



Independent Auditor's Report

The Honorable Members of the City Council
City of Glendale, CA

We have audited the accompanying statements of net assets of the Water Enterprise Fund of the City of Glendale, California (the City), as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Water Enterprise Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2012 and 2011, the changes in its financial position and, where applicable, its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Enterprise Fund of the City as of June 30, 2012 and 2011, and the changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with U.S. GAAP.

U.S. GAAP requires that the Management Discussion and Analysis 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 U.S. GAAS, 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 audits 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.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water Enterprise Fund's financial statements. The introductory section and operating statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has 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.

McGladrey LLP

Los Angeles, CA
February 28, 2013

MANAGEMENT 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, 2012 and June 30, 2011. We encourage our readers to consider the information presented here in conjunction with the accompanying basic financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

On March 27, 2012, the City Council approved a water rate restructuring including a base water rate increase of 2 percent with an effective date of April 27, 2012. The City Council also approved water rates to become effective January 1 of each of the three successive years in the amounts of 2, 4, and 5 percent. The rate restructuring consists of greater reliance on fixed cost recovery through the monthly fixed customer charge. During fiscal year 2012, the Water Utility's retail operating revenues increased \$4,723 or 13% from the prior year. The increase in retail revenues was attributable to a 4% increase in the average rates charges to customers and an 8% increase in retail sales volume. The increase in operating revenues offset increases in the cost of purchased water supplied by the Metropolitan Water District (MWD), water distribution maintenance, and customer service resulting in net retail operating revenues of \$2,008 on revenues of \$41,359 less \$39,351 in expenses. After adding net non-operating revenues of \$2,159, total net assets increased by \$4,167.

During fiscal year 2011, the Water Utility's retail operating revenues increased \$920 or 3% from prior year 2010. The retail revenues went from \$35,716 in 2010 to \$36,636 in 2011. The increase in retail revenues was attributable to 3% decreased in volume and 6% increased in rates charged to customers. The increase in operating revenues offset increases purchased water supplied by the Metropolitan Water District (MWD) resulting in net retail operating revenues of \$4,014 on revenues of \$36,636 less \$32,622 in expenses. After adding net non-operating revenues of \$3,475 and subtracting \$4,160 in transfers to the City's general fund, total net assets increased by \$3,329.

The assets of the Water Utility exceeded its liabilities at the close of fiscal years 2012 and 2011 by \$103,272 and \$99,105, respectively.

Overview of the Basic 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 supplementary information to provide our readers additional information about the Water Utility including sales statistics and other relevant data. Included as part of the financial statements are three separate statements which collectively provide an indication of the Water Utility's financial health.

The *Statement of Net Assets* presents information on assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial condition of the utility is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing how the Water Utility's net assets changed during the most recent two fiscal years. Results of operations are recorded under the accrual basis of accounting whereby transactions are reported as underlying events occur, regardless of the timing of cash flows. Thus, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods, i.e. accounts payable and accounts receivable. The accrual basis of accounting is more fully described in the accompanying Notes to the Financial Statements.

The *Statement of Cash Flows* presents the flows of cash and cash equivalents during the last two fiscal years including certain restricted amounts.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 16 to 27 of this report.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Water Utility's financial position. In the case of the Water Utility, assets exceeded liabilities by \$103,272 and \$99,105 as of June 30, 2012 and 2011, respectively.

Under normal conditions, the unrestricted portion of the Utility's net assets could be used to meet the Water Utility's ongoing obligations to creditors and customers. Because unrestricted net assets were below zero as of June 30, 2012 and 2011, no assets are available to meet the Water Utility's ongoing obligations to creditors and customers. This produces the uncommon result that the portion of Utility's net assets reflecting its investment in capital assets such as production, transmission, and distribution facilities, less any related outstanding debt used to acquire those assets (119% and 109% as of June 30, 2012 and 2011, respectively) is greater than total net assets. 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 balance sheet must come from other sources such as operations, since the capital assets themselves cannot be used to liquidate these long-term liabilities.

An additional portion of the Water Utility's net assets (0% and 2% as of June 30, 2012 and 2011 respectively) represents resources that are subject to external restrictions on how they may be used. This line item historically included net assets restricted for debt repayment. As of fiscal year ending June 30, 2012, net assets restricted for debt repayment is included in the long-term debt portion of the financial statements.

As noted in the Financial Highlights Section above, the City Council approved a four year Water Rate Plan in 2012. This new rate plan puts the Utility on a path to financial recovery by the end of fiscal year 2017.

