

**Financial Statements**  
**water utility**

# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report on the Financial Statements

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

We have audited the accompanying statement of net assets of the Water Enterprise Fund, a fund of Glendale Water and Power (the Department), a Department of the City of Glendale, California (the City) as of June 30, 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Water Enterprise Fund for the year ended June 30, 2007 were audited by other auditors whose report, dated November 21, 2007, expressed an unqualified opinion on those statements.

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 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Water Enterprise Fund is a fund of the Department of the City and is administered by the City and the accompanying financial statements only include the financial position, the changes in financial position and cash flows of the Water Enterprise Fund. They do not purport to, and were not intended to, present the aggregate financial position of the City as of June 30, 2008 and 2007, and the changes in its financial position, or, where applicable, its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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 Department as of June 30, 2008, and the changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2008, on our consideration of the Department's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

McGladrey & Pullen, LLP is a member firm of RSM International,  
an affiliation of separate and independent legal entities.

The Management's Discussion and Analysis as listed in the table of contents is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was 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, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying introductory and operating statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

*McGladrey & Pullen, LLP*

Pasadena, California  
November 26, 2008

## MANAGEMENT DISCUSSION AND ANALYSIS

# water utility

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As management of Glendale Water & Power (a department of the City of Glendale), we offer the readers of the City of Glendale Water Enterprise Fund (Water Utility) financial statements, a fund of the City, this narrative overview and analysis of the financial activities of the Water Enterprise for the fiscal years ended June 30, 2008 and 2007. We encourage 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 2008, the Water Utility's retail operating revenues increased 5% while the volume of sales decreased 4% from the prior year. The retail revenue increase was attributable to the increase in the rates charged to customers. The increase in operating revenues offset continued increases in the costs of labor, material, electricity for pumping water through the transmission and distribution system, purchased water supplied by the Metropolitan Water District (MWD), and depreciation resulting in net retail operating revenues of \$4,917 on revenues of \$34,817 less \$29,900 in expenses. After adding net non-operating revenues of \$2,747 and subtracting \$4,000 in Transfers to the City's General Fund, total net assets increased by \$3,665.

During fiscal year 2007, the Water Utility's retail operating revenues increased 7% while the volume of sales increased 7% from the prior year. The revenue increase was directly attributable the increase in volume of sales. The increase in operating revenues offset continued increases in the costs of labor, material, electricity for pumping water through the transmission and distribution system, purchased water supplied by MWD, and depreciation resulting in net retail operating revenues of \$4,046 on revenues of \$33,277 less \$29,231 in expenses. After adding net non-operating revenues of \$2,581 and subtracting \$4,109 in Transfers to the City's General Fund, total net assets increased by \$2,518.

The assets of the Water Utility exceeded its liabilities at the close of fiscal years 2008 and 2007 by \$94,301 and \$90,636, respectively. Of these amounts, \$41,314 and \$5,155, respectively, was unrestricted and may be used to meet the Water Utility's ongoing obligations to creditors and customers. These unrestricted net assets represented 138% and 18% of annual operating expenses for fiscal years 2008 and 2007, 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 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 the reader 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 70 to 81 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 \$94,301 and \$90,636 as of June 30, 2008 and 2007, respectively. A portion of the Utility's net assets (52% and 94% as of June 30, 2008 and 2007, respectively) reflects its investment in capital assets, such as production, transmission, and distribution facilities, less any related outstanding debt used to acquire those 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.

As of June 30, 2008, an additional portion of the Water Utility's net assets (4%) represents resources that are subject to external restrictions on how they may be used. These restrictions are for items such as debt repayment and other legally restricted purposes. As of June 30, 2007, there were no restrictions on the Water Utility net asset assets that limit how they may be used.

The Unrestricted portion of the Utility's net assets (44% and 6% as of June 30, 2008 and 2007, respectively) may be used to meet the Water Utility's ongoing obligations to creditors and customers.

## Net Assets – Water Utility

The Water Utility's net assets as of June 30 are as follows:

	2008	2007	2006
Current and noncurrent assets	\$ 50,651	\$ 8,853	\$ 11,481
Capital assets	101,418	85,481	80,029
Total assets	<u>152,069</u>	<u>94,334</u>	<u>91,510</u>
Current liabilities	5,917	2,954	2,838
Long-term debt	51,851	-	-
Other noncurrent liabilities	-	743	554
Total liabilities	<u>57,768</u>	<u>3,697</u>	<u>3,392</u>
Net Assets:			
Invested in capital assets, net of related debt	49,502	85,481	80,029
Restricted	3,485	-	-
Unrestricted	41,314	5,155	8,089
Total net assets	<u>\$ 94,301</u>	<u>\$ 90,636</u>	<u>\$ 88,118</u>

Net assets increased by \$3,665 or 4% and \$2,518 or 3% during the fiscal years 2008 and 2007, respectively. The increase in net assets in fiscal year 2008 was primarily the result of the increase in the rates charged to the customers. The increase in net assets in fiscal year 2007 was primarily the result of the increase in the volume of sales.

## Changes in Net Assets – Water Utility

The Water Utility's changes in net assets for the years ended June 30 are as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues:			
Retail sales, net	\$ 34,817	\$ 33,277	\$ 31,189
Interest income	613	325	223
Other revenues and grants	1,393	1,585	1,172
Capital contributions	<u>742</u>	<u>671</u>	<u>410</u>
 Total revenues	 <u><u>37,565</u></u>	 <u><u>35,858</u></u>	 <u><u>32,993</u></u>
 Expenses:			
Production	21,373	20,986	19,583
Transmission and distribution	3,139	3,188	2,300
Customer accounting and sales	2,461	2,253	2,068
Depreciation	<u>2,927</u>	<u>2,804</u>	<u>2,199</u>
 Total expenses	 <u><u>29,900</u></u>	 <u><u>29,231</u></u>	 <u><u>26,151</u></u>
 Transfers to the City's General Fund	 <u>4,000</u>	 <u>4,109</u>	 <u>3,874</u>
 Total expenses and transfers	 <u><u>33,900</u></u>	 <u><u>33,340</u></u>	 <u><u>30,024</u></u>
 Changes in net assets	 <u><u>3,665</u></u>	 <u><u>2,518</u></u>	 <u><u>2,969</u></u>
 Total net assets, beginning of year	 <u><u>90,636</u></u>	 <u><u>88,118</u></u>	 <u><u>85,149</u></u>
 Total net assets, end of year	 <u><u>\$ 94,301</u></u>	 <u><u>\$ 90,636</u></u>	 <u><u>\$ 88,118</u></u>

