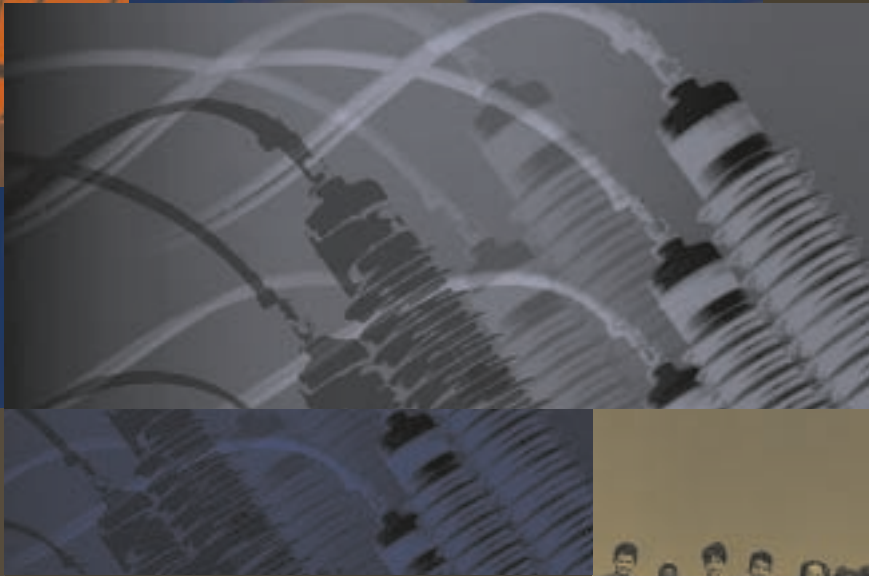
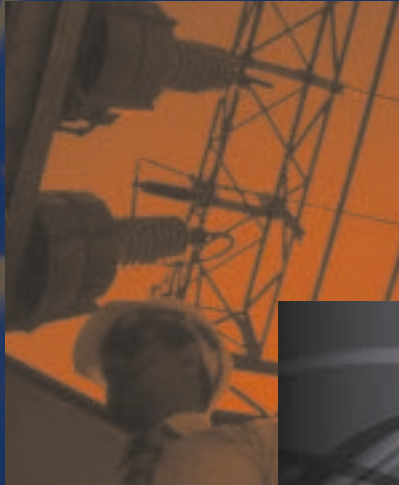




GLENDALE

*Water & Power*



Managing  
Change,  
Meeting the  
Challenge

Annual Report 2000-2001

## City Council

Glendale *Water & Power*

### City Council

Gus Gomez - Mayor, Councilmember

Dave Weaver - Councilmember

Rafi Manoukian - Councilmember

Bob Yousefian - Councilmember

Frank Quintero - Councilmember

City Manager - James E. Starbird

Director of Water & Power - Ignacio R. Troncoso

Director of Finance and Administrative Services - Robert J. Franz

### Water & Power Commission

John P. Kearney, Sr. - President

Don Butler

Ed Cameron

Scott Schaffer

Ralph Tufenkian

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# Director's Letter

During the past fiscal year, our proudest achievement was insulating our community from rolling blackouts and from huge price spikes on the State's power grid. We have always had the opportunity to balance local generation at Grayson Power Plant with power purchases on the spot market, and this was the best of both worlds when natural gas was inexpensive. The decisions made by my predecessors gave GWP a good balance of power resources.



However, this year both gas prices and power prices on the spot market jumped to unprecedented levels. This forced us to absorb the undercollection of some \$23 million from our customers. By utilizing our diversified power generation sources and the \$20 million in profits from our normal wholesale energy trading program, we were able to delay the impact of these increased costs on our customers. But in spite of these efforts, we still had a net undercollection. Reluctantly, we were forced to make a 2-cent per kilowatt-hour increase in the fuel adjustment portion of our electric rates effective July 1, 2001. This will make up a portion of our shortfall and keep us from increasing the deficit.

On the water side, we carefully monitored water quality and supply issues and followed self-imposed water quality standards that exceeded constantly evolving State and Federal regulations. However, our inability to begin using low-cost water from our groundwater treatment plant kept our water costs high. This 5,000-gallon per minute resource that we anticipated would supply 20 to 25 percent of our needs did not come online due to ongoing debate about water quality standards at the State level. This forced us to purchase more high-cost water from the Metropolitan Water District (MWD) than we had forecasted. Because we were only able to supply 15 percent of our water needs from our wells and recycled water system, and because the City's water usage increased during the year, MWD water made up 85 percent of our water supplies. In addition, high natural gas costs increased the costs of electricity used for pumping water in our water delivery system and for delivering the MWD water.

Our vision for the future is that once the water quality standards are in place, we will be able to offset water purchases from MWD with alternative supplies. Just

like on the power side, having a diversity of resources is the optimum solution for counteracting variations in supply.

With the tightening of power supplies on the State's grid and the coming contracts for water from MWD, customer conservation became more important than ever in both the water and electricity businesses. In this report you will read about the GWP public benefit programs that gathered momentum in our City, encouraging our residential and commercial customers to conserve energy and water. These customers discovered that the best way to keep rates down and enjoy adequate water and power supplies is to conserve wherever possible.

Amid all the discussion of costs for power, natural gas and water, our best investment this year was the one we made in our employees. We have made a thorough turnaround in our training programs and our employees rose to welcome the opportunity. We reemphasized the need for right staffing and many hourly employees have become permanent employees with a long-term commitment to GWP. With this capable staff on board, we were able to grow new talent and offer new opportunities.

At GWP, we constantly position ourselves to adapt to industry challenges and our customers' needs. What we went through last year taught us that we can make a difference—we can make the changes that will help us meet the challenges of the future.



Ignacio R. Troncoso  
Director of Glendale *Water & Power*

*In the last fiscal year, there were probably fewer job openings less appealing than that of a director of a California utility. Yet Ignacio Troncoso stepped up to the challenge for the very reasons that made GWP so successful in the past year: He knew that GWP was well insulated from the chaos of the utility marketplace, and the GWP directorship gave him a chance to observe what he calls “the largest living experiment with the revolution in the utility marketplace.”*

*Mr. Troncoso comes to the position with 25 years of experience in an investor-owned utility and seven in a construction engineering firm in the power business. In addition, his experience with the El Paso, Texas utility gave him insight into the complex environmental regulatory climate surrounding water quality and the chromium 6 issue. “GWP is in a favorable situation and blessed with a remarkable, capable staff,” he says. “We have an opportunity to do good things.”*

# Fiscal Highlights



Year ended June 30

	Water		Electric	
	2001	2000	2001	2000
<b>Sales</b>	<b>Gallons in Billions</b>		<b>Kilowatt Hours in Millions</b>	
	9.5	9.9	1,088.1	1,086.1
	<b>Dollars in Millions</b>		<b>Dollars in Millions</b>	
<b>Revenue<sup>(1)</sup></b>	29.0	28.9	271.0	135.6
<b>Operating Cost</b>	24.4	22.6	227.6	112.1
<b>Transfers to the</b>				
<b>City of Glendale</b>	3.1	2.9	11.7	11.0
<b>Net Income</b>	1.5	3.4	31.7	12.5

(1) Includes non-operating income and expenses, net

Glendale *Water & Power* is a community-owned utility that, with the support of its Board of Commissioners, the City Council and the City Manager, has continually supplied the Glendale community with reliable, high-quality water and electricity. Not only has GWP provided these services at a competitive cost to the customer, we have earned an elite ranking as one of 25 U.S. cities with a “Class 1” water rating. This highest possible designation is awarded by the Fire Insurance rating services to water utilities that have earned superior ratings for both fire service and water supply.

This year’s achievements have been numerous but significant challenges lie ahead. As an enterprise organization, GWP relies on revenues generated from the sale of water and electricity to finance operating costs. At the same time, GWP and its employees are committed to pursuing fiscally responsible operating practices and infrastructure replacement programs that deliver competitive rates for the Glendale community.



GWP continues to provide Glendale residents and businesses with a substantial return from their public utility. In 2000-2001, we once again contributed nearly \$14 million to the City's general fund. This re-investment in the community is a significant factor in helping the City to provide exceptional vital services such as police and fire protection, parks and recreation facilities, libraries and other important community services.

*“A community, then, is a union of groups of people who join together to achieve material and intellectual ends they could not accomplish or perhaps even imagine on their own.”*

Julia Reinhard Lupton,  
American Humanities Scholar

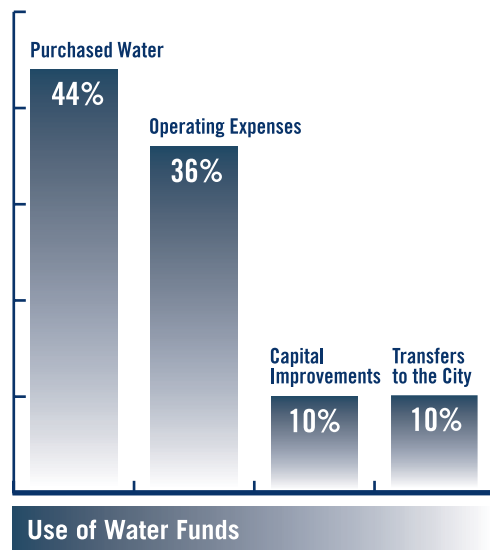
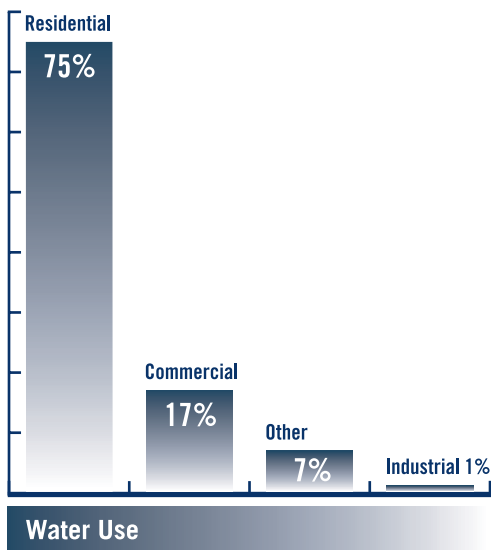
# Facts in Brief

