



## 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, 2011 and 2010, 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. 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, 2011 and 2010, 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.

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, 2011 and 2010, and the changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis as listed in the table of contents is not a required part of the basic 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 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, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. This information has 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*

Los Angeles, CA  
November 28, 2011

## **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, 2011 and June 30, 2010. 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**

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.

During fiscal year 2010, the Water Utility's retail operating revenues decreased \$352 or 1% from the prior year. The decrease in retail revenues was attributable to a 14% increase in the average rates charged to customers offsetting a 14% decrease in retail sales volume. The decrease in operating revenues was coupled with increases in the costs of water distribution maintenance resulting in net retail operating revenues of \$3,362 on revenues of \$35,716 less \$32,354 in expenses. After adding net non-operating revenues of \$679 and subtracting \$4,160 in transfers to the City's general fund, total net assets decreased by \$119.

The assets of the Water Utility exceeded its liabilities at the close of fiscal years 2011 and 2010 by \$99,105 and \$95,776, respectively. Of these amounts \$778 was unrestricted in 2010 and may be used to meet the Water Utility's ongoing obligations to creditors and customers. These unrestricted net assets represented 2% of annual operating expenses for fiscal years 2010. In 2011 the total amount of \$99,105 was restricted.

### **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 32 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 \$99,105 and \$95,776 as of June 30, 2011 and 2010, respectively. A portion of the Utility's net assets (100% and 96% as of June 30, 2011 and 2010, 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.

An additional portion of the Water Utility's net assets (2% and 4% as of June 30, 2011 and 2010 respectively) 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.

The unrestricted portion of the Utility's net assets (1% as of June 30, 2010) 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, 2011, 2010, 2009 are as follows:

	2011	2010	2009
Current and noncurrent assets	\$ 10,258	\$ 14,889	\$ 33,270
Capital assets	159,576	143,299	121,546
Total assets	169,834	158,188	154,816
Current liabilities	19,072	10,690	7,135
Long-term debt	51,657	51,722	51,786
Other noncurrent liabilities	-	-	-
Total liabilities	70,729	62,412	58,921
Net Assets:			
Invested in capital assets, net of related debt	107,854	91,513	77,347
Restricted	2,310	3,485	3,485
Unrestricted	(11,059)	778	15,063
Total net assets	\$ 99,105	\$ 95,776	\$ 95,895

Net assets increased by \$3,329 (or 3%) and decreased by \$119 (or 0%) during the fiscal years 2011 and 2010, respectively. 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 2011, 2010, 2009 are as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues:			
Retail sales, net	\$ 36,636	\$ 35,716	\$ 36,068
Interest income	10	198	931
Other revenues and grants	5,360	1,378	1,354
Capital contributions	543	600	902
Total revenues	<u>42,549</u>	<u>37,892</u>	<u>39,255</u>
Expenses:			
Production	24,245	22,071	22,436
Transmission and distribution	2,547	4,667	4,034
Customer accounting and sales	2,336	2,387	2,464
Depreciation	3,494	3,229	3,093
Interest on Bonds	2,438	1,497	1,474
Total expenses	<u>35,060</u>	<u>33,851</u>	<u>33,501</u>
Transfers to the City's General Fund	<u>4,160</u>	<u>4,160</u>	<u>4,160</u>
Total expenses and transfers	<u>39,220</u>	<u>38,011</u>	<u>37,661</u>
Changes in net assets	<u>3,329</u>	<u>(119)</u>	<u>1,594</u>
Total net assets, beginning of year	<u>95,776</u>	<u>95,895</u>	<u>94,301</u>
Total net assets, end of year	<u>\$ 99,105</u>	<u>\$ 95,776</u>	<u>\$ 95,895</u>

