



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Water Enterprise Fund (the Fund) of the City of Glendale, California (the City), as of and for the year ended June 30, 2015, 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, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Individual Fund Financial Statements

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the City of Glendale, California, as of June 30, 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Implementation of New Accounting Standards

As discussed in Note 1 to the financial statements, the Fund adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statements No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, effective July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Fund's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 25, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2015, 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 30, 2015

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, 2015 and June 30, 2014. 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 2015, the Water Utility's retail sales increased by \$4,451 (10%) from fiscal year 2014. The increase in retail sales was primarily attributable to a 4% increase in retail rates and an increase in fire line sales.

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

During fiscal year 2014, the Water Utility's retail sales decreased by \$1,536 (3%) from fiscal year 2013. The decrease in retail sales was primarily attributable to a significant reduction in fire line retail revenue as a result of the accrual of fire line refunds of \$3,400 to customers due to an over collection in previous years resulting from a miscalculation of fire line rates.

During fiscal year 2014, total operating revenues decreased by \$1,539 (3%) and total operating expenses increased by \$4,816 (12%) from fiscal year 2013. After adding the net decrease of \$1,737 from non-operating expenses and capital grants and contributions to operating income of \$653, total net position decreased by \$1,084 in fiscal year 2014.

Water usage was down 12% during fiscal year 2015. The drought surcharge went into effect on March 2015 as part of the mandatory water conservation mandates by the state of California and the Glendale City Council. Water Utility customers are now being charged \$0.75 per hundred cubic feet or per 748 gallons. The drought surcharge is only in effect as long as the mandatory measures are in place.

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 2015 and 2014 by \$99,660 and \$107,557, respectively, a decrease of \$7,897.

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 17 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 \$99,660 and \$107,557 as of June 30, 2015 and 2014, respectively. A portion of the Water Utility's net position (114% and 107% as of June 30, 2015 and 2014, 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. Because unrestricted net position was negative \$13,864 and \$7,902 as of June 30, 2015 and 2014, no assets were available to meet the Water Utility's ongoing obligations to creditors and customers. This produced the uncommon result that the portion of Water Utility's net position reflecting its net investment in capital assets was greater than total net position.

Net Position – Water Utility

The Water Utility's net position as of June 30, 2015, 2014, 2013 are as follows:

	2015	2014	2013
Current and noncurrent assets	\$ 24,617	\$ 31,626	\$ 40,525
Capital assets	184,851	180,801	174,269
Total assets	209,468	212,427	214,794
Deferred outflows of resources related to pensions	986	-	-
Current liabilities	13,771	21,466	21,414
Long-term debt	82,033	83,404	84,739
Net pension liability	11,768	-	-
Total liabilities	107,572	104,870	106,153
Deferred inflows of resources related to pensions	3,222	-	-
Net Position:			
Net investment in capital assets	113,524	115,459	115,442
Unrestricted	(13,864)	(7,902)	(6,801)
Total net position	\$ 99,660	\$ 107,557	\$ 108,641

A prior period adjustment of (\$14,259) was made to decrease the beginning net position of the Water Utility to record the beginning net pension liability and deferred outflows of resources for contributions subsequent to the measurement date as a result of the implementation of GASB 68 (*Accounting and Financial Reporting for Pensions*). Net position increased by \$6,362 (7%) and decreased by \$1,084 (1%) during the fiscal years 2015 and 2014, respectively. In fiscal year 2015, the increase in net position was attributable to an 11% increase in total revenues and capital grants and contributions and a 5% decrease in total expenses from the prior year. In fiscal year 2014, the decrease in net position was attributable to a 3% decrease in total revenues and capital grants and contributions and a 13% increase 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 2015, 2014, 2013 are as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Revenues:			
Retail sales	\$ 47,520	\$ 43,069	\$ 44,605
Miscellaneous revenues	2,244	2,597	3,543
Non-operating revenues	15	66	-
	<u>49,779</u>	<u>45,732</u>	<u>48,148</u>
Expenses:			
Production	31,837	33,632	27,978
Transmission and distribution	2,774	3,697	4,774
Customer accounting and sales	2,095	2,282	2,045
Depreciation	5,818	5,402	5,400
Non-operating expenses	2,871	2,569	1,997
	<u>45,395</u>	<u>47,582</u>	<u>42,194</u>
Capital grants and contributions	<u>1,978</u>	<u>766</u>	<u>-</u>
Changes in net position	<u>6,362</u>	<u>(1,084)</u>	<u>5,954</u>
Total net position, beginning of year (as restated)	<u>93,298</u>	<u>108,641</u>	<u>102,687</u>
Total net position, end of year	<u>\$ 99,660</u>	<u>\$ 107,557</u>	<u>\$ 108,641</u>