# Revenues by Source – Water Utility

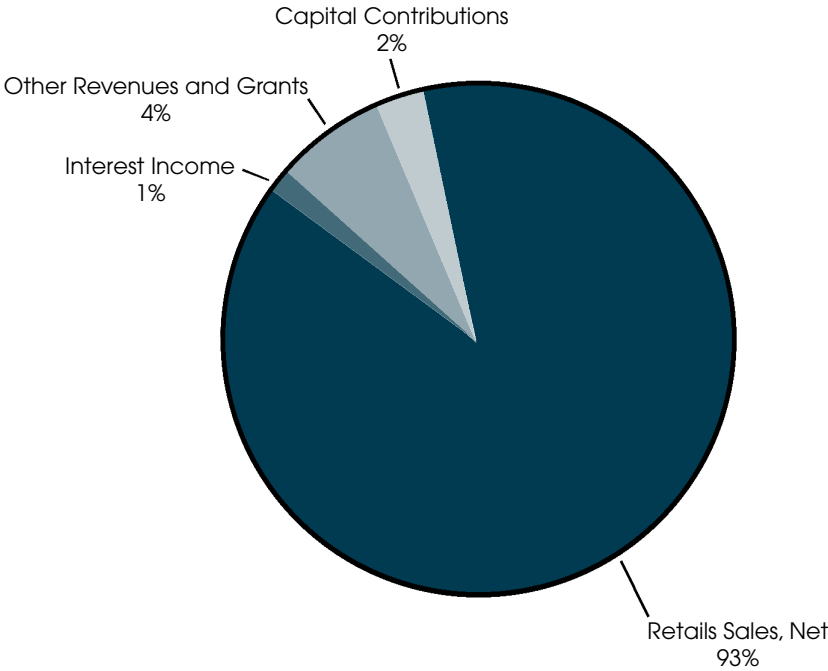
## Year ended June 30, 2008

Retail sales (residential, commercial, industrial and other sales) continued to be the primary revenue source for the Water Utility, making up 93% of total revenue. Retail sales showed an increase of 5% from the prior year reflecting an average 7% rate increase offsetting a 4% decrease in retail sales volume.

Interest income increased 89% from the prior year. The increase was attributable to an increase of cash in the Water Utility’s investment portfolio primarily due to a bond issuance of \$50 million (Water Revenue Bonds, 2008 Series) on February 5, 2008.

Capital contributions increased 11% from prior year. The increase reflects the increased level of construction projects funded by others, primarily retail customers.

Grants decreased 63% compared to the prior year, reflecting a decrease in grant funds received from EPA for water quality projects.





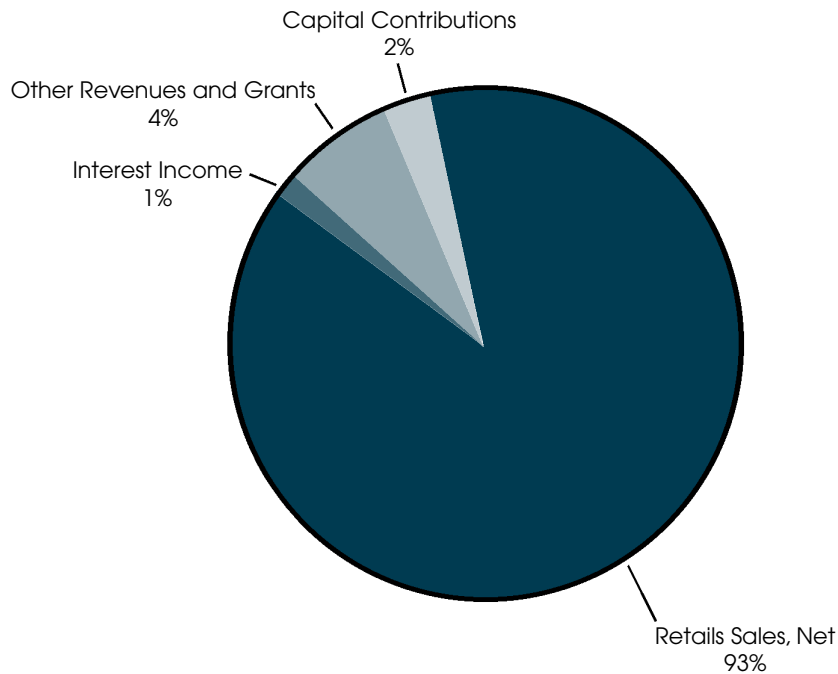
**Year ended June 30, 2007**

Retail sales (residential, commercial, industrial and other sales) continued to be the primary revenue source for the Water Utility, making up 93% of total revenue. Retail sales showed an increase of 7% from the prior year, directly attributable to an increase in volume sales from the prior year.

Interest income increased 46% from the prior year. The increase was related to favorable market conditions that resulted in higher earnings for the Water Utility's investment portfolio.

Capital contributions increased 64% from prior year. The increase reflects the increased level of construction projects funded by others, primarily retail customers.

Grants increased 211% compared to the prior year, reflecting the increase in grant funds received from EPA for water quality projects.