## Water



Year ended June 30

	<u>2001</u>	<u>2000</u>
<b>Number of Customers</b> (average)	32,651	32,450
<b>Use of Water</b>		
Average Glendale population served	200,000	200,000
Average daily use per capita (gallons)	136	135
Water sales for fiscal year (billions of gallons)	9.5	9.9
Average daily demand (millions of gallons)	26	27
<b>Water Supply</b> (billions of gallons)		
Groundwater	1.0	1.0
Recycled water	0.5	0.6
Metropolitan Water District (California and Colorado River Aqueducts)	9.5	9.4
Gross supply	11.0	11.0



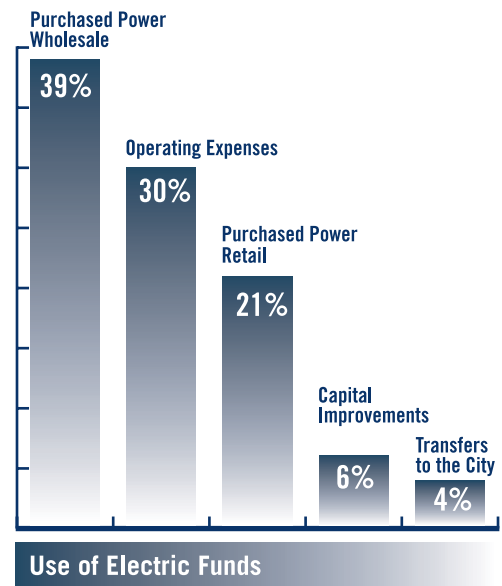
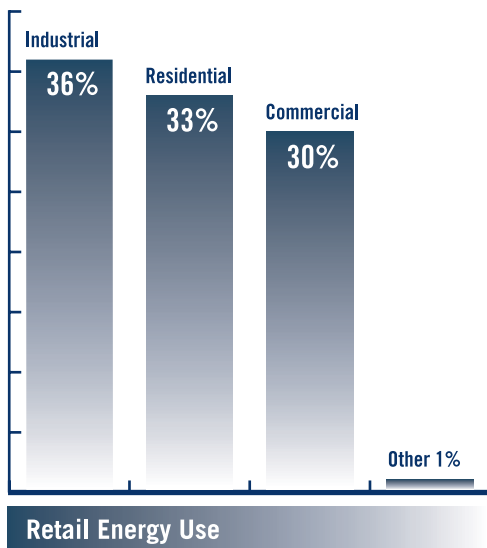


# Electricity



Year ended June 30

	2001	2000
<b>Number of Customers (average)</b>		
Residential	70,525	73,539
Commercial	12,172	12,692
Industrial	287	287
Others	16	16
Total customers of all classes	82,804	86,534
<b>Energy Use</b>		
Sales to ultimate customers (kilowatt hours)	1,088,096,000	1,086,111,000
Sales to other utilities (kilowatt hours)	467,055,000	279,166,000
Average annual kilowatt hours per residential customer	4,869	4,866
Net local generation capacity (kilowatts)	252,000	239,000




# Electric and Water Resources

are Essential Services  
for Every Community.

Electric and water resources are essential services for every community. Like community schools, parks and hospitals, as well as police and fire departments, Glendale's public water and power systems are rooted in the American tradition of local people providing for their basic community needs.

At GWP, we measure our success by how well we have strengthened our community through low rates, quality customer service and infrastructure development. This means that all the benefits of operating a public utility stay in Glendale. Through our General Fund Transfer, we help to fund vital police and fire services, as well as maintain more than 30 parks and six libraries throughout the City. By being stable and maximizing community resources, GWP helps to make Glendale a safe and desirable place to work and live.

Yet, the past year has seen upheaval in the electric and water utility industries never before experienced in this country—crises that could have threatened our community with shortages and rate hikes unheard of throughout our



*Nestled at the foot of the Verdugo Mountains, Glendale is the third largest city in Los Angeles County and spans over 30 square miles. Home to an ethnically diverse population of 200,000, Glendale is known for its rich history, natural beauty and commercial accomplishment. Community spirit is strong and quality of life is superior as a result of the City's focus on services, safety, neighborhoods, education and community involvement.*

nearly century-long service. To the last person, our employees were challenged in every direction—fighting to do more with less and even improving on our solid core of reliability and trusted customer service.

GWP employees strived continually to insulate the community from the volatility engulfing our industry, taught our customers how to save resources, kept our utility on an even financial keel and continued to improve our infrastructure... This is how we managed change to meet our challenges.

## Glendale Shines During Statewide Electricity Problems and Water Issues

During the past year, our challenge was to keep our customers insulated from the volatility of the State's energy markets and water regulations and continue to deliver reliable service. We met this challenge without having to institute a single rolling power blackout; in fact, we improved reliability and bolstered our aging electrical infrastructure. Several insightful decisions and financial strategies made in recent years contributed to this successful rarity among the State's utilities.

### Glendale Relies on Its Own Power Plant

As electricity deregulation and restructuring were hotly debated across California, GWP held several public forums and worked with City leaders to determine the community's best interest—to refrain from joining in on open access to the State's deregulated energy markets. These efforts resulted in the wise decision not to participate in deregulation that served the community throughout the year.

The situation in the State's energy markets forced a dramatic change in our perspective on owning an aging power plant. As we entered the 2000-01 fiscal year, we wondered whether the Grayson Power Plant was viable considering its inherent maintenance, efficiency and environmental issues. As the year closed, we realized that the plant had been our bulwark against the rolling blackouts and price spikes that plagued most of the rest of the State.



# Educating Tomorrow's Decision-Makers

*“Education is for improving the lives of others and for leaving your community and world better than you found it.”*

Marian Wright Edelman,  
American Author

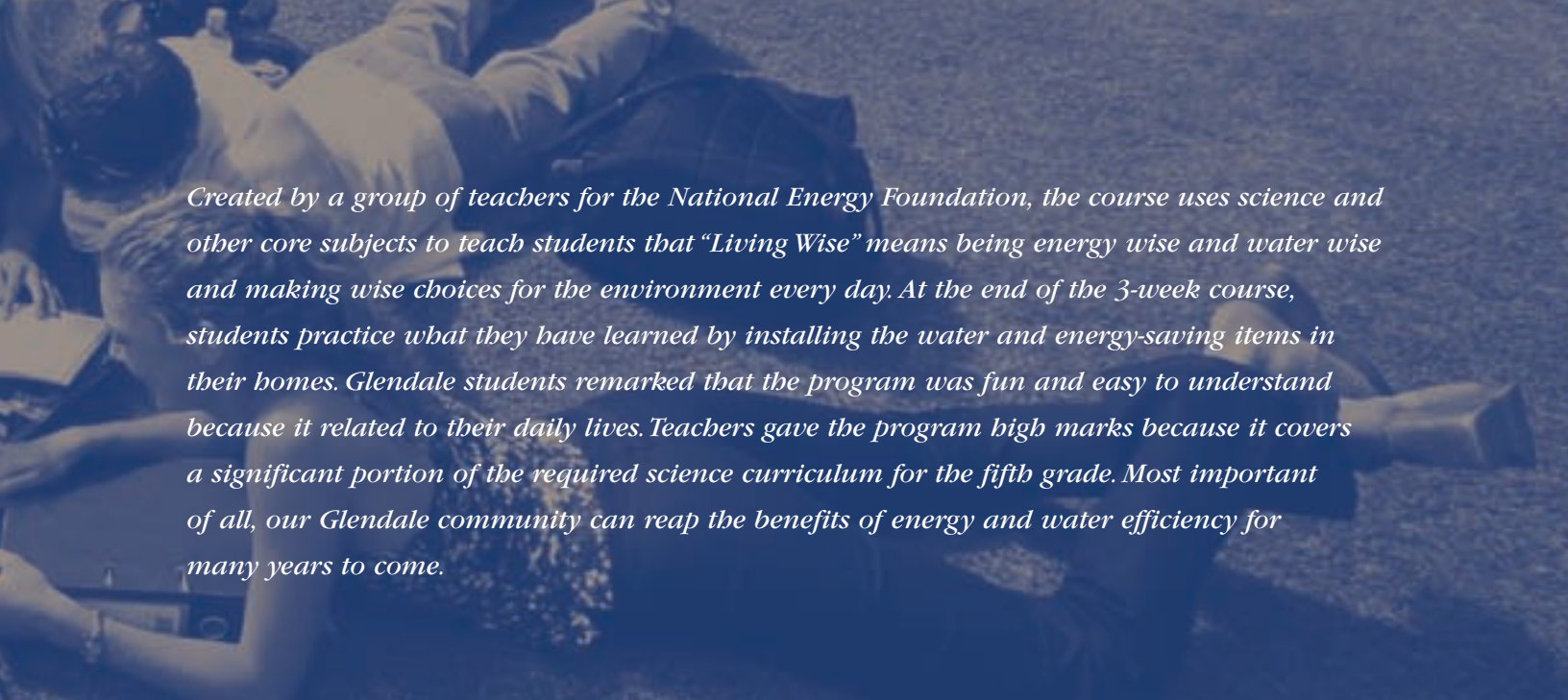
*Living Wise is a hands-on water and energy conservation program using both classroom and home-based activities. Funded by a grant from GWP’s “Power Partnerships” Program, it was offered as a pilot project to the Glendale Unified School District to be used in fifth grade classes this past school year. More than 800 Glendale Unified students and 21 teachers participated in the successful project.*



Not only did the plant help to keep the lights on in Glendale, it allowed us to generate our excess power into a volatile statewide energy market with a critical shortage of our product—made more expensive by skyrocketing fuel costs. This helped to offset our own increased costs and minimize electric rate increases for our customers.

