



## 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 of the City of Glendale, California (the City), as of and for the year ended June 30, 2014, 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 respective financial position of the Water Enterprise Fund of the City, as of June 30, 2014, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the Water Enterprise Fund of the City and do not purport to, and do not, present fairly the financial position of the City of Glendale, California, as of June 30, 2014 and 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### *Prior Period Financial Statements*

The financial statements of Water Enterprise Fund of the City as of June 30, 2013, were audited by other auditors whose report dated February 19, 2014, expressed an unmodified opinion on those statements.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis, 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 Water Enterprise 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 25, 2014, on our consideration of the Water Enterprise Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Water Enterprise Fund's internal control over financial reporting and compliance.

*Vavrinik, Trine, Day & Co. LLP*

Rancho Cucamonga, California  
November 25, 2014

### 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, 2014 and June 30, 2013. 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 2014, the Water Utility's retail operating revenues decreased by \$1,536 (3%) from the prior year. The decrease in retail operating revenues was primarily attributable to a significant reduction in fire line retail revenue as a result of the accrual of fire line refund of \$3,400 to customers due to an over collection in previous years resulting from a miscalculation of fire line rates under the Willdan Cost of Service Analysis.

The decrease in operating revenues in addition to increases in the cost of purchased water supplied by the Metropolitan Water District (MWD), production, and customer accounting & sales expenses resulted in net retail operating losses of \$1,944 on retail revenues of \$43,069 less \$45,013 in expenses. After adding the net non-retail operating revenues of \$860, total net position decreased by \$1,084.

During fiscal year 2013, the Water Utility's retail operating revenues increased by \$3,246 (8%) from the prior year. The increase in retail operating revenues was primarily attributable to a 6% increase in retail volume sales as well as a 2% increase in other water revenues from a non-recurring payment for concluding a recycled water interconnection agreement with Pasadena Water & Power.

The increase in operating revenues offset increases in the cost of purchased water supplied by the Metropolitan Water District (MWD) and depreciation expense resulting in net retail operating revenues of \$4,408 on revenues of \$44,605 less \$40,197 in expenses. After adding the net non-retail operating revenues of \$1,546, total net position increased by \$5,954.

On August 5, 2014, the Glendale City Council approved a new water revenue increase of 4%, 4%, 4%, and 4% for the next four years, effective September 1, 2014. This new rate structure is designed to correct the flawed April 2012 water rate plan and puts the Water Utility on a path to financial recovery by the end of fiscal year 2018.

The assets of the Water Utility exceeded its liabilities at the close of fiscal years 2014 and 2013 by \$107,557 and \$108,641, respectively.

#### **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 and provide comparative information for the last two fiscal years. Information on city wide financial results is available in the City of Glendale's Comprehensive Annual Financial Report.

The City of Glendale Water Utility's financial statements comprise two components: 1) financial statements and 2) notes to the financial statements. In addition, this report also contains 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 ***Statements 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 ***Statements 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 ***Statements 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 71 to 83 of this report.

### **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 outflows of resources exceeded liabilities by \$107,557 and \$108,641 as of June 30, 2014 and 2013, respectively. A portion of the Utility's net position (107% and 106% as of June 30, 2014 and 2013, 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 increase in net investment in capital assets reflects the needed capital improvements to the Water System. 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 below zero as of June 30, 2014 and 2013, 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.

## Financial Statements: Water Utility

### Net Position – Water Utility

The Water Utility's net positions as of June 30, 2014, 2013, 2012 are as follows:

	2014	2013	2012 (As restated)
Current and noncurrent assets	\$ 31,626	\$ 40,525	\$ 9,954
Capital assets	180,801	174,269	172,945
<b>Total assets</b>	<b>212,427</b>	<b>214,794</b>	<b>182,899</b>
Current liabilities	21,466	21,414	29,794
Long-term debt	83,404	84,739	50,418
<b>Total liabilities</b>	<b>104,870</b>	<b>106,153</b>	<b>80,212</b>
Net Position:			
Net investment in capital assets	115,459	115,442	122,463
Unrestricted	(7,902)	(6,801)	(19,776)
<b>Total net position</b>	<b>\$ 107,557</b>	<b>\$ 108,641</b>	<b>\$ 102,687</b>