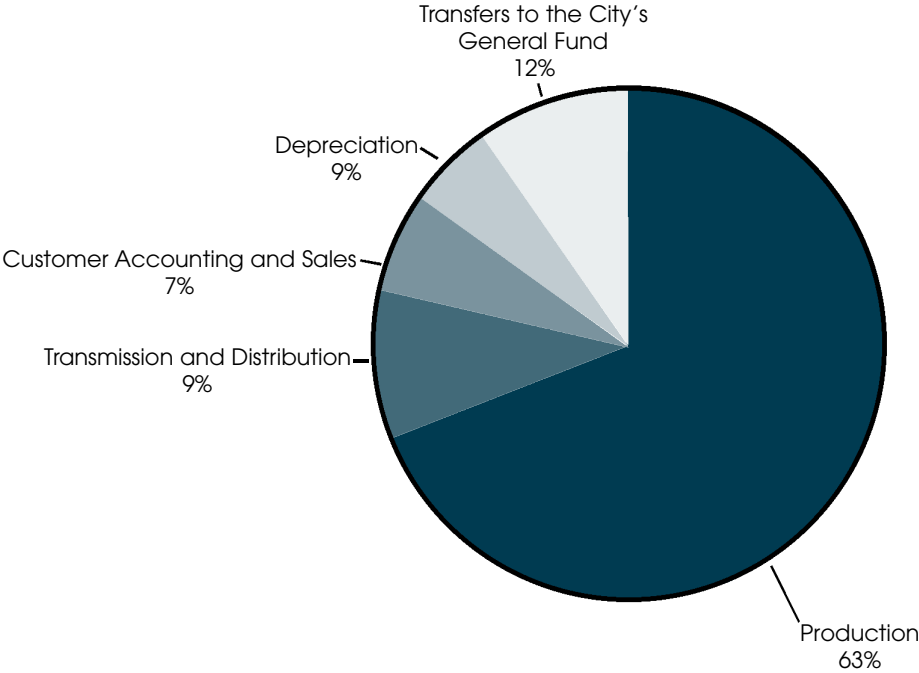


# Expenses by Source – Water Utility

Year ended June 30, 2008

Total expenses for the Water Utility increased 2% from the prior year level. Production expenses increased 2% reflecting an increase in the cost of purchased water supplied by MWD, electricity for pumping water through the transmission and distribution system and labor. Transmission and distribution expenses were on par with the prior year level. Customer accounting and sales expenses increased 9% reflecting continued increases in the cost of labor. Depreciation expense increased 4% reflecting an increase in capital assets.

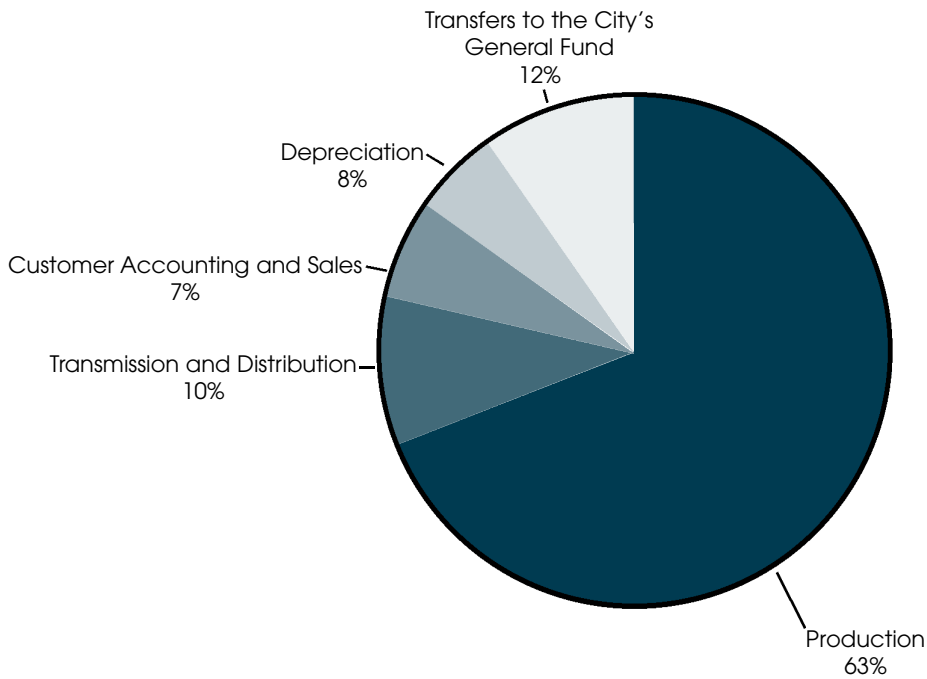
Transfers to the City's General Fund are based on a fixed amount that decreased \$109 or 3% from the prior year.



**Year ended June 30, 2007**

Total expenses for the Water Utility increased 12% due to increases in overall consumption and staffing of approved positions. Production expenses increased by 7% reflecting an increase in the cost of purchased water supplied by MWD, electricity for pumping water through the transmission and distribution system and labor. Transmission and distribution expenses increased 39% as a result of increased preventative maintenance efforts such as cleaning of water storage facilities and fire hydrants. Depreciation expense increased 27% reflecting an increase in capital assets.

Transfers to the City's General Fund are based on a formula representing a certain percentage of total retail revenues. Transfers to the City's General Fund increased \$236, reflecting an increase in total retail revenues.



## Capital Assets and Debt Administration

### Capital Assets

The Water Utility's investment in capital assets as of June 30, 2008 and 2007 was \$101,418 and \$85,481, 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 19% and 7% increase as of June 30, 2008 and 2007, respectively, over the prior years as the implementation of long-term infrastructure improvement programs continued.

The Water Utility's capital assets as of June 30 are as follows:

	2008	2007	2006
Production	\$ 29,086	\$ 27,302	\$ 25,987
Transmission and distribution	110,333	94,443	88,156
General	13,112	12,603	12,834
Less: accumulated depreciation	<u>(51,113)</u>	<u>(48,867)</u>	<u>(46,948)</u>
Total	<u>\$ 101,418</u>	<u>\$ 85,481</u>	<u>\$ 80,029</u>

### Long-Term Debt

As of June 30, 2008, the Water Utility had outstanding long-term debt of \$51,851. In February of 2008, the Water Utility issued \$50 million of revenue bonds. The bonds were issued to pay for capital improvements to the water system. The debt is secured by the Water Utility's revenues (Water Revenue Bonds). As of June 30, 2007, the Water Utility had no long-term debt outstanding.