To keep up with this change in the importance of the Grayson Power Plant, our challenge was to keep the plant running smoothly, improve its operations, add more efficient units to it and, most importantly, make sure we had the qualified staff needed to operate it.

The nationwide impact of massive changes in the electricity industry has created a shortage in senior journeyman-level employees needed to successfully run power plants. Early retirements, buyouts and normal retirements have decreased the ranks of qualified personnel. Now utilities need those experienced people back. At GWP, our senior people have always been “home grown”: often our employees are also our customers and members of our community. GWP’s solution to this challenge was, once again, an investment in training for our employees. This training was suited to our particular needs and will help us to maintain continuity as senior employees retire in the future.



*Created by a group of teachers for the National Energy Foundation, the course uses science and other core subjects to teach students that “Living Wise” means being energy wise and water wise and making wise choices for the environment every day. At the end of the 3-week course, students practice what they have learned by installing the water and energy-saving items in their homes. Glendale students remarked that the program was fun and easy to understand because it related to their daily lives. Teachers gave the program high marks because it covers a significant portion of the required science curriculum for the fifth grade. Most important of all, our Glendale community can reap the benefits of energy and water efficiency for many years to come.*

Layered over all power plant operations are environmental challenges. In an era of increasingly stringent environmental regulation, GWP must run the electric business successfully and improve the environment, not just meet standards. To meet these challenges, GWP has improved the flexibility of the power plant to come up to full operations to meet market demands while mitigating emissions levels. GWP administrators have worked continually with the City Council and the Utility Commission so that they understand all these challenges. In this way, they can provide their support and backing to help us do our job.

Several challenges shape our vision for the immediate future, such as rapid population growth, new high-rise construction, the San Fernando Road Corridor development and potential Disney Studios expansion. To meet these challenges, we must expand and improve the power plant and continue to deliver reliable service to our community.



# GWP Protected Customers

## from Volatile Energy Markets with a Diverse Resource Portfolio

Sweeping changes in the electricity industry brought some power providers to their knees during a period of unprecedented volatility. Generators began selling power on the spot market with the result of skyrocketing prices for four straight months. This period saw power that had averaged \$55 per megawatt-hour now averaging \$240, with spikes up to \$390 per megawatt-hour. At the same time, the natural gas used for generating electricity cost \$18 per MMBtu, where it had sold previously for \$4 per MMBtu. By the end of GWP's fiscal year in June, a downturn occurred in the cost of spot market purchases and natural gas, but not before many utilities experienced rolling blackouts and severe power shortages.

While GWP had decided early on not to participate with the State's Independent System Operator and was somewhat insulated from the volatility, we were still challenged by a variety of factors as we accessed power resources outside our system. Monitoring the statewide grid and market factors, controlling and operating our system operations, marketing our excess generation on the wholesale market and negotiating the best prices for purchased power and natural gas consumed our attention as we strived to keep the lights on for our customers.

Several different power resources allow GWP to serve customers: We use Grayson Power Plant when it is economically feasible, depending on the cost of gas. In addition, we receive supplies from long-term financial contracts with outside sources, especially Hoover Dam, Intermountain Power Project, San Juan Generating Unit #3 and Palo Verde Nuclear Generating Station. These long-term contracts are crucial compared to the spot market price of electricity—a factor that led to severe financial hardship for investor-owned utilities.



“Project Comfort” partners at The Glendale YMCA: Joe Flores (l), GWP Business Account Representative and Craig Kuennen (r), GWP Public Benefit Programs Coordinator, confer with YMCA President Bob Driffill.



Glendale seniors help celebrate "Project Comfort."

We formed a strategic market alliance with Coral Power. This proved to be a profitable association because of prices we were able to obtain when we marketed excess energy.

These profits were used to offset the shortfall in retail revenues caused by higher fuel and power costs.

GWP's challenge in the midst of this unprecedented volatility was to mitigate some of our risks and costs. We looked into risk management measures, and with City Council approval brought a risk management consultant on board. This allowed us to use hedging to offset or stabilize natural gas prices, explore futures and options and lock in prices for future delivery.

Our best investment was, once again, the investment in our employees. For six months our dispatchers at the Energy Control Center received training on safety and switching on our electric system.

## Serving the Community with Energy Efficiency

*As part of our public benefits program, GWP partnered with the YMCA of Glendale to embark on Project*

*Comfort, a major renovation of the Fitness Building at 130 N. Louise Street. The project aimed to provide community members with a cool, comfortable facility while reducing the YMCA's energy usage.*

*GWP contracted with Energy Masters to perform an energy audit of the facility and install rooftop exhaust fans that reduced humidity in the shower area, locker room, pool, gymnasiums and weight room. In addition, most lighting fixtures were replaced with new, more energy-efficient models that provide brighter, less expensive lighting. The final phase of the project will be the installation of a new 60-ton air conditioning unit by the end of 2001. The combined changes will deliver an annual savings of nearly \$30,000 in energy costs.*

# Partnering for a Brighter Future

*With their common vision of energy and water conservation, sustainable energy and community education, GWP and Glendale Community College formed a unique joint venture called “E3 Partners: Energy, Education and Economic Partners for a Sustainable World.” This project supports the incorporation of energy and water efficiency into the design and educational mission of the college’s new Cimmarusti Science Center:*

*Scheduled for an October 2001 groundbreaking, the Center will offer state-of-the-art education in science and mathematics. It will also host family science nights and educational outreach programs for educators and K-12 students in Glendale. Interactive displays showcasing the Center’s advanced energy and water conservation features will teach students and visitors about conservation, efficiency and renewable and sustainable energy. Those features include a centralized cooling plant, energy-saving lighting, insulation and windows and a water reclamation system. In addition, a 15-kilowatt solar panel array will use the sun’s energy to generate one third of the building’s power.*

*With an estimated 10,000 to 15,000 students and GWP customers visiting and participating in its events each year, the Center will be a valuable educational and cultural resource for all of us.*



GWP Director Ignacio Troncoso (l) presents a check for the E3 Partnership to Mary Hamilton and Dr. John Davitt, president of Glendale Community College.

They also received training from the Western System Coordinating Council on pre-scheduling loads on the western grid and handling system outages. Safety training was part of our employee investment, too, as dispatch supervisors led monthly safety meetings and senior dispatchers gave hands-on safety training.

This investment bore great dividends: Our employees made sure that we mitigated outages due to defective equipment. Our dispatchers could restore service faster and more safely than ever, and they continually surveyed the power market to reduce costs by buying the least expensive power available.



# The Electric Distribution System

## Delivered New Efficiencies and Cost Savings

During last fiscal year, the City allowed GWP to finance \$37 million in improvements to the infrastructure of our electric distribution system. This freed up funding to build new generation projects or to lower the cost of existing ones. This effectively shifted debt from generation to distribution, achieving a better balance. The debt service on the \$37 million in bonds was equal to what we were previously paying on the former bonds we paid off in 1999, meaning we could accommodate this debt payment with no change to the existing rate base.

We completed most of the conversion of the City's streetlights from high to low voltage. This conversion has both safety and efficiency benefits: lower voltage is safer to work on than high voltage, and maintenance on a low-voltage system only requires a one-person maintenance truck rather than a two-person team. This frees more employees to do other work.

We also converted several of our distribution circuits from 4,000 to 12,000 volts. This allows our distribution system to handle three times the load with the same size wires and reduces losses. In addition, many more distribution system controls have been automated through our Supervisory Control and Data Acquisition system, giving us greater real-time responsiveness and further bolstering reliability for our customers.

In a world of escalating prices and economic constraints, our challenge was to work more efficiently with fewer employees. We avoided layoffs by using natural attrition due to retirements and other circumstances. The answer was to invest in our employees with training to enhance their skill sets. For example, we cross-trained all our electric field construction employees to work on both overhead and underground distribution systems. This balanced the workload and made work flows more efficient. We no longer needed to stage jobs from one crew to another: the same crews now perform field construction jobs from start to finish.



# GWP Faced Water Issues

## with Continuing High Quality and Expertise



At the same time that volatility and unprecedented change confronted our electric resources and electric system employees, several issues challenged the resources and ingenuity of our water system employees. These included maintaining an aging water infrastructure built underneath an established community; complying with continually evolving Federal and State water quality regulations and getting through permitting and facility issues to start up a new groundwater treatment plant. Here, too, investment in training our employees made a difference, and despite all of these challenges, our community continued to enjoy the high-quality, reliable water service that is part of the Glendale tradition.

To meet the aging infrastructure challenge, we included more items in our strong capital improvement program: water mains, reservoirs and tanks, the electric system at pumping plants, water quality, SCADA controls and updating software and computer systems. In the next fiscal year, GWP's Water Section will continue installing new mains to improve delivery and water quality for our customers.

Water quality is an evolving issue, as more chemicals are increasingly regulated by a variety of State and Federal agencies. We met this challenge by staying on top of

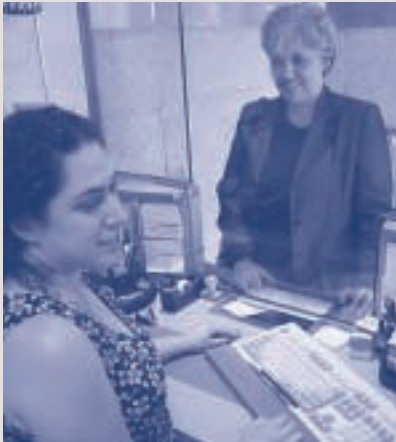
*“When several villages are united in a single complete community, large enough to be nearly or quite self-sufficing, the state comes into existence, originating in the bare needs of life, and continuing in existence for the sake of a good life.”*

Aristotle,  
Greek Philosopher

the regulatory requirements, as reflected in GWP's detailed water quality report. The greatest challenge in this area was the issue of chromium 6 in our groundwater supplies. This issue absorbed much of our time as we provided public information on the subject and performed technical studies on chromium 6 removal technology and cost.

