

GLENDALE WATER & POWER

STRENGTHENING THE CORE

2004 - 2005 ANNUAL REPORT

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# strengthening the core

## Letter from the Director

Glendale *Water & Power* has achieved several milestones toward strengthening the very core of its operations by building, improving, and maintaining both the internal and external framework of our organization.

To strengthen the tangible infrastructure – the external framework of our service and delivery systems – we commenced an improvement program that included increasing power supply reliability and upgrades to our electrical and water distribution systems.

We are also fortifying our internal framework – the fundamentals of our business operations – by adding structure to our way of doing business. With our leadership team now in place, we are immersed in identifying and developing efficient processes and effective principles of business management. The team is dedicating time to analyze and evaluate every aspect of our business assets, employees, technology, and time management. Employees are encouraged to assess the work they do and how it contributes to the success of GWP. We continue to help them improve their skills and job knowledge, obtain certifications for our operations, and attend training programs that will enhance safe, efficient, and productive performance.

As an organization, we developed a mission statement which defines the core purpose of the organization – why we exist. Every word of our mission statement was chosen carefully and reflects our motivation for engaging in our work.

As is true for many of our nation's utility businesses, GWP's challenges are often linked to an aged infrastructure. Concurrent with building for a stronger tomorrow, we are taking steps to maintain and improve the security and reliability of our existing systems.

Through sound business practices and policies, we are laying a foundation for sound management. A Cost-of-Service Study began this year to help us evaluate rate adjustments and ensure that revenue would cover costs. Risk management principles are now integrated into our decision-making process. Fiscal responsibility was again enhanced through development of a Debt Management Policy which followed the Cash Reserve Policy established in 2003. Our commitment to long-term financial planning and sound management practices will solidify and enhance the high credit rating GWP has achieved and has come to expect.

With continuing volatility in natural gas prices, it is critical that GWP focus on planning and maintaining a diverse portfolio of fuel sources. June 2005 marked a groundbreaking event when we purchased natural gas holdings with the Southern California Public Power Authority (SCPPA) as part of the SCPPA Natural Gas Project. Participation in this gas reserve acquisition will have a positive long range impact.

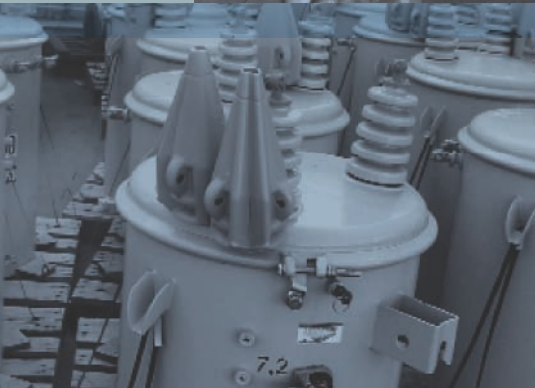
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In this annual report are more than details of our financial statement – it contains GWP's achievements and challenges that give these numbers meaning. Our endeavors are linked to the terminology of our mission statement: How we "build" the organization; how we are "creative" and versatile;" ways in which we "evolve" and "respond;" how we "encourage calculated risk-taking;" and how we "effectuate the vision."

Sincerely,



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



# Build

a creative and versatile organization that evolves and responds as needs dictate and encourages calculated risk-taking to effectuate the vision.



*“The company has become more consistent, more objective — making sure that there is analysis to back up a decision. We must have solid data and analysis to support an action”*

*- Ruwen Liu*

Beginning almost 100 years ago with 195 electric customers, Glendale *Water & Power* built an infrastructure to ensure high quality and cost effective services. Today, with 32,000 water and 83,000 electric customers, this municipally-owned utility empowers the community with local governance of its water and power resources. This independence reduces outside influences and volatility. GWP is confident that its diversity of water and power resources can and will meet the needs of this community for years to come. Our resources are capable of producing 400 megawatts, enough to meet the highest peak load of 315 megawatts with a comfortable margin. Our 30 water storage facilities have a total capacity of 185 million gallons serving an average of 30 million gallons of water per day.