The Water Utility's outstanding debt as of June 30 is as follows:

	2008	2007	2006
Water Revenue Bonds	\$ 50,000	\$ -	\$ -
Less: Current portion	(65)	-	-
Unamortized bond premium	<u>1,916</u>	<u>-</u>	<u>-</u>
Total long-term debt	<u>\$ 51,851</u>	<u>\$ -</u>	<u>\$ -</u>

During fiscal year 2008, the Water Utility maintained an "AA" credit rating from Standard & Poor's, an "AA-" credit rating from Fitch, Inc. and 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 3 on pages 76 to 77 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 cost increase relates to the drought conditions the region has been experiencing for several years, purchased power cost, and the need for capital investment in the water distribution system.

The regional supply of water was threatened last year by court rulings related to endangered species protection. The condition has been exacerbated by less-than-normal rainfall throughout the state and has resulted in additional costs to purchase water, much more costly than the groundwater supply. Water is purchased from the MWD, a regional wholesaler of water, which increased its rates by 6% in January 2007. MWD will increase its rate again by 14% in January 2008.

In addition to the costs to purchase water, a large part of the total operating expense is comprised of electricity for pumping water through the transmission and distribution system. Electric rates increased an average of 12% in July of 2006, and increased again by 8% in July 2007 which has resulted in higher electric costs for the Water Utility.

During the Water Utility strategic planning and budgeting processes, immediate capital needs for the next 2-3 years have been defined to repair or replace aging infrastructure and improve water quality. A \$50 million bond was issued in February 2008 at a favorable rate of 4.49% to finance capital projects over the next three years. This results in lower annual payments spread over a long period of time, allowing the infrastructure improvements to proceed at this time without extraordinary outlays of cash. Another bond will likely be issued in two years.

The increasing costs of purchased water, electricity for pumping water, and long-term capital improvement and water quality improvement programs will place additional financial pressure on the Water Utility.

Glendale City Council has approved water base rate increases for January 2009 and January 2010. These increases will adequately fund the operation of the Water Utility, provide sufficient debt service coverage, and allow an increase of reserves.

## **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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Current assets:		
Cash and invested cash	\$ 30,966,537	\$ 2,381,584
Imprest cash	1,000	1,000
Cash with fiscal agent	5,442,260	-
Interest receivable	332,002	42,000
Accounts receivable, net	2,087,152	2,455,395
Unbilled receivable	3,338,759	3,125,881
Due from other agencies	78,475	56,356
	<u>42,246,185</u>	<u>8,062,216</u>
Total current assets		
Noncurrent assets:		
Designated & invested cash	7,728,633	790,579
Deferred charges	676,655	-
	<u>8,405,288</u>	<u>790,579</u>
Total noncurrent assets		
Capital assets:		
Land	1,033,999	1,033,999
Buildings and improvements	84,155,869	79,171,329
Machinery and equipment	44,619,747	41,410,732
Building & improvements accumulated depreciation	(51,113,401)	(48,867,320)
Construction in progress	22,721,395	12,732,074
	<u>101,417,609</u>	<u>85,480,814</u>
Total capital assets		
	<u>152,069,082</u>	<u>94,333,609</u>
Total assets		

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

(Continued)

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

Statements of Net Assets (Continued)  
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	3,714,331	2,166,990
Contracts-retained amount due	890,109	146,530
Accrued wages and withholding	-	25,539
Interest payable	688,624	-
Bonds payable, due in one year	64,574	-
Compensated absences	-	56,994
Deposits	559,401	558,561
	<u>5,917,039</u>	<u>2,954,614</u>
Total current liabilities	<u>5,917,039</u>	<u>2,954,614</u>
Noncurrent liabilities:		
Compensated absences	-	471,531
Post employment benefits	-	271,301
Long term debt	51,851,108	-
	<u>51,851,108</u>	<u>-</u>
Total noncurrent liabilities	<u>51,851,108</u>	<u>742,832</u>
Total liabilities	<u>57,768,147</u>	<u>3,697,446</u>
Net assets:		
Investment in capital assets, net of related debt	49,501,927	85,480,814
Restricted		
Restricted	3,484,669	-
Unrestricted	41,314,339	5,155,349
	<u>41,314,339</u>	<u>5,155,349</u>
Total net assets	<u>\$ 94,300,935</u>	<u>\$ 90,636,163</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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Water metered sales	\$ 31,841,793	\$ 31,438,932
Water metered sales - recycled	1,294,425	-
Water private fire	335,437	324,306
Water other sales	319,006	403,294
Water-capital	1,026,660	1,110,233
Miscellaneous revenues	1,172,733	994,252
Total operating revenues	<u>35,990,054</u>	<u>34,271,017</u>
Operating expenses:		
Production	21,372,671	20,985,646
Transmission	3,139,290	3,187,933
Customer accounting and sales	2,461,152	2,253,227
Depreciation	2,926,399	2,803,701
Total operating expenses	<u>29,899,512</u>	<u>29,230,507</u>
Operating income	<u>6,090,542</u>	<u>5,040,510</u>
Non operating revenues (expenses):		
Interest revenue	613,089	324,930
Grant revenue	219,368	590,872
Contribution in aid	741,773	671,001
Total non operating revenues, net	<u>1,574,230</u>	<u>1,586,803</u>
Income before transfers	<u>7,664,772</u>	<u>6,627,313</u>
Transfer-General Fund	<u>(4,000,000)</u>	<u>(4,109,184)</u>
Change in net assets	3,664,772	2,518,129
Total Net assets, July 1	<u>90,636,163</u>	<u>88,118,034</u>
Total net assets, June 30	<u>\$ 94,300,935</u>	<u>\$ 90,636,163</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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash from customers	\$ 36,123,299	\$ 33,327,626
Cash paid to employees	(4,970,779)	(3,667,968)
Cash paid to suppliers	(21,212,593)	(22,453,232)
Net cash provided by operating activities	<u>9,939,927</u>	<u>7,206,426</u>
Cash flows from noncapital financing activities:		
Operating transfers out	(4,000,000)	(4,109,184)
Operating grant received	219,368	590,872
Net cash used in noncapital financing activities	<u>(3,780,632)</u>	<u>(3,518,312)</u>
Cash flows from capital and related financing activities:		
Interest on long term debt	688,624	-
Bond, premium and interest accrued	51,915,681	-
Contribution in aid	741,773	671,001
Acquisition of property, plant, and equipment	(18,863,193)	(8,255,451)
Net cash provided (used in) capital and related financing activities	<u>34,482,885</u>	<u>(7,584,450)</u>
Cash provided by investing activities - interest received	323,087	337,853
Net increase (decrease) in cash and cash equivalents	40,965,267	(3,558,483)
Cash and cash equivalents at beginning of year	3,173,163	6,731,646
Cash and cash equivalents at end of year	<u>44,138,430</u>	<u>3,173,163</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>6,090,542</u>	<u>5,040,510</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,926,399	2,803,701
(Increase) decrease accounts receivable net	368,242	(865,611)
(Increase) unbilled receivable	(212,879)	(67,865)
(Increase) due from other agencies	(22,118)	(9,915)
(Increase) deferred charges	(676,655)	-
(Decrease) accrued salaries and withholding	(25,539)	(120,041)
(Decrease) compensated absences	(799,826)	(47,983)
Increase post employment benefit		205,129
Increase accounts payable	1,547,342	255,118
Increase (decrease) contracts - retention	743,579	(17,175)
Increase deposits	840	30,558
Total adjustments	<u>3,849,385</u>	<u>2,165,916</u>
Net cash provided by operating activities	<u>\$ 9,939,927</u>	<u>\$ 7,206,426</u>
Noncash investing, capital, and financing activities:		
Increase in fair value of investments	915	(22,453)