In 2000-01 we began taking water from our groundwater treatment plant on a limited basis, but continued to monitor its usage and changing regulations for plants such as these. We continued to work through stringent permit regulations and put facilities and equipment in place to make the plant fully operational. Upon full use of these water resources, we will be able to offset the amount and associated costs of the water we purchase.

Training was a key component in the Water Section this year: Our supervisors attended management training, and we expanded training programs in many areas for our newer employees. In addition, we extended our apprenticeship program to include more new employees to replace those long-term



employees who may soon retire. Many Water Section employees must be State-certified to work on our system, so 22 of them enrolled for certification program classes. The combined impact of this training answered our shortage of staffing and equipped our management with skills to carry us successfully into the future.

## Customer Service Section Brought Efficiency and Education to the Community

To help the residents and business owners of Glendale to weather the challenges of energy and water issues, many of GWP's Customer Service Section employees invested their time and ingenuity into energy conservation programs and water quality. We created new positions for a marketing manager and a public



*“Every community is an association of some kind and every community is established with a view to some good; for everyone always acts in order to obtain that which they think good.”*

Aristotle,  
Greek Philosopher



benefits program coordinator and expanded GWP's public benefits programs. As a result, we engaged the participation of many Glendale constituents in such programs as energy audits, equipment and educational outreach in the City's schools and rebates for energy and water-efficient appliances. State funding of nearly \$1.1 million helped to support these efforts.

City facilities set an example for the rest of the community when several Glendale schools and City buildings received efficiency audits and retrofits through our programs. In addition, we upgraded the City's traffic signals with energy-saving LED technology.

Our commercial account representatives provided a single point of contact for our customers. They worked aggressively to inform the business community about the suitability of our efficiency programs for their operations and the rebates they could receive for retrofits.

Our outreach efforts also included *From the Source*, a new Citywide GWP newsletter. This bimonthly bill insert promoted customer programs and provided information on issues such as groundwater and blackout threats. It also let our customers know how GWP rates and services compared to the rest of the State and updated them on the revised rate structure and the fuel cost adjustment charge. GWP messages were also featured in radio and newspaper ads, press releases and other marketing tools and GWP booths appeared at several community events and functions.

Delivering this multifaceted outreach would not have been possible without the customer focus and dedication of the Customer Service Section team. They worked hard to adapt to change and meet the challenges they faced. Here again, GWP enjoyed the dividends of an investment in employees as our Customer Service team received training in customer service skills and policies and procedures. We also created a position for an internal communication and training coordinator and offered assistance to supervisors in leadership skills and performance reviews.

The result? In a year marked by unprecedented volatility and interrupted service in other utilities, our customers rated GWP very highly in a customer satisfaction survey. They know they can count on us.

# Water Business Operating Statistics

Fiscal Year Ended June 30, 2001

## Water Distribution System

Pumping plants	28 stations
Total water storage capacity (30 reservoirs & tanks)	185 million gallons
Chlorination facilities	13
Mains	378 miles
Gate valves	6,531
Meters	32,651
Firelines	853
Fire hydrants	2,843
Pressure zones	7 zones
Wells:	
San Fernando Basin	8
Verdugo Basin	5 plus pickup facility

## Water Treatment Plants

Verdugo Park Water Treatment Plant	2 MGD
Glendale Water Treatment Plant	7 MGD

## Recycled Water Distribution System

Pumping plants	6 stations
Total water storage capacity (5 reservoirs)	1.1 million gallons
Mains	20 miles

## Water Sources (Acre-Feet)

		% of Total supply
Metropolitan Water District	29,033	86
Local groundwater	3,242	9
Recycled water	1,664	5
Total supply	33,939	

<b>Customers &amp; Sales</b>	<b>2001</b>	<b>% of Total</b>	<b>2000</b>	<b>% of Total</b>
Number of customers:				
Residential	28,733	88	28,556	88
Commercial	3,265	10	3,245	10
Industrial	355	1	353	1
Others	298	1	296	1
Total	<u>32,651</u>		<u>32,450</u>	
<b>Sales (in hundred cubic feet):</b>				
Residential	9,979,234	75	9,878,100	75
Commercial	2,261,960	17	2,239,036	17
Industrial	199,585	1	197,562	1
Others (including recycled)	864,867	7	856,102	7
Total	<u>13,305,646</u>		<u>13,170,800</u>	
<b>Revenues from sales of water (\$):</b>				
Residential	20,818,137	75	21,089,188	75
Commercial	4,718,778	17	4,780,216	17
Industrial	277,575	1	421,784	1
Others (including recycled)	1,943,026	7	1,827,730	7
Total	<u>27,757,516</u>		<u>28,118,918</u>	

# Electrical Business Operating Statistics

Fiscal Year Ended June 30, 2001

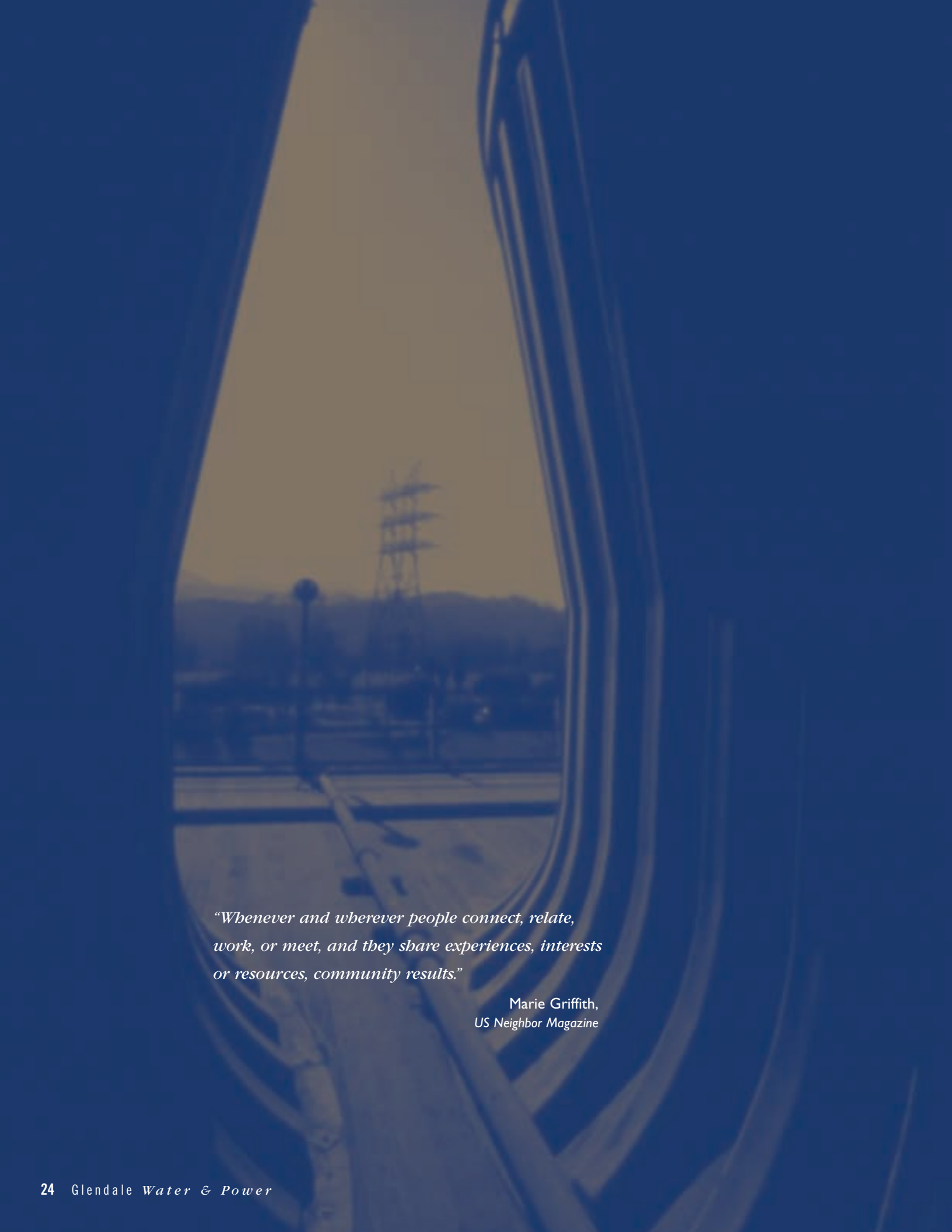
## Electric Distribution System

Meters	82,804	Padmount transformers	75
Receiving stations	1	Underground transformers	3,426
Generation/switching stations	1	Overhead transformers	5,526
Distribution stations	13	Underground lines (miles)	323
Poles	15,056	Overhead lines (miles)	221
Underground vaults	2,000	Streetlights	11,981

	Capacity Available (MW)	Actual Energy (MWh)	Percent of Total Energy
<b>Power Supply Resources</b>			
Glendale-owned generating facilities:			
Natural gas units (Grayson)	252	406,827	23
Joint power agency/remote ownership:			
IPP (IPA)	35	296,043	16
PVNGS (SCPPA)	10	78,149	4
San Juan Unit 3 (SCPPA)	20	159,558	9
Hoover	20	72,920	4
<b>Purchased Power:</b>			
BPA contract	20	70,857	4
Portland General Electric contract	50	155,847	9
Market purchases	—	554,552	31
Total	407	1,794,753	100
<b>Losses and Retail Sales</b>	—	1,140,653	64