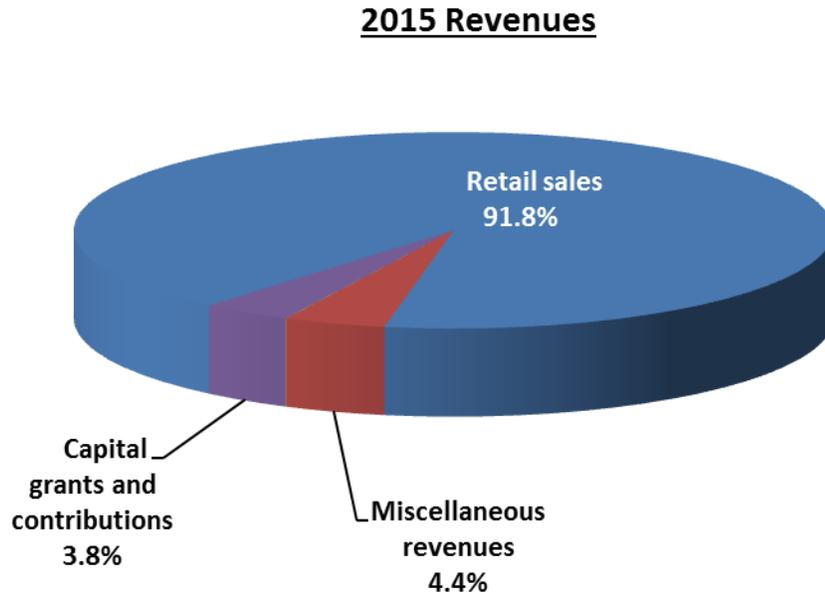
Revenues by Source – Water Utility

Year ended June 30, 2015

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

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

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

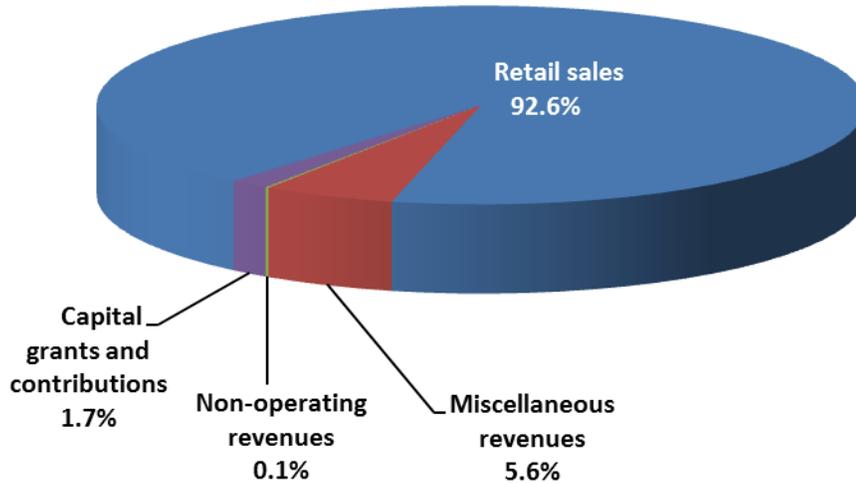


Year ended June 30, 2014

Total revenues for the Water Utility decreased 3% from the prior year level. Retail sales are the primary revenue source for the Water Utility, making up 93% of total revenue sources. Retail sales showed a decrease of 3% from the prior year primarily due to a decrease in other retail revenue due to the accrual of fire line refund of \$3,400 payable to the fire line customers that were overcharged under the Willdan water rate Cost of Service Analysis offset by a 4% increase in retail revenues due to a 4% rate increase that went into effect in fiscal year 2014.

Miscellaneous and non-operating revenues and capital grants and contributions make up 7% of total revenue sources. It decreased by 3% compared to prior year due to the following: (i) higher interest income as a result of better return on investment and increase in market value of the Water Utility’s investment portfolio, (ii) lower operating grants due to completion of several grants received for Chromium 6 study and research, and (iii) \$14 uncollectible capital contributions were written off and refunded to retail customers due to non-sufficient construction funds.

