

Glendale Water & Power



**THE NEW GWP**

*Looking to the Future*

2001-2002 Annual Report



# Glendale Water & Power

## 2001-2002 Annual Report

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## The New GWP - Looking to the Future

The September 11 attack was a wake-up call for the whole country – the threat of terrorism is more dangerous than we thought. It reminded us that our water and power services to the community have a great impact on each individual. We can't stop the threat entirely, but we can make our facilities as inaccessible and secure as possible by increasing our vigilance.



We are also continuing to address water quality testing and the ever-increasing Federal and State water quality regulations, and are now looking at security issues. We need to balance all these elements to minimize risk.

The intent of electricity deregulation was for the State's power grid to provide cheap and readily available power, meaning that we would buy a greater proportion of our power and rely on our own power plant as a backstop. Now there has been a shift in the whole electricity market. GWP has to retool into a generation organization for the long term and build new generating units while still maintaining high efficiency and lower emissions.

We're also preparing for a new era in energy trading. The energy trading scandals in our industry resulted in a meltdown in the past several years that has actually been good for the industry, but creates a new level of uncertainty in energy markets. GWP is increasing its level of sophistication in trading skills and risk management. As a result of acquiring these trading skills, we were able to decrease rates from an average of 13.5 to 12 cents per kWh.

GWP will, in the near future, have to deal with its aging infrastructure—water pipelines and reservoirs, power poles, lines and transformer vaults. It's easy to take this infrastructure for

granted because it can quietly decay in the background, but we've watched some of our service eroding over time due to this aging. For example, we must be able to deliver the volume of water needed for the City's fire fighting system, and that's hard to do with water mains that have narrowed due to mineral deposits. As a result, we have initiated a massive inspection, planning and rebuilding program for our water and power infrastructure.

All of this rebuilding and retooling will require a new emphasis on people: more training, better safety systems and an upgrade of capabilities. We're emphasizing our skills inventory and instituting training for our employees, so that in the near future our whole organization will be well-versed in every aspect of our operations and have the skills to deliver the best possible service to our customers. We are making safety a more universal theme—creating a culture of safety that won't accept any accidents.

With our secure facilities, our assured water and energy resources and our trained and motivated workforce—all backed by our sound financial situation—GWP can embrace the future head on, continuing our tradition of quality service to the community.



Ignacio R. Troncoso

Director of Glendale *Water & Power*



# Fiscal Highlights

## WATER

Year ended June 30

	2002	2001
<hr/>		
<b>GALLONS IN BILLIONS</b>		
Sales	10.4	9.5
<hr/>		
<b>DOLLARS IN MILLIONS</b>		
Revenue <sup>(1)</sup>	30.2	29.0
Operating Cost	23.7	24.4
Transfers to the City of Glendale	2.8	3.1
Net Income	3.7	1.5

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

In an increasingly complex world, Glendale *Water & Power* makes delivering reliable, high-quality water and power services seem simple. Once again in 2001-2002, this community-owned enterprise organization reinforced its nearly 100-year-old tradition of cost effectiveness, competitive rates, and fiscal responsibility as it generated revenues from the sale of water and electricity—and reinvested them in Glendale through its \$14.1 million transfer to the City's general fund. In this way, GWP also provided this third-largest city in Los Angeles County with vital police and fire protection services, along with other important community enhancements such as parks and libraries.

This same fiscal responsibility and expertise gave GWP the ability to manage energy costs resulting in a 27 percent reduction in electric operating costs. Similarly, GWP reduced water





## ELECTRIC

Year ended June 30

	2002	2001
<hr/>		
KILOWATT HOURS IN MILLIONS		
Sales	1,073.0	1,088.1
<hr/>		
DOLLARS IN MILLIONS		
Revenue <sup>(1)</sup>	201.5	271.0
Operating Cost	165.7	227.6
Transfers to the City of Glendale	11.1	11.7
Net Income	24.7	31.7

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

operating costs during the same period, while once again earning the elite ranking as one of 25 cities in the nation with a “Class 1” water and fire response rating. Awarded by the Fire Insurance rating services, this highest possible designation is awarded to water utilities and fire departments that have earned superior ratings for both fire service and water supply.

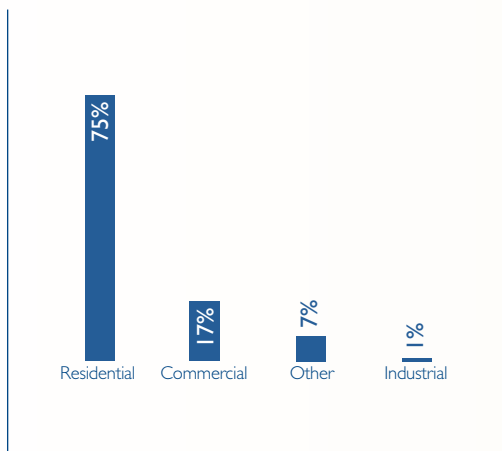
As it continued its sound financial traditions, GWP looked to the future and state-of-the-art technology to continue revamping its infrastructure and assure reliable water and power resources for generations to come. Herein lie the challenges for the near future: to secure and continue delivering crucial services to the community at competitive rates while replacing aging infrastructure and protecting the environment. By re-investing in its employees through extensive training, GWP will have the collective expertise to make these challenges seem simple, too.

# Facts in Brief

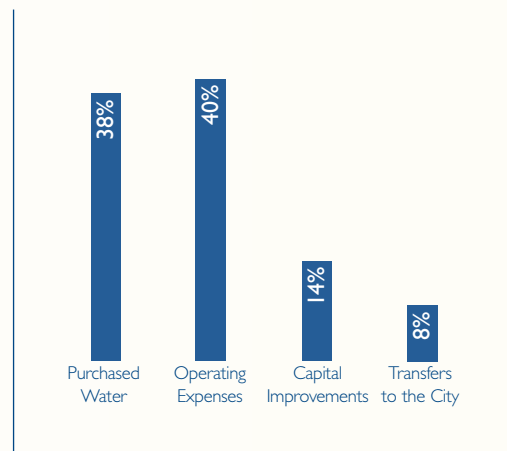
## WATER

Year ended June 30

	2002	2001
<b>Number of Customers (average)</b>	32,478	32,651
<b>Use of Water</b>		
Average Glendale population served	200,000	200,000
Average daily use per capita (gallons)	143	136
Water sales for fiscal year (billions of gallons)	10.4	9.5
Average daily demand (millions of gallons)	27	26
<b>Water Supply (billions of gallons)</b>		
Groundwater	2.8	1.0
Recycled water	0.5	0.5
Metropolitan Water District (California and Colorado River Aqueducts)	8.5	9.5
Gross Supply	11.8	11.0

