

**CITY OF TORRANCE  
WATER FUND**

(An Enterprise Fund of the  
City of Torrance, California)

Basic Financial Statements

Year ended June 30, 2015

(With Independent  
Auditor's Report Thereon)

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**CITY OF TORRANCE WATER FUND**

(An Enterprise Fund of the City of Torrance, California)

Basic Financial Statements

Year ended June 30, 2015

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## **Independent Auditor's Report**

City Council  
City of Torrance  
Torrance, California

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

We have audited the accompanying financial statements of the City of Torrance Water Fund (an Enterprise Fund of the City of Torrance, California), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Torrance Water Fund basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 respective financial position of the City of Torrance Water Fund, as of June 30, 2015, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Prior-Year Comparative Information***

The financial statements of the City of Torrance Water Fund for the fiscal year ended June 30, 2014 were audited by other auditors whose report dated December 19, 2014 expressed an unmodified opinion on those statements. That report included an emphasis of matter paragraph indicating that the financial statements of the City of Torrance Water Fund do not purport to, and do not, present fairly the financial position, change in financial position and cash flows of the City as of and for the year ended June 30, 2014, in accordance with accounting principles generally accepted in the United States of America. 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.

### ***Emphasis of a Matter***

The financial statements for the year ended June 30, 2015, reflect a prior period adjustment for the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68 as described further in note 12 to the financial statements. Our opinion is not modified with respect to this matter.

As discussed in note 1, the accompanying financial statements present only the financial statements of the Water Fund and do not purport to, and do not, present fairly the financial position of the City of Torrance, California, as of June 30, 2015 and the changes in its financial position, for the period then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2015 on our consideration of the City of Torrance'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

City Council  
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that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Torrance's internal control over financial reporting and compliance.

Dennis Fann LLP

Irvine, California  
December 18, 2015

**CITY OF TORRANCE**  
**WATER FUND**  
(An Enterprise Fund of the City of Torrance, California)  
Statement of Net Position  
June 30, 2015  
(with comparative totals for the prior year)

<b>Assets and Deferred Outflows of Resources</b>	<u>2015</u>	<u>2014</u>
Current assets:		
Pooled cash and investments (Note 2)	\$ 20,319,279	\$ 17,152,520
Accounts receivable	5,510,647	7,865,837
Accrued interest receivable	63,190	52,532
Inventory	690,986	420,927
Prepays	104	6,139
Total current assets	<u>26,584,206</u>	<u>25,497,955</u>
Noncurrent assets:		
Advance to Successor Agency (Note 4)	1,206,566	1,197,966
Capital assets, net (Note 5)	71,254,028	72,255,721
Total noncurrent assets	<u>72,460,594</u>	<u>73,453,687</u>
Deferred outflows of resources:		
Pension contributions (Note 9)	461,841	—
Total Assets and Deferred Outflows of Resources	<u>99,506,641</u>	<u>98,951,642</u>
 <b>Liabilities and Deferred Inflows of Resources</b>		
Current liabilities:		
Accounts payable	2,996,078	4,871,288
Accrued liabilities	1,064,999	621,458
Construction advances	44,570	40,570
Due to City of Torrance (Note 4)	124,997	127,778
Total current liabilities	<u>4,230,644</u>	<u>5,661,094</u>
Noncurrent liabilities:		
Advance from City of Torrance (Note 4)	6,364,201	6,459,587
Long-term obligations (Note 6)	1,452,900	1,452,900
Net pension liability (Note 9)	4,438,971	—
Total noncurrent liabilities	<u>12,256,072</u>	<u>7,912,487</u>
Deferred inflows of resources:		
Pension actuarial (Note 9)	1,494,839	—
Total Liabilities and Deferred Inflows of Resources	<u>17,981,555</u>	<u>13,573,581</u>
 <b>Net Position</b>		
Net investment in capital assets	69,801,128	70,802,821
Unrestricted	11,723,958	14,575,240
Total Net Position	<u>\$ 81,525,086</u>	<u>\$ 85,378,061</u>

See accompanying notes to the basic financial statements

**CITY OF TORRANCE**  
**WATER FUND**  
(An Enterprise Fund of the City of Torrance, California)  
Statement of Revenues, Expenses and Changes in Net Position  
Year ended June 30, 2015  
(with comparative totals for the prior year)