2014 Revenues



Expenses by Source – Water Utility

Year ended June 30, 2015

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

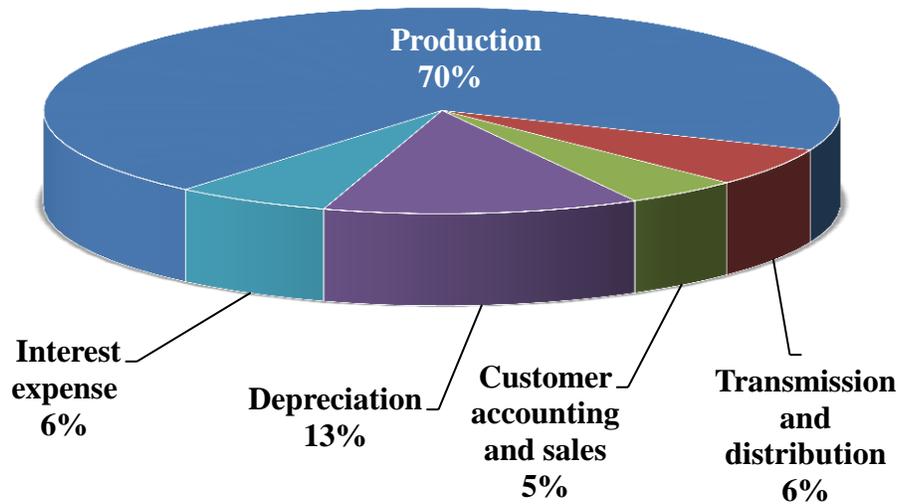
Transmission and distribution expenses comprised 6% of total expenses and showed a decrease of 25% from the prior year level, as a result of the Water Utility's final payment in fiscal year 2014 of the Gladys Drive liability insurance contribution associated to the private homes claims related to the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

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

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

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

2015 Expenses



Year ended June 30, 2014

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 71% of total expenses. Production expenses showed an increase of 20% from the prior year reflecting a 43% increase in labor and contractual costs for well development and water quality improvement activities, as well as potable and recycled water pumping operations. Other increases in production expenses were due to an 8% increase in the volume of water purchased from Metropolitan Water District (MWD) which increased its rates by 5% in January 2014.

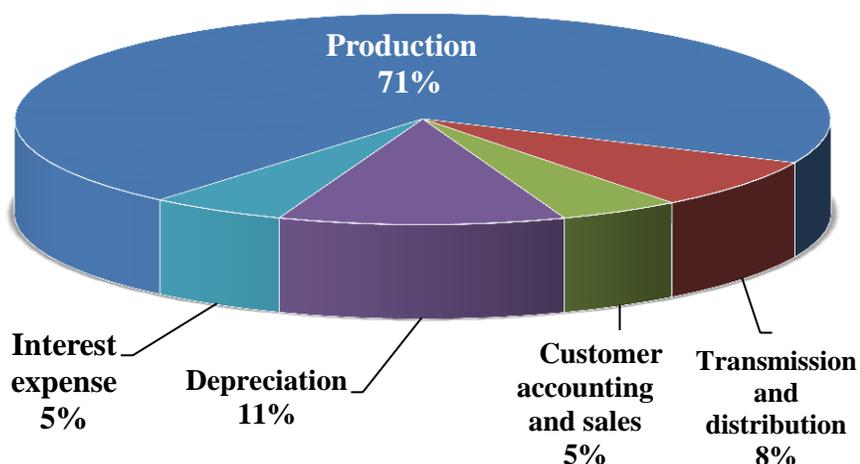
Transmission and distribution expenses comprised 8% of total expenses and showed a decrease of 23% from the prior year level, as a result of a 15% reduction in labor costs related to water potable and recycled water maintenance activities. A 75% decrease in contractual/construction costs related to non-recurring expenses associated with the \$35 million Water bond disclosure and counsel services also contributed to the reduction in transmission and distribution expenses.

Customer accounting and sales expenses make up 5% of total expenses and showed an increase of 12% compared to prior year due to an increase in water conservation efforts.

Depreciation expense comprised 11% of total expenses and remained at par with the prior year level.

Interest on bonds make up 5% of total expenses and increased by 29% compared to prior year due to the expensing of a full years interest on the Water Revenue Bonds, Series 2012.

