	2019	2018	2017
Water Revenue Bonds	\$ 75,120	\$ 76,975	\$ 78,760
Less: current portion	(2,031)	(1,942)	(1,871)
Unamortized bond premium	<u>1,689</u>	<u>1,776</u>	<u>1,861</u>
Total Long-Term Debt	<u>\$ 74,778</u>	<u>\$ 76,809</u>	<u>\$ 78,750</u>

During fiscal year 2019, the Water Utility maintained an “AA-” 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 to 95 of this report.



Financial Statements: Water Utility

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 costs associated with providing water relates to purchased water and energy cost increases, the need for capital investment in the water distribution system, and the increased costs of infrastructure replacement and rehabilitation projects.

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 4% in January 2019. In addition to the costs to purchase water, a large part of the total operating expenses is comprised of energy for pumping.

On June 12, 2018, the Glendale City Council approved a five year rate plan (covering FY 2018-19 through 2022-23) with annual base rate revenue adjustment increases of 1.0%, 1.0%, 1.5%, 2.0%, and 2.0%. The new rates are effective July 1st of each fiscal year. In addition to operations and maintenance expenses, the new rates fund approximately \$52.5 million of capital improvements over the five year period. The City does not plan to incur new debt for water infrastructure improvements over this period.

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.



Financial Statements: Water Utility

CITY OF GLENDALE

WATER ENTERPRISE FUND

Statement of Net Position

June 30, 2019 (in thousands)

(with comparative amounts for 2018)

	<u>2019</u>	<u>2018</u>
Assets		
Current assets:		
Pooled cash and investments	\$ 23,868	\$ 19,631
Cash with fiscal agent	4,247	4,170
Interest receivable	162	117
Accounts receivable, net	2,932	3,144
Unbilled receivable	4,305	4,011
Due from other agencies	210	329
Total current assets	<u>35,724</u>	<u>31,402</u>
Noncurrent assets:		
Capital assets:		
Land	1,034	1,034
Buildings and improvements	62,268	61,700
Machinery and equipment	46,079	45,673
Infrastructure	158,444	156,433
Accumulated depreciation	(98,791)	(92,187)
Intangible assets	58	-
Construction in progress	11,380	9,577
Total capital assets	<u>180,472</u>	<u>182,230</u>
Pooled designated & invested cash	<u>11,300</u>	<u>11,300</u>
Total noncurrent assets	<u>191,772</u>	<u>193,530</u>
Total assets	<u>227,496</u>	<u>224,932</u>
Deferred outflow of resources:		
Deferred outflows related to pensions	<u>3,462</u>	<u>5,328</u>

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



Financial Statements: Water Utility

CITY OF GLENDALE
WATER ENTERPRISE FUND
 Statement of Net Position
 June 30, 2019 (in thousands)
 (with comparative amounts for 2018)

	<u>2019</u>	<u>2018</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 5,189	\$ 3,625
Contracts-retained amount due	115	68
Wages and benefits payable	641	594
Interest payable	1,323	1,360
Bonds payable, due in one year	2,031	1,942
Deposits	1,157	1,137
Total current liabilities	<u>10,456</u>	<u>8,726</u>
Noncurrent liabilities:		
Bonds payable	74,778	76,809
Net pension liability	18,206	18,600
Total noncurrent liabilities	<u>92,984</u>	<u>95,409</u>
Total liabilities	<u>103,440</u>	<u>104,135</u>
Deferred inflows of resources:		
Deferred inflows related to pensions	<u>549</u>	<u>850</u>
Net position:		
Net investment in capital assets	103,663	103,479
Unrestricted	23,306	21,796
Total net position	<u>\$ 126,969</u>	<u>\$ 125,275</u>

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



Financial Statements: Water Utility

CITY OF GLENDALE

WATER ENTERPRISE FUND

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2019 (in thousands)

(with comparative amounts for 2018)