GWP continues to build an interconnectivity of diverse supply alternatives to ensure greater flexibility and security of services.

### **Power System Upgrade**

In November 2004, we embarked on a citywide power system upgrade program as part of a \$40 million, 13-year program to convert our electrical distribution facilities from 4,000 volts to 12,000 volts. The conversion, which employs improved technologies and methodologies, will increase capacity and efficiency – preparation for the increasing demand for electricity. Of the 250 total miles to be converted, crews completed 12 ½ miles at a cost of \$4.4 million. In conjunction with this conversion, we entered the planning stages to upgrade the Tropicco Substation with estimated costs of \$180,000.

### **Additional Source of Power**

The Magnolia Power Plant, dedicated at the end of this fiscal year, ensures the availability of 40 megawatts of power. As a member in this project with the Southern California Public Power Authority (SCPPA), GWP holds a 17 percent share of this facility. In conjunction with this project, crews completed construction of tie lines between the plant, located in Burbank, and the GWP Western Substation, providing a separate transmission path into Glendale.



### **Expanded Warehouse for Operations**

The architectural design is in place for the first phase of construction of a new Utility Operations Center. Included is a new storage warehouse and a training facility. Over the past two years, warehouse inventory has increased from \$2.5 million to \$5.3 million. Although the increase is due in part to rising product costs, it also reflects the needs of the additional GWP construction projects. This new radio frequency identification system will help maintain inventory records. Groundbreaking for the 35,000 square foot facility is scheduled for 2007.

### **Fiber Optics Backbone**

To support GWP internal communications, we have budgeted for installation of an improved telecommunication fiber optic system. The system, which transmits data critical for operations management, was expanded in size from the original plans to be in place to meet future needs.

### **Gas Reserve Purchase**

GWP completed an acquisition for direct ownership of a natural gas producing field. This partnership project with SCPPA helps to guarantee a supply of the natural gas necessary for power generation at the Grayson Power Plant and the Magnolia Power Project. The purchase hedges price risks of market volatility and eliminates the counterparty credit risk at costs which compare favorably to market alternatives.

### **New Well Water Resource**

Ground water is an important resource for GWP, providing 26% of our water supply. The planning phase has been completed for installation of new water wells in the Verdugo Basin. Drilling will begin in 2006-07. Work continues on rehabilitation of existing wells.

### **Water Distribution Hydraulic Model**

A computer simulation model of the GWP water distribution system will aid in managing and tracking water flow as it moves from the sources to consumption. This model helps to determine the quality of water in the system and the impact and estimated costs of reconfiguring parts of the system. Additionally, this technology increases security in the event of water contamination identifying best isolation procedures and aiding in notification to affected residents.

### **Chlorine Injection**

To improve the efficiency of maintaining water quality, Water Services installed chlorine injection ports in water tanks and reservoirs and purchased a chlorine tanker to support this enhanced disinfectant process.

### **Chevy Chase Reservoir 968 Replacement Project**

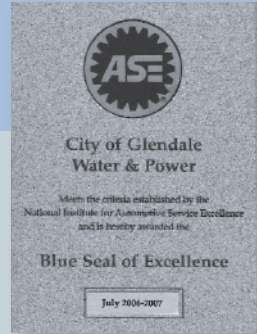
Plans have begun for the replacement of Chevy Chase Reservoir, a 14.5 million gallon concrete reservoir originally constructed in the 1920s. Public discussions have been held to obtain community input on site selection. Estimates for costs of construction range from \$13.5 million to \$17.5 million. Construction is projected to begin in 2007-08.

### **SCADA Phase II Upgrade**

GWP completed the specifications for the design of an upgraded Supervisory Control and Data Acquisition (SCADA) system. The new system will provide better control and improve our ability to manage water and electric resources with more precision. The new SCADA transmits data with more detail from its remote sensors and alarm system which warn of electric problems, water leaks or equipment failure. The SCADA system is a priority project for improving maintenance and reliability and adds another level of security.