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Charges for services	\$ 34,643,875	\$ 39,262,022
Other	1,357,537	1,463,596
Total operating revenues	<u>36,001,412</u>	<u>40,725,618</u>
Operating expenses:		
Salaries and employee benefits	4,977,605	4,950,053
Services and supplies	2,156,902	1,547,433
Other professional services	1,124,897	817,702
Depreciation and amortization	1,958,473	1,443,390
Insurance and claims	114,126	104,703
City charges	1,174,907	1,895,944
Cost of water	22,395,443	24,282,552
Other	299,319	317,184
Total operating expenses	<u>34,201,672</u>	<u>35,358,961</u>
Operating income	<u>1,799,740</u>	<u>5,366,657</u>
Nonoperating revenues (expenses):		
Investment earnings	186,913	228,319
Interest expense	(211,857)	(56,548)
Total nonoperating revenues, net	<u>(24,944)</u>	<u>171,771</u>
Income before operating transfers	1,774,796	5,538,428
Transfers to the City of Torrance	<u>(15,483)</u>	<u>(15,520)</u>
Change in net position	1,759,313	5,522,908
Net position - beginning	85,378,061	79,266,751
Prior period adjustment (Note 12)	<u>(5,612,288)</u>	<u>588,402</u>
Net position - ending	<u>\$ 81,525,086</u>	<u>\$ 85,378,061</u>

See accompanying notes to the basic financial statements

**CITY OF TORRANCE**

**WATER FUND**

(An Enterprise Fund of the City of Torrance, California)

Statement of Cash Flows

Year ended June 30, 2015

(with comparative totals for the prior year)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Receipts from customers	\$ 36,959,065	\$ 38,212,984
Cash payments to suppliers for goods and services	(28,956,190)	(28,347,846)
Cash payments to employees for services	(5,102,121)	(4,903,631)
Other receipts	1,357,537	1,463,596
Net cash provided by operating activities	<u>4,258,291</u>	<u>6,425,103</u>
Cash flows from noncapital financing activities:		
Cash paid to the City of Torrance	<u>(15,483)</u>	<u>(15,520)</u>
Net cash used in noncapital financing activities	<u>(15,483)</u>	<u>(15,520)</u>
Cash flows from capital financing activities:		
Proceeds of capital advances	—	6,550,000
Cash payments for capital additions	(933,680)	(3,904,775)
Cash payments for long-term obligations - principal & interest	<u>(310,024)</u>	<u>(647,450)</u>
Net cash provided by (used in) capital financing activities	<u>(1,243,704)</u>	<u>1,997,775</u>
Cash flows from investing activities:		
Cash received from interest on investments	<u>167,655</u>	<u>165,925</u>
Net increase in cash, restricted cash and cash equivalents	3,166,759	8,573,283
Cash and cash equivalents, July 1	<u>17,152,520</u>	<u>8,579,237</u>
Cash and cash equivalents, June 30	<u>\$ 20,319,279</u>	<u>\$ 17,152,520</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,799,740	\$ 5,366,657
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,958,473	1,443,390
Change in assets and liabilities:		
Accounts receivable	2,315,190	(1,049,037)
Inventory	(270,059)	66,255
Prepays	6,035	27,039
Accounts payable	(1,821,928)	536,057
Accrued salaries and benefits	15,802	46,421
Other accrued liabilities	391,357	(20,679)
Pension contributions	(461,841)	—
Net pension liability	(1,173,317)	—
Pension actuarial	1,494,839	—
Construction advances	4,000	9,000
Net cash provided by operating activities	<u>\$ 4,258,291</u>	<u>\$ 6,425,103</u>

Noncash investing, capital and financing activities:

There were no significant noncash investing, capital or financing activities for the year ended June 30, 2015.

See accompanying notes to the basic financial statements

**CITY OF TORRANCE WATER FUND**  
(An Enterprise Fund of the City of Torrance, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2015

**(1) Summary of Significant Accounting Policies**

**(a) Basis of Presentation**

The City of Torrance Water Fund (Water Fund) is an Enterprise Fund of the City of Torrance, California (the City), created in 1952 by an ordinance of the City Council. In 1960, Municipal Water Districts 1, 2, and 3 were absorbed by the Water Fund.

Water Fund operations provide water service to approximately 75% of the geographic area of the City. These operations constitute part of the overall financial reporting entity of the City and have been included in and accounted for as an Enterprise Fund in the City's Comprehensive Annual Financial Report in accordance with generally accepted accounting principles.