2014 Expenses



Capital Assets and Debt Administration

Capital Assets

The Water Utility's investment in capital assets as of June 30, 2015 and 2014 was \$184,851 and \$180,801, 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 2% and 4% increase as of June 30, 2015 and 2014, respectively. The Water utility has adopted a multi-year capital improvement program for water works projects scheduled for fiscal years 2012-2013 through 2015-2016. The increase is primarily due to improvements in the Supervisory Control and Data Acquisition (SCADA) system, GPPS Beaudry Hammer Issue pumping equipment upgrades, rehabilitation and replacement of Canada and Adam Hill water mains, and developments in the Bette Davis Park recycled water project.

The Water Utility's capital assets as of June 30, 2015, 2014 and 2013 are as follows:

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

	Balance at June 30, 2013	Additions	Retirements	Balance at June 30, 2014
Production plant	\$ 51,426	4,400	(126)	55,700
Transmission & distribution Plant	173,520	7,399	-	180,919
General plant	14,917	139	(253)	14,803
Total water fund	239,863	11,938	(379)	251,422
Less allowance for accumulated depreciation	(65,594)	(5,402)	375	(70,621)
Net book value of water fund	<u>\$ 174,269</u>	<u>6,536</u>	<u>(4)</u>	<u>180,801</u>

Long-Term Debt

As of June 30, 2015, 2014 and 2013, the Water Utility had outstanding long-term debt of \$82,033, \$83,404, and \$84,739, respectively. The Water Utility's outstanding debt as of June 30 is as follows:

	2015	2014	2013
Water Revenue Bonds	\$ 81,370	\$ 82,615	\$ 83,825
Less: current portion	(1,371)	(1,331)	(1,296)
Unamortized bond premium	<u>2,034</u>	<u>2,120</u>	<u>2,210</u>
Total long-term debt	<u>\$ 82,033</u>	<u>\$ 83,404</u>	<u>\$ 84,739</u>

During fiscal year 2015, 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 revenue bonds. Additional information on the Water Utility's long-term debt can be found in Note 4 on pages 27 to 29 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 cost increase relates to the drought conditions the region has been experiencing for several years, purchased water and energy costs, the need for capital investment in the water distribution system and increased costs of health care and retirement benefits.

Approximately 64% of the water demand in Glendale is met by water purchased from the Metropolitan Water District (MWD). The rest is supplied from pumping water from the local wells and recycled water.

MWD increased its rates by 4% in January 2015. In addition to the costs to purchase water, a large part of the total operating expenses is comprised of energy for pumping water from the wells into the water distribution system 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 1st of each fiscal year. This new rate structure is

designed to correct the Water utility's revenues after the flawed April 2012 rate structure whereby bimonthly residential and multi-family tiered rates were used to establish the monthly rate. This resulted in an overall revenue shortfall in the water operation. In the 2012 rate design, fire line charges were also miscalculated which resulted in over collection for these customers. The Water utility conducted a new Cost of Service Analysis (COSA) to restructure the water rates.

As a result, the single family tier was reduced from 5 tiers to 4 tiers. The tier breakpoints are designed to provide a reasonable amount of water for efficient indoor and outdoor water use for a typical single family residential household. The multi-family tier was also reduced from 3 tiers to 2 tiers. The tier breakpoints are designed to provide a reasonable amount of water in Tier 1 for efficient indoor water use for multi-family residential households. The tiered rate structure for residential customers reflects the proportionate increase in costs associated with additional demand placed on the system.

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, however, the City Council has suspended the implementation of phase 3 of the drought charge to evaluate what future steps the State Water Board may take due to the current drought situation.

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 FUND**

Statement of Net Position
June 30, 2015 (in thousands)
(with comparative amounts for 2014)