Build a **creative** and versatile organization that evolves and responds as needs dictate and encourages calculated risk-taking to effectuate the vision.



To prepare for future needs of water and power supply, our organization must be progressive and cutting edge in its leadership – we must be creative. Good leadership is based on innovative planning and performance. GWP achievements range from excellence in customer service projects to the unparalleled diversification of our energy portfolio. GWP proves its leadership in the following areas.

#### **Chromium 6 Research**

We pride ourselves on building customer support and trust by supplying safe, high-quality drinking water. Glendale has become a recognized leader nationally in the study, initiated by the City Council, to select and develop the technology for Chromium 6 removal from potable water. Currently the research is in Phase III, the demonstration scale phase of the study. After working on a smaller scale, the study is now refining the removal processes on a larger scale and has narrowed the work to three technology options. This phase is funded under the Environmental Protection Agency's \$447,100 Science and Technology Grant. Application has been made for \$1 million grant from the State of California to support the development of a full demonstration scale treatment plant.

#### **Small Business Energy Savings**

The Smart Business Energy Saving Upgrade Program, a "first-of-its-kind" program, won recognition from the California Municipal Utilities Association (CMUA) for its innovations to educate customers on water and energy efficiency. The program helps small business owners with a free energy survey and \$1,000 worth of energy- and water-saving upgrades. Over 1,500 small businesses in Glendale have participated.



*"In recent independent surveys, GWP ranks as one of the top utilities in the state for its customer service and satisfaction to business and residential customers. GWP performance stands above all others in Southern California."*

*- Craig Kuennen*

#### **Peak Hogs**

An energy use reduction program, called Peak Hogs won regional recognition for its success from the CMUA. The program offers cash rebate incentives to owners of multi-family residential rental units, motivating them to replace inefficient air conditioning units with new energy efficient models. In the first few months of the program, \$93,000 in incentives resulted in the replacement of 83 air conditioning units. The projected cost savings is expected to be over 225,000 kWh per year and will reduce peak demand by over 250 kW.

#### **Portfolio Diversity**

GWP's diversity of power sources grew even greater with the delivery of wind power and the completion of contracts for geothermal power. Few utilities of our size have the diversity of power generated from both the traditional sources such as coal, nuclear, and natural gas, and from renewable resources such as wind, geothermal, and landfill gases. The diversity of geographical locations from which resources are generated provides additional reliability. We continue to strengthen our ability to leverage our need and to finance these additional resources.

#### **Seal of Excellence**

GWP's Fleet Services Section has been awarded the Blue Seal of Excellence from the National Institute of Automotive Services Excellence (ASE) for the 4th consecutive year in 2005. Although attracting and retaining qualified technicians is the number one staffing challenge in this field

nationally, Fleet Services proudly boasts that 100 percent of their technicians are ASE certified and three hold master-level certifications. Based on an independent study, this GWP section exceeds industry standards in all areas. This achievement means that vehicles and equipment are maintained efficiently, resulting in higher equipment availability and fewer delays for our utility workers. Fleet Services has also met all State of California equipment and facility inspection requirements for safety, vehicle breakdown and documentation for 12 consecutive years.