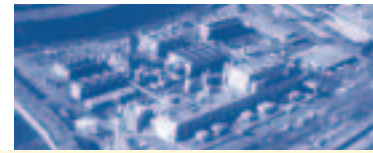


Water Use



Use of Water Funds

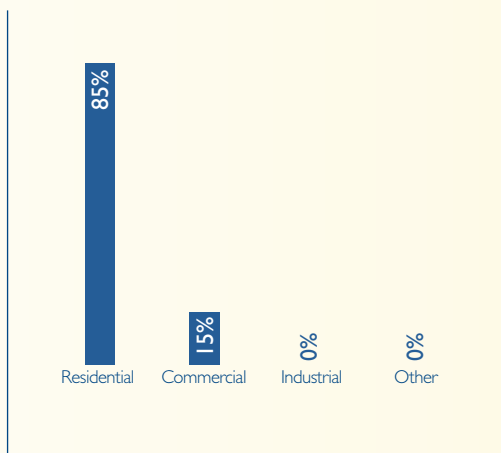




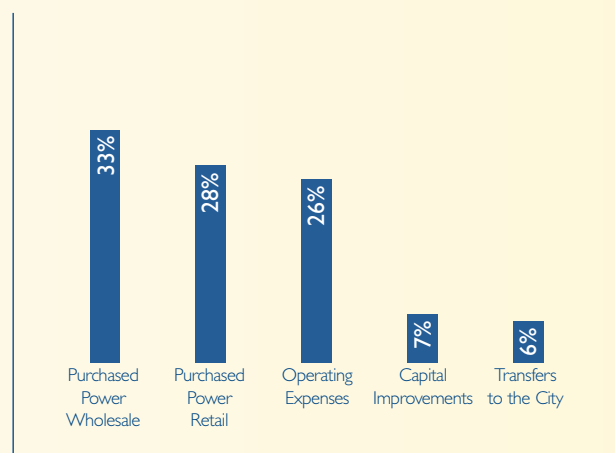
## ELECTRICITY

Year ended June 30

	2002	2001
<b>Number of Customers (average)</b>		
Residential	70,344	70,525
Commercial	12,265	12,172
Industrial	218	287
Others	18	16
Total customers of all classes	82,845	83,000
<b>Energy Use</b>		
Sales to ultimate customers (kilowatt hours)	1,073,028,000	1,088,096,000
Sales to other utilities (kilowatt hours)	530,879,000	467,055,000
Average annual kilowatt hours per residential customer	5,132	4,869
Net local generation capacity (kilowatts)	252,000	252,000



Retail Energy Use



Use of Electric Funds



# The New GWP

## *Looking to the Future*

Discussions about “looking to the future” may conjure up images of turbaned seers gazing into crystal balls or poring over tea leaves. But at Glendale Water & Power, the key to the future cannot be found in the bottom of a teacup. Solid research and planning, mixed with concern for the community, are the ingredients that GWP uses to create a vision for the future.

The vision is necessary for GWP’s continued success, but it doesn’t stop there. The future of GWP employees, the community, the entire water and power industry and even the environmental well-being of our planet are all dependent on a thoughtful vision for the future. With so much at stake, the plans GWP has in the works today are essential.

*“One generation plants the trees; another gets the shade.”*

*Chinese proverb*

GWP will continue to provide reliable, low-cost water and electric service to Glendale’s 200,000 residents while maintaining its status as a self-supporting entity. Since its beginning in 1909, GWP has taken no money from the City’s General Fund to provide services. As a matter of fact, GWP transfers money to the City’s General Fund to provide vital police and fire service and to maintain more than 30 parks and six libraries throughout the City. GWP will carry on these traditions of reliability and self-sufficiency while it looks to the future to create the new GWP, ready to meet the challenges of an evolving market and a changing world.

### **Reliability a Key GWP Component**

#### *Yesterday, Today and Tomorrow*

Glendale Water & Power customers take for granted that a flick of a switch will illuminate a room or the twist of a faucet will release the flow of water. When other communities experienced rolling blackouts, GWP customers never had to ask, “Where were you when the lights went out?”

But residents and businesses aren’t the only ones that count on GWP’s reliability. Essential services such as fire and police protection depend on GWP services to ensure the security and safety of the City of Glendale.

Because GWP knows that the security, safety and comfort of its customers are at stake, the utility is investing in **infrastructure, resources** and **people** so that it can continue the high degree of reliability Glendale customers expect. Reliability requires short- and long-range planning, continuous maintenance by knowledgeable GWP staff and a willingness to incorporate new technological advances as they become available.

### **Infrastructure**

Grayson Power Plant, the source of GWP's home-grown electricity, is the key to the reliability of GWP's power service. The ability to generate enough power to "keep the lights on" in Glendale in the event of an emergency has been an integral part of the GWP master plan since the plant was constructed. Even after the 1994 Northridge earthquake, customers were back online in a few hours, as compared to days of darkness in other communities.

To keep the lights burning brightly, the utility made retrofitting and replacement of parts of the aging Grayson Power Plant a top priority in 2002. In February 2002, the Glendale City Council approved GWP's Electric Resource Plan, which identified replacement of two generating units with a single gas turbine unit by fall 2003. This 49-megawatt unit will be more efficient and reliable and will produce fewer emissions than the older units. GWP also completed retrofits of Unit 8a and 8b/c with selective catalytic reduction controls to be able to continue to operate these units and still meet emission limits.

In collaboration with the South Coast Air Quality Management District (SCAQMD), innovative emission controls are being added on a boiler with expected operation by summer of 2003. SCAQMD further granted two 30 KW Capstone microturbines that were installed at the Grayson Plant. Generation from these units is being monitored under a research program administered by the SCAQMD in association with the University of California, Irvine.

In addition, the Electrical Services Section completed the conversion of the distribution grid in northern Glendale to 12kV. This makes the distribution system more efficient by reducing transmission losses. The Section also added a new 12kV



## The New GWP: Planning for the Future

The future is here and now for Glendale *Water & Power*. From pipelines and poles to policies and procedures—this municipal utility spent the last fiscal year taking a good, hard look at its infrastructure and internal operations. The result was a detailed master plan that will carry it into a new era as a provider of vital water and electricity service for the City of Glendale.

### Water and Power Operations Center

- Perform an analysis of warehouse requirements and inventory control
- Build a multi-story employee parking lot and new superintendent's building
- Relocate the recycling center

### Electric Services

- Continue upgrading the Supervisory Control and Data Acquisition system
- Use the fiber optic backbone

### Grayson Power Plant

- Build a new, clean-burning 49-megawatt generating unit

### Water Services

- Modernize the aging water infrastructure
- Expand financial resources and staffing
- Provide extensive training

### Customer Service

- Improve efficiency and core processes
- Implement state-of-the-art technical tools

All of the proposed changes are designed to equip GWP for the future.

transformer and switches at the Rossmoyne and Western substations and replaced old cable in Glenoaks and Scholl canyons.

As further strategies to improve system reliability, GWP increased the contracts for tree trimming and instituted a shorter Citywide trimming cycle to reduce tree-caused outages. In addition to operation and maintenance, the utility also took over ownership of the City's streetlight system. The utility is also upgrading the System Control and Data Acquisitions system that remotely controls reservoirs or distribution stations, and controls the flow of water or electricity.

GWP began a massive effort to upgrade its aging water infrastructure, replacing smaller pipes and eliminating decades-old, water-choking deposits in the larger ones.

All of these improvements and replacements improve reliability while reducing costs to customers.

### Resources

In an age of chaotic energy markets, GWP has still been successful in obtaining reliable generation resources for its customers while managing energy costs. In addition to honing its expertise in energy forecasting and marketing, GWP formed a risk management task group including representatives from various other City departments. This group helps to assure that GWP can meet the City's energy needs with the least financial risk to the community.