Net Assets – Water Utility

The Water Utility's net assets as of June 30, 2012, 2011, 2010 are as follows:

	2012	2011	2010
Current and noncurrent assets	\$ 10,539	\$ 10,258	\$ 14,889
Capital assets	<u>172,945</u>	<u>159,576</u>	<u>143,299</u>
Total assets	<u>183,484</u>	<u>169,834</u>	<u>158,188</u>
Current liabilities	29,794	19,072	10,690
Long-term debt	<u>50,418</u>	<u>51,657</u>	<u>51,722</u>
Total liabilities	<u>80,212</u>	<u>70,729</u>	<u>62,412</u>
Net Assets:			
Invested in capital assets, net of related debt	122,463	107,854	91,513
Restricted	-	2,310	3,485
Unrestricted	<u>(19,191)</u>	<u>(11,059)</u>	<u>778</u>
Total net assets	<u>\$ 103,272</u>	<u>\$ 99,105</u>	<u>\$ 95,776</u>

Net assets increased by \$4,167 (or 4%) and increased by \$3,329 (or 3%) during the fiscal years 2012 and 2011, respectively. In fiscal year 2012, the increase in net assets was attributable to a 13% increase in retail operating revenues offsetting a 16% increase in total expenses from the prior year. In fiscal year 2011, the increase in net assets was attributable to a net 3.8% increase in the rates charged to customers and from Prop 50 funding for the Chromium Removal Demonstration Project from the California Department of Water Resources.

Changes Net Assets – Water Utility

The Water Utility's changes in net assets for the year ended June 30 2012, 2011, 2010 are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenues:			
Retail sales, net	\$ 41,359	\$ 36,636	\$ 35,716
Interest income	-	-	189
Other revenues and grants	3,225	5,370	1,386
Capital contributions	<u>190</u>	<u>543</u>	<u>600</u>
Total revenues	<u>44,774</u>	<u>42,549</u>	<u>37,892</u>
Expenses:			
Production	26,881	24,245	22,071
Transmission and distribution	4,740	2,547	4,667
Customer accounting and sales	3,202	2,336	2,387
Depreciation	4,528	3,494	3,229
Interest on Bonds	<u>1,256</u>	<u>2,438</u>	<u>1,497</u>
Total expenses	<u>40,607</u>	<u>35,060</u>	<u>33,851</u>
Transfers to the City's General Fund	<u>-</u>	<u>4,160</u>	<u>4,160</u>
Total expenses and transfers	<u>40,607</u>	<u>39,220</u>	<u>38,011</u>
Changes in net assets	<u>4,167</u>	<u>3,329</u>	<u>(119)</u>
Total net assets, beginning of year	<u>99,105</u>	<u>95,776</u>	<u>95,895</u>
Total net assets, end of year	<u>\$ 103,272</u>	<u>\$ 99,105</u>	<u>\$ 95,776</u>

Revenues by Source – Water Utility

Year ended June 30, 2012

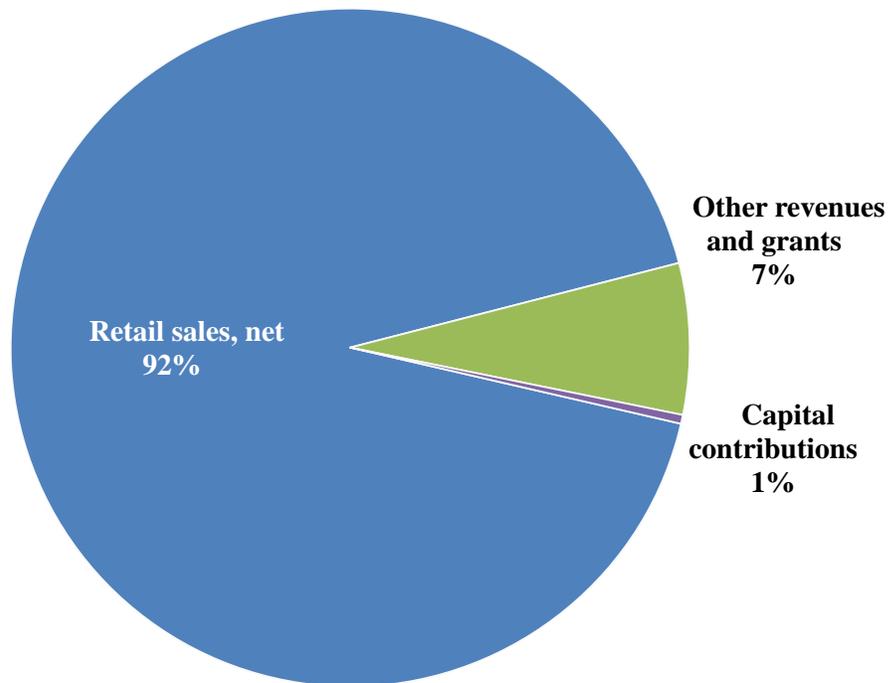
Retail sales (residential, commercial, industrial and other sales) are the primary revenue source for the Water Utility, making up 92% of total revenue. On January 1, 2012, the water adjustable rate was increased from \$1.27/HCF to \$1.54/HCF. Subsequently, On March 27, 2012, the City Council approved a water rate restructuring including a base water rate increase of 2 percent with an effective date of April 27, 2012. The water adjustable calculation was changed to collect for the cost differential of purchased water from the Metropolitan Water District, and the pumping cost for local groundwater supply. The impact of these rate changes was a 4% increase in the average rates charged to customers which, when coupled with an 8% increase in retail sales volume, resulted in a 13% increase in retail sales.