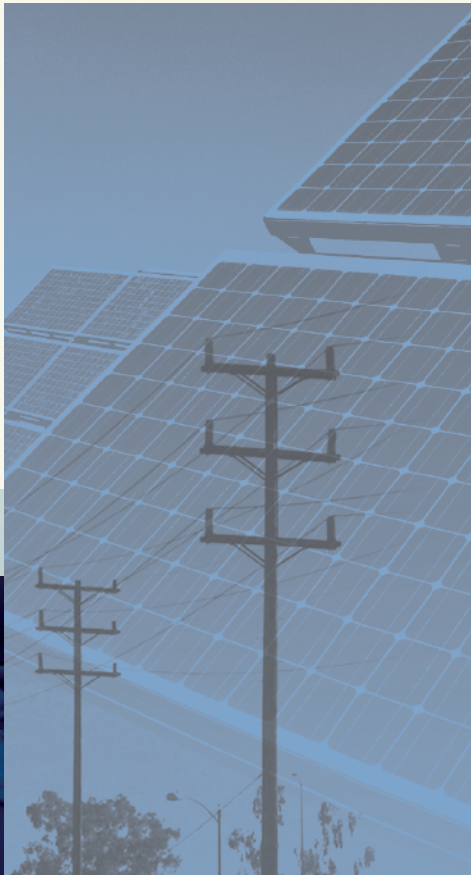
#### **Environmental Awareness**

Well in advance of the current popular interest, GWP Fleet Services has been using a Biodiesel fuel blend since 2001. We have gained both national and international recognition for our leadership role in this aspect, culminating with a visit from federal representatives from Mexico City, in conjunction with the Federal Inter-Governmental Policy Advisory Committee to the United States Ambassador to Mexico. Also in advance of current government regulations, GWP began using ultra-low sulfur diesel fuel in 2002 and we are on track to meet all regulations for retrofitting diesel powered equipment. GWP Fleet Services continues to reduce our environmental footprint while providing cost effective maintenance and repair functions for the entire department, including the use of water-based solvents, hydrophobic spill cleanup, oil, coolant, and filter recycling.



*"The one thing that stands out about Glendale is its customer service. Whether it be someone at the counter, someone contacting us by mail, or someone calling to say they have a problem – the service is always fast and courteous."*

*- Peter Kavounas*



*"Even with a ten percent increase in the number of vehicles and equipment, costs have remained steady due to improved supervision, training and inventory control."*

*- Hal Russel*

Build a creative and **versatile** organization that evolves and responds as needs dictate and encourages calculated risk-taking to effectuate the vision.

To meet the needs of a changing world, GWP must be versatile – resourceful and adaptable. The utilities industry can be vulnerable to catastrophic events that occur even in distant locations. In our efforts to strengthen the core of our business, programs and policies are being established to prepare for the unexpected. We are attentive to any emerging environmental issue that can give reason for adjustment and modification. This year, we experienced a major rise in natural gas and transportation fuel. As a result, we have been diligent in building alternative energy resources and focusing on holding down maintenance costs.

#### **Hedging Program**

Up to 50 percent of the electricity delivered by GWP is generated at power plants using natural gas. Prices for natural gas have more than doubled since January 2002. This has had significant consequences on the price of providing electricity. GWP has responded to these increases through the use of sound management practices and purchasing strategies. Natural gas purchases are made in advance when prices are favorable and purchases are delayed when prices are high.

#### **Alternative Fuel Vehicles**

In 2004, GWP increased the purchase of vehicles using alternative fuels. Two hybrid vehicles were purchased and eight have been ordered with delivery in 2006. GWP expects to meet the government mandates set for 2010.

#### **Reduction of Fleet Maintenance Costs**

The Fleet Maintenance Section is an example of how we work hard to hold down labor and repair costs. Even with a 10 percent increase in the number of vehicles and equipment, costs have remained steady due to improved supervision, training, and inventory control. This section is responsible for the maintenance of 259 vehicles used by employees in the Electric, Water, Customer Services, and Power Management Sections and for over 1,000 hydraulic, pneumatic, and power tools used in the field. The shop labor rate is \$53.60, making it competitive with outside vendors and lower compared to other government shops.



### Balanced Water Storage

Managing our water storage is an important aspect of attaining optimum water use. Increased time in storage lessens drinking water quality and increases the necessity of chemical treatment. Also, adequate supplies of water must be on hand for fire use. Glendale Fire Department has the highest rating of Class I based, in part, on the availability of water. The Metropolitan Water District Act requires member agencies such as GWP to be able to sustain a planned 7-day outage. In the summer months GWP has an average of 7.4 days of available storage and 12.5 days in the winter months. On average the water demand is 30 million gallons per day (mgd) with seasonal swing of 38 mgd in summer months and 22 mgd in winter months.