**(b) Basis of Accounting**

The Water Fund is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flow.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services in connection with the Water Fund's principal ongoing operations. The principal operating revenues of the Water Fund are through charges of water service. Operating expenses for the Water Fund include the cost of water, operations of the facilities, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**(c) Cash and Investments**

For purposes of reporting cash flows, cash and cash equivalents include the fund's equity in the City cash and investment pool, unrestricted and restricted cash on hand, and investments purchased with a maturity within 90 days.

**(d) Capital Assets**

Capital assets are recorded at historical cost, except for assets acquired prior to June 30, 1980, which are recorded at estimated historical cost based, to the maximum extent possible, on historical cost records. City policy has set the capitalization threshold for reporting capital assets at \$5,000. In accordance with generally accepted accounting principles, it is the Water Fund's policy to capitalize net interest costs on funds borrowed to finance the construction of certain fixed assets. Capitalized interest is amortized over the estimated useful life of such assets. Depreciation is determined using the straight-line method, with no allowance for salvage values. Depreciation on assets acquired with contributed capital is charged to operations and then transferred to the related contributed capital account.

**CITY OF TORRANCE WATER FUND**  
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Notes to the Basic Financial Statements

Year Ended June 30, 2015

The estimated useful lives used in computing depreciation of the assets are as follows:

Reservoirs, wells and supply mains	50 to 75 years
Transmission and distribution system	75 years
Machinery and equipment	5 to 7 years

***(e) Deferred Outflows and Deferred Inflows of Resources***

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenditure) until then. The Water Fund reports as deferred outflows the reclassification of current fiscal year contributions made to CalPERS and PARS since they were made subsequent to the measurement date used for the calculation 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 acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Water Fund reports as deferred inflows the net difference between the projected and actual earnings on the pension plans investments as determined by CalPERS and the PARS plan actuary in accordance with the application of GASB 68.

***(f) Pension Plans***

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 Local Government of the City of Torrance's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' 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.

Governmental Accounting Standards Board Statement 68 (GASB 68) requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation date (VD)	June 30, 2013
Measurement date (MD)	June 30, 2014
Measurement period (MP)	July 1, 2013 to June 30, 2014

***(g) Use of Estimates***

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**CITY OF TORRANCE WATER FUND**  
(An Enterprise Fund of the City of Torrance, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2015

*(h) Comparative data*

The Water Fund Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows shows data for the fiscal year ended June 30, 2014 for comparative purposes only.

**(2) Pooled Cash and Investments**

Cash and investments at June 30, 2015 are classified in the accompanying financial statements as follows:

Statement of net position:

Pooled cash and investments	<u>\$20,319,279</u>
Total cash and investments	<u>\$20,319,279</u>

Cash and investments at June 30, 2015 consist of the following:

Equity in City investment pool	<u>\$20,319,279</u>
Total cash and investments	<u>\$20,319,279</u>

***Equity in the Cash and Investment Pool of the City of Torrance***

The Water Fund (Fund) has no separate bank accounts or investments other than investments held by the Fund's equity in the cash and investment pool managed by the City of Torrance. The Fund is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Torrance. The Fund has not adopted an investment policy separate from that of the City of Torrance. The fair value of the Fund's investment in this pool is reported in the accompanying financial statements at amounts based upon the Fund's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis.

***Investments Authorized by the California Government Code and the City of Torrance Investment Policy***

The table below identifies the **investment types** that are authorized for the City of Torrance by the California Government Code and the City of Torrance investment policy. The table also identifies certain provisions of the California Government Code (or the City of Torrance investment policy, if more restrictive) that address **interest rate risk, credit risk, and concentration of credit risk.**

**CITY OF TORRANCE WATER FUND**  
(An Enterprise Fund of the City of Torrance, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2015

Investment Types <u>Authorized by State Law</u>	Authorized By Investment <u>Policy</u>	*Maximum <u>Maturity</u>	*Maximum Percentage <u>Of Portfolio</u>	*Maximum Investment <u>In One Issuer</u>
Local Agency Bonds	Yes	5 years	10%	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	75%	30%
Banker's Acceptances	Yes	180 days	20%	5%
Commercial Paper	Yes	270 days	15%	10%
Negotiable Certificates of Deposit	Yes	5 years	20%	None
Repurchase Agreements	Yes	30 days	10%	None
Reverse Repurchase Agreements	No	N/A	N/A	None
Medium-Term Notes	Yes	5 years	20%	None
Mutual Funds	No	N/A	N/A	N/A
Money Market Mutual Funds	Yes	N/A	None	None
Mortgage Pass-Through Securities	No	N/A	N/A	None
County Pooled Investment Funds	No	N/A	N/A	None
Local Agency Investment Fund (LAIF)	Yes	N/A	\$50 mil per agency	None
JPA Pools (other investment pools)	No	N/A	N/A	None

\* Based on state law requirements or investment policy requirements, whichever is more restrictive.