GWP's Energy Resources Section tries to fulfill 80 percent of GWP's retail electricity needs with fixed-price, long-term contracts, limiting purchases on the open market to only 20 percent of its resources mix. By improving the reliability and lowering the emissions level of its City generating resources and carefully purchasing the natural gas that fuels them, GWP further reduces the City's exposure to price volatility.

## G W P A T W O R K

*At Camp Max Strauss, GWP's Hector Gutierrez helps Facilities Manager Bruno Molina relamp with energy efficient alternatives. The Smart Light Solutions program funded nearly the entire cost of the camp's extensive lighting retrofit.*



On the water side, GWP is gradually scaling back water purchases and further developing and conserving local City water resources—again with an eye toward water reliability and cost effectiveness.

## People

Because the system is only as reliable as the people who run it, GWP continues to invest in the training of its employees with an emphasis on cross-training, upgrading of capabilities and safety awareness and compliance programs.

At the same time GWP is instituting training programs to improve employee skills inventories. When the entire organization is well versed in every aspect of operations, it can deliver the best possible customer service.

GWP reorganized field outreach by bringing in two full-time safety supervisors and a full-time trainer. In addition, the utility continues to recruit and train apprentices at Los Angeles Trade Tech College.

## Service is Key to the Future *of the GWP Customer*

Glendale *Water & Power's* goal in the past, present and future is to meet the needs of customers.

Now, with a new, user-friendly web site, GWP customers can access their account, look at water and electric usage and compare it to others in their neighborhood. They can also use the web site to learn about a variety of ways they can save water and energy.

Because its customers lead busy lives, GWP tries to make mundane activities such as paying the water and power bill as simple as possible. Customers can still mail in a check to a payment center, but now they can also pay bills online with a credit card, over the phone with a credit card or in person at GWP's customer window or drop box.

At the same time, to serve customers better, GWP is continually training employees in policies and procedures, technical skills and customer service skills.

## The New GWP: Increased Security

In response to the terrorist attacks of September 11, 2001, Glendale *Water & Power* has made system security a top priority.

"We can't stop the threat entirely, but we are increasing vigilance to make the facilities as inaccessible and secure as possible," said Ignacio Troncoso, Director of Glendale *Water & Power*.

The company plans to expand safety by elevating awareness, improving performance and providing neighborhood awareness training. GWP will also create a new dispatch center that will increase power and water system reliability while increasing security.



**The New GWP:  
Predicting the Future  
with Energy**

If anyone at Glendale's municipal utility needs a crystal ball, it has to be the Energy Resources Section. Tasked with buying and selling power in today's volatile energy markets, these visionaries need to predict everything from the energy-consuming needs of their customers and the pace of growth in Glendale to the weather forecast for the next 12 months.

"We know our customers and our City," declared Larry Silva, GWP's Principal Electrical Engineer. "We also know how to look forward and apply historic growth and weather patterns to forecast the cost of our generation and the fuel needed to create it." Weather patterns have a huge impact on the use of electricity—as summer temperatures escalate, so does air conditioning use, putting great demands on the City's power resources.

By honing energy trading skills, GWP will assure reliable, cost-effective power resources for the foreseeable future.

## Changing Times Demand

### *Changing Wholesale Marketing Practices*

At the outset of deregulation, the State of California's power grid was expected to provide cheap and reliable power. At that time, the intent was to buy the bulk of this low-cost power from the state and use GWP's self-generated power as a backup.

The partial failure of the deregulation experiment prompted a transformation of GWP into a power generation organization. GWP is also preparing for a new era in energy trading by increasing its level of sophistication in trading skills and risk management, resulting in a direct, beneficial impact on customer rates.

Several different power resources allow GWP to serve customers cost effectively. The utility can control costs by attempting to purchase 80 percent of its energy needs at a fixed cost and only 20 percent on a float basis, where the cost is not controlled.

GWP uses Grayson Power Plant when it is economically desirable, depending on the cost of the natural gas that fuels it. In addition, the City receives supplies from long-term power contracts with outside resources, especially Hoover Dam, Intermountain Power Project, San Juan Generating Unit #3 in New Mexico and two power sales contracts with Northwest Utilities, Bonneville Power Authority and Pacific Gas and Electric. These long-term contracts are crucial to keeping energy costs down, as compared to purchasing electricity at the spot market price—a factor that led to severe financial hardship for investor-owned utilities.

## **G W P   A T   W O R K**



*Glendale resident Karen Swett measures water flow in her tap as part of GWP's Home Audit program. Her husband, Peter Marston (l), discusses potential water savings with auditor Josh Gould.*



## **The Continued Flow of Quality Water** *Requires a Look to the Future*

Glendale residents and businesses depend on more than the flow of water. Customers count on the fact that a turn of the tap produces water that is clean, clear and pure.

To make sure that it maintains the high quality standard of its drinking water, GWP continually monitors the water supply with state-of-the-art equipment. Each month, GWP conducts more than 200 different tests on the water supply and reports these results to the State Department of Health Services. The utility prides itself on delivering water that consistently meets and often exceeds the quality required by all Federal and State water safety standards. In 2001, the Consulting Engineers Association recognized this high level achievement by conferring an award of excellence on the new Glendale Water Treatment Plant.

The tests conducted each month look for contaminants such as chromium 6. Uneasiness about the lack of information concerning health effects of chromium 6 prompted the Glendale City Council to initially limit the chromium 6 level in GWP water to 1 part per billion (ppb), far lower than the total chromium Federal standard of 100 ppb and the State standard of 50 ppb.

GWP spent more than 18 months in negotiations with the U.S. Environmental Protection Agency (EPA) and the San Fernando Water Master (the organization responsible for regulating the flow of water into the Los Angeles River) to resolve the chromium 6 matter and enable the utility to begin using the treated water. After assurances from the EPA and the State Department of Health Services that the level of chromium 6 in the treated water is safe for the health of Glendale citizens, the Glendale City Council and GWP reached an agreement with the EPA and the San Fernando Water Master. Water from GWP's treatment plant would be blended with the Metropolitan Water District's current water supplies. The new goal set for the blended water is 5 ppb, still far below the Federal and State standards by a factor of 10. With funding from the Federal government and local resources, GWP has also been involved in studying the health affects of chromium 6 in water supplies and began to develop technology for removing it from the water.





**The New GWP:  
Meeting Water Needs**

Glendale *Water & Power* has released its plan to meet a goal of 40 percent locally produced water, with the remaining 60 percent imported from the Metropolitan Water District.

To meet the 40 percent local water production goal, GWP plans to increase the use of recycled water, use all available treated water from the Glendale Water Treatment Plant and water from our Verdugo Basin water reserves, and use water wisely and efficiently by following water conservation methods.

During FY 2001-02, Southern California coped with the driest rainfall season over the past century. In response, GWP expanded its water conservation plan, completed a four-year program of reservoir and tank rehabilitation and developed new operating procedures.

By increasing the amount of water produced locally, the impact on Glendale water customers can be lessened during a statewide water drought because of the corresponding reduction in dependence on imported water. Mandated water rationing percentages are passed on to Glendale by the Metropolitan Water District (MWD), our regional water wholesaler, in response to cuts in the amount of water delivered by the State Department of Water Resources. Because imported water is transported hundreds of miles (from Northern California and the Colorado River), the cost of that water is higher than the cost of our locally produced supplies.