### MEETING ENVIRONMENTAL CHALLENGES

#### Expanding Renewable Resources

This year we adopted a renewable energy portfolio standard which states that by the year 2017, 20 percent of the sales to our customers will be produced from renewable energies. Currently, almost 17 percent of GWP's electric energy is generated using renewable resources. To this end, we began taking delivery in early 2003 on the first wind-generated power produced by Northern

California wind turbines. GWP is also laying the groundwork to purchase geothermal power. These steps promote our broadening use of renewable resources and help reduce environmentally undesirable emissions.

#### Spill Prevention

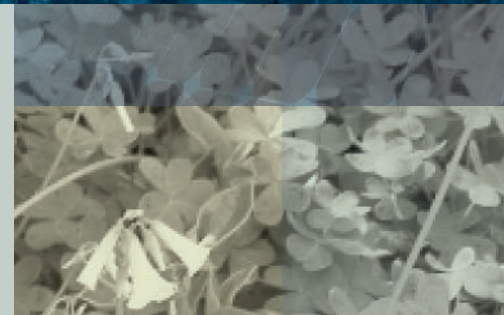
In response to new regulatory requirements, modifications were made this year to the containment design inside the electrical substations that contain transformers and the oil circuit breakers at a cost of \$677,530. If an oil spill occurs it will be contained, preventing migration into the water system. The challenge of this project, which was time and labor intensive, was to manage the work efficiently with minimal interruption of service.

#### Recycle Water Program

Reclaimed water, which represents four to five percent of our water resource, is a supply source we want to increase. The more water demand we meet with reclaimed water the less potable water we have to procure. Conservation of water reduces our need to use other sources of this limited commodity. As a part of the reclamation system, Glendale owns and operates 30 miles of pipe, six booster stations, and six reservoirs.



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## Solar Energy Serves as Exemplary Energy Alternative

To encourage residents and businesses to implement solar power alternatives, Glendale's Public Benefit Programs aggressively promotes solar photovoltaic resources through incentive programs and education. Examples of the program's achievements include the following:

- The Pacific Avenue Project enabled four homes to install photovoltaic systems to create electricity from the sun.
- The Smart Home Solar Solutions Program provided cash incentives to residents to help in the purchase of nearly \$100,000 of grid-connected solar installations.
- A photovoltaic canopy over the Beeline Bus Facility was proposed for a location adjacent to the Glendale Metro Station. This project will result in the generation of 137kW of solar power and provide shade to reduce energy needed to cool the buses.

#### Glendale Community College Green Energy Partnership Project

In partnership with Glendale Community College, GWP has earmarked a \$3.3 million investment in a energy efficiency and renewable energy project. The showcase project is the first site for a large-scale solar photovoltaic system in the City. It incorporates state-of-the art technologies in its construction and will include conservation and renewable energy demonstrations in public areas of the new science center. Specifics of this project include:

- A new high-efficiency chiller plant to provide service to five existing buildings currently cooled with high-maintenance, energy efficient package units. The estimated cost of the new chiller unit is \$2.3 million. GWP will provide \$500,000 from PBC funds
- A 15kW solar photovoltaic array
- A solar photovoltaic canopy on the parking garage with a 400kW AC photovoltaic which will provide power to the GWP power grid
- A filtration system as a part of the dual-plumbed building to allow for recycled water for sanitary flushing purposes
- Construction of a recycled water storage tank at Lower Scholl Canyon

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Maintenance and management of the utility infrastructure must evolve – with constant evaluation to determine what needs to be repaired, replaced, or renewed. GWP's number one commitment is preserving and safeguarding our valuable utility assets. We maintain 400 miles of pipelines for water distribution and 530 miles of electrical wires for power distribution. We must be purposeful in our long-range maintenance program, using our existing resources and manpower efficiently. The work plan for our regular maintenance projects is set on a 100-year calendar.