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Charges for services:		
Metered sales	\$ 46,170	\$ 47,577
Metered sales-recycled	1,917	2,060
Private fire	486	668
Other sales	153	466
Miscellaneous revenues	2,134	2,428
Total operating revenues	<u>50,860</u>	<u>53,199</u>
Operating expenses:		
Production	28,624	30,176
Transmission & distribution	9,367	7,394
Customer accounting and sales	2,670	2,250
Depreciation	6,816	5,856
Total operating expenses	<u>47,477</u>	<u>45,676</u>
Operating income	<u>3,383</u>	<u>7,523</u>
Non operating revenues (expenses):		
Interest income	1,432	161
Grant revenue	10	-
Interest expense	(3,139)	(3,218)
Total non operating expenses	<u>(1,697)</u>	<u>(3,057)</u>
Income before capital contributions□	<u>1,686</u>	<u>4,466</u>
Capital contributions	<u>8</u>	<u>12</u>
Change in net position	1,694	4,478
Net position at beginning of year	<u>125,275</u>	<u>120,797</u>
Net position at end of year	<u>\$ 126,969</u>	<u>\$ 125,275</u>

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



Financial Statements: Water Utility

CITY OF GLENDALE
WATER ENTERPRISE FUND
 Statement of Cash Flows
 Year Ended June 30, 2019 (in thousands)
 (with comparative amounts for 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash from customers	\$ 50,917	\$ 53,351
Cash paid to employees	(10,545)	(9,189)
Cash paid to suppliers	(27,287)	(29,590)
Net cash provided by operating activities	<u>13,085</u>	<u>14,572</u>
Cash flows from noncapital financing activities:		
Operating grant received	<u>10</u>	-
Net cash provided (used) by noncapital financing activities	<u>10</u>	-
Cash flows from capital and related financing activities:		
Interest on long term debt	(3,176)	(3,247)
Principal payments and premiums	(1,942)	(1,870)
Capital grants and contributions	8	12
Acquisition of property, plant, and equipment	(5,058)	(4,471)
Net cash used by capital and related financing activities	<u>(10,168)</u>	<u>(9,576)</u>
Cash flows from investing activities		
Interest received	<u>1,387</u>	<u>101</u>
Net increase in cash and cash equivalents	4,314	5,097
Cash and cash equivalents at July 1	<u>35,101</u>	<u>30,004</u>
Cash and cash equivalents at June 30	<u>\$ 39,415</u>	<u>\$ 35,101</u>
Reconciliation of Statement of Cash Flows to Statement of Net Position:		
Pooled cash and investments	\$ 23,868	\$ 19,631
Cash with fiscal agent	4,247	4,170
Pooled designated & invested cash	<u>11,300</u>	<u>11,300</u>
Cash and cash equivalents at June 30	<u>\$ 39,415</u>	<u>\$ 35,101</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$ 3,383</u>	<u>\$ 7,523</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,816	5,856
Pension expense	1,171	1,033
Decrease Accounts receivable net	212	95
(Increase) Decrease Unbilled Services	(294)	22
Decrease Due from other agencies	119	35
Increase Accrued salaries and withholding	47	179
Increase (Decrease) Accounts payable	1,564	(306)
Increase Contracts - retention	47	55
Increase Deposits	<u>20</u>	<u>80</u>
Total adjustments	<u>9,702</u>	<u>7,049</u>
Net cash provided by operating activities	<u>\$ 13,085</u>	<u>\$ 14,572</u>

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



Financial Statements: Water Utility

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 as an enterprise fund 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 flows thereof of the City.

Proprietary funds distinguish operating revenues and expenses from non-operating 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.



Financial Statements: Water Utility

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. 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.



Financial Statements: Water Utility

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.



Financial Statements: Water Utility

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, 2019 and 2018, the Fund's allowance for doubtful accounts was \$41 and \$31, respectively.

Unbilled Receivable

The Water Utility records revenues for utility services delivered to customers but not billed. As of June 30, 2019 and 2018, the Fund's unbilled receivables were \$4,305 and \$4,011, respectively.

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, 2019 and 2018, the Water Utility's deposits were \$1,157 and \$1,137, respectively.

Contracts - Retained Amount Due

The Water Utility withholds 5-10% 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, 2019 and 2018, the Water Utility's contracts – retained amount due were \$115 and \$68, respectively.



Financial Statements: Water Utility

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, 2019 and 2018, the Water Utility's net investments in capital assets were \$103,663 and \$103,479, 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. 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.