	<u>2015</u>	<u>2014</u>
Assets and Deferred Outflow of Resources		
Current assets:		
Cash with fiscal agent	\$ 5,123	\$ 5,121
Accounts receivable, net	3,075	2,694
Unbilled receivable	4,342	4,267
Due from other agencies	-	151
Total current assets	<u>12,540</u>	<u>12,233</u>
Noncurrent assets:		
Capital assets:		
Land	1,034	1,034
Buildings and improvements	60,476	60,464
Machinery and equipment	30,410	37,404
Infrastructure	140,976	140,934
Accumulated depreciation	(75,925)	(70,621)
Construction in progress	27,880	11,586
Total capital assets	<u>184,851</u>	<u>180,801</u>
Restricted cash	12,077	19,393
Total noncurrent assets	<u>196,928</u>	<u>200,194</u>
Total assets	<u>209,468</u>	<u>212,427</u>
Deferred outflow of resources:		
Deferred outflow of resources related to pensions	986	-
Total assets and deferred outflow of resources	<u>\$ 210,454</u>	<u>\$ 212,427</u>
 Liabilities, Deferred Inflow of Resources, and Net Position		
Current liabilities:		
Accounts payable	\$ 3,548	\$ 10,402
Contracts-retained amount due	148	282
Due to other funds	6,375	7,144
Interest payable	1,428	1,443
Bonds payable, due in one year	1,371	1,331
Deposits	901	864
Total current liabilities	<u>13,771</u>	<u>21,466</u>
Noncurrent liabilities:		
Net pension liability	11,768	-
Bonds payable, net of current portion	82,033	83,404
Total noncurrent liabilities	<u>93,801</u>	<u>83,404</u>
Total liabilities	<u>107,572</u>	<u>104,870</u>
Deferred inflow of resources:		
Deferred inflow of resources related to pensions	3,222	-
Total liabilities and deferred inflow of resources	<u>110,794</u>	<u>104,870</u>
Net position:		
Net investment in capital assets	113,524	115,459
Unrestricted	(13,864)	(7,902)
Total net position	<u>\$ 99,660</u>	<u>\$ 107,557</u>

CITY OF GLENDALE
WATER FUND

Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2015 (in thousands)
(with comparative amounts for 2014)

	<u>2015</u>	<u>2014</u>
Operating revenues		
Charges for services:		
Metered sales	\$ 44,422	\$ 42,673
Metered sales-recycled	1,813	1,969
Private fire	739	(1,805)
Other sales	546	232
Miscellaneous revenues	<u>2,244</u>	<u>2,597</u>
Total operating revenues	<u>49,764</u>	<u>45,666</u>
Operating expenses:		
Production	31,837	33,632
Transmission and distribution	2,774	3,697
Customer accounting and sales	2,095	2,282
Depreciation	<u>5,818</u>	<u>5,402</u>
Total operating expenses	<u>42,524</u>	<u>45,013</u>
Operating income	<u>7,240</u>	<u>653</u>
Non-operating revenues (expenses):		
Interest revenue	-	65
Sales of property	15	1
Interest on bonds	<u>(2,871)</u>	<u>(2,569)</u>
Total non-operating expenses	<u>(2,856)</u>	<u>(2,503)</u>
Income (loss) before capital grant and contribution	<u>4,384</u>	<u>(1,850)</u>
Capital grants and contributions	<u>1,978</u>	<u>766</u>
Change in net position	6,362	(1,084)
Net position at beginning of year, as restated	<u>93,298</u>	<u>108,641</u>
Net position at end of year	<u>\$ 99,660</u>	<u>\$ 107,557</u>

**CITY OF GLENDALE
WATER FUND**

Statement of Cash Flows
Year ended June 30, 2015 (in thousands)
(with comparative amounts for 2014)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash from customers	\$ 49,459	\$ 46,098
Cash paid to employees	(7,443)	(7,499)
Cash paid to suppliers	(36,469)	(26,005)
Net cash provided by operating activities	<u>5,547</u>	<u>12,594</u>
Cash flows from noncapital financing activities:		
Amounts paid to other funds	(7,144)	(5,734)
Amounts received from other funds	6,375	-
Net cash used by noncapital financing activities	<u>(769)</u>	<u>(5,734)</u>
Cash flows from capital and related financing activities:		
Interest on long term debt	(2,886)	(2,925)
Principal payments and premiums	(1,331)	(1,300)
Capital grant and contribution	1,978	766
Acquisition of property, plant, and equipment	(9,868)	(11,934)
Net cash used by capital and related financing activities	<u>(12,107)</u>	<u>(15,393)</u>
Cash flows from investing activities:		
Interest received	15	90
Net decrease in cash and cash equivalents	(7,314)	(8,443)
Cash and cash equivalents at beginning of year	24,514	32,957
Cash and cash equivalents at end of year	<u>\$ 17,200</u>	<u>\$ 24,514</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	7,240	653
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,818	5,402
Decrease(Increase) in Accounts receivable net	(230)	630
(Increase) in Unbilled receivable	(75)	(472)
(Increase)Decrease in Due from other agencies	-	274
Increase(Decrease) in Accounts payable	(6,988)	6,050
Increase(Decrease) in Contracts-retained amount due	(255)	187
Increase(Decrease) in Deposits	37	(130)
Total adjustments	<u>(1,693)</u>	<u>11,941</u>
Net cash provided by operating activities	<u>\$ 5,547</u>	<u>\$ 12,594</u>
Noncash investing, capital, and financing activities:		
Increase(Decrease) in fair value of investments	-	7

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 Enterprise Fund (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 nonoperating revenues and expenses.