## Revenues by Source – Water Utility

*Year ended June 30, 2011*

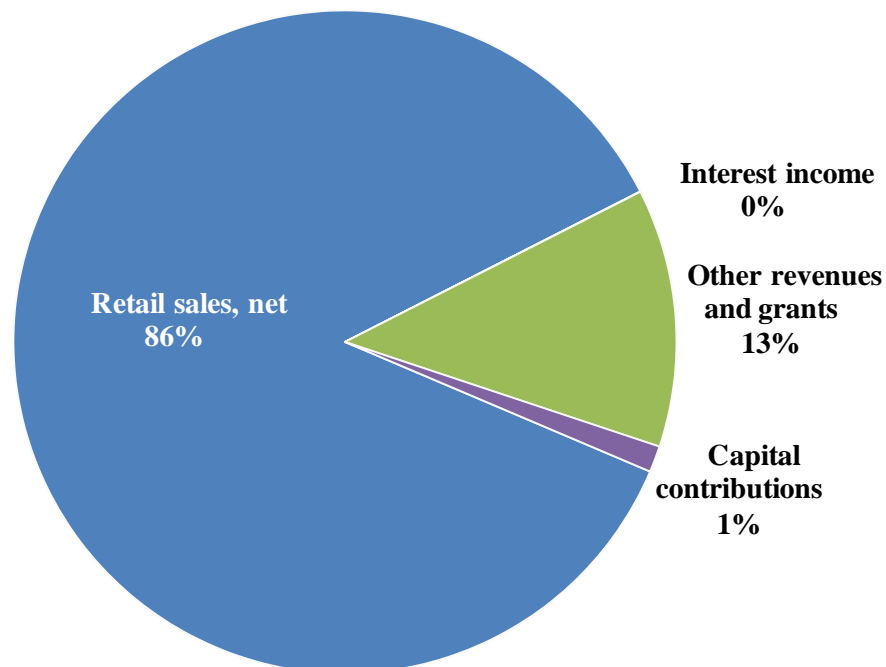
Retail sales (residential, commercial, industrial and other sales) are the primary revenue source for the Water Utility, making up 86% of total revenue. Retail sales showed an increase of 3% from the prior year reflecting a 6% increase in the average rates charged to customers offsetting a 3% decrease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



***Year ended June 30, 2010***

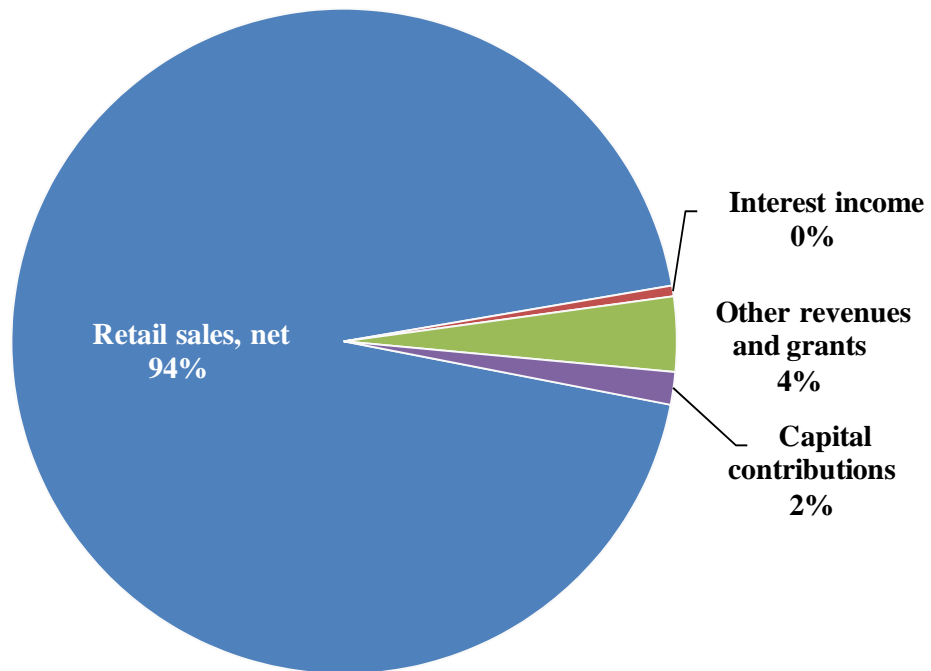
Retail sales (residential, commercial, industrial and other sales) are the primary revenue source for the Water Utility, making up 94% of total revenue. Retail sales showed a decrease of 1% from the prior year reflecting a 14% increase in the average rates charged to customers offsetting a 14% decrease in retail sales volume.

Interest income decreased 79% from the prior year. The decrease was primarily due to a decrease of cash in the Water Utility's investment portfolio.

Capital contributions decreased 33% from the prior year. The decrease reflects a reduction in the level of construction projects funded by others, primarily retail customers.

Grants decreased 18% compared to the prior year, reflecting a decrease in grant funds received from EPA for water quality projects.