Financial Statements: Water Utility

- 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.
- GASB Statement No. 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The objective of this Statement is to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The Statement is effective for periods beginning after December 15, 2018.
- GASB Statement No. 91 – *Conduit Debt Obligations*. The objective of this Statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments-extend by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The Statement is effective for periods beginning after December 15, 2020.

Implementation of Pronouncements

The City has adopted and implemented, where applicable, the following GASB Statements during the year ended June 30, 2019:

- 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. This statement was implemented effective July 1, 2018, and did not have a material effect on the financial statements.
- GASB Statement No. 88 – *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarified which liabilities government should include when disclosing information related to debt. This statement was implemented effective July 1, 2018.

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.,



Financial Statements: Water Utility

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, 2019 and June 30, 2018 is \$3,462 and \$5,328, 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 \$549 as of June 30, 2019 and \$850 as of June 30, 2018 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, \$35,168 and \$30,931 pertains to the Water Utility for fiscal year 2019 and 2018, respectively. Pooled cash and investments are stated at the fair value.

Cash and investments as of June 30, 2019 and 2018:

	2019	2018
Pooled cash and investments	\$ 23,868	\$ 19,631
Cash with fiscal agents	4,247	4,170
Pooled designated and invested cash	11,300	11,300
Total	<u>\$ 39,415</u>	<u>\$ 35,101</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



Financial Statements: Water Utility

measurement, please refer to the City of Glendale Comprehensive Annual Financial Report.

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 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, 2019, the Fund had \$4,247 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	\$ 4,247	Less than 1 yr	Aaa

As of June 30, 2018, the Water Utility had \$4,170 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	\$ 4,170	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.



Financial Statements: Water Utility

3. Capital Assets

A summary of the changes in Water Utility's June 30, 2019 Capital Assets are as follows:

	Balance at June 30, 2018	Increases	Decreases	Reclass / Transfers	Balance at June 30, 2019
Capital assets not being depreciated:					
Land	\$ 1,034	\$ -	\$ -	\$ -	\$ 1,034
Construction in progress	9,577	4,377	-	(2,574)	11,380
Total assets not being depreciated	10,611	4,377	-	(2,574)	12,414
Depreciable capital assets:					
Buildings and improvements	61,700	6	-	562	62,268
Infrastructure	156,433	-	-	2,012	158,445
Machinery and equipment	45,673	618	(212)	-	46,079
Intangible	-	58	-	-	58
Total other capital assets at cost	263,806	682	(212)	2,574	266,850
Less accumulated depreciation:					
Buildings and improvements	17,664	1,029	-	-	18,693
Infrastructure	55,678	3,536	-	-	59,214
Machinery and equipment	18,845	2,252	(212)	-	20,885
Total accumulated depreciation	92,187	6,817	(212)	-	98,792
Total assets being depreciated	171,619	(6,135)	-	2,574	168,058
Water Fund capital assets, net	\$ 182,230	\$ (1,758)	\$ -	\$ -	\$ 180,472

A summary of the changes in Water Utility's June 30, 2018 Capital Assets are as follows:

	Balance at June 30, 2017	Increases	Decreases	Reclass / Transfers	Balance at June 30, 2018
Capital assets not being depreciated:					
Land	\$ 1,034	\$ -	\$ -	\$ -	\$ 1,034
Construction in progress	12,960	3,701	-	(7,084)	9,577
Total assets not being depreciated	13,994	3,701	-	(7,084)	10,611
Depreciable capital assets:					
Buildings and improvements	60,940	373	-	387	61,700
Infrastructure	152,130	90	-	4,213	156,433
Machinery and equipment	43,084	307	(202)	2,484	45,673
Total other capital assets at cost	256,154	770	(202)	7,084	263,806
Less accumulated depreciation:					
Buildings and improvements	16,689	975	-	-	17,664
Infrastructure	52,246	3,432	-	-	55,678
Machinery and equipment	17,598	1,449	(202)	-	18,845
Total accumulated depreciation	86,533	5,856	(202)	-	92,187
Total assets being depreciated	169,621	(5,086)	-	7,084	171,619
Water Fund capital assets, net	\$ 183,615	\$ (1,385)	\$ -	\$ -	\$ 182,230



Financial Statements: Water Utility

4. Long-Term Debt

The Water Utility’s outstanding principal as of June 30, 2019 and 2018 consists of the following:

Investments	Remaining Interest Rates	Original Issue	Outstanding June 30, 2019	Outstanding June 30, 2018
Water Revenue Bonds, 2008 Series	3.10% - 5.00%	\$ 50,000	\$ 40,970	\$ 42,390
Water Revenue Bonds, 2012 Series	2.75% - 5.00%	\$ 35,000	\$ 34,150	\$ 34,585

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 \$2,889.