<b>Power Generated &amp; Purchased (MWh)</b>	<b>2001</b>	<b>% of Total</b>	<b>2000</b>	<b>% of Total</b>
Generated	406,827	23	234,009	15
Purchased	1,387,926	77	1,320,335	85
Total supply	<u>1,794,753</u>		<u>1,554,341</u>	
Sales:				
Net retail system load	1,088,096		1,086,111	
Net wholesale system load	467,055		279,166	
System peak demand (MW)	284		287	
<b>Customers, Sales &amp; Demand</b>				
Number of customers:				
Residential	70,525	85	70,411	85
Commercial	12,172	15	12,376	15
Industrial	287	—	287	—
Other (Government)	16	—	16	—
Total	<u>82,804</u>		<u>83,065</u>	
<b>Megawatt-hour Sales:</b>				
Residential	358,473	23	357,819	26
Commercial	323,070	21	322,481	24
Industrial	397,336	25	396,611	29
Streetlighting	9,217	1	9,200	1
Total retail energy sales	<u>1,088,096</u>		<u>1,086,111</u>	
Wholesale sales to other utilities	467,055	30	279,166	20
Total energy sales	<u>1,555,051</u>		<u>1,365,277</u>	
<b>Revenues from Sales of Energy (\$):</b>				
Residential	44,990,320	17	41,384,454	32
Commercial	38,145,245	15	38,029,056	29
Industrial	35,211,072	14	34,567,926	27
Streetlighting	1,633,412	1	1,177,156	1
Wholesale sales to other utilities	138,518,537	53	13,839,514	11
Total energy sales	<u>258,498,586</u>		<u>128,998,106</u>	



*“Whenever and wherever people connect, relate, work, or meet, and they share experiences, interests or resources, community results.”*

Marie Griffith,  
*US Neighbor Magazine*

Glendale *Water & Power*

# Financial Statements

Annual Report 2000-2001





**The Honorable City Council of the City of Glendale, California  
Glendale, California**

We have audited the accompanying balance sheets of the Electric and Water Enterprise Funds of the City of Glendale, California (the City) as of June 30, 2001 and 2000, and the related statements of revenues, expenses and changes in retained earnings 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 audit.

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 opinion.

As discussed in Note 1, the financial statements present only the Electric and Water Enterprise Funds and are not intended to present fairly the financial position of the City and the results of its operations and the cash flows of its proprietary fund types 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 Electric and Water Enterprise funds of the City as of June 30, 2001 and 2000, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "McGladrey & Pullen, LLP". The signature is written in a cursive style and is positioned above a light-colored rectangular background.

Riverside, California

November 30, 2001

McGladrey & Pullen, LLP is an independent member firm of RSM International, an affiliation of independent accounting and consulting firms.

# Electric Fund - Balance Sheet

Years ended June 30, 2001 and 2000

<b>Assets</b>	<b>2001</b>	<b>2000</b>
Current assets:		
Cash and invested cash	\$ 125,857,868	\$ 90,182,780
Cash with fiscal agents	21,730,694	31,730,197
Imprest cash	3,200	2,800
Investment - Gas/Electric Commodity	3,000,000	—
Interest receivable	1,704,837	1,224,665
Accounts receivable, net	19,474,685	8,785,721
Unbilled receivable	8,666,800	7,871,817
Inventories	4,834,676	3,886,024
Prepaid items	1,566,663	1,450,265
	<u>186,839,423</u>	<u>145,134,269</u>
Total current assets		
Fixed assets:		
Land	1,847,259	1,847,259
Buildings and improvements	47,406,548	47,309,595
Machinery and equipment	237,275,801	232,566,506
Less allowance for accumulated depreciation	(160,433,514)	(152,484,484)
Construction in progress	25,432,500	16,395,971
	<u>151,528,594</u>	<u>145,634,847</u>
Total fixed assets		
Total assets	<u>\$ 338,368,017</u>	<u>\$ 290,769,116</u>

See accompanying Notes to the Financial Statements beginning on p.37.

	2001	2000
<b>Liabilities and Fund Equity</b>		
Current liabilities:		
Accounts payable	\$ 26,765,745	\$ 11,799,572
Contracts - retained amount due	702,511	611,826
Deposits	2,459,506	1,902,954
Other current liabilities	—	238
Accrued wages and withholdings	846,967	789,219
Compensated absence	1,304,157	1,256,063
Matured interest and principal	904,706	904,706
	<u>32,983,592</u>	<u>17,264,578</u>
Total current liabilities		
Long term debt:		
Bonds payable, net of current portion	37,000,000	37,000,000
Bond premium	163,014	—
Total long term debt	<u>37,163,014</u>	<u>37,000,000</u>
Total liabilities	<u>70,146,606</u>	<u>54,264,578</u>
Fund equity:		
Contributed capital	<u>28,409,392</u>	<u>28,409,392</u>
Retained earnings:		
Reserved for capital	12,514,189	13,771,996
Reserved for deregulation	32,350,438	19,756,454
Unreserved	194,947,392	174,566,696
	<u>239,812,019</u>	<u>208,095,146</u>
Total retained earnings	<u>239,812,019</u>	<u>208,095,146</u>
Total fund equity	<u>268,221,411</u>	<u>236,504,538</u>
Total liabilities and fund equity	<u>\$ 338,368,017</u>	<u>\$ 290,769,116</u>

See accompanying Notes to the Financial Statements beginning on p.37.

# Water Fund - Balance Sheet

Years ended June 30, 2001 and 2000

<b>Assets</b>	<b>2001</b>	<b>2000</b>
Current assets:		
Cash and invested cash	\$ 177,928	\$ 1,103,983
Imprest cash	1,000	1,000
Interest receivable	—	30,842
Accounts receivable, net	2,391,609	2,177,856
Unbilled receivable	1,741,000	2,387,997
Inventories	285,378	350,150
Prepaid items	19,584	19,584
	<hr/>	<hr/>
Total current assets	4,616,499	6,071,412
	<hr/>	<hr/>
Fixed assets:		
Land	622,568	622,568
Buildings and improvements	59,254,466	59,170,802
Machinery and equipment	35,907,891	35,447,574
Less allowance for accumulated depreciation	(36,582,065)	(34,614,294)
Construction in progress	4,107,488	1,924,599
	<hr/>	<hr/>
Total fixed assets	63,310,348	62,551,249
	<hr/>	<hr/>
Total assets	<u>\$ 67,926,847</u>	<u>\$ 68,622,661</u>

See accompanying Notes to the Financial Statements beginning on p.37.





	2001	2000
<b>Liabilities and Fund Equity</b>		
Current liabilities:		
Accounts payable	\$ 598,509	\$ 3,177,475
Contracts – retained amount due	27,216	68,250
Accrued wages and withholdings	91,429	95,208
Compensated absence	346,675	314,016
Deposit	655,923	343,765
	<hr/>	<hr/>
Total current liabilities	1,719,752	3,998,714
	<hr/>	<hr/>
Fund equity:		
Contributed capital	21,408,198	21,408,198
Retained earnings - unreserved	44,798,897	43,215,749
	<hr/>	<hr/>
Total fund equity	66,207,095	64,623,947
Total liabilities and fund equity	<u>\$ 67,926,847</u>	<u>\$ 68,622,661</u>

See accompanying Notes to the Financial Statements beginning on p.37.

# Electric Fund - Statements of Revenues, Expenses and Changes in Retained Earnings

Years ended June 30, 2001 and 2000

	2001	2000
Operating revenues - charges for services:	\$ 258,498,586	\$ 128,998,106
Operating expenses:		
Production	199,489,683	86,848,019
Transmission and Distribution	12,826,282	11,307,853
Customer accounting and sales	4,000,373	4,147,351
Administrative and general	1,445,428	—
Depreciation	9,881,875	9,788,188
Total operating expenses	<u>227,643,641</u>	<u>112,091,411</u>
Operating income	<u>30,854,945</u>	<u>16,906,695</u>
Nonoperating revenues (expenses):		
Interest revenue	10,052,856	5,412,666
Grant revenue	287,324	—
Other revenue	1,162,105	1,184,007
Contribution in aid	1,041,183	—
Total nonoperating revenues, net	<u>12,543,468</u>	<u>6,596,673</u>
Net income before transfers	43,398,413	23,503,368
Transfers out - General Fund	(11,681,540)	(10,845,000)
Transfers out - Capital Projects Funds	—	(150,000)
Net income	<u>31,716,873</u>	<u>12,508,368</u>
Retained earnings, July 1	<u>208,095,146</u>	<u>195,586,778</u>
Retained earnings, June 30	<u><u>\$ 239,812,019</u></u>	<u><u>\$ 208,095,146</u></u>

See accompanying Notes to the Financial Statements beginning on p.37.

# Water Fund - Statements of Revenues, Expenses and Changes in Retained Earnings

Years ended June 30, 2001 and 2000

	2001	2000
Operating revenues - charges for services:	\$ 27,757,516	\$ 28,118,918
Operating expenses:		
Production	19,213,781	17,295,871
Transmission and Distribution	1,801,001	1,889,541
Customer accounting and sales	1,053,852	1,291,913
Depreciation	2,335,570	2,162,729
	<u>24,404,204</u>	<u>22,640,054</u>
Total operating expenses		
Operating income	<u>3,353,312</u>	<u>5,478,864</u>
Nonoperating revenues (expenses):		
Interest revenue	109,821	68,213
Grant revenue	1,044,507	9,312
Other revenue	—	749,723
Contribution in aid	177,400	—
	<u>1,331,728</u>	<u>827,248</u>
Total nonoperating revenues, net		
Net income before transfers	4,685,040	6,306,112
Transfers out - General Fund	(3,101,892)	(2,863,235)
Net income	1,583,148	3,442,877
Retained earnings, July 1	43,215,749	39,772,872
Retained earnings, June 30	<u>\$ 44,798,897</u>	<u>\$ 43,215,749</u>

See accompanying Notes to the Financial Statements beginning on p.37.