Net position decreased by \$1,084 (1%) and increased by \$5,954 (6%) during the fiscal years 2014 and 2013, respectively. In fiscal year 2014, the decrease in net position was attributable to a 3% decrease in total revenues in addition to a 13% increase in total expenses from the prior year. In fiscal year 2013, the increase in net position was attributable to an 8% increase in total revenues offsetting a 4% 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 2014, 2013, 2012 are as follows:

	2014	2013	2012 (As restated)
Revenues:			
Retail sales, net	\$ 43,069	\$ 44,605	\$ 41,359
Interest income	64	32	-
Other revenues and grants	3,365	3,511	3,225
Capital contributions	-	-	190
Total revenues	<u>\$ 46,498</u>	<u>48,148</u>	<u>44,774</u>
Expenses:			
Production	33,632	27,978	26,881
Transmission and distribution	3,697	4,774	4,740
Customer accounting and sales	2,282	2,045	3,202
Depreciation	5,402	5,400	4,528
Interest on Bonds	2,569	1,997	1,233
Total expenses	<u>47,582</u>	<u>42,194</u>	<u>40,584</u>
Total expenses and transfers	<u>47,582</u>	<u>42,194</u>	<u>40,584</u>
Changes in net position	<u>(1,084)</u>	<u>5,954</u>	<u>4,190</u>
Total net position, July 1	<u>108,641</u>	<u>102,687</u>	<u>98,497</u>
Total net position, June 30	<u>\$ 107,557</u>	<u>\$ 108,641</u>	<u>\$ 102,687</u>

**Revenues by Source – Water Utility**

*Year ended June 30, 2014*

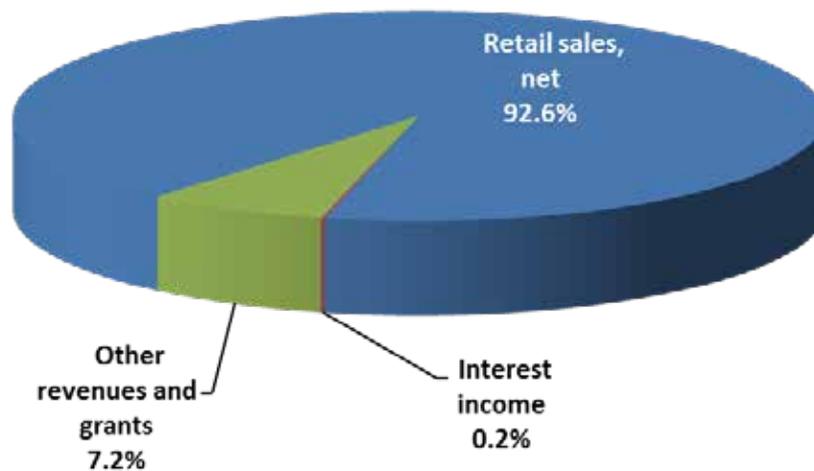
Total revenues for the Water Utility decreased 3% from the prior year level. Retail sales (residential, commercial, industrial and other sales) are the primary revenue source for the Water Utility, making up 93% of total revenue. Retail sales showed a decrease of 3% from the prior year primarily due 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.

## Financial Statements: Water Utility

Interest income increased to \$64 from \$32 in the prior year due to better return on investment and increase in market value of the Water Utility's investment portfolio.

Other revenues and grants make up 7% of total revenue. It decreased by 4% compared to prior year due to completion of several grants received for Chromium 6 study and research. Also, a total of \$14 uncollectible capital contributions were written off and refunded to retail customers due to non-sufficient construction funds.