No interest income was earned in the fiscal year reflecting the zero cash balance in the Water Utility's investment portfolio.

Capital contributions decreased 65% from the prior year. The decrease reflects a reduction in the level of construction projects funded primarily by retail customers.

Grants decreased 54% compared to the prior year reflecting a decrease in grant funds received from EPA for water quality projects.

2012 Revenues



Revenues by Source – Water Utility

Year ended June 30, 2011

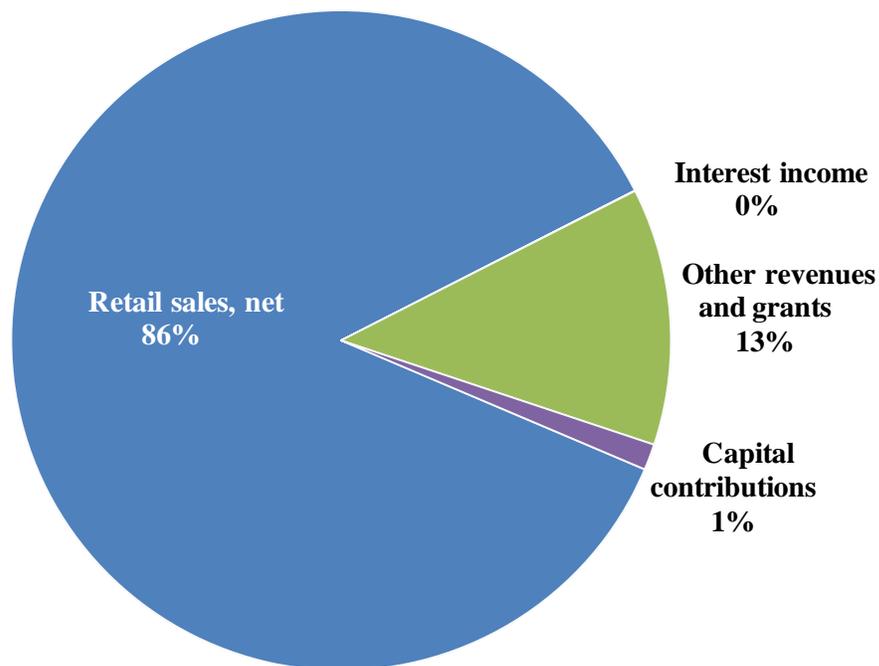
Retail sales (residential, commercial, industrial and other sales) are the primary revenue source for the Water Utility, making up 86% of total revenue. Retail sales showed an increase of 3% from the prior year reflecting a 6% increase in the average rates charged to customers offsetting a 3% decrease in retail sales volume.

Interest income decreased 95% from the prior year. The decrease was primarily due to a decrease of cash in the Water Utility's investment portfolio.

Capital contributions decreased 9% from the prior year. The decrease reflects a reduction in the level of construction projects funded by others, primarily retail customers.

Grants increased 289% compared to the prior year, reflecting an increase in grant funds from Prop 50 funding for the Chromium Removal Demonstration Project from the California Department of Water Resources.