**2010 Revenues**



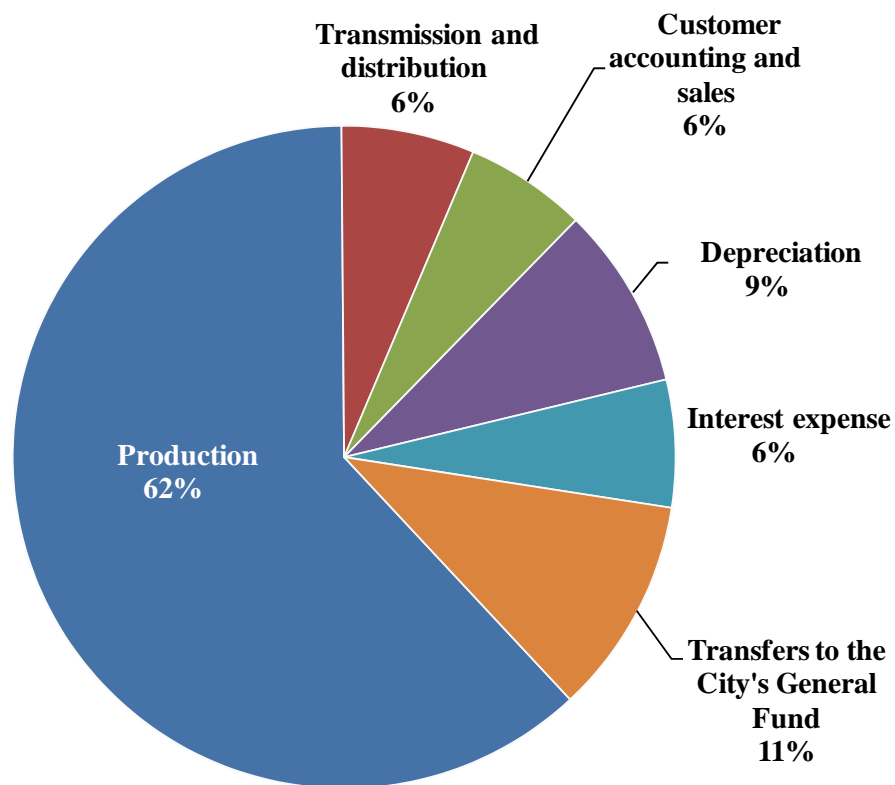
## Expenses by Source – Water Utility

*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.

Transfers to the City's General Fund are based on a fixed amount that is unchanged from the prior year level.

### 2011 Expenses



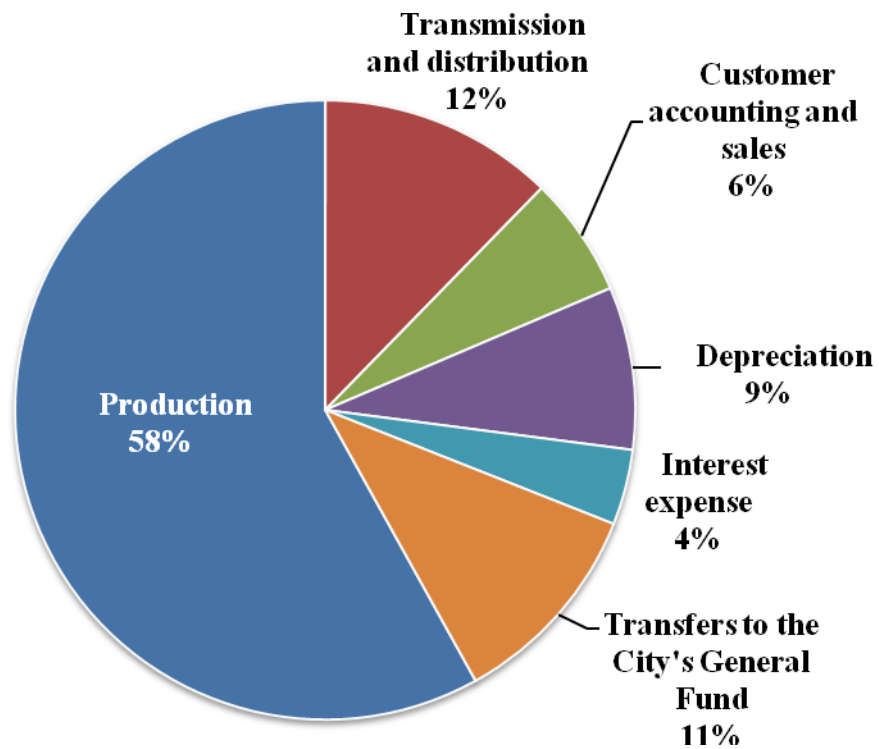


***Year ended June 30, 2010***

Total expenses for the Water Utility increased 1% from the prior year level. Production expenses decreased 2% reflecting a reduction in the purchased water volume supplied by MWD. Transmission and distribution expenses increased 16% from the prior year level reflecting a continued focus of labor resources on water distribution maintenance. Customer accounting and sales expenses were on par with the prior year level. Depreciation expense increased 4% reflecting an increase in capital assets.