### 2014 Revenues



### *Year ended June 30, 2013*

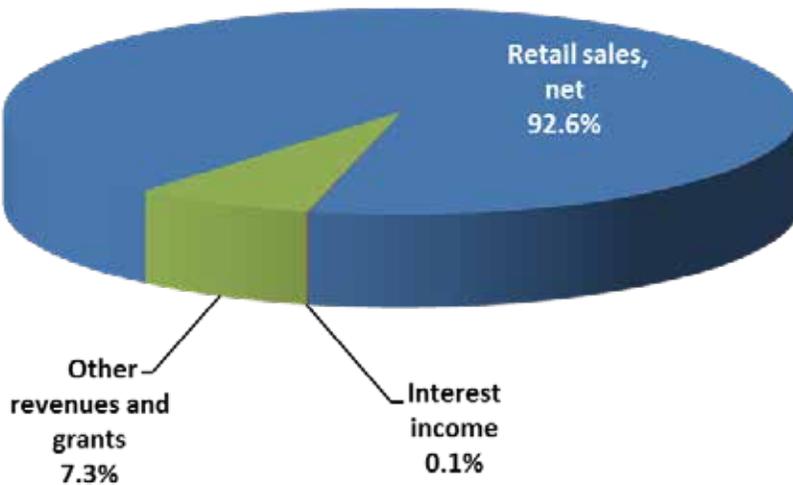
Retail sales (residential, commercial, industrial and other sales) are the primary revenue source for the Water Utility, making up 93% of total revenue. Retail sales showed an increase of 8% from the prior year reflecting a 2% reduction in the average rates charged to customers offsetting an 8% increase in retail sales volume as well as 2% increase in retail revenue from a non-recurring payment for concluding a recycled water interconnection agreement with Pasadena Water & Power.

Interest income increased to \$32 from \$0 in the prior year due to a higher cash balance in the Water Utility's investment portfolio.

Grants decreased 33% compared to the prior year reflecting a decrease in funds received for Chromium 6 research.

Historically, capital contributions represented construction projects funded primarily by retail customers. As of fiscal year ended June 30, 2013, capital contributions is included in the other revenues and grants portion of the financial statements.

**2013 Revenues**



**Expenses by Source – Water Utility**

***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.

## Financial Statements: Water Utility

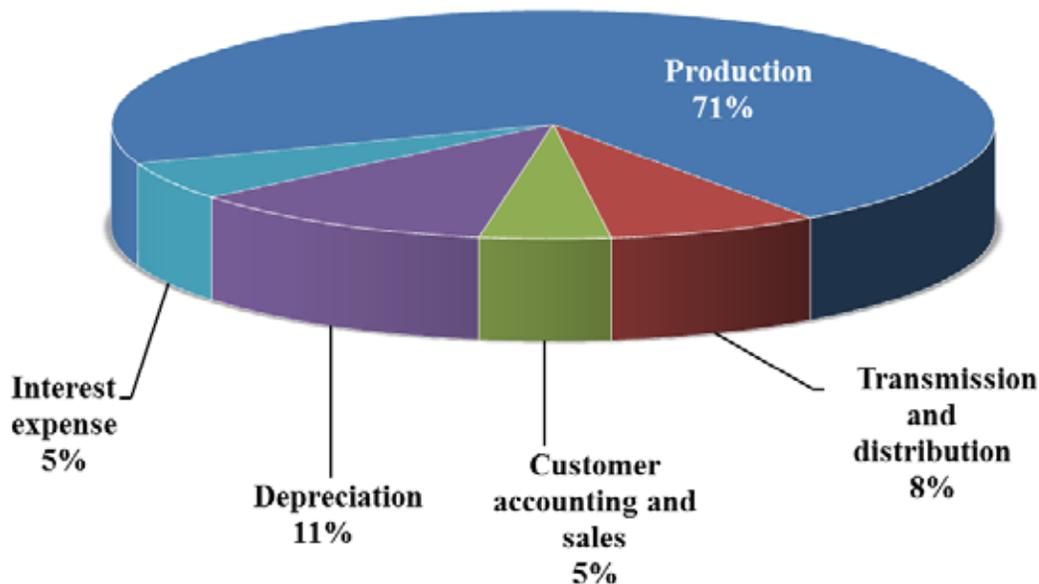
Transmission and distribution expenses comprised 8% of total expenses and showed a decrease of 23% from the prior year level, as a result of a 15% reduction in labor costs related to water potable and recycled water maintenance activities. A 75% decrease in contractual/construction costs related to non-recurring 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



*Year ended June 30, 2013*

Total expenses for the Water Utility increased 4% from the prior year level. Production expenses increased 4% due to an increase in the volume and average cost of purchased water from MWD (purchased water rates increase 7% on January 1, 2013) offsetting a decrease in expenses due to a non-recurring meter write-off in the prior year.