The bonds mature in regularly increasing amounts ranging from \$1,470 to \$3,060 annually from FY 2019-2020 to FY 2037-2038. 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, 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 \$1,359.



Financial Statements: Water Utility

The bonds mature in regularly increasing amounts ranging from \$475 to \$4,945 annually from FY 2019 to FY 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.

The Water utility has pledged future water customer revenues, net of specified operating expenses, to pay the remaining total principal and interest on the Water revenue bonds of \$119,410 through FY 2041-42. The bonds are payable solely from Water utility's net revenues and is expected to require the net revenues to be at least equal to 1.25 times the amount of the annual debt services as it become due each fiscal year. The rates to be charged for services furnished by the Water utility should incorporate the debt service requirements to provide revenues sufficient to pay, as the principal and interest become due. Total debt service paid and total net available revenues for debt service coverage for FY 2018-19 were \$5,117 and \$11,027, respectively.

The Water Utility has outstanding long-term debt of \$76,809 and has no direct borrowings and no direct placements as of June 30, 2019. The Water Utility also has no outstanding or unused line of credit related to long-term debt as of June 30, 2019. The Water Utility bonds payable contain a provision that none of the electric utility and water utility assets owned by the City will be sold or leased if the City is unable to satisfy the debt service requirement. The Water Utility bonds payable contain a provision that in an event of default, the owners of 25% in aggregate Bond Obligations of Bonds then outstanding may call a meeting of the bond owners for the purpose of electing a bond owners' committee. The Water Utility bonds payable contain a subjective acceleration clause that allows the bond owners' committee to accelerate payment of the entire principal and interest amounts to become immediately due in an event of default by the Utility, with the exception of Water Revenue Bonds, 2008 Series that has bond insurance with Assured Guaranty Municipal Corporation to guarantee scheduled payment of principal and interest on the 2008 Bonds when due as set forth in the bond insurance policy.



Financial Statements: Water Utility

	Amount outstanding			Amount outstanding June 30, 2019	Due within one year
	June 30, 2018	Additions	Retirements		
Water Revenue Bonds, 2008 Series	\$ 42,390	-	1,420	40,970	1,470
Water Revenue Bonds, 2012 Series	34,585	-	435	34,150	475
Bond Premium	1,776	-	87	1,689	86
Total bonds payable	\$ 78,751	-	1,942	76,809	2,031

	Amount outstanding			Amount outstanding June 30, 2018	Due within one year
	June 30, 2017	Additions	Retirements		
Water Revenue Bonds, 2008 Series	\$ 43,760	-	1,370	42,390	1,421
Water Revenue Bonds, 2012 Series	35,000	-	415	34,585	436
Bond Premium	1,861	-	85	1,776	85
Total bonds payable	\$ 80,621	-	1,870	78,751	1,942

The annual debt service requirements to amortize long-term bonded debt at June 30, 2019 are as follows:

Fiscal Year	Water Revenue Bonds		
	Interest	Principal	Total
2020	3,134	1,945	5,079
2021	3,039	2,040	5,079
2022	2,948	2,135	5,083
2023	2,853	2,225	5,078
2024	2,749	2,325	5,074
2025-2029	12,084	13,265	25,349
2030-2034	9,265	16,410	25,675
2035-2039	6,305	20,435	26,740
2040-2044	1,913	14,340	16,253
	\$ 44,290	75,120	119,410

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, 2019. For the year ended June 30, 2019, net income as defined in the indenture, was \$11,027 and the debt service requirement was \$5,083. For the year ended June 30, 2018, net income as defined in the indenture, was \$12,967 and the debt service requirement was \$5,089.



Financial Statements: Water Utility

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 5 years of service.