Transfers to the City's General Fund are based on a fixed amount that is unchanged from the prior year level.

**2010 Expenses**



## Capital Assets and Debt Administration

### Capital Assets

The Water Utility's investment in capital assets as of June 30, 2011 and 2010 was \$159,576 and \$143,299, 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 11% and 18% increase as of June 30, 2011 and 2010, 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, 2011, 2010 and 2009 are as follows:

	2011	2010	2009
Production	\$ 39,795	\$ 35,082	\$ 31,247
Transmission and distribution	164,325	150,316	130,619
General	15,055	14,459	13,441
Less: accumulated depreciation	<u>(59,599)</u>	<u>(56,558)</u>	<u>(53,761)</u>
Total	<u>\$ 159,576</u>	<u>\$ 143,299</u>	<u>\$ 121,546</u>

### Long-Term Debt

As of June 30, 2011 and 2010, the Water Utility had outstanding long-term debt of \$51,657 and \$51,722, respectively. The Water Utility's outstanding debt as of June 30 is as follows:

	2011	2010	2009
Water Revenue Bonds	\$ 50,000	\$ 50,000	\$ 50,000
Less: current portion	(64)	(65)	(65)
Unamortized bond premium	<u>1,721</u>	<u>1,787</u>	<u>1,851</u>
Total long-term debt	<u>\$ 51,657</u>	<u>\$ 51,722</u>	<u>\$ 51,786</u>

The water utility is rated "AA", "AA" and Aa3 from Standard & Poor's, Fitch, Inc. and Moody's Investors Service for its revenue bonds, respectively. Additional information on the Water Utility's long-term debt can be found in Note 4 on pages 26 to 27 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

power costs, the need for capital investment in the water distribution system and increased costs of health care and retirement benefits.

Glendale relies on the Metropolitan Water District (MWD) for supplies of water that exceed its local resources. Approximately 55% to 60% of the water demand in Glendale is met by water purchased from MWD.

Furthermore, MWD increased its rates by 4% in January 2010 and again by 7% in January 2011. MWD will raise its rate again by 7% in January 2012. 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 decreased an average of 5% from fiscal year 2010, which helped to offset higher purchased water costs for the Water Utility.

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

The Water Utility is planning a water rate redesign along with a rate increase to help alleviate the pressure of these operational challenges.

### **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, 2011 and 2010 (in thousands)

	<b>2011</b>	<b>2010</b>
Assets		
Current assets:		
Pooled Cash and invested cash	\$ -	\$ 2,314
Imprest cash	1	1
Cash with fiscal agent	3,485	3,485
Interest receivable	(21)	44
Accounts receivable, net	2,470	2,205
Unbilled Services	3,450	3,282
Due from other agencies	265	106
	<hr/>	<hr/>
Total current assets	9,650	11,437
	<hr/>	<hr/>
Noncurrent assets:		
Designated & invested cash	-	2,821
Deferred charges	608	631
	<hr/>	<hr/>
Total noncurrent assets	608	3,452
	<hr/>	<hr/>
Capital assets:		
Land	1,034	1,034
Buildings and improvements	92,755	88,322
Machinery and equipment	50,277	49,320
Building & improvements accumulated depreciation	(59,599)	(56,558)
Construction in progress	75,109	61,181
	<hr/>	<hr/>
Total capital assets	159,576	143,299
	<hr/>	<hr/>
Total assets	<u>169,834</u>	<u>158,188</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, 2011 and 2010 (in thousands)

	<u>2011</u>	<u>2010</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	5,552	8,522
Contracts-retained amount due	740	419
Due to other funds	10,842	-
Interest payable	1,155	962
Bonds payable, due in one year	64	65
Deposits	719	722
	<u>19,072</u>	<u>10,690</u>
Total current liabilities		
Noncurrent liabilities:		
Long term debt	51,657	51,722
	<u>51,657</u>	<u>51,722</u>
Total noncurrent liabilities		
	<u>70,729</u>	<u>62,412</u>
Total liabilities		
Net assets:		
Investment in capital assets, net of related debt	107,854	91,513
Restricted		
Debt service	2,310	3,485
Unrestricted	(11,059)	778
	<u>\$ 99,105</u>	<u>\$ 95,776</u>
Total net assets		

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, 2011 and 2010 (in thousands)