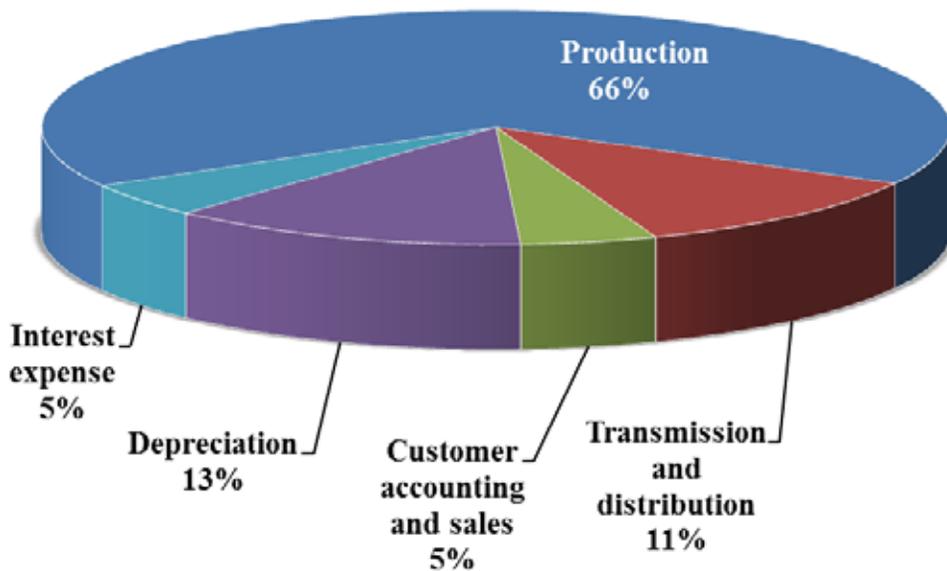
Transmission and distribution expenses were on par with the prior year level.

Customer service expenses decreased 36% from the prior year level due to a change in the administrative and general expense allocation method. The administrative and general expenses are no longer allocated to customer services; but instead, are allocated directly to the Water Utility's capital, operation and maintenance funds.

Despite capital spending being significantly reduced in December, 2011, depreciation expense increased 19% from the prior year level due to building, infrastructure and improvements being depreciated at the beginning of the following fiscal year.

Interest on bonds increased 62% from the prior year due to interest on the Water Revenue Bonds, Series 2012.

**2013 Expenses**



### Capital Assets and Debt Administration

#### Capital Assets

The Water Utility's investment in capital assets as of June 30, 2014 and 2013 was \$180,801 and \$174,269, 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 4% and 1% increase as of June 30, 2014 and 2013, respectively. Glendale Water and Power has adopted a multi-year capital improvement program for water works projects scheduled for three consecutive years that included fiscal years 2012-2013 through 2015-2016. In December 2012, \$35 million in revenue bonds were issued by the Water Utility to pay for capital improvements, such as the construction and development of the Rockhaven Well, improvements to the Glorietta Well, cleaning and lining of pipes, replacement of water mains in several locations, i.e. Diederich water main rehabilitation, a new Supervisory Control and Data Acquisition system, an energy management system, an asset management system, security, pump station and water quality improvements and recycled water system improvements.