The Plan’s provisions and benefits in effect at June 30, 2019, are summarized as follows:

	Miscellaneous		
	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%	1.4% to 2.4%	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.



Financial Statements: Water Utility

For the year ended June 30, 2019, the Water Utility’s contributions to the City’s Miscellaneous Plan were \$1,856.

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

As of June 30, 2019, the Water Utility reported a liability of \$18,206 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, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018. The Water Utility’s proportion of the City’s Miscellaneous Plan net pension liability was based on the Water Utility’s fiscal year 2018 contributions to the City’s Miscellaneous Plan relative to the total City contribution as a whole. At June 30, 2018 the Water Utility’s proportion was 6.0 percent for 2019 & 2018.

For the year ended June 30, 2019, the Water Utility recognized pension expense of \$3,028.

At June 30, 2019, the City 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	\$ 1,856	-
Changes of assumptions	1,350	303
Differences between expected and actual experience	59	246
Net differences between projected and actual earnings on plan investments	197	-
Total	\$ 3,462	549

The amount of \$1,856 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, 2020.

Other amounts reported as deferred outflows/(inflows) of resources related to pensions will be recognized as pension expense as follows:

Year ended June 30,	Amounts
2020	\$ 1,742
2021	60
2022	(590)
2023	(155)
Total	\$ 1,057



Financial Statements: Water Utility

Actuarial Assumptions

The Water Utility’s proportion of the City’s total pension liability in the June 30, 2017 Miscellaneous Plan actuarial valuation was rolled forward to determine the June 30, 2018 total pension liability, based on the following actuarial methods and assumptions:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Actuarial cost method	Entry Age Normal Cost Method
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2.50%
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 2.0% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.5% thereafter

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period of 1997 to 2015, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. To determine whether the municipal bond rate should be used in the calculation of the discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.15% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15% is applied to all plans in the Public Employees’ Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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 (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds’



Financial Statements: Water Utility

asset classes (which includes the agent plan and two cost sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ 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 PERF 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 equal 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	Real Return Years 1 - 10 **	Real Return Years 11+ ***
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	-	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Assets	13.00%	3.75%	4.96%
Liquidity	1.00%	-	(0.92)%
Total	100.00%		

* In the System’s CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities

** An expected inflation rate of 2.0% used for this period.

*** An expected inflation rate of 2.92% used for this period.

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 7.15%, 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:



Financial Statements: Water Utility

Sensitivity of the Net Pension Liability to changes in the discount rate	
1% Decrease	6.15%
Net Pension Liability	\$ 27,719
Current Discount Rate	7.15%
Net Pension Liability	\$ 18,206
1% Increase	8.15%
Net Pension Liability	\$ 10,366

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.

6. Self-Insurance Program

The Water Utility participates in the City’s unemployment and workers’ compensation insurance. 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 2018-19 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	5,000	\$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, 2019, premiums charged to the Glendale Water & Power Utility were \$349.

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



Financial Statements: Water Utility

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)

	2019	2018	2017	2016	2015
Water Utility's proportion of the net pension liability	6.00%	6.00%	6.00%	6.00%	6.00%
Water Utility's proportionate share of the net pension liability	\$ 18,206	\$ 18,600	\$ 16,387	\$ 13,228	\$ 11,768
Covered payroll	\$ 5,568	\$ 5,438	\$ 5,193	\$ 5,507	\$ 5,477
Water Utility's proportionate share to the City's Miscellaneous Plan's net pension liability as a percentage of covered payroll	326.98%	342.04%	315.56%	240.20%	214.86%
Miscellaneous Plan fiduciary net position as a percentage of the total pension liability	74.42%	73.01%	73.87%	77.94%	79.94%
Measurement Date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014

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



Financial Statements: Water Utility

WATER UTILITY REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Contributions

Last Ten Years (1)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 1,856	\$ 1,555	\$ 1,387	\$ 1,229	\$ 986
Contributions in relation to the actuarially determined contribution	1,856	1,555	1,387	1,229	986
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 5,701	\$ 5,568	\$ 5,438	\$ 5,193	\$ 5,507
Contributions as a percentage of covered payroll	32.56%	27.93%	25.51%	23.67%	17.90%

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