**G W P   A T   W O R K**



*GWP's Business Energy Solutions program funded 25 percent of an energy retrofit at 500 N. Central, managed by Layton Belling & Associates. The project included a lighting retrofit, variable-speed drives on the HVAC system, and energy-saving carbon monoxide sensors in the parking structure. Pictured are Maria Bastides, assistant property manager, and Tony Warren, chief engineer.*



*Here at 801 N. Brand Blvd., Commonwealth Partners replaced a chiller, retrofitted lighting, and installed variable speed drives and a building-wide energy management system, all with the help of a 25 percent financial incentive from GWP's Business Energy Solutions program. Pictured are Travis Addison (l), property manager, and John Smith, chief engineer.*

## Conservation and Environmental Protection *are Crucial to the Future of the Community*

Glendale Water & Power is assuring the future of the community and the planet by encouraging residents and businesses to conserve energy; by making it easy for residents to safely dispose of hazardous materials; and by practicing energy efficiency and environmental protection in its business practices. A new environmental quality program recently implemented at GWP focuses on continual improvement in all of the utility's operations.

*"I recognize the right and duty of this generation to develop and use our natural resources, but I do not recognize the right to waste them, or to rob by wasteful use, the generations that come after us."*

*Theodore Roosevelt, 26th President of the United States*

GWP's annual hazardous waste roundup drew a record crowd of over 1,200 local residents' to turn in old oil, paint, batteries and other hazardous wastes. By making it easy and convenient for residents to dispose of these waste products, GWP can ensure that the hazardous materials don't seep into the groundwater.

GWP is leading efforts in pollution prevention and storm water runoff control through the use of best management practices. In addition, GWP is on the leading edge in using alternative, low-emission fuel for its fleet of trucks. The utility became one of the few facilities in the country to power its vehicle fleet with recycled soybean oil-diesel blend, a fuel that is more expensive than traditional gasoline but produces almost no visible emissions. This change was implemented without having to make any modifications to the fuel system and without incurring any power or mileage loss in the GWP vehicles.

And as mentioned earlier, GWP retrofitted power generating units 8a and 8b/c with selective catalytic reduction controls to fulfill the City's electricity needs and still meet air emission limits.

## Public Benefits from Glendale's Public Utility

Building on its success in recent years, GWP will continue to expand its public benefits program and other conservation and education offerings to the community. For example, one of the most difficult customer classes to serve is small businesses, with their small operating budgets and limited access to electric and water technical expertise. To support them, GWP's small business programs will expand their successful outreach in this area.

The community at large will benefit through other programs providing such innovations as photovoltaic arrays on City properties and parking structures.

"We're reaching out to every segment of our community," said Ned Bassin, Marketing Manager. "We're demonstrating what the future of energy, water and the environment can look like with the help of cost-effective technology and basic common-sense conservation practices."

# Water and Energy

## *Conserving for the Future*

Following are some of the wide variety of ways GWP customers received assistance in conserving water and energy during 2001-02. Many of these successful programs will help Glendale residents and businesses to conserve resources into the foreseeable future.

### Residents

- **Living Wise:** Educated children in Glendale schools about ways to conserve water and energy and lessen our impact on the environment.
- **Smart Home Water & Electric Audits:** Provided owners of more than 1,200 homes with no-cost, in-home water and energy audits and installation of small energy- and water-conserving devices.
- **Smart Home Residential Appliance Rebates:** Provided financial incentives to residential customers who purchase and install recommended water-efficient and ENERGY STAR®-rated energy-efficient appliances.
- **Residential Solar Energy Program:** Gave residents financial incentives to install photovoltaic panels that generate energy to power their homes.

### **G W P   A T   W O R K**

*With its Operation School House program, GWP provides schools with financial incentives to retrofit their old HVAC systems with energy-efficient alternatives. Here at Edison Pacific Elementary School, Tony Gervasi (l), facilities maintenance engineer, and Kenneth Gilleland, construction project manager, discuss the new HVAC system.*



### Residents and Small Businesses

- **Check Me Cool Solutions at Home and for Small Businesses:** Provided financial incentives for residential and small business customers to tune up their air conditioning systems or seal their ducting systems.

### Small Businesses

- **Small Business Energy Savings Program:** Gave rebates to more than 400 sites to become more energy efficient, more competitive and more comfortable by installing cost-effective products, such as heating and air conditioning upgrades, door seals and window films.

### Small and Medium-sized Businesses

- **SmartLight Solutions for Small and Medium Businesses:** Offered financial incentives to help small and medium-sized businesses pay for energy-efficient lighting equipment.

### Large Businesses

- **Business Energy Solutions:** Provided rebates to larger businesses for energy upgrades and the service of energy consultants.





# GWP and the Community

## *Working Together with You*

### **Habitat for Humanity: Building Homes, Building Relationships, Building Futures**

Glendale *Water & Power* is helping to build a brighter future for three Glendale families by partnering with the San Gabriel Valley Habitat for Humanity, a non-profit organization that helps provide affordable housing for low-income families.

Through the Public Benefit Power Partnership Program, GWP awarded grant funding of \$45,000 to the housing organization. Thanks to those funds, the three new Habitat for Humanity homes will be "homes of the future," featuring energy efficiencies and renewable energy systems.

The energy-efficient upgrades will include a solar power energy system that will use the sun's energy to provide 50 percent of the homes' energy needs. A whole house fan, instead of an air conditioning system, ENERGY STAR® appliances, and high-grade attic, ceiling and wall insulation will all help the families drastically reduce their monthly utility bills.

"Glendale Water and Power was pleased to form this partnership with the San Gabriel Valley Habitat for Humanity. The families will enjoy the state-of-the art energy efficiencies in the new homes and will benefit from monthly savings on their utility bills," said Joe Flores, GWP Account Executive.

### **GWP AT WORK**

*New homeowners Mario and Ceci Martinez (foreground) assist in the construction of their new Habitat for Humanity home in Glendale with (background) GWP's Joe Flores (l) and Alan Dugan of Habitat.*



## **Glendale Community College Teaching Conservation Now for a Bright Future**

GWP is working closely with Glendale Community College to save energy today and teach future generations about conserving resources tomorrow. GWP-funded photovoltaic cells on the new science building (see artist's rendering) will provide real energy savings as well as a dynamic demonstration for students.

"Our work on energy efficiency will take many forms," said Dr. Jean Lecuyer of Glendale Community College. "We will have a computer on permanent display reporting the output from the solar cells. We will also be partnering with GWP on energy education with exhibits in our display room. In addition, we are including topics of energy conservation and global warming in several of our courses, so we hope to educate students on these issues fairly thoroughly."