2011 Revenues



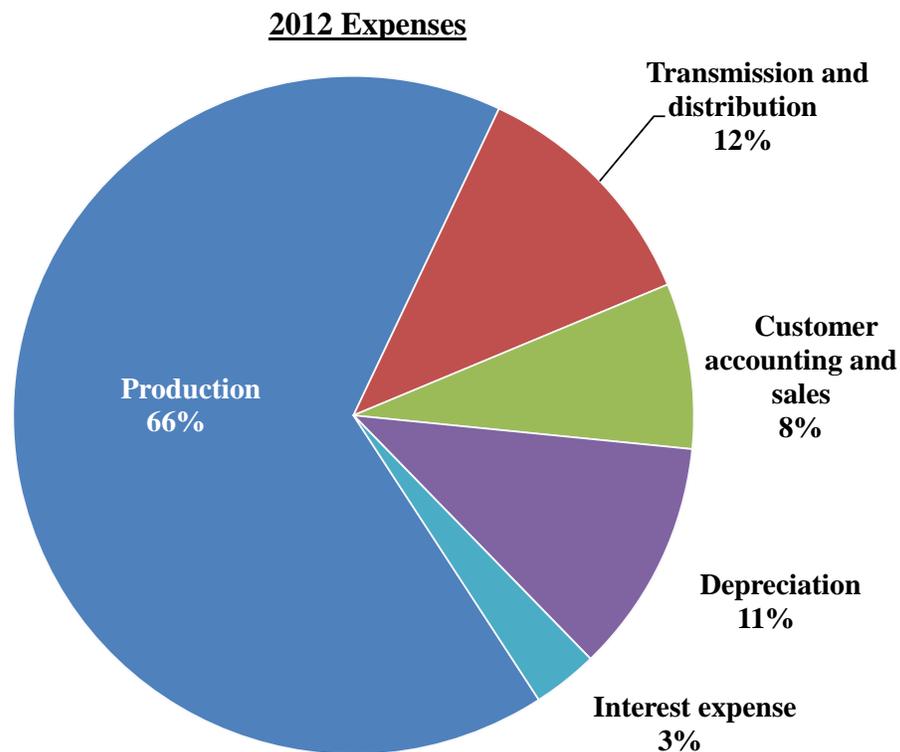
Expenses by Source – Water Utility

Year ended June 30, 2012

Total expenses for the Water Utility increased 16% from the prior year level. A portion of the increase is attributable to an increase in the Water Utility's cost allocation for department wide overhead and customer service expenses from the prior year. This increase in allocation, combined with an increase in the volume and average cost of purchased water from MWD (purchased water rates increased 7% on January 1, 2012), contributed to an 11% increase in production expenses from the prior year. Similarly, transmission and distribution expenses increased 86% due to the allocation increase, a reimbursement to the General Fund for damages to Gladys Drive, and a non-recurring expense associated with the retirement of old meters. Customer service expenses increased 37% due to the allocation increase. Depreciation expense was on par with the prior year level.

Interest on bonds decreased 49% from the prior year due to interest being capitalized to capital projects paid for with the Water Revenue Bonds, Series 2008.

The City Charter provides at the end of each Fiscal Year, 25% of the operating revenues of the Department for such Fiscal Year, excluding receipts from water or power supplied to other cities or utilities at wholesale rates, shall be transferred from the Public Services Surplus Fund to the City's general reserve fund of the general fund; provided, however, that the City Council, on an annual basis, may reduce or eliminate the amount to be transferred if the City Council determines that such reduction or elimination is necessary to assure the sound financial position of the Department. Beginning in fiscal year 2012, the Water System's transfer to the City's general fund was discontinued.