***Disclosures Relating to Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the Fund's exposure to interest rate risk as a result of its equity in the cash and investment pool of the City is provided by disclosures in the notes to the basic financial statements of the City that shows the distribution of the City's investment by maturity.

***Disclosures Relating to Credit Risk***

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Information about the Fund's exposure to credit risk as a result of its equity in the cash and investment pool of the City is provided by disclosures in the notes to the basic financial statements of the City that shows the minimum rating required and the actual rating as of year-end for each investment type.

**CITY OF TORRANCE WATER FUND**  
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Notes to the Basic Financial Statements

Year Ended June 30, 2015

**(3) Transactions with Related Parties**

The City allocates certain administrative and overhead costs to the Water Fund based on a formal indirect cost allocation plan. The charges are based upon a fixed rate applied to direct salaries and wages of the Water Fund and amounted to \$1,104,007 and \$1,113,762 for the years ended June 30, 2015 and 2014, respectively.

In addition, the City charged the Water Fund \$1,101,017 and 564,209 for rental of City-owned yard facility for the years ended June 30, 2015 and 2014 and \$718,000 in lieu of property taxes for the year ended June 30, 2014. (See notes 4, 6, 7, 8 and 9 for additional transactions with the City.)

**(4) Advances**

An advance receivable in the amount of \$1,206,566 represents a loan to the Successor Agency Trust for assets of the former redevelopment agency to fund infrastructure improvements. All redevelopment agencies in the State of California were dissolved effective February 1, 2012. Interfund advances are repaid under a complex formula determined by state law.

An advance payable from the City of Torrance in the amount of \$6,364,201 represents the long-term portion of a loan agreement to fund capital project improvements. The current portion of the loan in the amount of \$95,386 and the accrued interest through June 30, 2015 of \$29,611 are reported as current amounts due to the City of Torrance. Interest is payable on June 1 and December 1 at a 5.5% interest rate. The outstanding loan obligation as of June 30, 2015 is \$6,459,587. A summary of the principal and interest payments follows:

	<b>Payment Schedule</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Year ending June 30:			
2016	\$ 95,386	\$ 355,329	\$ 450,715
2017	100,633	350,082	450,715
2018	106,169	344,547	450,716
2019	112,009	338,707	450,716
2020	118,170	332,545	450,715
2021 to 2025	695,808	1,557,769	2,253,577
2026 to 2030	909,429	1,344,149	2,253,578
2031 to 2035	1,188,632	1,064,945	2,253,577
2036 to 2040	1,553,555	700,023	2,253,578
2041 to 2044	1,579,796	223,066	1,802,862
	<u>\$ 6,459,587</u>	<u>\$ 6,611,162</u>	<u>\$ 13,070,749</u>

**CITY OF TORRANCE WATER FUND**  
(An Enterprise Fund of the City of Torrance, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2015

**(5) Capital Assets**

For the year ended June 30, 2015, capital assets consisted of the following:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Nondepreciable assets:				
Land	\$ 3,448,880	\$ -	\$ -	\$ 3,448,880
Construction in progress	4,969,214	631,568	(30)	5,600,752
Capitalized construction interest*	604	184,730	-	185,334
Total nondepreciable assets	<u>8,418,698</u>	<u>816,298</u>	<u>(30)</u>	<u>9,234,966</u>
Depreciable assets:				
Infrastructure*	95,798,213	-	-	95,798,213
Land improvements and buildings	60,855	140,513	-	201,368
Easement	1,743,480	-	-	1,743,480
Machinery and equipment	4,045,331	-	-	4,045,331
Total depreciable assets	<u>101,647,879</u>	<u>140,513</u>	<u>-</u>	<u>101,788,392</u>
Accumulated depreciation:				
Infrastructure	(36,576,403)	(1,422,047)	-	(37,998,450)
Land improvements and buildings	(2,916)	(1,521)	-	(4,437)
Easement	(48,430)	(116,232)	-	(164,662)
Machinery and equipment	(1,183,107)	(418,674)	-	(1,601,781)
Total accumulated depreciation	<u>(37,810,856)</u>	<u>(1,958,474)</u>	<u>-</u>	<u>(39,769,330)</u>
Total capital assets being depreciated, net	<u>63,837,023</u>	<u>(1,817,961)</u>	<u>-</u>	<u>62,019,062</u>
Total capital assets, net	<u>\$ 72,255,721</u>	<u>\$ (1,001,663)</u>	<u>\$ (30)</u>	<u>\$ 71,254,028</u>