# WATER BUSINESS OPERATING STATISTICS

Fiscal Year ended June 30, 2002

## Water Distribution System

2002

Pumping plants	28 Stations
Total water storage capacity (30 reservoirs and tanks)	185 million gallons
Chlorination facilities	13
Mains	378 miles
Gate valves	6,531
Meters	32,478
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	26,132	72%
Local groundwater	8,736	24%
Recycled water	1,426	4%
Total supply	36,294	100%





<b>Customers &amp; Sales</b>	<b>2002</b>	<b>% of Total</b>	<b>2001</b>	<b>% of Total</b>
<b>Number of Customers:</b>				
Residential	28,420	88%	28,733	88%
Commercial	3,363	10%	3,265	10%
Industrial	220	1%	355	1%
Others	475	1%	298	1%
Total	<u>32,478</u>	<u>100%</u>	<u>32,651</u>	<u>100%</u>
<b>Sales (in hundred cubic feet):</b>				
Residential	10,518,032	78%	9,979,234	75%
Commercial	2,414,695	18%	2,261,960	17%
Industrial	232,684	2%	199,585	2%
Others (including recycled)	304,926	2%	864,867	6%
Total	<u>13,470,337</u>	<u>100%</u>	<u>13,305,646</u>	<u>100%</u>
<b>Revenues from sales of water (\$):</b>				
Residential	\$ 23,216,054	78%	\$ 20,818,137	75%
Commercial	5,492,754	18%	4,718,778	17%
Industrial	512,567	2%	277,575	1%
Others (including recycled)	516,491	2%	1,943,026	7%
Total	<u>\$ 29,737,866</u>	<u>100%</u>	<u>\$ 27,757,516</u>	<u>100%</u>

# ELECTRICAL BUSINESS OPERATING STATISTICS

Fiscal Year ended June 30, 2002

## Electric Distribution System

Meters	82,845	Padmount transformers	81
Receiving stations	1	Underground transformers	3,465
Generation / switching stations	1	Overhead transformers	5,489
Distribution stations	12	Underground lines (miles)	280
Poles	15,047	Overhead lines (miles)	263
Underground vaults	1,962	Streetlights	11,097

	Capacity Available (MW)	Actual Energy (MWh)	Percent of Total Energy
<b>Power Supply Resources</b>			
Glendale-owned generating facilities:			
Natural gas units (Grayson)	252	277,327	16%
Joint power agency / remote ownership:			
IPP (IPA)	36	284,880	16%
PVNGS (SCPPA)	10	77,814	4%
San Juan Unit (SCPPA)	20	137,801	8%
Hoover	20	73,572	4%
<b>Purchased Power:</b>			
BPA contract	20	19,723	1%
Portland General Electric contract	50	103,868	6%
Market purchases	—	805,047	45%
Total	408	1,780,032	100%
<b>Losses and Retail Sales</b>	—	1,125,127	63%

	2002	% of Total	2001	% of Total
<b>Power Generated &amp; Purchased</b>				
Generated	277,327	16%	406,827	23%
Purchased	1,502,705	84%	1,387,926	77%
Total supply	1,780,032	100%	1,794,753	100%
Sales:				
Net retail system load	1,073,028		1,088,096	
Net wholesale system load	530,879		467,055	
System peak demand (MW)	248		284	
<b>Customer, Sales &amp; Demand</b>				
Number of Customers:				
Residential	70,344	85%	70,525	85%
Commercial	12,265	15%	12,172	15%
Industrial	218	0%	287	0%
Others (Government)	18	0%	16	0%
Total	82,845	100%	83,000	100%
<b>Megawatt-hour Sales:</b>				
Residential	353,509	22%	358,473	23%
Commercial	318,596	20%	323,070	21%
Industrial	391,834	24%	397,336	26%
Streetlighting	9,089	1%	9,217	1%
Total retail energy sales	1,073,028		1,088,096	
Wholesale sales to other utilities	530,879	33%	467,055	29%
Total energy sales	1,603,907	100%	1,555,151	100%
<b>Revenues from Sales of Energy:</b>				
Residential	\$ 40,227,648	21%	\$ 44,990,320	17%
Commercial	36,966,042	20%	38,145,245	15%
Industrial	33,601,659	18%	35,211,072	14%
Streetlighting	1,144,251	1%	1,633,412	1%
Wholesale sales to other utilities	75,907,700	40%	138,518,537	53%
Total energy sales	\$ 187,847,300	100%	\$ 258,498,586	100%





# **Glendale** *Water & Power* *Financial Statements*

2001-2002 Annual Report

# Independent Auditors' Report



The Honorable City Council of the City of Glendale, California

We have audited the accompanying balance sheets of the business-type activities of the Electric and Water Enterprise Funds of the City of Glendale, California, (the City) as of June 30, 2002 and 2001, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 of the Electric and Water Enterprise Funds are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities of the City of Glendale that is attributable to the transactions of the Electric and Water Enterprise Funds. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2002 and 2001, and the changes in its financial position and 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 business-type activities of the Electric and Water Enterprise Funds of the City as of June 30, 2002 and 2001, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*McGladrey & Pullen, LLP*

Riverside, California

November 15, 2002



## ELECTRIC FUND - Statement of Net Assets

June 30, 2002 and 2001

Assets	2002	2001
<b>Current assets:</b>		
Cash and invested cash	\$ 181,548,973	\$ 125,857,868
Cash with fiscal agents	7,155,678	21,730,694
Imprest cash	3,200	3,200
Investment – Gas/Electric Commodity	2,287,797	3,000,000
Interest receivable	1,977,259	1,704,837
Accounts receivable, net	7,379,498	19,474,685
Unbilled receivable	8,349,055	8,666,800
Inventories	4,406,311	4,834,676
Prepaid items	1,578,076	1,566,663
Total current assets	214,685,847	186,839,423
<b>Capital assets:</b>		
Land	2,733,580	1,847,259
Buildings and improvements	47,606,560	47,406,548
Machinery and equipment	256,030,258	237,275,801
Less allowance for accumulated depreciation	(175,389,275)	(160,433,514)
Construction in progress	31,072,618	25,432,500
Total capital assets	162,053,741	151,528,594
Total assets	\$ 376,739,588	\$ 338,368,017

See Notes to Financial Statements beginning on page 38.

Liabilities and Net Assets	2002	2001
<b>Current liabilities:</b>		
Accounts payable	\$ 31,245,059	\$ 26,765,745
Contracts – retained amount due	776,274	702,511
Accrued wages and withholdings	885,505	846,967
Compensated absences	1,335,613	1,304,157
Bonds accrued interest	904,706	904,706
Deposits	2,387,979	2,459,506
Total current liabilities	37,535,136	32,983,592
<b>Long-term debt:</b>		
Bonds payable	37,000,000	37,000,000
Bond premium	154,655	163,014
Total long-term debt	37,154,655	37,163,014
Total liabilities	74,689,791	70,146,606
<b>Net assets:</b>		
Invested in capital assets, net of related debt	147,478,725	141,529,091
Restricted		
Capital projects	12,217,731	12,514,189
Deregulation	44,540,424	32,350,438
Unrestricted		
Unrestricted	97,812,917	81,827,693
Total net assets	\$ 302,049,797	\$ 268,221,411

See Notes to Financial Statements beginning on page 38.

## WATER FUND - Statements of Net Assets

June 30, 2002 and 2001

Assets	2002	2001
<b>Current assets:</b>		
Cash and invested cash	\$ 4,380,965	\$ 177,928
Imprest cash	1,000	1,000
Interest receivable	41,924	—
Accounts receivable, net	2,164,729	2,391,609
Unbilled receivable	1,868,709	1,741,000
Inventories	274,360	285,378
Prepaid items	—	19,584
Total current assets	<u>8,731,687</u>	<u>4,616,499</u>
<b>Capital assets:</b>		
Land	622,568	622,568
Buildings and improvements	59,571,715	59,254,466
Machinery and equipment	36,271,232	35,907,891
Less allowance for accumulated depreciation	(38,552,996)	(36,582,065)
Construction in progress	7,048,705	4,107,488
Total capital assets	<u>64,961,224</u>	<u>63,310,348</u>
Total assets	<u>\$ 73,692,911</u>	<u>\$ 67,926,847</u>

See Notes to Financial Statements beginning on page 38.