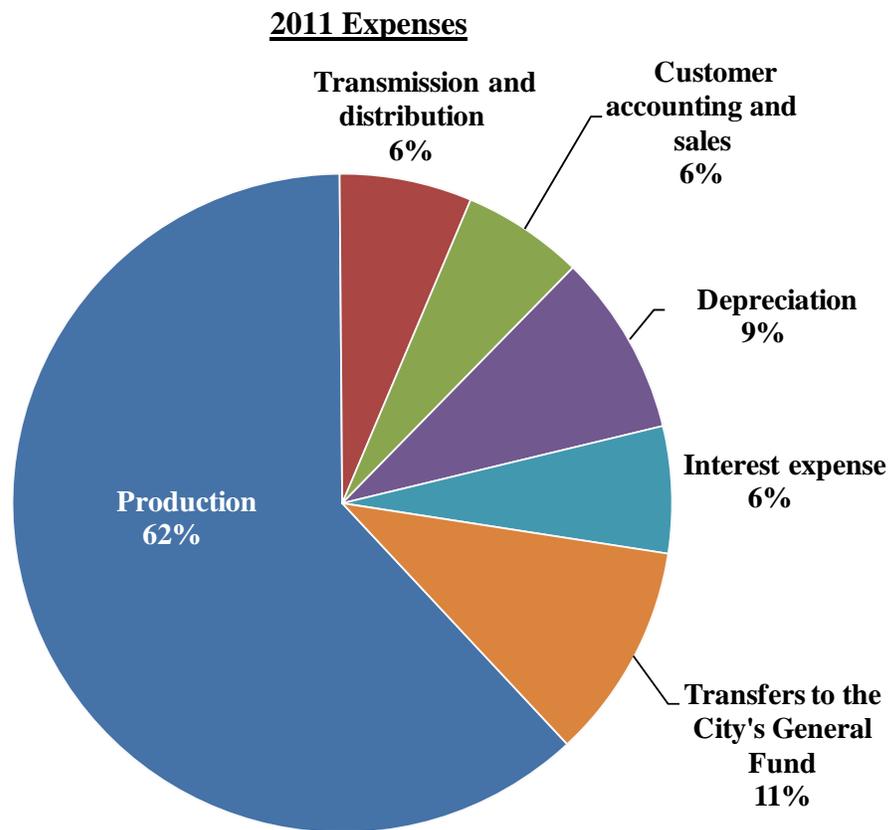


Expenses by Source – Water Utility

Year ended June 30, 2011

Total expenses for the Water Utility increased 4% from the prior year level. Production expenses increased 10% reflecting a 6% increase in price for the purchased water volume supplied by MWD. Transmission and distribution expenses decreased 45% from the prior year level reflecting a shift of focus of labor resources from water distribution maintenance to capital projects (including the Smart Grid project). Customer accounting and sales expenses were on par with the prior year level. Depreciation expense increased 8% reflecting the increase in spending on capital assets.

2011 was the last year that the Transfer to the City General Fund took place.



Capital Assets and Debt Administration

Capital Assets

The Water Utility's investment in capital assets as of June 30, 2012 and 2011 was \$172,945 and \$159,576, 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 an 8% and 11% increase as of June 30, 2012 and 2011, respectively, over the prior years as the implementation of long-term infrastructure improvement programs continued through November, 2011. Capital spending was significantly reduced in December, 2011, and will not be resumed until alternative funding sources are put in place.

The Water Utility's capital assets as of June 30, 2012, 2011 and 2010 are as follows:

	2012	2011	2010
Production	\$ 47,013	\$ 39,795	\$ 35,082
Transmission and distribution	171,448	164,325	150,316
General	16,244	15,055	14,459
Less: accumulated depreciation	(61,760)	(59,599)	(56,558)
Total	<u>\$ 172,945</u>	<u>\$ 159,576</u>	<u>\$ 143,299</u>

Long-Term Debt

As of June 30, 2012 and 2011, the Water Utility had outstanding long-term debt of \$50,418 and \$51,657, respectively. The Water Utility's outstanding debt as of June 30 is as follows:

	2012	2011	2010
Water Revenue Bonds	\$ 50,000	\$ 50,000	\$ 50,000
Less: current portion	(1,240)	(64)	(65)
Unamortized bond premium	1,658	1,721	1,787
Total long-term debt	<u>\$ 50,418</u>	<u>\$ 51,657</u>	<u>\$ 51,722</u>

During fiscal year 2012, the Water Utility maintained an "AA" credit rating from Standard & Poor's, was downgraded to 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 23 to 25 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 55% to 60% 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 2011 and by 7% in January 2012. MWD will raise its rates again by 7% in January 2013. 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. Water supply and energy cost increases are recoverable through the Water Adjustment Charge.

A study performed by an independent consultant was completed January 31, 2012 that included a cost of service analysis, water rate restructuring as well as a four year plan for rate increases. On March 27, 2012, the City Council approved a water rate restructuring including a base water rate increase of 2 percent with an effective date of April 27, 2012. The City Council also approved water rates to become effective January 1 of each of the three successive years in the amounts of 2, 4, and 5 percent. The rate restructuring consists of greater reliance on fixed cost recovery through the monthly fixed customer charge. Under the restructured rate 30 percent of revenue will be collected through this component. Previously, the meter charge accounted for approximately 15 percent of revenue. Residential commodity charges move from three tiers to five tiers in order to more accurately represent the cost of imported water for high use customers, and to encourage conservation by high use customers. Multi-family commodity charges are adjusted to reflect the cost of service by dwelling unit rather than total demand, a more equitable calculation for multi-family consumers. Commercial and irrigation commodity charges are adjusted to a single tier for all users in order to be consistent with industry standards. As described above, the Water Adjustment Charge collects for the cost differential of purchased water from the Metropolitan Water District, and the costs associated with local groundwater supply.