	<u>2011</u>	<u>2010</u>
Operating revenues		
Water metered sales	\$ 34,443	\$ 33,442
Water metered sales - recycled	1,247	1,423
Water private fire	527	478
Water other sales	419	373
Miscellaneous revenues	2,530	1,290
Total operating revenues	<u>39,166</u>	<u>37,006</u>
Operating expenses:		
Production	24,245	22,071
Transmission	2,547	4,667
Customer accounting and sales	2,336	2,387
Depreciation	3,494	3,229
Total operating expenses	<u>32,622</u>	<u>32,354</u>
Operating income	<u>6,544</u>	<u>4,652</u>
Non operating revenues (expenses):		
Interest revenue	10	198
Grant revenue	2,830	88
Interest on Bonds	(2,438)	(1,497)
Total non operating revenues, net	<u>402</u>	<u>(1,211)</u>
Income before transfers	6,946	3,441
Contribution in aid	543	600
Transfer-General Fund	<u>(4,160)</u>	<u>(4,160)</u>
Change in net assets	3,329	(119)
Total net assets, July 1	95,776	95,895
Total net assets, June 30	<u>\$ 99,105</u>	<u>\$ 95,776</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, 2011 and 2010 (in thousands)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash from customers	\$ 38,576	\$ 37,392
Cash paid to employees	(4,382)	(4,509)
Cash paid to suppliers	(16,536)	(21,228)
	<hr/>	<hr/>
Net cash provided by operating activities	17,658	11,655
	<hr/>	<hr/>
Cash flows from noncapital financing activities:		
Operating transfers out	(4,160)	(4,160)
Operating grant received	2,830	89
	<hr/>	<hr/>
Net cash used in noncapital financing activities	(1,330)	(4,071)
	<hr/>	<hr/>
Cash flows from capital and related financing activities:		
Interest on long term debt	(2,245)	(1,305)
Bond principal and capital lease payments	(65)	(64)
Contribution in aid	543	600
Acquisition of property, plant, and equipment	(19,771)	(24,982)
	<hr/>	<hr/>
Net cash used in capital and related financing activities	(21,538)	(25,751)
	<hr/>	<hr/>
Cash provided by investing activities - interest received	74	281
	<hr/>	<hr/>
Net (decrease) in cash and cash equivalents	(5,136)	(17,886)
Cash and cash equivalents at beginning of year	8,621	26,507
	<hr/>	<hr/>
Cash and cash equivalents at end of year	3,485	8,621
	<hr/> <hr/>	<hr/> <hr/>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	6,545	4,652
	<hr/>	<hr/>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,494	3,229
(Increase)Decrease Accounts receivable net	(3,715)	106
Decrease Unbilled services	3,282	87
(Increase)Decrease Due from other agencies	(158)	193
Decrease Deferred charges	23	23
Increase(Decrease) Accounts payable	(2,972)	3,108
Increase Contracts - retention	321	282
Increase Due to other funds	10,842	-
(Decrease) Deposits	(3)	(25)
	<hr/>	<hr/>
Total adjustments	11,114	7,003
	<hr/>	<hr/>
Net cash provided by operating activities	\$ 17,658	\$ 11,655
	<hr/> <hr/>	<hr/> <hr/>
Noncash investing, capital, and financing activities:		
Increase in fair value of investments	(31)	30

# 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.

### **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) 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 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 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**

The Fund’s capital assets include land, building, improvements and equipments 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.

**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	10 to 75
Machinery and equipment	4 to 10

### **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 that has matured and is expected to be paid with currently available resources. The unused accumulated vacation and overtime are expensed in an Internal Service Fund, which incurs the liability. The amount that has not matured is recorded as a long-term liability in the Internal Service Fund-Employee Benefits Fund of the City.

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.

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

### **Post-Employment Benefits**

All City Employees, including employees of the Fund, who retired prior to July 2001, the accumulated unused sick leave upon their retirement may be converted to the number of months that the City will contribute all or partial of these retirees' monthly medical insurance premiums. The conversion calculations are based on the respective bargaining units' MOU or Benefit Ordinance.

The City also has a 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.

For additional details on the Post-Employment Benefit, 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, 2011 and 2010, the Water Fund's unbilled receivables were \$3,450 and \$3,282, 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.

### **Due to/from Other Funds**

These accounts are used when a fund has a temporary cash overdraft.