Pooled Cash and Investment

The Water Utility pools its cash with the City. The City values its cash and investments in accordance with the provisions of Government Accounting Standard Board (GASB) Statement No. 31, “*Accounting and Financial Reporting for Certain Investments and for External Investments Pools* (GASB 31),” which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the statement of net position and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using published market prices.

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 Fund 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 City 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 Fund’s 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 City by independent contractors, are recorded at actual installation cost to the donor. 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, 2015, the total interest incurred was \$3,361 of which

\$490 was capitalized. For fiscal year ended June 30, 2014, the total interest incurred was \$3,212 of which \$643 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 2015 and 2014, the City's contribution in benefit payments was \$3,133 and \$2,817, 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, 2015 and 2014, the Fund's allowance for doubtful accounts was \$28 and \$68, respectively.

Unbilled Receivable

The Water Utility records revenues for utility services delivered to customers but not billed. As of June 30, 2015 and 2014, the Fund's unbilled receivables were \$4,342 and \$4,267, 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, 2015 and 2014, the Water Utility's due to other funds were \$6,375 and \$7,144, 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, 2015 and 2014, the Water Utility's deposits were \$901 and \$864, 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, 2015 and 2014, the Water Utility's contracts – retained amount due were \$148 and \$282, 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, 2015 and 2014, the Water Utility's net investments in capital assets were \$113,524 and \$115,459, respectively. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

Revenue Recognition

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

Budgets and Budgetary Accounting

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

Pronouncements Issued But Not Yet Implemented

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

- GASB Statement No. 72 – *Fair Value Measurement and Application*. The objective of the Statement is to address accounting and financial reporting issues related to fair value measurements. The Statement is effective for periods beginning after June 15, 2015.
- GASB Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The principal objectives of this Statement is to improve the information provided in the general purpose external financial reports of state and local governments about pensions and related assets that are not within the scope of Statement No. 68. The Statement is effective for periods beginning after June 15, 2015.
- GASB Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The Statement is effective for periods beginning after June 15, 2016.
- GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for OPEB. This Statement

replaces the requirements of Statements No. 45 and No. 57. The Statement is effective for periods beginning after June 15, 2017.

- GASB Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The Statement is effective for periods beginning after June 15, 2015.
- GASB Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. The Statement is effective for periods beginning after December 15, 2015.

Implementation of Pronouncements

The Fund has adopted and implemented the following GASB Statements during the year ended June 30, 2015:

- GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.
- GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability.

The implementation of GASB Statements No. 69 did not impact the financial statements of the Water Utility during the year ended June 30, 2015.

Deferred Outflows and Inflows of Resources

The statement of net position reports a separate section for deferred outflows of resources, in addition to assets. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources, or expenses, until then. For current or advance refunding resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debts (i.e., deferred charges) is reported as a deferred outflow of resources and amortized to interest expense based on the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter. When the Water Utility pays the pension contribution that is not recognized as pension expense, the Water Utility reports deferred outflows of resources. The Water Utility's deferred outflow of resources related to pensions at June 30, 2015 is \$986, which is the pension contribution made after the measurement date of the net pension liability.

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

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, \$0 and \$0 pertains to the Water Utility for fiscal year 2015 and 2014, respectively. Pooled cash and investments are stated at the fair value.

Cash and investments pool at fiscal year end consist of the following:

	2015	2014
Restricted cash	\$ 12,077	\$ 19,393
Cash with fiscal agents	5,123	5,121
Total	<u>\$ 17,200</u>	<u>\$ 24,514</u>

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

Restricted Cash

A separate fund in the City Treasury was established to deposit the proceeds of the Water Revenue Bonds, 2012 Series. As of June 30, 2015 and 2014 there is \$12,077 and \$19,393 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.

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 ordinances are generally more restrictive than the City’s general investment policy.