# Electric Fund - Statement of Cash Flows

Years ended June 30, 2001 and 2000

	2001	2000
Cash flows from operating activities:		
Operating income	\$ 30,854,945	\$ 16,906,695
Depreciation	9,881,875	9,788,188
Other nonoperating revenue	2,203,288	1,184,007
Changes in assets and liabilities:		
Investment - Gas/Electric Commodity	—	123,120
Accounts receivable	(10,688,964)	6,933,757
Unbilled receivables	(794,983)	(1,411,817)
Inventories	(948,652)	(1,718,567)
Prepaid expenses	(116,398)	(666,701)
Accounts payable	14,965,935	6,840,752
Contracts - retained amount due	90,685	433,156
Deposits	556,552	(816,192)
Other current liabilities	(238)	238
Accrued wages and withholdings	57,748	(4,887)
Compensated absence	48,094	389,473
Deferred revenue	—	(112,634)
	<hr/>	<hr/>
Cash provided by operating activities	46,110,125	37,868,588
Cash flows from noncapital financing activities:		
Operating transfers out to general fund	(11,681,540)	(10,845,000)
Operating transfers out to capital projects fund	—	(150,000)
Operating grant received	287,324	—
	<hr/>	<hr/>
Net cash flow used in noncapital financing activities	\$(11,394,216)	\$ (10,995,000)

See accompanying Notes to the Financial Statements beginning on p.37.

	2001	2000
Cash flows from capital and related financing activities:		
Bond premium amortization	\$ 163,014	\$ —
Proceeds from sale of revenue bonds	—	37,000,000
Contributions in aid of construction	—	1,508,962
Acquisition of property, plant, and equipment	(15,775,622)	(21,540,834)
Investment - Gas/Electric Commodity	(3,000,000)	—
Interest paid	—	—
Principal payments - bonds payable	—	904,706
	<hr/>	<hr/>
Net cash provided by (used in) capital and related financing activities	(18,612,608)	17,872,834
	<hr/>	<hr/>
Cash provided by investing activities - interest received	9,572,684	4,886,873
	<hr/>	<hr/>
Net increase in cash and cash equivalents	25,675,985	49,633,295
Cash and cash equivalents at beginning of year	121,915,777	72,282,482
Cash and cash equivalents at end of year	<u>\$ 147,591,762</u>	<u>\$ 121,915,777</u>

See accompanying Notes to the Financial Statements beginning on p.37.

# Water Fund - Statement of Cash Flows

Years ended June 30, 2001 and 2000

	2001	2000
Cash flows from operating activities:		
Operating income (loss)	\$ 3,353,312	\$ 5,478,864
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	2,335,570	2,162,727
Amortization of bond premium		
Other nonoperating revenue	1,221,907	749,723
Changes in assets and liabilities:		
Accounts receivable	(213,753)	(500,525)
Unbilled receivable	646,997	(519,997)
Inventories	64,772	(128,383)
Prepaid items	—	(290)
Accounts payable	(2,578,966)	(395,858)
Due to other fund	—	(123,120)
Contracts - retained amount due	(41,034)	(94,078)
Accrued wages and withholdings	(3,779)	5,398
Compensated absence	32,661	(382,859)
Deposits	312,158	343,765
	<u>5,129,845</u>	<u>6,595,367</u>
Cash provided by operating activities		
Cash flows from noncapital financing activities:		
Operating transfers out to general fund	(3,101,892)	(2,863,235)
Operating grant received	—	9,312
	<u>(3,101,892)</u>	<u>(2,853,923)</u>
Net cash flow used in noncapital financing activities		
Cash flows from capital and related financing activities:		
Contributions in aid of construction	—	285,939
Acquisition of property, plant, and equipment	(3,094,671)	(2,962,448)
Net cash (used in) capital and related financing activities	<u>(3,094,671)</u>	<u>(2,676,509)</u>
Cash provided by investing activities - interest received	<u>140,663</u>	<u>39,048</u>
Net increase (decrease) in cash and cash equivalents	(926,055)	1,103,983
Cash and cash equivalents at beginning of year	1,104,983	1,000
Cash and cash equivalents at end of year	<u>\$ 178,928</u>	<u>\$ 1,104,983</u>

See accompanying Notes to the Financial Statements beginning on p.37.

## I. 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 Electric and Water Enterprise Funds.

### **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 which 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 Electric and Water Enterprise Funds (collectively, the Funds) are used to account for the construction, operation and maintenance of the City-owned electric and water utilities. The Funds are considered to be enterprise funds as defined under accounting principles generally accepted in the United States of America; accordingly, the accrual basis of accounting is followed by the Funds. The Funds’ operations are included in the City’s Comprehensive Annual Financial Report (CAFR), and therefore, these financial statements do not purport to represent the financial position or results of operations of the City.

### **Fixed Assets**

The fixed assets of the Funds are capitalized 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.

## Glendale *Water & Power*

A summary of the useful lives of the fixed assets of the Funds is as follows:

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### **Electric Works**

Production plant	20 to 50 years
Transmission & Distribution plant	20 to 50 years
General plant	10 to 50 years

### **Water**

Production plant	15 to 40 years
Transmission & Distribution plant	25 to 75 years
General plant	10 to 50 years

### **Inventories**

Inventories, consisting primarily of construction and maintenance materials and tools for Power Plant, Electric and Water, are carried at weighted average cost.

### **Compensated Absences**

The Electric and Water Businesses each has a fully funded liability for earned but unused accumulated vacation and overtime. As of June 30, 2001 and 2000, Electric Fund has \$1,304,157 and \$1,256,063, Water Fund has \$346,675 and \$314,016, respectively of the Electric and Water employees' earned unused accumulated vacation and overtime.

### **Post Employment Benefit**

Employees with sick leave accumulated over 100 days are entitled to cash surrender value at retirement in the form of medical insurance premiums at the rate of one sick day for each month of post employment medical insurance. As of June 30, 2001 and 2000, \$5,884,762 and \$5,628,320 respectively are recorded on the City's Internal Service Funds - Employee Funds.

### **Unbilled Receivable**

The Funds record utility services delivered to customers but not billed. As of June 30, 2001 and 2000 respectively, the Electric Fund's unbilled receivable is \$8,666,800 and \$7,871,817, the Water Fund's unbilled receivable is \$1,741,000 and \$2,387,997.



### **Deposits**

The Funds require all new or existing utility customers that have not or failed to established their credit worthiness with the Funds to place a deposit. The deposits are refunded after these customers establish their credit worthiness to the Funds.

### **Contracts - retained amount due**

The Funds record 10% of each progress payment on construction contracts. These retained amounts are not released until final inspection is complete and sufficient time has elapsed for sub-contractors to file claims against the contractor.

### **Reclassifications**

Certain items in the June 30, 2000 Statement of Revenues, Expenses and Changes in Retained Earnings and the Statement of Cash Flows have been reclassified to conform with the June 30, 2001 presentation. These reclassifications had no effect on net income or equity.

## **2. Cash and Invested Cash**

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. The Funds' interest in this pool is entirely insured or collateralized as of June 30, 2001. Income from the investment of pooled cash is allocated to Funds 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, \$125,857,868 and \$177,928 pertain to the Electric Fund and Water Fund respectively, for fiscal year 2001.

Invested cash is stated at the fair value. Increase (decrease) in the fair value of investments is recognized as an increase (decrease) to Interest Income Revenue. The City normally holds the investment to term, therefore no realized gain/loss is recorded.

## Glendale *Water & Power*

The carrying amount of the City's cash and invested cash at June 30, 2001, and reconciliation to amounts shown on the Combined Balance Sheet are as follows:

---

Cash and investments	\$ 479,939,342
Increase in fair value	3,700,686
Cash on hand	<u>(1,564,793)</u>
	<u>482,074,935</u>
Combined balance sheet	412,658,200
Cash and invested cash	69,303,474
Investment in street bonds	<u>113,261</u>
	<u>\$ 482,074,935</u>

At June 30, 2001, the carrying amount of the City's cash deposit totaled an overdraft of \$1,564,793 and the bank balance of the City's cash deposits maintained in financial institutions is \$4,304,957. The cash deposits are held by the City's agent in the City's name. The first \$100,000 of cash deposits are insured by the Federal Depository Insurance Corporation and the remainder are collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name. In accordance with State statutes, the City maintains deposits at those depository institutions insured by the Federal Deposit Insurance Corporation. The California Government Code requires California banks and savings and loan associations to collateralize the deposits of governmental entities by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of those deposits. California law also allows financial institutions to secure the deposits of governmental entities by pledging first trust deed mortgage notes having a collateral value of 150% of an agency's total deposits. The primary difference between the carrying amount and the bank balance are deposits in transit and outstanding checks.

The City is authorized by its investment policy, in accordance with Section 53601 of the California Government Code, to invest in the following instruments:

- Securities issued or guaranteed by the Federal Government or its agencies
- Bankers' acceptances, issued by the 20 largest domestic or the 50 largest international banks
- Commercial paper, rated A-1/P-1, secured by an irrevocable line of credit or government securities

In addition, the City invests in assessment bonds. These bonds are 1913 Street Improvements Bonds that only benefit an exclusive group of property owners. These bonds mature serially over nine years with semi-annual interest at the rate of 8% per annum due January 2 and July 2 each year and the principal due January 2 of each year. These investments are not liquid and therefore, are not included as cash equivalents.