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

# Notes to Financial Statements

## water fund

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### 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.

#### Funds and Account Groups

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 equities 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, as defined under accounting principles generally accepted in the United States of America. The measurement focus is upon financial position, changes in financial position and cash flows. Accordingly, the accrual basis of accounting is followed by the Fund. 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) including those 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 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.

#### Cash and Investments

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 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 combined statement of cash flows for the Proprietary Funds, the City considers all cash, investments, imprest cash and cash with fiscal agents to be cash and cash equivalents.

## **Capital Assets**

Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 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.

A summary of the useful lives of the capital assets of the Fund is as follows:

<u>Assets</u>	<u>Years</u>
Building and improvements	25 to 75
Machinery and equipment	5 to 50

## **Compensated Absences**

The City records and funds a liability for its employees' earned but unused accumulated vacation and overtime that has matured and is expected to be paid with currently available resources. The unused accumulated vacation and overtime are expensed in the fund, which incurs the liability. The amount that has not matured is reported as a long-term liability. The liability is recorded in the Internal Service Fund-Employee Benefits Fund of the City. For additional details please refer to the City of Glendale Comprehensive Annual Report.

## **Post-Employment Benefit**

All City Employees, including employees of the Water Enterprise Fund, that are eligible for retirement with accumulated sick leave are entitled to convert their sick leave hours valued at the rate stated in their respective MOU or Ordinance, into a Retiree Health Savings Plan (RHSP). This RHSP account is controlled by the retiree and money deposited into the account is non-taxable. Money withdrawn from this account, when used for eligible medical expenses as specified in IRS Publication 502 are non-taxable to the retiree. As of June 30, 2008 and 2007, \$4,133,347 and \$6,217,451, respectively, had been set-aside in the Internal Service Fund-Employee Benefits Fund of the City related to such benefits. For additional details please refer to the City of Glendale Comprehensive Annual Report.

## **Unbilled Receivables**

The Fund records utility services delivered to customers but not billed. As of June 30, 2008 and 2007, the Water Fund's unbilled receivables were \$3,338,759 and \$3,125,881, 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.

## **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 City first applied restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

## **Revenue Recognition**

The Water Utility uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Water Utility customers are billed either monthly or bi-monthly. Unbilled water service charges are recorded at year-end and are included in accounts receivable.

An allowance for doubtful accounts is maintained for utility and miscellaneous accounts receivable. The balance in this account is adjusted at fiscal year-end to approximate the amount anticipated to be uncollectible.

## **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**

### **Governmental Accounting Standards Board Statement No. 49**

On December 1, 2006, the Governmental Accounting Standards Board (GASB) issued Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. This Statement identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. According to the standard, a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and if various recognition triggers occur. Liabilities and expenses would be estimated using an "expected cash flows" measurement technique, which is used by environmental professionals. Statement 49 also will require governments to disclose information about their pollution obligations associated with clean up efforts in the notes to the financial statements. Statement 49 will be effective for financial statements for periods beginning after December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. The impact of the implementation of this Statement to the City's financial statements has not been assessed at this time.

## Governmental Accounting Standards Board Statement No. 53

In June 2008, the GASB issued Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. Statement No. 53 also addresses hedge accounting requirements, which includes a government's objective for entering into the derivative instrument, significant terms of the derivative instrument, and the net cash flows of derivative instruments that hedge debt. The disclosure also should highlight the risks to which derivative instruments expose a government. Statement No. 53 is effective for financial statements for reporting periods beginning after June 15, 2009.

## Reclassifications

Certain reclassifications have been made to 2007 financial information in order to conform to the 2008 presentation. These reclassifications had no impact on change in net assets or fund net assets.