As of June 30, 2015, the Fund had \$5,123 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	\$ 5,123	Less than 1 yr	Aaa

As of June 30, 2014, the Water Utility had \$5,121 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
Money Market	\$ 5,121	Less than 1 yr	Aaa

3. Capital Assets

A summary of the changes in Water Utility's 2014 - 2015 Capital Assets is as follows:

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

A summary of the changes in Water Utility's 2013 - 2014 Capital Assets is as follows:

	Balance at June 30, 2013	Increases	Decreases	Reclass/Transfers	Balance at June 30, 2014
Capital assets not being depreciated:					
Land	\$ 1,034	-	-	-	1,034
Construction in progress	24,399	446	-	(13,259)	11,586
Total assets not being depreciated	25,433	446	-	(13,259)	12,620
Depreciable capital assets:					
Building and improvements	60,296	36	-	132	60,464
Infrastructure	126,857	6,519	-	7,558	140,934
Machinery and equipment	27,277	4,937	(379)	5,569	37,404
Total other capital assets at cost	214,430	11,492	(379)	13,259	238,802
Less accumulated depreciation:					
Building and improvements	12,405	1,068	-	-	13,473
Infrastructure	39,276	3,026	-	-	42,302
Machinery and equipment	13,913	1,308	(375)	-	14,846
Total accumulated depreciation	65,594	5,402	(375)	-	70,621
Total assets being depreciated	148,836	6,090	(4)	13,259	168,181
Water Fund capital assets, net	\$ 174,269	6,536	(4)	-	180,801

4. Long-Term Debt

The Water Utility's long-term debt as of June 30, 2015 and 2014 consists of the following:

	Remaining Interest Rates	Original Issue	Outstanding June 30, 2015	Outstanding June 30, 2014
Water Revenue Bonds, 2008 Series	2.95%-5.00%	\$50,000	\$ 46,370	47,615
Water Revenue Bonds, 2012 Series	2.75%-5.00%	\$35,000	35,000	35,000
			<u>\$ 81,370</u>	<u>82,615</u>

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 \$3,485.

The bonds mature in regularly increasing amounts ranging from \$1,285 to \$3,060 annually from 2016 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 \$1,638.

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 at June 30, 2014	Additions	Retirements	Amount outstanding at June 30, 2015	Due within one year
Water Revenue Bonds, 2008 Series	\$ 47,615	-	1,245	46,370	1,285
Water Revenue Bonds, 2012 Series	35,000	-	-	35,000	-
Bond Premium	2,120		86	2,034	86
Total bonds payable	\$ 84,735	-	1,331	83,404	1,371

	Amount outstanding at June 30, 2013	Additions	Retirements	Amount outstanding at June 30, 2014	Due within one year
Water Revenue Bonds, 2008 Series	\$ 48,825	-	1,210	47,615	1,245
Water Revenue Bonds, 2012 Series	35,000	-	-	35,000	-
Bond Premium	2,210		90	2,120	86
Total bonds payable	\$ 86,035	-	1,300	84,735	1,331

The annual debt service requirements to amortize long-term bonded debt at June 30, 2015 are as follows:

Fiscal Year	Revenue Bonds		
	Interest	Principal	Total
2016	\$ 3,427	1,285	4,712
2017	3,387	1,325	4,712
2018	3,334	1,785	5,119
2019	3,262	1,855	5,117
2020	3,174	1,945	5,119
2021-2025	14,439	11,155	25,594
2026-2030	11,752	13,835	25,587
2031-2035	8,915	17,140	26,055
2036-2040	5,852	9,890	15,742
2041-2042	1,481	21,155	22,636
	\$ 59,022	81,370	140,392

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, 2015.

5. Pension Plan

Plan Descriptions

All qualified permanent and probationary employees of the Water Utility are eligible to participate in the City's Miscellaneous Plan, an agent multiple employer defined benefit pension plans administered by the California Public Employees Retirement System (CalPERS) which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are 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 Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

Miscellaneous			
Hire date	Prior to January 1, 2011	Between January 1, 2011 and December 31, 2012	On or after January 1, 2013
Benefit formula	2.5% @ 55	2% @ 55	2% @ 62
Benefit vesting Schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50-55	50-63	52-67
Monthly benefits, as a percent of eligible compensation	2.0% to 2.5%	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rate	8.000%	7.000%	6.750%
Required employer contribution rate	17.464%	17.464%	17.464%

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, 2015, the contribution to the City's miscellaneous plan was \$986.