Liabilities and Net Assets	2002	2001
<b>Current liabilities:</b>		
Accounts payable	\$ 2,590,683	\$ 598,509
Contracts – retained amount due	41,058	27,216
Accrued wages and withholdings	94,094	91,429
Compensated absences	374,752	346,675
Deposits	691,500	655,923
Total current liabilities	<u>3,792,087</u>	<u>1,719,752</u>
<b>Net assets:</b>		
Invested in capital assets	64,961,224	63,310,348
Unrestricted	4,939,600	2,896,747
Total net assets	<u>\$ 69,900,824</u>	<u>\$ 66,207,095</u>

See Notes to Financial Statements beginning on page 38.



## ELECTRIC FUND - Statements of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2002 and 2001

	2002	2001
Operating revenues – charges for services:	\$ 188,297,461	\$ 258,498,586
 Operating expenses:		
Production	138,006,539	200,822,657
Transmission	13,808,255	11,341,678
Customer accounting and sales	4,120,312	4,027,113
Depreciation	10,257,734	9,881,875
Total operating expenses	166,192,840	226,073,323
Operating income	22,104,621	32,425,263
 Non-operating revenues:		
Interest revenue	10,345,205	10,052,856
Grant revenue	390,897	287,324
Other revenue	5,218,276	1,162,105
Interest expense	(1,840,161)	(1,570,318)
Contribution in aid	8,914,588	1,041,183
Total non-operating revenues, net	23,028,805	10,973,150
Change in net assets before transfers	45,133,426	43,398,413
Transfers (out) – General Fund	(11,305,040)	(11,681,540)
Change in net assets	33,828,386	31,716,873
Total net assets, beginning of year	268,221,411	236,504,538
Total net assets, end of year	\$ 302,049,797	\$ 268,221,411

See Notes to Financial Statements beginning on page 38.

## WATER FUND - Statements of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2002 and 2001

	<b>2002</b>	<b>2001</b>
<b>Operating revenues – charges for services:</b>	\$ 28,467,545	\$ 27,757,516
<b>Operating expenses:</b>		
Production	17,573,570	19,213,781
Transmission and distribution	2,044,735	1,801,001
Customer accounting and sales	1,636,033	1,053,852
Depreciation	2,442,688	2,335,570
Total operating expenses	23,697,026	24,404,204
Operating income	4,770,519	3,353,312
<b>Non-operating revenues:</b>		
Interest revenue	279,521	109,821
Other revenue	1,223,275	1,044,507
Contribution in aid	238,697	177,400
Total non-operating revenues, net	1,741,493	1,331,728
Change in net assets before transfers	6,512,012	4,685,040
<b>Transfers (out) – General Fund</b>	(2,818,283)	(3,101,892)
Change in net assets	3,693,729	1,583,148
<b>Total net assets, beginning of year</b>	66,207,095	64,623,947
<b>Total net assets, end of year</b>	\$ 69,900,824	\$ 66,207,095

See Notes to Financial Statements beginning on page 38.





## ELECTRIC FUND - Statement of Cash Flows

Years ended June 30, 2002 and 2001

	2002	2001
<b>Cash flows from operating activities:</b>		
Cash from customers	\$ 200,710,393	\$ 247,014,639
Cash paid to employees	(23,736,059)	(22,294,396)
Cash paid to suppliers	(127,230,552)	(180,813,406)
Cash from miscellaneous revenue	5,218,276	1,162,105
Net cash provided by operating activities	<u>54,962,058</u>	<u>45,068,942</u>
<b>Cash flows from noncapital financing activities:</b>		
Transfers (out) to general fund	(11,305,040)	(11,681,540)
Operating grant received	390,897	287,324
Net cash (used in) noncapital financing activities	<u>(10,914,143)</u>	<u>(11,394,216)</u>
<b>Cash flows from capital and related financing activities:</b>		
Interest on long-term debt	(1,840,163)	—
Bond premium amortization	(8,360)	163,014
Contribution in aid	8,914,592	1,041,183
Acquisition of property, plant, and equipment	(20,782,880)	(15,775,622)
Investment – Gas/Electric Commodity	712,203	(3,000,000)
Net cash (used in) capital and related financing activities	<u>(13,004,608)</u>	<u>(17,571,425)</u>
<b>Cash provided by investing activities – interest received</b>	<u>10,072,782</u>	<u>9,572,684</u>
<b>Net increase in cash and invested cash</b>	41,116,089	25,675,985
<b>Cash and invested cash at beginning of year</b>	<u>147,591,762</u>	<u>121,915,777</u>
<b>Cash and invested cash at end of year</b>	<u>\$ 188,707,851</u>	<u>\$ 147,591,762</u>

	2002	2001
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 22,104,621	\$ 30,854,945
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	10,257,734	9,881,875
(Increase) decrease in accounts receivable, net	12,095,187	(10,688,964)
(Increase) decrease in unbilled receivable	317,745	(794,983)
(Increase) decrease in inventories	428,364	(948,652)
(Increase) in prepaid expenses	(11,413)	(116,398)
Increase in contracts-retained amount due	73,763	90,685
Increase (decrease) in customers' deposits	(71,527)	556,552
Increase in accrued wages & withholding	38,538	57,748
Increase in comp absence payable	31,456	48,094
Increase in accounts payable	4,479,314	14,965,935
Net cash provided by operating activities	<u>\$ 49,743,782</u>	<u>\$ 43,906,837</u>

See Notes to Financial Statements beginning on page 38.

## WATER FUND - Statement of Cash Flows

Years ended June 30, 2002 and 2001

	2001	2002
<b>Cash flows from operating activities:</b>		
Cash from customers	\$ 28,566,716	\$ 28,193,761
Cash paid to employees	(2,477,718)	(2,368,555)
Cash paid to suppliers	(16,673,686)	(21,917,268)
Miscellaneous revenue	1,223,275	1,044,507
Net cash provided by operating activities	<u>10,638,587</u>	<u>4,952,445</u>
<b>Cash flows from noncapital financing activities:</b>		
Transfers (out) to general fund	<u>(2,818,283)</u>	<u>(3,101,892)</u>
<b>Cash flows from capital and related financing activities:</b>		
Contribution in aid	238,697	177,400
Acquisition of property, plant, and equipment	<u>(4,093,559)</u>	<u>(3,094,671)</u>
Net cash (used in) capital and related financing activities	<u>(3,854,862)</u>	<u>(2,917,271)</u>
<b>Cash provided by investing activities – interest received</b>	<u>237,595</u>	<u>140,663</u>
<b>Net increase (decrease) in cash and invested cash</b>	4,203,037	(926,055)
<b>Cash and cash equivalents at beginning of year</b>	<u>178,928</u>	<u>1,104,983</u>
<b>Cash and invested cash at end of year</b>	<u>\$ 4,381,965</u>	<u>\$ 178,928</u>

	2001	2002
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 4,770,519	\$ 3,353,312
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,442,688	2,335,570
(Increase) decrease in accounts receivable, net	226,880	(213,752)
(Increase) decrease in unbilled receivable	(127,709)	649,997
Decrease in inventories	11,018	64,772
Decrease in prepaid expenses	19,584	—
Increase (decrease) in contracts - retained amount due	13,841	(41,034)
Increase in customers' deposits	35,576	312,158
Increase (decrease) in accrued wages & withholding	2,665	(3,779)
Increase in comp absence payable	28,077	32,661
Increase (decrease) in accounts payable	1,992,173	(2,581,967)
	<u>\$ 9,415,312</u>	<u>\$ 3,907,938</u>

See Notes to Financial Statements beginning on page 38.