The Water Utility's capital assets as of June 30, 2014, 2013 and 2012 are as follows:

	2014	2013	2012
Production	\$ 55,700	\$ 51,426	\$ 47,013
Transmission and distribution	180,919	173,520	171,448
General	14,803	14,917	16,244
Less: accumulated depreciation	<u>(70,621)</u>	<u>(65,594)</u>	<u>(61,760)</u>
Total	<u>\$ 180,801</u>	<u>\$ 174,269</u>	<u>\$ 172,945</u>

#### Long-Term Debt

As of June 30, 2014, 2013 and 2012, the Water Utility had outstanding long-term debt of \$83,404, \$84,739, and \$50,418, respectively. The Water Utility's outstanding debt as of June 30 is as follows:

	2014	2013	2012
Water Revenue Bonds	\$ 82,615	\$ 83,825	\$ 50,000
Less: current portion	(1,331)	(1,296)	(1,240)
Unamortized bond premium	<u>2,120</u>	<u>2,210</u>	<u>1,658</u>
Total long-term debt	<u>\$ 83,404</u>	<u>\$ 84,739</u>	<u>\$ 50,418</u>

During fiscal year 2014, the Water Utility maintained an "A+" credit rating from Standard & Poor's, maintained an "A+" credit rating from Fitch, Inc., and maintained an "Aa3" 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 80 to 82 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 65% to 70% 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.

MWD increased its rates by 7% in January 2013 and by 5% in January 2014. MWD will raise its rates again by 4% in January 2015. In addition to the costs to purchase water, a large part of the total operating expense 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 new water revenue increases of 4%, 4%, 4%, and 4% for the next four years. The new rates were effective September 1, 2014. This new rate structure is designed to correct Glendale Water and Power's (GWP) revenues after the flawed April 2012 rate design 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. GWP conducted a new Cost of Service Analysis (COSA) to redesign 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 included a drought surcharge. Glendale City Council has, however, suspended the implementation of the new drought charge for six months to evaluate what future steps the State Water Agency 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.

# Financial Statements: Water Utility

## CITY OF GLENDALE

### WATER FUND

Statements of Net Position

June 30, 2014 and 2013 (in thousands)

	<u>2014</u>	<u>2013</u>
Assets		
Current assets:		
Cash with fiscal agent	\$ 5,121	\$ 5,749
Interest receivable	-	24
Accounts receivable, net	2,694	3,325
Unbilled receivable	4,267	3,795
Due from other agencies	151	424
Total current assets	<u>12,233</u>	<u>13,317</u>
Noncurrent assets:		
Capital assets:		
Land	1,034	1,034
Buildings and improvements	60,464	60,296
Machinery and equipment	37,404	27,278
Infrastructure	140,934	126,856
Accumulated depreciation	(70,621)	(65,594)
Construction in progress	11,586	24,399
Total capital assets	<u>180,801</u>	<u>174,269</u>
Restricted cash	19,393	27,208
Total noncurrent assets	<u>200,194</u>	<u>201,477</u>
Total assets	<u><u>212,427</u></u>	<u><u>214,794</u></u>
Liabilities and Net Position		
Current liabilities:		
Accounts payable	10,402	4,352
Contracts-retained amount due	282	95
Due to other funds	7,144	12,878
Interest payable	1,443	1,799
Bonds payable, due in one year	1,331	1,296
Deposits	864	994
Total current liabilities	<u>21,466</u>	<u>21,414</u>
Noncurrent liabilities:		
Bonds payable, net of current portion	83,404	84,739
Total liabilities	<u>104,870</u>	<u>106,153</u>
Net position:		
Net investment in capital assets	115,459	115,442
Unrestricted (deficit)	(7,902)	(6,801)
Total net position	<u><u>\$ 107,557</u></u>	<u><u>\$ 108,641</u></u>

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

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

Statements of Revenues, Expenses and Changes in Net Position  
 Years Ended June 30, 2014 and 2013 (in thousands)