The water rate redesign along with the rate increases will help alleviate the operational challenges of increasing costs of purchased water, long-term capital improvement and water quality improvement programs.

Requests for Information

This financial report is designed to provide a general overview of the Water Utility's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the General Manager of Glendale Water & Power – 141 North Glendale Avenue, Level 4, Glendale, California 91206.

CITY OF GLENDALE**WATER FUND**

Statements of Net Assets

June 30, 2012 and 2011 (in thousands)

	<u>2012</u>	<u>2011</u>
Assets		
Current assets:		
Pooled cash and invested cash	\$ 1	\$ 1
Cash with fiscal agent	3,485	3,485
Accounts receivable, net	2,624	2,449
Unbilled receivable	3,421	3,450
Due from other agencies	423	265
	<hr/>	<hr/>
Total current assets	9,954	9,650
	<hr/>	<hr/>
Noncurrent assets:		
Deferred charges	585	608
	<hr/>	<hr/>
Capital assets:		
Land	1,034	1,034
Buildings and improvements	60,295	24,866
Machinery and equipment	28,065	24,749
Infrastructure	125,225	126,489
Building & improvements accumulated depreciation	(61,760)	(59,599)
Construction in progress	20,086	42,037
	<hr/>	<hr/>
Total capital assets	172,945	159,576
	<hr/>	<hr/>
Total assets	<u>183,484</u>	<u>169,834</u>

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

CITY OF GLENDALE

WATER FUND

Statements of Net Assets (Continued)

June 30, 2012 and 2011 (in thousands)

	<u>2012</u>	<u>2011</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	3,493	5,552
Contracts-retained amount due	275	740
Due to other funds	22,859	10,842
Interest payable	1,155	1,155
Bonds payable, due in one year	1,240	64
Deposits	772	719
	<u>29,794</u>	<u>19,072</u>
Noncurrent liabilities:		
Long term debt	50,418	51,657
	<u>80,212</u>	<u>70,729</u>
Net assets:		
Investment in capital assets, net of related debt	122,463	107,854
Restricted		
Debt service	-	2,310
Unrestricted (Deficit)	(19,191)	(11,059)
	<u>103,272</u>	<u>99,105</u>
Total net assets	<u>\$ 103,272</u>	<u>\$ 99,105</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 Assets
 Years Ended June 30, 2012 and 2011 (in thousands)

	2012	2011
Operating revenues		
Water metered sales	\$ 38,710	\$ 34,443
Water metered sales - recycled	1,288	1,247
Water private fire	808	527
Water other sales	553	419
Miscellaneous revenues	1,878	2,530
Total operating revenues	<u>43,237</u>	<u>39,166</u>
Operating expenses:		
Production	26,881	24,245
Transmission	4,740	2,547
Customer accounting and sales	3,202	2,336
Depreciation	4,528	3,494
Total operating expenses	<u>39,351</u>	<u>32,622</u>
Operating income	<u>3,886</u>	<u>6,544</u>
Non operating revenues (expenses):		
Sales of property	38	10
Grant revenue	1,309	2,830
Interest on Bonds	(1,256)	(2,438)
Total non operating revenues, net	<u>91</u>	<u>402</u>
Income before transfers	3,977	6,946
Contribution in aid	190	543
Transfer-General Fund	-	(4,160)
Change in net assets	4,167	3,329
Total net assets, July 1	99,105	95,776
Total net assets, June 30	<u>\$ 103,272</u>	<u>\$ 99,105</u>

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

CITY OF GLENDALE
WATER FUND

Statements of Cash Flows

Years ended June 30, 2012 and 2011 (in thousands)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash from customers	\$ 42,867	\$ 38,576
Cash paid to employees	(4,373)	(4,382)
Cash paid to suppliers	(32,899)	(27,378)
	<hr/>	<hr/>
Net cash provided by operating activities	5,595	6,816
	<hr/>	<hr/>
Cash flows from noncapital financing activities:		
Borrowings from other funds	12,016	10,842
Operating transfers out	-	(4,160)
Operating grant received	1,309	2,830
	<hr/>	<hr/>
Net cash used in noncapital financing activities	13,325	9,512
	<hr/>	<hr/>
Cash flows from capital and related financing activities:		
Interest on long term debt	(1,256)	(2,245)
Bond principal and capital lease payments	(63)	(65)
Contribution in aid	190	543
Acquisition of property, plant, and equipment	(17,895)	(19,771)
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Net cash used in capital and related financing activities	(19,024)	(21,538)
	<hr/>	<hr/>
Cash provided by investing activities - interest received	104	74
	<hr/>	<hr/>
Net (decrease) in cash and cash equivalents	-	(5,136)
Cash and cash equivalents at beginning of year	3,486	8,622
	<hr/>	<hr/>
Cash and cash equivalents at end of year	3,486	3,486
	<hr/> <hr/>	<hr/> <hr/>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	3,887	6,544
	<hr/>	<hr/>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,528	3,494
(Increase) Accounts receivable net	(212)	(3,715)
Decrease Unbilled services	-	3,282
(Increase) Due from other agencies	(158)	(158)
Decrease Deferred charges	23	23
(Decrease) Accounts payable	(2,061)	(2,972)
Increase(Decrease) Contracts - retention	(465)	321
Increase(Decrease) Deposits	53	(3)
	<hr/>	<hr/>
Total adjustments	1,708	272
	<hr/>	<hr/>
Net cash provided by operating activities	\$ 5,595	\$ 6,816
	<hr/> <hr/>	<hr/> <hr/>
Noncash investing, capital, and financing activities:		
(Decrease) in fair value of investments	(75)	(31)