# 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 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 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 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.

### New Pronouncements

GWP adopted Government Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and Statement No. 37, which amends Statement No. 34 and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the years ended June 30, 2002 and retroactively for June 30, 2001. Collectively, these Statements establish a new financial reporting model for state and local governments.

The retroactive adoption of these Statements has no significant impact on what had been previously reported as of and for the year ended June 30, 2001.

**Capital Assets**

The capital 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.

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

<b>Electric Works</b>	
<hr/>	
Production plant	20 to 50 years
Transmission & Distribution plant	20 to 50 years
General plant	10 to 50 years
<b>Water</b>	
<hr/>	
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, 2002 and 2001, Electric Fund had \$1,335,613 and \$1,304,157, and the Water Fund had \$374,752 and \$346,675, 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, 2002 and 2001, \$6,048,341 and \$5,884,762, respectively, are recorded on the City's Internal Service Funds – Employee Benefits Fund.



### **Unbilled Receivables**

The Funds record utility services delivered to customers but not billed. As of June 30, 2002 and 2001 respectively, the Electric Fund's unbilled receivables were \$8,349,055 and \$8,666,800, and the Water Fund's unbilled receivables were \$1,868,709 and \$1,741,000, respectively.

### **Deposits**

The Funds require all new or existing utility customers that have not or failed to establish 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.

### **Transfers**

The City's charter provides for certain percentages of operating revenues in the Electric and Water Funds to be transferred to the General Fund and have been reflected in the financial statements as transfers out.

### **Reclassifications**

Certain items in the June 30, 2001 Statement of Revenues, Expenses and Changes in Retained Earnings and the Statement of Cash Flows have been reclassified to conform to the June 30, 2002 presentation. These reclassifications had no effect on net assets or changes in net assets during the year ended June 30, 2001.

## **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, 2002. 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, \$181,548,973 and \$4,380,965 pertain to the Electric Fund and Water Fund respectively, for fiscal year 2002.

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.

**The carrying amount of the City’s cash and invested cash at June 30, 2002, and reconciliation to amounts shown on the Combined Balance Sheet are as follows:**

<b>Cash and investment:</b>	
<hr/>	
Historical cost of net investments	\$ 532,434,036
Net increase in fair value	<u>6,619,398</u>
Subtotal	539,053,434
Cash on hand	<u>1,947,727</u>
<b>Total</b>	<u><u>\$ 541,001,161</u></u>
<b>Statement of net assets:</b>	
<hr/>	
Cash and invested cash	503,970,745
Cash with fiscal agent	36,974,296
Investment in street bonds	<u>56,120</u>
<b>Total</b>	<u><u>\$ 541,001,161</u></u>

At June 30, 2002, the carrying amount of the City's cash deposit totaled \$1,947,727 and the bank balance of the City's cash deposits maintained in financial institutions is \$6,580,808. The City's agent in the City's name holds the cash deposits. The Federal Depository Insurance Corporation insures the first \$100,000 of cash deposits and the remainder is 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 statues, 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-/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 City or its agent in the City's name holds the securities.
- Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party'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 counter party or by its trust department or agent but not in the City's name.

The following is the summary of investments as of June 30, 2002:

	Category				Fair Value
	1	2	3	Uncategorized	
<b>City Held Investments</b>					
Street Assessment Bonds	\$ 56,120	—	—	—	56,120
U.S. Government Securities	—	375,029,021	—	—	375,029,021
Corporate Notes	—	60,363,514	—	—	60,363,514
Commercial Papers	—	14,994,256	—	—	14,994,256
Certificates of Deposit	100,000	2,400,000	—	—	2,500,000
<b>Total City Held Investments</b>	<b>156,120</b>	<b>452,786,791</b>	<b>—</b>	<b>—</b>	<b>452,942,911</b>
<b>Trustee Held Investments</b>					
U.S. Government Securities	—	36,974,296	—	—	36,974,296
<b>Total Trustee Held Investments</b>	<b>—</b>	<b>36,974,296</b>	<b>—</b>	<b>—</b>	<b>36,974,296</b>
<b>Investment in Pool</b>					
California State Local Agency Investment Fund (LAIF)	—	—	—	49,136,227	49,136,227
<b>Total Investments</b>	<b>\$156,120</b>	<b>489,761,087</b>	<b>—</b>	<b>49,136,227</b>	<b>539,053,434</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, 2002 the City's pooled investments in LAIF in the amount of \$22,061,164 are not subject to custodial credit risk categorization. The total estimated fair value invested by all public agencies in LAIF is \$48,082,558,174. Of that amount, 100% is invested in nonderivative 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 utility's long-term debt as of June 30, 2002 consists of the following:

	Remaining Interest Rates	Original Issue	Outstanding June 30, 2002
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 annual debt service. The bonds mature in regularly increasing principal 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%.

■ The following is a summary of bonds payable for the year ended June 30, 2002:

	Electric Fund
Bonds payable at June 30, 2001	\$ 37,000,000
Bonds retired	—
Bonds payable at June 30, 2002	<u>\$ 37,000,000</u>

The annual debt service requirements to amortize long-term bonded debt at June 30, 2002 are as follows:

Year Ending June 30	Principal	Interest	Total
2003	\$ —	2,171,295	2,171,295
2004	—	2,171,295	2,171,295
2005	—	2,171,295	2,171,295
2006	690,000	2,171,295	2,861,295
2007	725,000	2,131,620	2,856,620
2008-2012	4,370,000	9,975,287	14,345,287
2013-2017	5,645,000	8,581,488	14,226,488
2018-2021	5,870,000	5,575,005	11,445,005
2022-2026	9,615,000	4,806,005	14,421,005
2027-2030	10,085,000	1,558,800	11,643,800
	<u>\$ 37,000,000</u>	<u>\$ 41,313,386</u>	<u>\$ 78,313,385</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 of July 1 of the current fiscal year. PERS does not provide data to participating organizations in such a manner so as to facilitate separate disclosure for GWP's share of the actuarial computed pension benefit obligation, the plan's net assets available for benefit obligation and the plan's net assets available for benefits. Approximately 20.8% 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 3% or 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.

### **Annual Pension Cost**

Contributions to CalPERS totaling \$8,291,590 were made during the fiscal year ended June 30, 2002 in accordance with actuarially determined contribution requirements through an actuarial valuation performed at June 30, 1999. 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
6/30/00	\$8,423,000	100%	0
6/30/01	\$7,832,356	100%	0
6/30/02	\$8,291,590	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) /Overfunded AAL <a-b>	Funded Ratio <a/b>	Covered Payroll <c>	(Unfunded AAL)/Overfunded AAL as a Percentage of Covered Payroll <(a-b)/c>
06/30/1999	\$ 714,481,049	\$ 560,822,323	\$ 153,658,726	127.40%	\$ 91,017,813	168.82%
06/30/2000	794,954,969	639,884,600	155,070,369	124.23%	95,697,086	162.04%
06/30/2001	815,521,178	687,539,962	127,981,216	118.61%	101,369,092	126.25%

## 5. Self-Insurance Program

The City is self-insured for Workers' Compensation claims up to \$1,000,000 per occurrence and general public liability up to \$2,000,000 per occurrence. Additional coverage in excess of these limits has been purchased from third-party insurance companies. Workers' Compensation and general public liability insurance protection is provided through internal service funds maintained by the City. The City is also self-insured for unemployment insurance and general auto liability through separate Internal Service Funds. The Internal Service Funds charge the Electric and Water Funds for their estimated share of the liability. At June 30, 2002, 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, 2002 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.