## 2. Cash and Investments

Cash resources of the individual funds are combined 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, \$38,696,170 and \$3,173,163 pertains to the Water Fund for fiscal year 2008 and 2007, respectively. Invested cash is stated at the fair value. An increase (decrease) in the fair value of investments is recognized as an increase (decrease) to Interest Income Revenue. The City normally holds its investments 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 combined statement of cash flows for the Proprietary Funds, the City considers all cash, investments, imprest cash and cash with fiscal agents to be cash and cash equivalents.

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

	2008	2007
Investments	\$ 555,786,044	\$ 484,933,416
Cash with fiscal agents	27,673,006	16,416,111
	583,459,050	501,349,527
Cash on hand & petty cash	163,127	(2,843,274)
Total	\$ 583,622,177	\$ 498,506,253

### The following amounts are reflected in the City of Glendale's government-wide statement of net assets:

	2008	2007
Cash and investments	\$ 460,404,217	\$ 414,836,407
Imprest cash	58,680	58,580
Cash with fiscal agents	27,673,006	16,416,111
Investment-gas/electric commodity	4,749,263	1,975,332
Designated cash and investments	90,737,011	65,219,823
Total	\$ 583,622,177	\$ 498,506,253

## Information Relating to the City of Glendale Investment Pool:

### Authorized Investments

Under provisions of the City's investment policy, and in accordance with California Government Code Section 53601, the City Treasurer may invest or deposit in the following types of investments:

	<u>Maximum Maturity</u>	<u>Maximum % of Portfolio</u>
U.S. Treasuries	5 years	100%
Federal Agencies	5 years	100%
Medium Term Corporate Notes	5 years	15%
Commercial Paper (A1,PI minimum rating)	180 days	15%
Bankers Acceptance	180 Days	30%
Negotiable Certificates of Deposit	1 year	30%
Local Agency Investment Fund (State Pool)	N/A	LAIF maximum
Money Market Mutual Funds	90 days	5%
Time Deposits	1 year	10%

Investments in Medium Term Corporate Notes may be invested in Securities rated AA or better by Moody's or Standard and Poor's rating services and no more than 5% of the market value of the portfolio may be invested in one corporation. Maximum participation in Bankers Acceptance is limited to 10% per bank.

### Investments Authorized by Debt Agreements

The Provisions of debt agreements, rather than the general provisions of the California Government Code or the City's investment policy, governs investments of debt proceeds held by bond fiscal agents. Permitted investments are specified in related trust agreements. No maximum percentage of the related debt issue or maximum investment in one issuer is specified.

### Disclosure Relating to Interest Rate Risk

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

			<u>Remaining Maturity (in Months)</u>			
			<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More than 60 Months</u>
Commercial Paper	\$	19,853,381	19,853,381	-	-	-
Federal Agency Term Notes		19,737,520	14,620,332	5,117,188	-	-
U.S. Government Agency Callable Bonds		288,386,903	-	109,187,689	179,199,214	-
Corporate Notes		30,639,735	10,625,942	-	20,013,793	-
Corporate Callable Notes		4,945,105	-	4,945,105	-	-
Negotiable Certificates of Dep		14,000,000	14,000,000	-	-	-
Banker's Acceptances		987,506	987,506	-	-	-
State Investment Pool		145,492,757	145,492,757	-	-	-
Money Market		31,743,138	31,743,138	-	-	-
Held by Fiscal Agents						
Federal Agency Term Notes		5,061,696	5,061,696	-	-	-
Guaranteed Investment Contracts		11,156,359	-	-	-	11,156,359
Money Market		11,454,950	11,454,950	-	-	-
	\$	<u>583,459,050</u>	<u>253,839,702</u>	<u>119,249,982</u>	<u>199,213,007</u>	<u>11,156,359</u>

The City assumes that callable investments will not be called.

## Disclosures Relating to Credit Risks

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The City invests only in the most risk-adverse instruments, such as AAA-rate government securities, and AAA or AA-rate corporate securities.

		Rating as of Year End				
		AAA	AA	Aa2	A1,P1	Unrated
Commercial Paper	\$ 19,853,381				19,853,381	
Federal Agency Term Notes	19,737,520	19,737,520	-	-	-	-
U.S. Government Agency Callable Bonds	288,386,903	288,386,903	-	-	-	-
Corporate Notes	30,639,735	8,109,389	22,530,346	-	-	-
Corporate Callable Notes	4,945,105	4,945,105	-	-	-	-
Negotiable Certificates of Dep	14,000,000	-	-	-	14,000,000	-
Banker's Acceptances	987,506	-	-	-	-	987,506
State Investment Pool	145,492,757	-	-	-	-	145,492,757
Money Market	31,743,138	31,743,138	-	-	-	-
Held by Fiscal Agents						
Federal Agency Term Notes	5,061,696	5,061,696	-	-	-	-
Guaranteed Investment Contracts	11,156,359	-	-	11,156,359	-	-
Money Market	11,454,950	11,454,950	-	-	-	-
	\$ 583,459,050	369,438,701	22,530,346	11,156,359	33,853,381	146,480,263

## Concentration on Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stated above. Investments in any one issuer that represent 5% or more of total City investments are as follows:

Issuer	Investment Type	Reported Amount
LAIF	State Investment Pool	\$ 145,492,757
FFCB	Federal Agency Callable Bonds	18,385,156
FHLB	Federal Agency Term Notes	17,223,750
FHLB	Federal Agency Callable Bonds	113,281,094
	Total	130,504,844
FHLMC	Federal Agency Term Notes	2,513,770
FHLMC	Federal Agency Callable Bonds	121,902,892
	Total	124,416,662
FNMA	Federal Agency Callable Bonds	\$ 30,994,688

## Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2008, the carrying amount of the City's deposits was \$163,127 and the corresponding bank balance was \$7,060,108. The difference of \$6,896,981 was principally due to outstanding warrants, wires and deposits in transit. Of the Bank balance, \$100,000 was insured by the FDIC depository insurance and \$6,960,108 was uncollateralized and not insured by FDIC depository insurance.

## Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair market value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio).

## Cash with Fiscal Agent

The City 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.