In accordance with GASB Statement 3, cash deposits and investments, the City's investments are categorized, according to the following criteria, to give an indication of the level of risk assumed by the City at year-end:

**Category 1** includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name.

**Category 2** includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name.

**Category 3** includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the City's name.

## Glendale *Water & Power*

The following is the summary of investments as of June 30, 2001:

	Category				Fair Value
	1	2	3	Uncategorized	
<b>City-Held Investments</b>					
Street Assessment Bonds	\$113,261	—	—	—	113,261
U.S. Government Securities	—	279,328,970	—	—	279,328,970
Corporate Notes	—	56,268,488	—	—	56,268,488
Commercial Papers	—	15,991,283	—	—	15,991,283
Certificates of Deposit	100,000	2,400,000	—	—	2,500,000
Total City-Held Investments	213,261	353,988,741	—	—	354,202,002
<b>Trustee-Held Investments</b>					
U.S. Government Securities	—	69,303,474	—	—	69,303,474
Total Trustee-Held Investments	—	69,303,474	—	—	69,303,474
<b>Investment in Pool</b>					
California State Local Agency Investment Fund (LAIF)	—	—	—	60,134,252	60,134,252
<b>Total Investments</b>	<b>\$213,261</b>	<b>423,292,215</b>	<b>—</b>	<b>60,134,252</b>	<b>483,639,728</b>

The City participates in a voluntary external investment pool, the Local Agency Investment Fund (LAIF), which is managed by the State Treasurer. LAIF has oversight provided by the Local Agency Investment Advisory Board. The Board consists of five members as designated by State statute. The Chairman of the Board is the State Treasurer or his designated representative. The fair value of the City's shares in the pool approximates the fair value of the position in the pool.

At June 30, 2001 the City's pooled investments in LAIF in the amount of \$60,135,000 are not subject to custodial credit risk categorization. The total estimated fair value invested by all public agencies in LAIF is \$55,175,428,123. Of that amount, 95.49% is invested in nonderivative financial products and 4.51% in derivative financial products.

**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 electric utilities long-term debt as of June 30, 2001 consists of the following:

	Remaining Interest Rates	Original Issue	Outstanding June 30, 2001
Electric Revenue Bonds, 2000 Series	5.75%-6%	\$37,000,000	\$37,000,000

The Electric utility of Glendale *Water & Power* issued revenue bonds in February 2000 to finance the costs of acquisition and construction of certain capital improvements. The terms of the 2000 Electric Revenue Bonds’ (2000 Bonds) indenture requires the trustee to establish and maintain a reserve account equal to the reserve requirement. The reserve requirement of this bond issue is satisfied by a bond insurance policy with MBIA Insurance Corporation. This policy insured the bondholders up to \$1.46 million, which is 50% of the maximum debt service. The bonds mature in regularly increasing amounts ranging from \$690,000 to \$2,755,000 annually from 2006 to 2030. The 2000 Bonds maturing on or prior to February 1, 2010 are not subject to call and redemption prior to maturity. The 2000 bonds maturing on and after February 1, 2011 are subject to call and redemption prior to maturity, at a redemption price ranging from 101% to 100%.

## Glendale *Water & Power*

The following is a summary of bonds payable for the year ended June 30, 2001:

	Electric Fund
Bonds payable at June 30, 2000	\$ 37,000,000
Bonds retired	—
Bonds payable at June 30, 2001	<u>\$ 37,000,000</u>

The annual debt service requirements to amortize long-term bonded debt at June 30, 2001 are as follows:

Year Ending June 30	Principal	Interest	Total
2002	\$ —	2,171,000	2,171,000
2003	—	2,171,000	2,171,000
2004	—	2,171,000	2,171,000
2005	—	2,171,000	2,171,000
2006	690,000	2,171,000	2,861,000
2007-2030	36,310,000	29,938,000	68,938,000
	<u>\$ 37,000,000</u>	<u>\$ 43,483,000</u>	<u>\$ 80,483,000</u>

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

### 4. Pension Plan

Full-time employees of Glendale Water & Power (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 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 21.3 percent 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 are eligible to participate in CalPERS, and related benefits vest after five years of service. Upon five years of service, public safety employees who retire at age 50 and general employees who retire at age 55 are entitled to receive an annual retirement benefit. The benefit is payable monthly for life, in an amount equal to 2% of the employee's average salary during the last year of employment for each year of credited service. 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 annual financial report may be obtained from the CalPERS Executive Office at 400 P Street, Sacramento, CA 95814.

### **Funding Policy**

CalPERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments. According to the plan, City employees are required to contribute 7% of annual salary for general members and 9% of annual salary for public safety members. The City is also required to contribute at an actuarially determined rate; the current public safety rate and the current general employee rate is 0% of annual covered payroll, as the City's retirement is fully funded. The contribution requirements of plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

## Glendale *Water & Power*

### Annual Pension Cost

Contributions to CalPERS totaling \$7,832,356 were made during the fiscal year ended June 30, 2001 in accordance with actuarially determined contribution requirements through an actuarial valuation performed at June 30, 1998. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.25% a year compounded annually (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 3.75% to 14.20%, (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 two to five-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. CalPERS uses a modification of the entry-age-cost method in which 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.

### Three-year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/99	\$8,505,000	100%	0
6/30/00	\$8,423,000	100%	0
6/30/01	\$7,832,356	100%	0



## Required Supplementary Information

### Schedule of Funding Progress

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) as a Percentage of Covered Payroll <(a-b)/c>
06/30/1997	\$ 538,514,689	\$ 488,268,305	\$ 50,246,384	110.29%	\$ 84,525,937	59.44%
06/30/1998	635,145,075	527,710,053	107,435,022	120.36%	85,118,111	126.22%
06/30/1999	714,481,049	560,822,323	153,658,726	127.40%	91,017,813	168.82%

## 5. Self-Insurance Program

The City is self-insured for Workers' compensation claims. Workers' compensation insurance protection is provided through an internal service fund maintained by the City. The City is also self-insured for unemployment insurance, general auto and public liability through separate Internal Service Funds. The Internal Service Funds charge the Electric and Water Funds for their estimated share of the liability. At June 30, 2001 such liability has been fully funded to the City.

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, 2001 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.

## Glendale *Water & Power*

### 6. Reserved Retained Earnings

Excess capital surcharge revenue designated to retrofit the City's Grayson Power Plant as mandated by Air Quality Management for fiscal years 2001 and 2000 were \$12,514,189 and \$13,771,996. In addition, as part of the Electric operation's strategy to face deregulation, net revenues from electric wholesale power transactions of \$32,350,438 and \$19,756,454 were reserved for fiscal years 2001 and 2000. The purpose of these reserves is to accelerate debt retirement and to meet obligations from the "take or pay" contracts per Note 8.

### 7. Fixed Assets

A summary of the Electric and Water Fund Fixed Assets is as follows:

	Land	Buildings and Improvements	Machinery and Equipment	Total Plant in Service	Construction in Progress	Total
<b>Electric Fund:</b>						
Production plant	\$ 876,456	4,629,407	53,614,027	59,119,890	7,417,148	66,537,038
Transmission and Distribution plant	710,389	17,619,820	168,642,296	186,972,505	17,904,364	204,876,869
General plant	260,414	25,157,321	15,019,478	40,437,213	110,988	40,548,201
<b>Total Electric Fund</b>	<b>1,847,259</b>	<b>47,406,548</b>	<b>237,275,801</b>	<b>286,529,608</b>	<b>25,432,500</b>	<b>311,962,108</b>
<b>Water Fund:</b>						
Production plant	535,763	8,411,701	10,171,845	19,119,309	2,297,192	21,416,501
Transmission and Distribution plant	—	46,813,169	21,509,892	68,323,061	1,421,153	69,744,214
General plant	86,805	4,029,596	4,226,153	8,342,554	389,144	8,731,698
<b>Total Water Fund</b>	<b>622,568</b>	<b>59,254,466</b>	<b>35,907,890</b>	<b>95,784,924</b>	<b>4,107,489</b>	<b>99,892,413</b>
<b>Total Fixed Assets</b>	<b>\$ 2,469,827</b>	<b>106,661,014</b>	<b>273,183,691</b>	<b>382,314,532</b>	<b>29,539,989</b>	<b>411,854,521</b>

A summary of the changes in Electric and Water Funds Fixed Assets is as follows:

	Balance at July 1	Additions / Reclass	Retirements / Reclass	Balance at June 30
<b>Electric Fund:</b>				
Production plant	\$ 64,321,958	2,252,461	37,381	66,537,038
Transmission and Distribution plant	194,015,365	12,757,388	1,895,464	204,877,289
General plant	39,782,008	765,773	—	40,547,781
<b>Total Electric Fund</b>	298,119,331	15,775,622	1,932,845	311,962,108
<b>Water Fund:</b>				
Production plant	20,417,885	998,616	—	21,416,501
Transmission and Distribution plant	67,892,901	1,851,313	—	69,744,214
General plant	8,854,757	244,742	367,801	8,731,698
<b>Total Water Fund</b>	97,165,543	3,094,671	367,801	99,892,413
<b>Total before Accumulated Depreciation</b>	395,284,874	18,870,293	2,300,646	411,854,521
<b>Less Depreciation</b>	(187,098,778)			(197,015,579)
	<u>\$ 208,186,096</u>			<u>214,838,942</u>

## 8. Jointly Governed Organizations

The Electric Utility has entered into six “Take or Pay” contracts to provide for current and future electric generating capacity and transmission of energy for City residents. Through these contracts, the City purchased approximately 44% of its total energy requirements during fiscal year 2000-01. This energy will displace some of the energy that was to have been supplied by the local generating plant. The City is obligated to pay the amortized cost of indebtedness regardless of the ability of the contracting agency to provide electricity. The original indebtedness will be amortized by adding the financing costs to purchase energy over the life of the contract.

## Glendale *Water & Power*

The Intermountain Power agency, a subdivision of the State of Utah, was formed in January 1974 to finance the construction of a 1,680 megawatt coal-fueled generating plant consisting of two generating units located near Delta, Utah. The Electric Utility through contract is obligated for 27 megawatts or 1.7040% of the generation. In addition, the Electric Utility entered into an "Excess Power Sales Agreement" with the ICPA, agent for the Utah Municipal Purchasers and the Cooperative Purchasers, which entitles the Electric Utility to an additional share of 7 megawatts or 0.5016% through March 24, 2003. The total Electric Utility's obligation from Intermountain Power Project (IPP) is 34 megawatts.