	<u>2014</u>	<u>2013</u>
Operating revenues		
Water metered sales	\$ 42,673	\$ 39,257
Water metered sales-recycled	1,969	1,577
Water private fire	(1,805)	2,556
Water other sales	232	1,215
Miscellaneous revenues	2,597	2,600
Total operating revenues	<u>45,666</u>	<u>47,205</u>
Operating expenses:		
Production	33,632	27,978
Transmission and distribution	3,697	4,774
Customer accounting and sales	2,282	2,045
Depreciation	5,402	5,400
Total operating expenses	<u>45,013</u>	<u>40,197</u>
Operating income	<u>653</u>	<u>7,008</u>
Non-operating revenues (expenses):		
Interest revenue	65	32
Sales of property	1	31
Interest on bonds	(2,569)	(1,997)
Total non-operating loss	<u>(2,503)</u>	<u>(1,934)</u>
Income (loss) before capital grant and contribution	<u>(1,850)</u>	<u>5,074</u>
Capital grant and contribution	766	880
Change in net position	(1,084)	5,954
Net position, July 1	108,641	102,687
Net position, June 30	<u>\$ 107,557</u>	<u>\$ 108,641</u>

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

## Financial Statements: Water Utility

### CITY OF GLENDALE

#### WATER FUND

Statements of Cash Flows

Years ended June 30, 2014 and 2013 (in thousands)

	<b>2014</b>	<b>2013</b>
Cash flows from operating activities:		
Cash from customers	\$ 46,098	\$ 46,216
Cash paid to employees	(7,499)	(3,912)
Cash paid to suppliers	(26,005)	(29,984)
Net cash provided by operating activities	<u>12,594</u>	<u>12,320</u>
Cash flows from noncapital financing activities:		
Amounts paid to other funds	(5,734)	(9,981)
Net cash used by noncapital financing activities	<u>(5,734)</u>	<u>(9,101)</u>
Cash flows from capital and related financing activities:		
Interest on long term debt	(2,925)	(1,353)
Bond proceeds, principal payments and premiums	(1,300)	34,377
Capital grant and contribution	766	-
Acquisition of property, plant, and equipment	(11,934)	(6,724)
Net cash provided (used) by capital and related financing activities	<u>(15,393)</u>	<u>26,300</u>
Cash flows from investing activities:		
Interest received	90	(48)
Net increase (decrease) in cash and cash equivalents	(8,443)	29,471
Cash and cash equivalents at July 1	<u>32,957</u>	<u>3,486</u>
Cash and cash equivalents at June 30	<u><u>24,514</u></u>	<u><u>32,957</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>653</u>	<u>7,008</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,402	5,400
Decrease in Accounts receivable net	630	2,808
(Increase) in Unbilled receivable	(472)	(3,795)
(Increase)Decrease in Due from other agencies	274	(2)
Increase in Accounts payable	6,050	859
Increase(Decrease) in Contracts-retained amount due	187	(180)
Increase(Decrease) in Deposits	(130)	222
Total adjustments	<u>11,941</u>	<u>5,312</u>
Net cash provided by operating activities	<u><u>\$ 12,594</u></u>	<u><u>\$ 12,320</u></u>
Noncash investing, capital, and financing activities:		
Increase(Decrease) in fair value of investments	7	(44)

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

# Notes to Financial Statements

## *1. Summary of Significant Accounting Policies*

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

### **Fund**

The basic accounting and reporting entity of the City is a “fund.” A fund is defined as 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, reserves 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 (the 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 Fund, where revenues are recorded when earned and expenses are recorded when incurred. The Fund 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 Fund 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 Fund, 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 Fund’s capital assets include land, building, improvements, and equipment that are reported in the Fund’s financial statements. The Fund 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, 2014, the total interest cost is \$3,212 of which \$643 was capitalized. For

fiscal year ended June 30, 2013, the total interest cost is \$2,879 of which \$882 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 Fund 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 Fund records and funds a liability for its employees' earned but unused accumulated vacation and overtime.

The Fund 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 Fund records expenses as the benefit is earned and probable of being paid out.

## Notes To Financial Statements: Water Utility

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

### **Post-Employment Benefits**

The Fund 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 Fund, 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 Fund based on the Fund's share of current employees to total city employees. For fiscal year 2014 and 2013, the City's contribution in benefit payments was \$2,817 and \$2,657, respectively.

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

### **Accounts Receivable**

The Fund 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, 2014 and 2013, the Fund's allowance for doubtful accounts was \$68 and \$58, respectively.