### **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 Fund 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 recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Water Utility 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. 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**

GASB issued pronouncements prior to June 30, 2011 that have an effective date that may impact future financial presentation. Management has not currently determined any impact on the implementation of the following statements may have on the financial statements of the Fund:

Governmental Accounting Standards Board Statement No. 57 - *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*

## 2. Cash and Investments

Cash resources of the Fund 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, \$1 and \$5,136 pertains to the Water Fund for fiscal year 2011 and 2010, 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:**

	2011	2010
Investments	\$ 480,895	\$ 460,332
Cash with fiscal agents	30,516	25,511
	511,411	485,843
Cash held in financial institutions & imprest cash	(17)	27,582
Total	\$ 511,394	\$ 513,425

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

	2011	2010
Cash and invested cash	\$ 427,927	\$ 417,404
Cash with fiscal agents	30,516	25,511
Restricted investment	3,675	2,408
Designated cash and investments	49,276	68,102
Total	\$ 511,394	\$ 513,425

## **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,P1 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.

		Remaining Maturity (in Months)				
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months	
Commercial Paper	\$ 5,000	5,000	-	-	-	
Federal Agency Term Notes	30,311	5,051	-	25,260	-	
U.S. Government Agency Callable Bonds	192,262	-	21,557	170,705	-	
Corporate Notes	30,310	2,565	14,629	13,116	-	
State Investment Pool	150,236	150,236	-	-	-	
Money Market Fund	72,776	72,776	-	-	-	
Held by Fiscal Agents						
Federal Agency Term Notes	9,847	9,847	-	-	-	
Guaranteed Investment Contracts	6,313	-	-	-	6,313	
Money Market	14,356	14,356	-	-	-	
	\$	<u>511,411</u>	<u>259,831</u>	<u>36,186</u>	<u>209,081</u>	<u>6,313</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 rated government securities, AAA or AA rated corporate securities, and A1,P1 rated commercial paper, negotiable certificates of deposits and banker's acceptance securities. The City's Investment Policy requires the City to sell any security with a credit rating below A.

		Rating as of Year End				
		AAA	AA	Aa2	A1,P1	Unrated
Commercial Paper	\$ 5,000	-	-	-	5,000	-
Federal Agency Term Notes	30,311	30,311	-	-	-	-
U.S. Government Agency Callable Bonds	192,262	192,262	-	-	-	-
Corporate Notes	30,310	-	12,863	-	17,447	-
State Investment Pool	150,236	-	-	-	-	150,236
Money Market Fund	72,776	72,776	-	-	-	-
Held by Fiscal Agents						
Federal Agency Term Notes	9,847	9,847	-	-	-	-
Guaranteed Investment Contracts	6,313	-	-	6,313	-	-
Money Market	14,356	14,356	-	-	-	-
	\$	<u>319,552</u>	<u>12,863</u>	<u>6,313</u>	<u>22,447</u>	<u>150,236</u>

## 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
FHLB	Federal Agency Term Notes	5,051
FHLB	Federal Agency Callable Bonds	48,071
		<u>53,122</u>
FHLMC	Federal Agency Term Notes	3,034
FHLMC	Federal Agency Callable Bonds	45,055
		<u>48,089</u>
FNMA	Federal Agency Term Notes	22,225
FNMA	Federal Agency Callable Bonds	89,534
		<u>\$ 111,759</u>

### **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 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, 2011, the carrying amount of the City's deposits was <\$17> and the corresponding bank balance was \$7,933. The difference of \$7,950 was principally due to outstanding warrants, wires, deposits in transit and some pending miscellaneous adjustments. Of the Bank balance, \$250 was insured by the FDIC depository insurance and \$7,683 was covered by the collateralization requirement. 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 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. As of June 30, 2011, in accordance with the City's investment policy, none of the City's investments were held with counter-party. All of the City's investments were held with an independent third party custodian bank. The City uses Bank of America as a third party custody and safekeeping service for its investment securities.



## 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 City's investment in this pool is reported in the accompanying financial statements at fair value based upon the City's pro-rata share of the amortized cost basis provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF.