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

As of June 30, 2015, the Water Utility's reported net pension liability of \$11,768 for its proportionate share of the City miscellaneous plan's net pension liability.

The net pension liability of the Plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014. The Water Utility's proportion of the City's net pension liability was based on the Water Utility's fiscal year 2014 contributions to the City's miscellaneous plan relative to the total contributions of the City as a whole. The Water Utility's proportionate share of the City's miscellaneous plan's net pension liability as of June 30, 2013 and 2014 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2013	3.13%
Proportion - June 30, 2014	2.99%
Change	(0.14%)

At the year ended June 30, 2015, the Water Utility recognized pension expense of \$731. At June 30, 2015, the Water Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 986	\$ -
Net differences between projected and actual earnings on pension plan investments	-	3,222
	<u>\$ 986</u>	<u>\$ 3,222</u>

The amount of \$986 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, 2015. 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	<u>Miscellaneous</u>
2016	\$ (806)
2017	(806)
2018	(806)
2019	<u>(806)</u>
Total	\$ (3,224)

Actuarial Assumptions

The total pension liabilities in the June 30, 2013 actuarial valuation was determined using the following actuarial assumptions.

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Actuarial cost method	Entry - Age Normal Cost Method
Actuarial assumptions:	
Discount rate	7.5%
Inflation	2.75%
Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.5% Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality rate table	Derived using CalPERS' Membership Data for all Funds
Post retirement benefit increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period of 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website at: <http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports.xml>

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	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)
Total	100%		

*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 7.50% 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 Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Water Utility, calculated using the discount rate of 7.50%, as well as what the Water Utility's 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:

	<u>Water Utility</u>
1% Decrease	6.50%
Net Pension Liability	\$ 19,515
Current Discount Rate	7.50%
Net Pension Liability	\$ 11,768
1% Increase	8.50%
Net Pension Liability	\$ 5,367

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

At June 30, 2015, the Water Utility reported a payable of \$11,768 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

6. Self-Insurance Program

The Water Utility is covered by the City's unemployment and workers' compensation insurance. For purposes of general liability, the Water Utility is self-insured through the City's self-insurance program which is accounted for in the Internal Service Fund of the City. There were no significant settlements or reductions in insurance coverage from settlements for the past three years.

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

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

The Water Utility is charged a premium and the Internal Service Funds recognized the corresponding revenue. The Water Utility is not liable for amounts other than the premiums. Claims expenses are recorded in the Internal Service Funds. 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, 2015 and 2014, premium charged by the Internal Service Funds for the Water Utility were \$1,532 and \$1,475, respectively.

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

7. Restatement

A prior period adjustment of \$14,259 was made to decrease the beginning net position of the Water Utility, in accordance with the implementation of GASB 68 and GASB 71. The adjustment was made to record the beginning net pension liability and deferred outflows of resources related to pension.

The restatement of beginning net position is summarized as follows:

	June 30, 2014		July 1, 2014
	<u>Previously Stated</u>	<u>Restatement</u>	<u>Restated</u>
Net Pension Liability	\$ -	\$ (15,125)	\$ (15,125)
Deferred Outflows of Resources	-	866	866
Net Position	<u>\$ 107,557</u>	<u>\$ (14,259)</u>	<u>\$ 93,298</u>

Required Supplementary Information

Last Ten Fiscal Years* (in thousands)

Schedule of the Fund's Proportionate Share of the City's Net Pension Liability (Miscellaneous Plan)

	<u>2015</u>
Fund's Proportion of the net pension liability	6.0%
Fund's Proportionate share of the net pension liability	\$ 11,768
Covered - employee payroll	\$ 6,650
Fund's Proportionate share of the City's miscellaneous Plan's net pension liability as a percentage of covered-employee payroll	176.96%
Miscellaneous Plan fiduciary net position as a percentage of the total pension liability	79.94%

* - Fiscal year 2015 was the first year of implementation, therefore, only one year is shown.

Required Supplementary Information

Last Ten Fiscal Years* (in thousands)
Schedule of Contributions

	<u>2015</u>
Actuarially determined contributions	\$ 986
Contributions in relation to the actuarially determined contribution	986
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	\$ 6,637
Contributions as a percentage of covered-employee payroll	18.42%

* - Fiscal year 2015 was the first year of implementation, therefore, only one year is shown.