## 6. Restricted Net Assets

Excess capital surcharge revenue designated to retrofit the City's Grayson Power Plant as mandated by Air Quality Management for fiscal years 2002 and 2001 were \$12,217,731 and \$12,514,189. In addition, as part of the Electric operation's strategy to face deregulation, net revenues from electric wholesale power transactions of \$44,540,424 and \$32,350,438 were restricted for fiscal years 2002 and 2001. The purpose of these restrictions is to accelerate debt retirement and to meet obligations from the "Take or Pay" contracts per Note 8.

## 7. Capital Assets

A summary of the Electric and Water Fund Capital 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	4,713,923	54,288,821	59,879,200	8,034,805	67,914,005
Transmission and distribution plant	1,596,710	17,729,886	184,471,877	203,798,473	22,495,148	226,293,621
General plant	260,414	25,162,751	17,269,560	42,692,725	542,665	43,235,390
Total Electric Fund	2,733,580	47,606,560	256,030,258	306,370,398	31,072,618	337,443,016
<b>Water Fund:</b>						
Production plant	535,763	8,403,096	10,070,514	19,009,373	3,377,159	22,386,532
Transmission and distribution plant	—	46,813,210	21,783,609	68,596,819	3,233,300	71,830,119
General plant	86,805	4,355,409	4,417,109	8,859,323	438,246	9,297,569
Total Water Fund	622,568	59,571,715	36,271,232	96,465,515	7,048,705	103,514,220
Total capital assets \$	3,356,148	107,178,275	292,301,490	402,835,913	38,121,323	440,957,236

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

	Balance at July 1	Additions/ Reclass	Retirements/ Reclass	Balance at June 30
<b>Electric Fund:</b>				
Production plant	\$ 66,537,038	1,441,590	64,623	67,914,005
Transmission and distribution plant	204,877,289	24,098,889	2,682,557	226,293,621
General plant	40,547,781	3,051,066	363,457	43,235,390
Total Electric Fund	311,962,108	28,591,545	3,110,637	337,443,016
Less allowance for accumulated depreciation	160,433,514	18,066,398	3,110,637	175,389,275
Net book value of Electric Fund	151,528,594	10,525,147	—	162,053,741
<b>Water Fund:</b>				
Production plant	21,416,501	1,099,997	129,966	22,386,532
Transmission and distribution plant	69,744,214	2,396,606	310,701	71,830,119
General plant	8,731,698	596,954	31,083	9,297,569
Total Water Fund	99,892,413	4,093,557	471,750	103,514,220
Less allowance for accumulated depreciation	36,582,065	2,442,681	471,750	38,552,996
Net book value of Water Fund	63,310,348	1,650,876	—	64,961,224
Total net book value of Electric and Water Funds	\$ 214,838,942	12,176,023	—	227,014,965

## 8. Jointly Governed Organizations

The Electric Utility has entered into six "Take or Pay" contracts, which requires payments to be made whether or not projects are completed or operable, or whether output from such projects is suspended, interrupted or terminated. Such payments represent the City's share of current and long-term obligations. Payment for these obligations is expected to be made from operating revenues received during the year that payment is due. These contracts provide for current and future electric generating capacity and transmission of energy for City residents. Through these contracts, the City purchased approximately 41% of its total energy requirements during fiscal year 2001-02. 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. All of these agreements contain "step-up" provisions obligating the City to pay a share of the obligations of any defaulting participant.

The Intermountain Power agency, a subdivision of the State of Utah, was formed in January 1974 to finance the construction of a 1,685 megawatt coal-fueled generating plant consisting of two generating units located near Delta, Utah. The Electric Utility through contract is obligated for 29 megawatts or 1.704% 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 0.4154% through March 24, 2003. The total Electric Utility's obligation from Intermountain Power Project (IPP) is 36 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 approximately 10 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 \$103,104,000 at June 30, 2002. Based on the most recent (2002) estimate of decommissioning costs, SCPPA estimates that its share of the amount required for decommissioning of PVNGS is approximately 88.46% funded. Under the forgoing assumptions, an additional \$13,496,000, of which Glendale's share is \$593,800, 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 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.



■ A summary of the Electric Utility's "Take or Pay" contracts and related projects and its contingent liability at June 30, 2002 is as follows:

	Bonds and notes authorized	Bonds and notes sold and outstanding	Interest	Combined total debt service	City of Glendale percentage	City of Glendale obligation
Intermountain Power Projects	\$ 4,442,017,000	\$ 4,020,787,000	\$ 2,441,611,000	\$ 6,462,398,000	2.2056%	\$ 142,534,650
Southern California Public Power Authority Projects:						
Palo Verde	1,071,347,000	808,850,000	504,294,000	1,313,144,000	4.4000%	57,778,336
IPP Southern Transmission	1,132,135,000	995,185,000	620,506,000	1,615,691,000	2.2740%	36,740,813
San Juan Power Project-Unit 3	237,375,000	204,360,000	106,813,000	311,173,000	9.8047%	30,509,579
Mead-Adelanto	280,655,000	229,175,000	151,117,000	380,292,000	11.0430%	41,995,646
Mead-Phoenix	90,635,000	71,915,000	47,484,093	119,399,093	14.5137%	17,329,226
	<u>\$ 7,254,164,000</u>	<u>\$ 6,330,272,000</u>	<u>\$ 3,891,825,093</u>	<u>\$10,202,097,093</u>		<u>\$ 326,888,250</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 2001-02 was approximately 1,017,965 MMBtu and the average purchase price was \$5.59 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. The City has negotiated basis swap transactions based on the commodity price of natural gas at the California border versus the commodity price of natural gas on the NYMEX. These transactions allow the City to transfer the risk of a portion of its natural gas purchases from a more risky and less manageable local market to the more liquid and manageable national (i.e. NYMEX) market.
- b. The City has purchased and sold options (calls and puts) in natural gas futures contracts at appropriate strike prices in upcoming months. These transactions allow the City to stabilize the ultimate purchase price of natural gas for the City's power plant. They, and other transactions, also give the City the ability to manage its overall exposure to fluctuations in the purchase price of natural gas. The options are carried at the lower of cost or market in the accompanying financial statements. At June 30, 2002, carrying value and market value of the options are \$397,000 and \$405,594, respectively.

## 11. Subsequent Event

GWP authorized the issuance of up to \$35,000,000 in Electric Revenue Bonds in fiscal year 2002-03. The 2003 bonds proceeds will be used for acquisition, construction and installation of a gas-fired simple combustion turbine for the electric operation. The bonds are expected to be payable in annual principal and interest payments through 2032.





## **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**

Lenore M. Solis – Chair

Ed Cameron

Ruben P. Rubi

Allene Buchanan

Greg Gregorian

141 North Glendale Avenue  
Glendale, California 91206-4496  
(818) 548-2107







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