## 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.

## 3. Capital Assets

**A summary of the changes in Water Fund 2010 - 2011 Capital Assets is as follows:**

	Balance at June 30, 2010	Increases	Decreases (Reclass & Retirements)	Balance at June 30, 2011
Capital assets not being depreciated/depleted:				
Land	1,034	-	-	1,034
Construction in progress	61,181	13,928	-	75,109
Total assets not being depreciated/depleted	62,215	13,928	-	76,143
Depreciable capital assets:				
Building and improvements	88,322	4,433	-	92,755
Machinery and equipment	49,320	1,526	569	50,277
Total other capital assets at cost	137,642	5,959	569	143,032
Less accumulated depreciation:				
Building and improvements	32,517	1,406	1,645	32,278
Machinery and equipment	24,041	2,088	(1,192)	27,321
Total accumulated depreciation	56,558	3,494	453	59,599
Total assets being depreciated	81,084	2,465	116	83,433
Water Fund capital assets, net	143,299	16,393	116	159,576

**A summary of the changes in Water Fund 2009 - 2010 Capital Assets is as follows:**

	Balance at June 30, 2009	Increases	Decreases (Reclass & Retirements)	Balance at June 30, 2010
Capital assets not being depreciated/depleted:				
Land	1,034	-	-	1,034
Construction in progress	39,460	21,721	-	61,181
Total assets not being depreciated/depleted	40,494	21,721	-	62,215
Depreciable capital assets:				
Building and improvements	87,581	741	-	88,322
Machinery and equipment	47,232	2,520	432	49,320
Total other capital assets at cost	134,813	3,261	432	137,642
Less accumulated depreciation:				
Building and improvements	29,488	3,029		32,517
Machinery and equipment	24,273	200	432	24,041
Total accumulated depreciation	53,761	3,229	432	56,558
Total assets being depreciated	81,052	32	-	81,084
Water Fund capital assets, net	121,546	21,753	-	143,299

#### *4. Long-Term Debt*

**The Water Utility's long-term debt as of June 30, 2011 and 2010 consists of the following:**

	Remaining Interest Rates	Original Issue	Outstanding June 30, 2011	Outstanding June 30, 2010
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.

<b>June 30, 2011</b>	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

<b>June 30, 2010</b>	Amount outstanding at June 30, 2009	Additions	Retirements	Amount outstanding at June 30, 2010	Due within one year
Water Revenue Bonds, 2008 Series	\$ 50,000	-	-	50,000	-
Bond Premium	1,851	-	64	1,787	65
Total bonds payable	\$ 51,851	-	64	51,787	65

**The annual debt service requirements to amortize long-term bonded debt at June 30, 2011 are as follows:**

Fiscal year	Revenue Bonds		
	Interest	Principal	Total
2012	\$ 2,310	64	2,374
2013	2,310	1,240	3,550
2014	2,263	1,275	3,538
2015	2,214	1,310	3,524
2016	2,178	1,350	3,528
2017-2021	10,097	7,433	17,530
2022-2026	8,397	8,892	17,289
2027-2031	6,360	10,807	17,167
2032-2036	4,083	13,253	17,336
2037-2040	1,408	6,097	7,505
	\$ 41,618	51,721	93,339

There are a number of limitations and restrictions contained in the bond indenture.

## *5. Pension Plan*

Full-time employees of the Fund 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. 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. Approximately 22% of full-time City workers are employed by the Fund.

## **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. For all employees hired under the 1st tier plan, the benefit is calculated as follows: years of credited service multiplied by their highest twelve consecutive months of salary multiplied by a percentage factor. Effective January 1, 2011 the City implemented a 2nd tier plan and for all new hired miscellaneous employees, the benefit is calculated as follows: years of credited service multiplied by their highest three average years multiplied by a percentage factor. The percentage factor is age-based. All public safety employees hired under the 1st tier plan use the 3% at age 50 factor and effective January 1, 2011, the 2nd tier plan implemented all new hired fire safety employees to use the 3% at age 55 factor.

All miscellaneous employees hired under the 1st tier plan use the 2.5% at age 55 factor, and effective January 1, 2011, the 2nd tier plan implemented all new hired miscellaneous employees to use the 2.0% 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. The City's miscellaneous employees hired under the 1st tier plan are required to contribute 8.0% of their annual salary and effective January 1, 2011, the 2nd tier plan implemented all new hired miscellaneous employees are required to contribute 7.0% of

their annual salary. All the City's safety employees are required to contribute 9.0% of their annual salary. The City is also required to contribute at an actuarially determined rate. The City's contribution rate for miscellaneous members effective July 1, 2010 was 11.672%. The City's contribution rate for safety members effective July 1, 2010 was 25.067%. The contribution requirements of plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Based on the Memoranda of Understanding (MOU's) between the City and the five City Associations (International Brotherhood of Electrical Workers, IBEW, was established within the City effective May 1, 2011), all employees contribute part of the City's PERS cost in fiscal year 2010-11, which is in addition to their required employees' contributions. For fiscal year 2010-11, Glendale City Employee Association (GCEA) and International Brotherhood of Electrical Workers (IBEW) contributed an additional 0.5% of their persable earnings. Glendale Management Association (GMA) contributed an additional 0.5% of their persable earnings for the month of July 2010, and effective August 1, 2010, contributed an additional 1.5% of their persable earnings, thus totaling a 2.0% deduction through the end of the fiscal year. From July 1, 2010 through December 31, 2010 Glendale Fire Fighter Association (GFFA) contributed an additional 1.5% of their persable earnings and effective January 1, 2011 contributed an additional 0.5% of their persable earnings, thus totaling a 2.0% deduction through the end of the fiscal year. For fiscal year 2010-11, Glendale Police Officers Association (GPOA) contributed additional 1.5% of their annual salaries.