## 3. Long-Term Debt

The Water Utility's long-term debt as of June 30, 2008 and 2007 consists of the following:

	Remaining Interest Rates	Original Issue	Outstanding June 30, 2008	Outstanding June 30, 2007
Water Revenue Bonds, 2008 Series	2.95%-5.00%	\$50,000,000	\$50,000,000	\$0

### Water Revenue Bonds, 2008 Series

The Water Utility of Glendale Water & Power issued \$50,000,000 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 \$3,484,669.



The bonds mature in regularly increasing amounts ranging from \$1,175,000 to \$3,060,000 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.

<b>June 30, 2008</b>	Amount outstanding at			Amount outstanding at June 30, 2008	Due within one year
	June 30, 2007	Additions	Retirements		
Water Revenue Bonds, 2008 Series	\$ -	50,000,000	-	50,000,000	-
Bond Premium	-	1,937,205	21,525	1,915,680	64,574
<b>Total bonds payable</b>	<b>\$ -</b>	<b>51,937,205</b>	<b>21,525</b>	<b>51,915,680</b>	<b>64,574</b>

The annual debt service requirements to amortize long-term bonded debt at June 30, 2008 are as follows:

Fiscal year	Revenue Bonds		
	Interest	Principal	Total
2009	\$ 2,187,770	-	2,187,770
2010	2,309,669	-	2,309,669
2011	2,309,669	-	2,309,669
2012	2,309,669	-	2,309,669
2013	2,309,669	1,175,000	3,484,669
2014-2018	10,876,891	6,435,000	17,311,891
2019-2023	9,452,006	7,645,000	17,097,006
2024-2028	7,610,962	9,280,000	16,890,962
2029-2033	5,208,150	11,390,000	16,598,150
2034-2038	2,171,000	14,075,000	16,246,000
	<b>\$ 46,745,455</b>	<b>50,000,000</b>	<b>96,745,455</b>

There are a number of limitations and restrictions contained in the bond indenture. The utility is in compliance with all significant limitations and restrictions.

## 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. At June 30, 2008, the City's actual debt service ratio for the Water Fund was 10.9.

## **4. Pension Plan**

Full-time employees of GWP participate with other City employees in the Public Employees Retirement System (PERS) of the State of California, which is an agent multiple-employer public employee retirement system. GWP's contributions represent a pro rata share of the City's contribution, including the employees' contribution that is paid by GWP, 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 GWP'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. Approximately 21% of full-time City workers are employed by GWP.

### **Plan Description**

The City contributes to 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.

All full time employees, which includes both safety and general employees, are required to participate in the single CalPERS plan, in which all related benefits vest after five years of service. Upon five years of service, employees who retire at age 50 or older are entitled to receive an annual retirement benefit. The benefit is payable monthly for life. The benefit is calculated as follows: years of credited service multiplied by their highest twelve consecutive months of salary multiplied by a percentage factor. This percentage factor is age-based public safety employees use the 3% at age 50 factor and general employees use the 2.5% at age 55 factor. The system also provides death and disability benefits. CalPERS issues a publicly available financial report that includes financial statements and required supplemental information of participating public entities within the state of California. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office – 400 P Street, Sacramento, CA 95814.

### **Funding Policy**

CalPERS is a contributory plan deriving funds from employee and employer contributions as well as earnings from investments. According to the plan, the City's general employees are required to contribute 8% of their annual salary and the City's safety employees are required to contribute 9% of their annual salary. The City is also required to contribute at an actuarially determined rate. The City's contribution rate for safety members starting on July 1, 2007 was 24.172%. The City's contribution rate for general members starting on July 1, 2007 was 10.866%. The contribution requirements of plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

### **Annual Pension Cost**

Contributions to CalPERS totaling \$21,903,947 were made during the fiscal year ending June 30, 2008 in accordance with actuarially determined contribution requirements through an actuarial valuation performed at June 30, 2005. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.75% a year compounded annually (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45%, (c) no additional projected salary increases attributable to seniority/merit and (d) no post retirement benefit increases. The actuarial value of the City's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen year period depending on the size of investment gains and/or losses. CalPERS uses the entry age normal actuarial cost method, which is a projected benefit cost method. That is, it takes into account those benefits that are expected to be earned in the future as well as those already accrued. According to this cost method, the normal cost for an employee is the level amount which would fund the projected benefit if it were paid annually from date of employment until retirement. In addition, the employer's total normal cost is expressed as a level percentage of payroll. CalPERS also uses the level percentage of payroll method to amortize any unfunded actuarial liabilities. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percent of pay over a closed 20 year period. Gains and losses that occur in the operation of the plan are amortized over a rolling 30 year period. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization.

## Three Year Trend Information

Fiscal year ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2006	\$17,792,610	100%	0
6/30/2007	\$20,138,463	100%	0
6/30/2008	\$21,903,947	100%	0

### Schedule of Funding Progress (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets <a>	Actuarial Accrued Liability <AAL> – Entry Age <b>	(Unfunded AAL) / Over- funded AAL <a-b>	Funded Ratio <a/b>	Covered Payroll <c>	(Unfunded AAL)/ Overfunded AAL as a Percentage of Covered Payroll <(a-b)/c>
6/30/2005	\$854,260,613	929,960,421	(75,699,808)	91.9%	131,264,713	(57.7%)
6/30/2006	\$913,955,041	1,006,837,400	(92,882,359)	90.8%	134,183,520	(69.2%)
6/30/2007	\$989,601,219	1,082,217,007	(92,615,788)	91.4%	139,213,403	(66.5%)

## 5. Self-Insurance Program

The City is self-insured for Workers' Compensation claims up to \$2,000,000 per occurrence and general public liability up to \$2,000,000 per occurrence. Additional coverage in excess of these limits has been purchased from third-party insurance companies. Workers' Compensation and general public liability insurance protection is provided through internal service funds maintained by the City. The City is also self-insured for unemployment insurance and general auto liability through separate Internal Service Funds. The City's Internal Service Funds charge the Water Fund for its estimated share of the liability.