### **Unbilled Receivable**

The Fund records revenues for utility services delivered to customers but not billed. As of June 30, 2014 and 2013, the Fund's unbilled receivables were \$4,267 and \$3,795, 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, 2014 and 2013, the Fund's due to other funds were \$7,144 and \$12,878, respectively.

## **Deposits**

The Fund requires all new or existing utility customers that have not or failed to establish their credit worthiness with the Fund to place a deposit. The deposits are refunded after these customers establish their credit worthiness to the Fund. As of June 30, 2014 and 2013, the Fund's deposits were \$864 and \$994, respectively.

## **Contracts - Retained Amount Due**

The Fund 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, 2014 and 2013, the Fund's contracts – retained amount due were \$282 and \$95, 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, 2014 and 2013, the Fund's net investments in capital assets were \$115,459 and \$115,442, 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 Fund 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, except that GASB Statement No. 68 and No. 71 is expected to have an effect on the Fund's net position. However, management has not determined such effect.

- GASB Statement No. 68 – Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27.
- GASB Statement No. 69 – Government Combinations and Disposals of Government Operations.
- GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date.

### **Implementation of Pronouncements**

The Fund has adopted and implemented the following GASB Statements during the year ended June 30, 2014:

- GASB Statement No. 66 – Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62.
- GASB Statement No. 70 – Accounting and Financial Reporting for Non-exchange Financial Guarantees.

The implementation of GASB Statements No. 66 and No. 70 did not impact the financial statements of the Fund during the year ended June 30, 2014.

### **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. The Fund had no deferred outflows of resources as of June 30, 2014.

The statement of net position reports a separate section for deferred inflows of resources, in addition to liabilities. 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. The Fund had no deferred inflows of resources as of June 30, 2014.

## 2. Pooled Cash and Investments

Cash resources of the Fund 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 Fund 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 Fund for fiscal year 2014 and 2013, respectively. Pooled cash and investments are stated at the fair value.

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

	2014	2013
Restricted cash	19,393	27,208
Cash with fiscal agents	5,121	5,749
Total	<u>\$ 24,514</u>	<u>\$ 32,957</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 is established to deposit the proceeds of the Water Revenue Bonds, 2012 Series and is to be called the Series 2012 Construction Fund. As of June 30, 2014 and 2013 there is \$19,393 and \$27,208 recorded. 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, 2012 Series are accomplished will be transferred into the Parity Obligation Payment Fund, held with bond fiscal agent.

**Cash with Fiscal Agent**

The Fund 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, 2014, the Fund 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

As of June 30, 2013, the Fund had \$5,749 on deposit with fiscal agent as required by the bond documents. The Fund had the following underlying investments:

Investments	Fair Value	Maturity	Moody's Rating
U.S. Treasury Notes	\$ 5,749	Less than 1 yr	Aaa

### 3. Capital Assets

A summary of the changes in Water Fund 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

A summary of the changes in Water Fund 2012 - 2013 Capital Assets is as follows:

	Balance at June 30, 2012	Increases	Decreases	Reclass/Transfers	Balance at June 30, 2013
Capital assets not being depreciated/depleted:					
Land	\$ 1,034	-	-	-	1,034
Construction in progress	20,086	4,444	-	(131)	24,399
Total assets not being depreciated/depleted	21,120	4,444	-	(131)	25,433
Depreciable capital assets:					
Building and improvements	60,295	1			60,296
Infrastructure	125,225	1,569		63	126,857
Machinery and equipment	28,065	735	(1,591)	68	27,277
Total other capital assets at cost	213,585	2,305	(1,591)	131	214,430
Less accumulated depreciation:					
Building and improvements	11,843	562			12,405
Infrastructure	35,264	4,012			39,276
Machinery and equipment	14,653	826	(1,566)	-	13,913
Total accumulated depreciation	61,760	5,400	(1,566)	-	65,594
Total assets being depreciated	151,825	(3,095)	(25)	131	148,836
Water Fund capital assets, net	\$ 172,945	1,349	(25)	-	174,269

4. Long-Term Debt

The Water Utility's long-term debt as of June 30, 2014 and 2013 consists of the following:

	Remaining Interest Rates	Original Issue	Outstanding June 30, 2014	Outstanding June 30, 2013
Water Revenue Bonds, 2008 Series	2.95%-5.00%	\$50,000	\$47,615	\$48,825
Water Revenue Bonds, 2012 Series	2.75%-5.00%	\$35,000	\$35,000	\$35,000

**Water Revenue Bonds, 2008 Series**

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

The terms of the 2008 Water Revenue Bonds' (2008 Bonds) indenture require the trustee to establish and maintain a reserve equal to the Reserve Fund Requirement. The Reserve Fund Requirement is defined by the Debt Indentures as the maximum annual debt service on the debt service schedule. The reserve requirement of the bond issue is satisfied by a cash reserve fund with a minimum funding requirement of \$3,485.

The bonds mature in regularly increasing amounts ranging from \$1,245 to \$3,060 annually from 2015 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 \$1,636.

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, 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
<b>Total bonds payable</b>	<b>\$ 86,035</b>	<b>-</b>	<b>1,300</b>	<b>84,735</b>	<b>1,331</b>

	Amount outstanding at June 30, 2012	Additions	Retirements	Amount outstanding at June 30, 2013	Due within one year
Water Revenue Bonds, 2008 Series	\$ 50,000	-	1,175	48,825	1,210
Water Revenue Bonds, 2012 Series	-	35,000	-	35,000	-
Bond Premium	1,658	628	76	2,210	86
<b>Total bonds payable</b>	<b>\$ 51,658</b>	<b>35,628</b>	<b>1,251</b>	<b>86,035</b>	<b>1,296</b>

**The annual debt service requirements to amortize long-term bonded debt at June 30, 2014 are as follows:**

Fiscal year	Revenue Bonds		
	Interest	Principal	Total
2015	\$ 3,451	1,245	4,696
2016	3,413	1,285	4,698
2017	3,369	1,325	4,694
2018	3,310	1,785	5,095
2019	3,233	1,855	5,088
2020-2024	14,765	10,670	25,435
2025-2029	12,132	13,265	25,397
2030-2034	9,316	16,410	25,726
2035-2039	6,370	20,435	26,805
2040-2044	1,974	14,340	16,314
	<b>\$ 61,333</b>	<b>82,615</b>	<b>143,948</b>

**Rate Covenants**

The City has covenanted in the Indenture of Trust that net income of the Water System 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 Fund is in compliance with this requirement as of June 30, 2014.

*5. Pension Plan*

Full-time employees of the Fund participate with other City employees in the California Public Employees’ Retirement System (CalPERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The Fund’s contributions represent a pro rata share of the City’s contribution, including the employees’ contribution that is paid by the Fund, which is based on PERS’s actuarial determination as of July 1 of the current fiscal year. Approximately 4% of full-time City workers are employed by the Fund.

PERS does not provide data to participating organizations in such a manner so as to facilitate separate disclosure for the Fund’s share of the actuarial computed pension benefit obligation, the plan’s net assets available for benefit obligation and the plan’s net assets available for benefits. Copies of the CalPERS’ annual financial report may be obtained from the CalPERS Executive Office – 400 P Street, Sacramento, CA 95814.

**Annual Pension Cost**

Glendale *Water & Power* annual pension costs are as follows:

Fiscal year ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2012:	\$ 5,023	100%	\$0
6/30/2013:	\$ 4,232	100%	\$0
6/30/2014:	\$ 3,864	100%	\$0

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

## 6. Self-Insurance Program

The Fund is covered by the City's unemployment and workers' compensation insurance. For purposes of general liability, the Fund 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 2014-15 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 Fund is charged a premium and the Internal Service Funds recognized the corresponding revenue. The Fund 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 Fund to reflect recent trends in actual claims experience and to provide sufficient reserve for catastrophic losses. As of June 30, 2014 and 2013, premium charged by the Internal Service Funds for Glendale *Water & Power* were \$1,475 and \$1,442, respectively.

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

## 7. Net Position

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. Net position is reported as unrestricted when there are no limitations imposed on their use.

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