\* Capital construction interest and infrastructure beginning balances have been restated. See note 12.

Interest expense incurred on advance from the City of Torrance totaled \$396,586 for the year ending June 30, 2015. The portion capitalized was \$184,730.

**CITY OF TORRANCE WATER FUND**  
(An Enterprise Fund of the City of Torrance, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2015

**(6) Long-term Obligations**

*Easement*

In August 2012, the City of Torrance entered into a thirty year easement agreement with the Torrance Unified School District for access to a land-locked, City-owned parcel to be developed as a water well, treatment and storage facility. The book value of the easement asset as of June 30, 2015 is \$1,578,818. The City paid the first five years of the easement obligation in advance in the amount of \$290,580. The related debt is considered to be capital debt.

The future easement obligations at June 30, 2015 are as follows:

	<b>Easement Obligation</b>
Year ending June 30:	
2016	\$ -
2017	-
2018	58,116
2019	58,116
2020	58,116
2021 to 2025	290,580
2026 to 2030	290,580
2031 to 2035	290,580
2036 to 2040	290,580
2041 to 2042	116,232
	<b>\$ 1,452,900</b>

**(7) Changes in Long-Term Obligations**

The following is a summary of changes in the City's long-term obligations for the year-ended June 30, 2015:

	Balance June 30, 2014	Incurred or Issued	Satisfied, Matured or Defeased	Balance June 30, 2015	Amounts due within One Year	Amounts Due in more than One Year
Easement - Water Fund	\$ 1,452,900	\$ -	\$ -	\$ 1,452,900	\$ -	\$ 1,452,900
Loan from City	6,550,000	-	(90,413)	6,459,587	95,386	6,364,201
 Total Business-Type Activities	<b>\$ 8,002,900</b>	<b>\$ -</b>	<b>\$ (90,413)</b>	<b>\$ 7,912,487</b>	<b>\$ 95,386</b>	<b>\$ 7,817,101</b>

**CITY OF TORRANCE WATER FUND**  
(An Enterprise Fund of the City of Torrance, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2015

**(8) Employee Benefits**

The City has an approved deferred compensation plan under which employees may elect to defer a portion of their annual compensation by direct deposit to the plan. Subject to Internal Revenue Service regulations, such compensation is not subject to income taxes to the employee until withdrawal at time of retirement, termination or on an extended basis at the election of the employee under certain options of the plan.

Federal legislation, approved a number of years ago, requires that Section 457 plan assets be held in trust for employees. As of January 1, 1999, the City implemented this requirement by transferring all Section 457 plan assets to a trustee. As such, Section 457 plan assets are no longer legally the property of the City and are no longer subject to claims of the City's general creditors.

**(9) Pension Plans**

*Plan Descriptions*

**CalPERS:** Full-time Water employees are eligible to participate in the Local Government'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 are established by State statute and Local Government resolution. Contributions are made by both the Water Fund and its employees. The Water Fund's contribution represents a pro rata share of the City's contribution, which is based on the system's determination each fiscal year.

**PARS:** Pursuant to a Plan Document dated January 25, 2004, the City provides an enhanced retirement benefit to Water employees who are members of the Torrance Professional and Supervisory Association (TPSA), the Engineer Bargaining Unit, the Fiscal Bargaining Unit and certain Information Technology Specialists who migrated to the TPSA on October 19, 2004. This Plan is administered for the City of Torrance through a third party administrator, PARS. This benefit takes the form of a single employer defined benefit pension plan. The authority to establish and amend the funding policy is the City Council. Currently it is the City's policy to annually fund an amount budgeted to approximate the required annual contribution for that fiscal year. The Water Fund's contribution represents a pro rata share of the City's contribution.

PARS benefits are available to members that retire from the City at an age of 55 or greater and with five or more years of City service specific to the eligible bargaining unit, as identified above. New hires after December 31, 2012 are not eligible for this benefit.

*Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions*

**CalPERS:** As of the start of the measurement period (July 1, 2013), the net pension liability for the Water Fund is \$5,306,865 under the Plan.

For the measurement period ending June 30, 2014 (the measurement date), the Water Fund incurred a pension expense of \$249,572 for the Plan.

**CITY OF TORRANCE WATER FUND**  
(An Enterprise Fund of the City of Torrance, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2015

As of June 30, 2014, the Water Fund has deferred outflows and deferred inflows of resources related to the Plan as follows:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Pension contributions subsequent to measurement date	\$ 394,491	\$ 0
Differences between Expected and Actual Experience	0	0
Changes of Assumptions	0	0
Net Difference between Projected and Actual Earnings on Pension Plan Investments	0	(1,470,989)
<b>Total</b>	<b>\$ 394,491</b>	<b>\$ (1,470,989)</b>

The amounts above are net of outflows and inflows recognized in the 2013-14 measurement period expense.

Deferred outflows of resources related to employer contributions subsequent to the measurement date in the amount of \$394,491 will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<b>Measurement Period Ended June 30:</b>	<b>Deferred Outflows/(Inflows) of Resources</b>
2015	\$ (367,747)
2016	(367,747)
2017	(367,747)
2018	(367,748)
2019	0
Thereafter	0

**PARS:** As of the start of the measurement period (July 1, 2013), the net pension liability for the Water Fund is \$769,050 under the Plan.

For the measurement period ending June 30, 2014 (the measurement date), the Water Fund incurred a pension expense of \$71,950 for the Plan.

**CITY OF TORRANCE WATER FUND**  
(An Enterprise Fund of the City of Torrance, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2015

As of June 30, 2014, the Water Fund has deferred outflows and deferred inflows of resources related to the Plan as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 0	\$ 0
Changes of assumptions	0	0
Net difference between projected and actual earnings on plan investments	0	(23,850)
Employer contributions made subsequent to the measurement date	67,350	0
<b>Total</b>	<b>\$ 67,350</b>	<b>\$ (23,850)</b>

As of June 30, 2015, deferred outflows of resources related to employer contributions subsequent to the measurement date in the amount of \$67,350 will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources
2015	\$ (5,962)
2016	(5,963)
2017	(5,962)
2018	(5,963)
2019	0
Thereafter	0

CalPERS and PARS do not provide information to participating organizations in such a manner as to facilitate separate disclosure for the Water Fund of all actuarially computed data. Additional information regarding the City's participation in CalPERS and PARS can be found in the City's Comprehensive Annual Financial Report.

**(10) Self-Insurance Program**

The Water Fund is part of the City's self-insurance program for general and automobile liability claims, as well as for workers' compensation claims. The self-insured retention on general and automobile liability claims is \$5,000,000 per occurrence. There is excess coverage of \$20,000,000 available above the \$5,000,000 self-insured retention. In addition, the self-insured retention on workers' compensation claims is \$2,000,000 per occurrence. There is excess coverage available for claims above \$2,000,000 up to State of California statutory limits. Information concerning the City's self-insurance program can be found in the City's Comprehensive Annual Financial Report for the year ended June 30, 2015.

**CITY OF TORRANCE WATER FUND**  
(An Enterprise Fund of the City of Torrance, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2015

Insurance and claims expense amounted to \$81,682 and \$76,951 for the years ended June 30, 2015 and 2014, respectively.

**(11) Commitments**

The Water Fund has various outstanding contracts for services, materials and capital projects that have not been completed as of fiscal year-end. These commitments total approximately \$468,638 and \$314,596 for the years ended June 30, 2015 and 2014, respectively.

**(12) Prior Period Adjustment**

During the year ended June 30, 2015, the City adjusted the beginning net position of the Water Fund. This was done to give retroactive effect to the implementation of GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*. In addition, the beginning net position of the Water Fund was adjusted to reflect the proper classification of capitalized construction interest from prior fiscal years. The effect of these adjustments on the total amount of net position as of the beginning of the year are indicated below.

Net position for the Water Fund, beginning	\$ 85,378,061
Adjustment to net pension liability:	
CalPERS	(4,908,338)
PARS	(703,950)
Adjustment to capitalized construction interest	604
Adjustment to infrastructure	<u>(604)</u>
Net position for the Water Fund, beginning, as restated	<u>\$ 79,765,773</u>