A claims payable liability has been established in these funds on case basis estimates of reported claims and an estimate for claims incurred but not reported. Management believes that provisions for claims at June 30, 2008 are adequate to cover the net cost of claims incurred to date. However, such liabilities are, by necessity, based upon estimates and there can be no assurance that the ultimate cost will not exceed such estimates. There were no significant settlements or reductions in insurance coverage from settlements for the past three years.

## 6. 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.

In December of 2003, GWP management received approval from the City Council to implement a cash reserve policy for the Water Fund to ensure a long term sustainable financial health of the water operation. The policy calls for annual review of the reserves to determine if the recommended levels are sufficient. The annual review of the Cash Reserve Policy for the fiscal year ending June 30, 2008, established a target of \$7,500,000 of designated cash in the following categories: \$6,500,000 for contingency reserve; and \$1,000,000 for rate stabilization reserve. As of June 30, 2008 and 2007, \$7,728,633 and \$790,579 was designated, respectively.

## 7. Capital Assets

A summary of the changes in Water Fund 2007 - 2008 Capital Assets is as follows:

	Balance at July 1, 2007	Increases	Decreases (Reclass & Retirements)	Balance at June 30, 2008
Capital assets not being depreciated/depleted:				
Land	1,033,999	-	-	1,033,999
Construction in progress	12,732,074	9,986,421	(2,900)	22,721,395
Total assets not being depreciated/depleted	13,766,073	9,986,421	(2,900)	23,755,394
Depreciable capital assets:				
Building and improvements	79,171,329	4,984,440	(100)	84,155,869
Machinery and equipment	41,410,732	3,892,333	683,318	44,619,747
Total other capital assets at cost	120,582,061	8,876,773	683,218	128,775,616
Less accumulated depreciation:				
Building and improvements	28,129,655	2,749,004	2,799,776	28,078,883
Machinery and equipment	20,737,665	177,395	(2,119,458)	23,034,518
Total accumulated depreciation	48,867,320	2,926,399	680,318	51,113,401
Total assets being depreciated	71,714,741	5,950,374	2,900	77,662,215
Electric Fund capital assets, net	85,480,814	15,936,795	-	101,417,609

A summary of the changes in Water Fund 2006 - 2007 Capital Assets is as follows:

	Balance at July 1, 2006	Increases	Decreases (Reclass & Retirements)	Balance at June 30, 2007
Capital assets not being depreciated/depleted:				
Land	1,033,999	-	-	1,033,999
Construction in progress	8,923,541	3,808,533	-	12,732,074
Total assets not being depreciated/depleted	9,957,540	3,808,533	-	13,766,073
Depreciable capital assets:				
Building and improvements	76,396,475	2,774,854	-	79,171,329
Machinery and equipment	40,622,633	1,672,064	883,965	41,410,732
Total other capital assets at cost	117,019,108	4,446,918	883,965	120,582,061
Less accumulated depreciation:				
Building and improvements	25,497,365	2,632,290	-	28,129,655
Machinery and equipment	21,450,219	171,411	883,965	20,737,665
Total accumulated depreciation	46,947,584	2,803,701	883,965	48,867,320
Total assets being depreciated	70,071,524	1,643,217	-	71,714,741
Electric Fund capital assets, net	80,029,064	5,451,750	-	85,480,814

## **8. Contingent Liabilities**

### **Litigation**

The City is a defendant in several general damage and personal injury lawsuits and claims. These claims arise primarily from injuries sustained by the claimants while on property owned or maintained by the City. While litigation is by nature uncertain, management believes, based on consultation with the City Attorney, that these cases in the aggregate are not expected to result in a material adverse impact on the City. Additionally, City management believes that sufficient reserves are available to the City to cover any potential losses should an unfavorable outcome materialize.

### **9. Subsequent Event**

The recent turmoil in the financial markets has been unprecedented. CalPERS has notified the City that as of June 30, 2008 the fair value of the Retirement System's total portfolio was approximately \$239 billion (unaudited). As of October 31, 2008, CalPERS has estimated the fair value to be \$189 billion (unaudited), which represents a decrease of \$50 billion, or 21%, during the first four months in fiscal year 2009 (all values are based on available unaudited information). Changes in the value of the Retirement System assets are the result of gains and losses in investments and the variability of cash flows. The market continues to be volatile after October 31, 2008, but this cutoff date was chosen because it is the most recently closed period in CalPERS management's monthly investment reporting process and a reasonable cut off period for disclosure of subsequent events to the fiscal year 2008 financial statements.

As is the case with most retirement systems, CalPERS is exposed to general market risk. This general market risk is reflected in asset valuations fluctuating with market volatility. Any impact from market volatility on the Retirement System depends in large measure on how deep the market downturn is, how long it lasts, and how it fits within fiscal year reporting periods. The resulting market risk and associated realized and unrealized gains and losses could impact the financial condition of the Retirement System and the City's required contribution to the Retirement System. The reader of these financial statements is advised that financial markets continue to be volatile and are experiencing significant changes on almost a daily basis.

The good news is that cushioning the impact of investment set backs is the fact that CalPERS experienced double digit gains in the four years leading up to the 2007-2008 fiscal year. In previous down markets, flat or negative investment returns contributed substantially to increases in employer contributions the following year. However, CalPERS rate stabilization policies now spread market gains and losses over 15 years, thus reducing the volatility of employer rates.

## **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

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

We have audited the accompanying financial statements of the Water Enterprise Fund, a fund of Glendale Water and Power (the Department), a Department of the City of Glendale, California (the City) as of and for the year ended June 30, 2008, and have issued our report thereon dated November 26, 2008. 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.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Water Enterprise Fund's financial statements of the Department are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Mayor, members of the City Council, Audit Committee of the City of Glendale, and management, and is not intended to be, and should not be, used by anyone other than those specified parties.

*McGladrey & Pullen, LLP*

Pasadena, California  
November 26, 2008