The Electric Utility joined the Southern California Public Power Authority (SCPPA) on November 1, 1980. This authority, consisting of the California cities of Anaheim, Azusa, Banning, Burbank, Colton, Glendale, Los Angeles, Pasadena, Riverside, Vernon and the Imperial Irrigation District, was formed for the purpose of financing future power resources. The Electric Utility has entered into five projects with SCPPA. The first of the SCPPA projects is a 3,810 megawatt nuclear fuel generation plant in Arizona (Palo Verde). The Palo Verde nuclear project consists of three (3) units, each having an electric output of approximately 1,270 megawatts. SCPPA has purchased approximately 225 megawatts of capacity and associated energy (approximately 5.910% of total Palo Verde output), of which the Electric Utility receives 9.9 megawatts or 4.4000% of SCPPA's entitlement.

As required by the Participation Agreement, the co-owners of the Palo Verde Nuclear Generating Station (PVNGS) have created external accounts for the decommissioning of PVNGS at the end of its life. The market value of the Authority's accounts for decommissioning was approximately \$90,597 at June 30, 2001. Based on the most recent (1998) estimate of decommissioning costs, SCPPA estimates that its share of the amount required for decommissioning of PVNGS is approximately 74% funded. Under the forgoing assumptions, an additional \$31,831, of which Glendale's share is \$1,401, would be required for SCPPA to fully fund its share of decommissioning costs. No assurance can be given, however, that such amount will be sufficient to fully fund SCPPA's share of decommissioning costs. SCPPA anticipates receiving a new estimate of decommissioning costs every three years.

A second project financed through SCPPA is the Southern Transmission System that transmits power from the coal-fired IPP to Southern California. The 500 kV DC line is rated at 1,920 megawatts. The Electric Utility's share of the line is 2.274% or approximately 44 megawatts.

A third project financed through SCPPA is the acquisition of an ownership interest in Unit 3 of the San Juan Generating Station located approximately 15 miles northwest of Farmington, New Mexico. Members of SCPPA in this project consist of the Imperial Irrigation District and the California cities of Glendale, Azusa, Banning and Colton. SCPPA holds 41.8000% interest, the Public Service Company of New Mexico holds a 50% interest, and Tri-State G & T holds the remaining 8.2000% interest in the Unit. SCPPA members are entitled to receive approximately 204 megawatts of power from the 488 megawatt unit. The Electric Utility is obligated for 20 megawatts or 9.8050% of SCPPA's entitlement.

A fourth project financed through SCPPA consists of a 202-mile 500 kV AC transmission line from a termination in southern Nevada, to a termination in the vicinity of Adelanto, California and the development of the Marketplace Substation at the southern Nevada line termination approximately 17 miles southwest of Boulder City, Nevada. The initial transfer capability of the Mead-Adelanto Project is estimated at 1,200 megawatts. SCPPA members in the project are entitled to 815 megawatts. The Electric Utility is obligated for 90 megawatts or 11.0430% of the SCPPA entitlement.

A fifth project financed through SCPPA consists of a 256-mile long 500 kV AC transmission line from the Westwing Substation in the vicinity of Phoenix, Arizona to the Marketplace Substation approximately 17 miles southwest of Boulder City, Nevada with an interconnection to the Mead Substation in southern Nevada. The project consists of three separate components: the Westwing-Mead Component, the Mead Substation Component, and the Mead-Marketplace Component. The Electric Utility's participation shares in the components range from 11.7647% to 22.7273%. The Mead-Phoenix Project in conjunction with the Mead-Adelanto Project provides an alternative path for the Electric Utility's purchases from the Palo Verde Nuclear Generating Station, San Juan Generating Station and Hoover Power Plant. These transmission lines also provide access to the southwest U.S. where economical coal energy is readily available.

## Glendale Water & Power

A summary of the Electric Utility's "Take or Pay" contracts and related projects and its contingent liability at June 30, 2001 is as follows: (Note: all amounts are in \$000)

Project	Bonds and notes authorized	Bonds and notes sold and outstanding	Interest	Combined total debt service	City of Glendale percentage	City of Glendale obligations
Intermountain Power Project	\$ 4,442,017	4,168,732	2,971,3978	7,140,129	2.2056%	\$ 157,483
So. California Public Power Authority (Palo Verde)	1,071,347	853,955	230,855	1,084,810	4.4000%	47,732
So. California Public Power Authority (Southern Transmission System)	1,132,135	1,067,705	760,177	1,827,882	2.2740%	41,566
So. California Public Power Authority (San Juan Power Project-Unit 3)	237,375	204,560	110,833	315,393	9.8047%	30,923
So. California Public Power Authority (Mead-Adelanto)	280,655	233,070	163,480	396,550	11.0430%	43,791
So. California Public Power Authority (Mead-Phoenix)	90,635	73,625	51,431	125,056	14.5137%	
						18,150
						<u>\$ 339,645</u>

It is the opinion of management that the City will fully utilize the output for which it is obligated and that its obligation under the "Take or Pay" contracts should be recovered through utility fees.

### 9. Contingent Liabilities

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.

The Electric Utility is committed to purchase all available landfill gas generated by Scholl Canyon LFG Limited Partnership at a price based on various natural gas indices. The term of this commitment is for a

period of twenty years from July 1994 to July 2014. The landfill gas purchase for fiscal year 2000-01 was approximately 1,064,675 MMBtu and the average purchase price was \$8.85 per MMBtu.

The Electric Utility executed two power sale and exchange agreements in 1988. These agreements provide long-term obligations to provide and purchase energy and capacity from other utilities. The first agreement is with Bonneville Power Administration (BPA). The agreement extends for twenty years and operates in either a sale or exchange mode. Under the sale mode the Electric Utility is entitled to 10 megawatts annually, plus an additional 10 megawatts during the summer peaking period. The Electric Utility is required to purchase 73,000 megawatt hours of energy annually under this agreement. In the exchange mode, BPA (under periods of adverse hydro conditions) may elect to receive energy from the Electric Utility during off-peak hours in lieu of Electric Utility's monthly charges for this agreement. The second agreement is a twenty-five year power sale and exchange agreement with Portland General Electric Company (PGE). The sale portion calls for the Electric Utility to receive 20 megawatts of capacity and associated energy over the Pacific Northwest Intertie at its discretion. In exchange, the Electric Utility may call up to 30 megawatts during the summer months (June through September) and PGE may call for the same amount in the winter months. Energy cannot exceed 1,800 megawatt hours per week.

The City Council approved the Electric Utility's participation in the planning phase of the Magnolia Power Project. The Magnolia Power Project is a SCPPA-owned project, and will be financed through SCPPA. Currently seven members of SCPPA are participating in the initial phase of the Project—the California cities of Anaheim, Burbank, Colton, Glendale, Pasadena, Cerritos and San Marcos (Participants). Because of a significant and growing need in California to construct and operate new power generating facilities, the Participants have agreed to complete a preliminary study to determine the feasibility of constructing and operating a Power-Generating Facility (Facility) with a service capacity of approximately 250 to 315 megawatts. This Facility is to be located on the existing Magnolia power-generating site in the City of Burbank. If constructed, the Electric Utility anticipates executing another "Take or Pay" contract with SCPPA for approximately 20 megawatts. This planning agreement may be terminated at any time by agreement of all of the Participants or upon execution of a Joint-Ownership Agreement to construct the facility. The Electric Utility has agreed to pay 8.2644% of the Project's preliminary study and pre-construction costs up to a total of \$1,519,000.

### 10. Derivative Products

The City has entered into the following agreements, which represent derivative products:

- a. Beginning in April 2001, the City has negotiated a one-year basis swap transaction based on the commodity price of natural gas at the California border versus the commodity price of natural gas on the NYMEX. This transaction allows the City to stabilize the cost of a portion of its natural gas purchases based on a source of natural gas supply that would not be available to the City (i.e. NYMEX).
- b. The City has purchased and sold certain options (calls and puts) on natural gas futures contracts with negotiated strike prices in upcoming months. These contracts allow the City to effectively stabilize the price of natural gas for the City's power plant. This gives the City the ability to manage its exposure to forthcoming market fluctuations in the purchase price of natural gas.

### 11. Change in Accounting Policy

Beginning July 1, 2000, GWP adopted Government Accounting Standards Board (GASB) Statement No. 33, Accounting and Financial Reporting for Non-exchange Transactions. GASB Statement No. 33 requires that governments record and report assets, liabilities, revenues and expenditures for the four types of non-exchange transactions, including restating prior financial information.

Additionally GASB Statement No. 33, Accounting and Financial Reporting for Non-exchange Transactions, requires the GWP to recognize capital contributions to proprietary funds as revenues, not contributed capital. However, governments should not restate contributed capital arising from periods prior to implementation of this Statement until GASB issues one or more Statements requiring restatement of those prior-period balances. Therefore, capital contributions received during the year ended June 30,



2001 were reflected in the Statements of Revenues, Expenses and Changes in Retained Earnings under nonoperating income as contributions in aid.

There was no significant effect on the GWP's fund balance as of June 30, 2001 as a result of the adoption of this standard.

## 12. Pronouncements Issued but Not Yet Adopted

In June 1999, the GASB issued Statement of Governmental Accounting Standards No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments. This Statement establishes a new financial reporting model for state and local governments. The GWP will have to disclose the details about the full cost of providing government services and to allocate expenses and revenue to allow calculation of net costs program by program. The GWP will also need to report all capital assets and begin to track depreciation on these items year to year. The GWP will be required to implement the new financial model for its fiscal year ending June 30, 2002. However, for purposes of the retroactive reporting of major networks and subsystems of general infrastructure assets, the GWP will be required to implement this reporting as of fiscal year ending June 30, 2006. The GWP has not completed its assessment of the effect that the adoption of Statement No. 34 will have on its financial statements.

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