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 assets 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, revenues are recorded when earned and expenses are recorded when incurred. In accordance with Government Accounting Standards Board (GASB) statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, the Fund has elected to apply all applicable pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, except for those pronouncements which conflict with or contradict GASB pronouncements. 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 Invested Cash

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 assets/balance sheet 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 that follow 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. Funds must request large outlays in advance in order that the City Treasurer will have the funding available.

Interest income from the investment of pooled cash is allocated to all funds, except Capital Improvement Funds 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 term; therefore no realized gain/loss is recorded.

All cash and investments are held in the City’s cash management pool. Therefore, for purposes of the statement of cash flows for the Fund, the Fund considers all cash, investments, imprest cash and cash with fiscal agents to be cash and cash equivalents.

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. 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. For fiscal year ended June 30, 2012, the total interest capitalized is \$990.

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 assets. 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 cost are reported as deferred charges and amortized over the term of the related debt.

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.

For additional details on the Compensated Absences, please refer to the City of Glendale Comprehensive Annual 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 postemployment 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. Based on the most recent actuarial valuation, the City contributed \$2,545 in benefit payments for fiscal year 2011-12 and a percentage of this expense is allocated to the Fund based on payroll.

For additional details on the Post-Employment Benefit, please refer to the City of Glendale Comprehensive Annual 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 based on a review of the customer's account and the customer's ability to pay obligations. As of June 30, 2012 and 2011, the Fund's allowance for doubtful accounts were \$35 and \$31, respectively.

Unbilled Receivable

The Fund records revenues for utility services delivered to customers but not billed. As of June 30, 2012 and 2011, the Fund's unbilled receivables were \$3,421 and \$3,450, 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, 2012 and 2011, the

Fund's due from other funds were \$22,859 and \$10,842, 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.

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.

Transfers to the City

The City's charter provides for certain percentages of operating revenues in the Water Fund to be transferred to the City's General Fund and have been reflected in the financial statements as transfers out. In February 2011, the City Council discontinued the Water transfer commencing with fiscal year 2012. For fiscal year ended June 30, 2012 and 2011, the Fund transferred \$0 and \$4,160, respectively.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, 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. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds. Net assets are 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 assets are 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 Adopted

GASB issued pronouncements that have an effective date that may impact future financial presentation. Management has not determined what, if any, impact implementation of the following statements may have on the financial statements of the Fund:

- Governmental Accounting Standards Board Statement No. 60 – *Accounting and Financial Reporting for Service Concession Arrangements.*
- Governmental Accounting Standards Board Statement No. 61 – *The Financial Reporting Entity: Omnibus—An Amendment of GASB Statements No. 14 and No. 34.*
- Governmental Accounting Standards Board Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*
- Governmental Accounting Standards Board Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*
- Governmental Accounting Standards Board Statement No. 65 – *Items Previously Reported as Assets and Liabilities.*
- Governmental Accounting Standards Board Statement No. 66 – *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62.*
- Governmental Accounting Standards Board Statement No. 68 – *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27.*

Reclassifications

Certain reclassifications have been made to the 2011 financial information in order to conform to the 2012 presentation. These reclassifications had no impact on net income or the Fund's net assets.

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, \$3,486 and \$3,486 pertains to the Fund for fiscal year 2012 and 2011, respectively. Invested cash is stated at the fair value.