### **Annual Pension Cost**

Contributions to CalPERS totaling \$24,838 were made during the fiscal year ended June 30, 2011 in accordance with actuarially determined contribution requirements through an actuarial valuation performed at June 30, 2009. 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
6/30/2009:			
Misc.	\$ 12,004	100%	0
Safety	11,885	100%	0
Total	<u>\$ 23,889</u>		
6/30/2010:			
Misc.	\$ 11,829	100%	0
Safety	12,023	100%	0
Total	<u>\$ 23,852</u>		
6/30/2011:			
Misc.	\$ 11,922	100%	0
Safety	12,916	100%	0
Total	<u>\$ 24,838</u>		

### Schedule of Pension Funding Progress (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability <AAL> - Entry Age (B)	(Over-funded AAL) / Under- funded AAL (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	(Overfunded AAL)/ Underrfunded AAL as a Percentage of Covered Payroll {(B-A)/C}
6/30/2008:						
Misc.	\$ 641,356	678,218	36,862	94.6%	101,970	36.1%
Safety	413,321	485,398	72,077	85.2%	46,911	153.6%
Total	<u>\$ 1,054,677</u>	<u>1,163,616</u>	<u>108,939</u>	90.6%	<u>148,881</u>	73.2%
6/30/2009:						
Misc.	\$ 666,773	759,485	92,712	87.8%	104,075	89.1%
Safety	430,823	533,851	103,028	80.7%	48,703	211.5%
Total	<u>\$ 1,097,596</u>	<u>1,293,336</u>	<u>195,740</u>	84.9%	<u>152,778</u>	128.1%
6/30/2010						
Misc.	\$ 694,063	788,085	94,022	88.1%	104,409	90.1%
Safety	449,556	560,655	111,099	80.2%	50,320	220.8%
Total	<u>\$ 1,143,619</u>	<u>1,348,740</u>	<u>205,121</u>	84.8%	<u>154,729</u>	132.6%

## 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. The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City retains risks for the following types of liabilities: workers' compensation insurance, unemployment insurance, post employment benefits, general auto, dental, medical and vision as well as public liability through separate Internal Service Funds. The City purchased several commercial insurance policies from third-party insurance companies for errors and omissions of its officers and employees, and destruction of assets as well as excess workers' compensation and general public liability claims. The City also purchases property, aviation and employee dishonesty insurance. There were no significant settlements or reductions in insurance coverage from settlements for the past three years. The insurance schedule for fiscal year 2010-11 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 (GWP)	\$250,000	Various deductibles up to \$250
Property Insurance (Non-GWP)	\$400,000	\$25 deductible all locations
Aviation Insurance (Police Helicopter)	\$50,000	Various deductibles
Employee Dishonesty – Crime Policy	\$1,000	\$10

Operating funds are charged a premium and the Internal Service Funds recognize the corresponding revenue. Claims expenses are recorded in the Internal Service Funds. Premiums are evaluated periodically and increases are charged to the operating funds to reflect recent trends in actual claims experience and to provide sufficient reserve for catastrophic losses.

Claims payable liability has been established in these funds based on estimates of incurred but not reported and litigated claims. Management believes that provisions for claims at June 30, 2011 are adequate to cover the 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. A reconciliation of the changes in the aggregate liabilities for claims for the current fiscal and the prior fiscal year are as follows:

Fiscal Year	Beginning Balance	Claims and Changes	Claim Payments	Ending Balance
2009-10	\$36,124	\$45,743	\$41,091	\$40,776
2010-11	\$40,776	\$48,863	\$42,745	\$46,894

## *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.

In December of 2003, Glendale *Water & Power* 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, 2010, established a target of \$7,500 of designated cash in the following categories: \$6,500 for contingency reserve; and \$1,000 for rate stabilization reserve. As of June 30, 2011 and 2010, \$0 and \$2,821 was designated, respectively.

## *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.