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

	2012	2011
Pooled cash and invested cash	\$ 1	\$ 1
Cash with fiscal agents	3,485	3,485
Total	<u>\$ 3,486</u>	<u>\$ 3,486</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 Report

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, 2012, the Fund had \$3,485 on deposit with fiscal agent as required by the bond documents; the Fund had the following underlying investments:

Investments	Fair Value	Maturity	Rating as of Year End
Treasury Notes	3,485	Less than 1 yr	AAA

As of June 30, 2011, the Fund had \$3,485 on deposit with fiscal agent as required by the bond documents; the Fund had the following underlying investments:

Investments	Fair Value	Maturity	Rating as of Year End
Money Market	3,485	Less than 1 yr	AAA

3. Capital Assets

A summary of the changes in Water Fund 2011 - 2012 Capital Assets is as follows:

	Balance at June 30, 2011	Increases	Decreases	Reclass	Balance at June 30, 2012
Capital assets not being depreciated/depleted:					
Land	\$ 1,034	-	-		1,034
Construction in progress	42,037	8,789	-	(30,740)	20,086
Total assets not being depreciated/depleted	43,071	8,789	-	(30,740)	21,120
Depreciable capital assets:					
Building and improvements	24,866	870	-	34,559	60,295
Infrastructure	126,489	7,132	-	(8,396)	125,225
Machinery and equipment	24,749	1,551	(2,812)	4,577	28,065
Total other capital assets at cost	176,104	9,553	(2,812)	30,740	213,585
Less accumulated depreciation:					
Building and improvements	8,415	1,489	-	1,939	11,843
Infrastructure	42,808	991	-	(8,535)	35,264
Machinery and equipment	8,376	2,047	(2,366)	6,596	14,653
Total accumulated depreciation	59,599	4,527	(2,366)	-	61,760
Total assets being depreciated	116,505	5,026	(446)	30,740	151,825
Water Fund capital assets, net	\$ 159,576	13,815	(446)	-	172,945

4. Long-Term Debt

The Water Utility's long-term debt as of June 30, 2012 and 2011 consists of the following:

	Remaining Interest Rates	Original Issue	Outstanding June 30, 2012	Outstanding June 30, 2011
Water Revenue Bonds, 2008 Series	2.95%-5.00%	\$50,000	\$50,000	\$50,000

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 Indenture 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 \$1,175 to \$3,060 annually from 2013 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.

June 30, 2012	Amount outstanding at June 30, 2011	Additions	Retirements	Amount outstanding at June 30, 2012	Due within one year
Water Revenue Bonds, 2008 Series	\$ 50,000	-	-	50,000	1,175
Bond Premium	1,721	-	63	1,658	65
Total bonds payable	\$ 51,721	-	63	51,658	1,240

June 30, 2011	Amount outstanding at June 30, 2010	Additions	Retirements	Amount outstanding at June 30, 2011	Due within one year
Water Revenue Bonds, 2008 Series	\$ 50,000	-	-	50,000	-
Bond Premium	1,787	-	66	1,721	64
Total bonds payable	\$ 51,787	-	66	51,721	64

The annual debt service requirements to amortize long-term bonded debt at June 30, 2012 are as follows:

Fiscal year	Revenue Bonds		
	Interest	Principal	Total
2013	2,310	1,175	3,485
2014	2,263	1,210	3,473
2015	2,214	1,245	3,459
2016	2,178	1,285	3,463
2017	2,138	1,325	3,463
2018-2022	9,779	7,370	17,149
2023-2027	8,017	8,915	16,932
2028-2032	5,744	10,925	16,669
2033-2037	2,833	13,490	16,323
2038-2038	153	3,060	3,213
	<u>37,629</u>	<u>50,000</u>	<u>87,629</u>

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.

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.

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
6/30/2010:	\$ 3,588	100%	\$0
6/30/2011:	\$ 3,418	100%	\$0
6/30/2012:	\$ 5,023	100%	\$0

For additional details on the pension benefits, please refer to the City of Glendale Comprehensive Annual 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 2012-13 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 non-safety; \$500 SIR safety
Excess Workers' Comp Employer's Liability Insurance	Statutory	\$2,000 SIR per occurrence
Property Insurance	\$250,000	Various deductibles up to \$250
Employee Dishonesty – Crime Policy	\$1,000	\$10

The Fund is charged a premium and the Internal Service Funds recognized the corresponding revenue. Claims expenses are recorded in the Internal Service Funds. The City retains the liability risks and claims payable liability has been established in the Internal Service Funds based on estimates of incurred but not reported and litigated claims. 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, 2012 and 2011, premium charged by the Internal Service Funds for Glendale *Water & Power* were \$1,733 and \$1,641, respectively.

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

7. Net Assets

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