Working with an aging system means that we must also be prepared to meet the unexpected challenges of nature and equipment failure. This year was especially challenging as a result of the record rains – our second wettest season on record. Crews worked hard to reduce the impact of fallen trees, mud and debris, and flooding which threatened both water and power services. When we experienced outages or similar challenges, we saw each event as an opportunity to make repairs or replacements that would improve and strengthen our systems.



*"We are proud of the response from our customers in a survey, conducted by RKS Research and Consulting, which recognized GWP with high ratings for being a trustworthy and well-run utility."*

*- Craig Kuennen*



#### **Unplanned Outages**

Two major outages occurred this year, both caused by rare incidents. In January 2005, a transmission line was struck by lightning. In March 8 of that same year, a transformer was severely damaged because a small animal managed to gain entry. To rebuild the parts of the system weakened by these events, two new transformers were purchased at a cost of \$1.1 million and were placed into service at the Kellogg Substation. We moved and placed into service a major transformer from the Tropico substation to be used as a backup at the Kellogg facility. Additional protective equipment was installed to better protect the transformers.

#### **Relay Protection Upgrade**

An analysis of the outages revealed that a newer relay protection system could provide more complete protection to transformers. We developed a 5-year plan to redesign and implement an improved system.

#### **On-Going Water System Improvements**

Our citywide Water Pipeline Replacement and Rehabilitation Program is in its second year. This program focuses on water quality, water system reliability and availability of water for the fire department. Many of the City's existing water mains are cast iron pipes and range in age from 79 to 81 years. This year, we replaced four miles (21,000 feet) of 4-inch water mains with new 8-inch ductile iron pipes. In addition, five inoperable large valves on Glenwood Road and Dryden

Street were replaced. We gave priority for the replacement work to areas where the Fire Department has determined there is a need for increased water flow for fire-fighting purposes.

#### **Emergency Water System**

The existing portable generator was reconditioned and all personnel were trained in its use. The emergency connections of booster stations were inspected and upgraded to be compatible with the portable generator.

#### **Reservoir Maintenance**

As a part of our water yearly maintenance program, we empty four or five of the 30 potable water storage facilities and remove sediment, wash, and disinfect the facility, assess structural integrity, and perform any needed repairs before placing them back in service.

#### **Grayson Power Plant Unit 5**

The heart and soul of GWP's local power generation is the Grayson Power Plant. This work horse is key to our independence as a power utility company. If it ever became necessary, this plant's 250 megawatts of power could serve the basic needs of Glendale. Crews were proud to complete a major renovation of overhauling the steam turbine generator at the Grayson Power Plant. Work was within budget and has resulted in reduced emissions and improved efficiency.



*"We go through the entire thought process of analysis and evaluation of alternatives, cost benefits, and pros and cons. It is important to have this process in place for a decisions to be made. The City Council is pleased that they can support the recommendations as 'good business' decisions."*

*- Ruwen Liu*



*"Glendale is a small enough community that individual contributions by GWP employees do affect our service to the residents. People know we care."*

*- Ned Bassin*

Build a creative and versatile organization that evolves  
and **responds** as needs dictate and encourages calculated risk-taking to effectuate the vision.

Core to our business is our responsiveness to community needs. Strengthening this response strengthens our company. As a municipally-owned utility, we answer first and only to our customers. Communication is key in our business for customer convenience. Our response must be dependable, thoughtful, and comprehensive at all levels – whether it is as an employee in a one-on-one contact with customer or as a partner in our community.

While many public utilities pay investors, GWP invests in the community. This year, over \$21 million was transferred to the City of Glendale's general fund to support essential services such as police and fire protection and for community enrichments such as libraries, parks, and recreational areas.

#### **24/7 Customer Convenience**

Customers now have a self-service option to obtain information and services pertaining to their billing at any hour of the day. Our Integrated Voice Response system provides electronic options and automated response. Additionally, the Stancil Recording System records all incoming customer calls to the call center enabling customer interactions to be reviewed for quality and coaching purposes. Over 106,000 customers received assistance by phone with an average answer speed of 25 seconds.

#### **Enhanced Online Payment Processes**

In addition to the multiple payment option online and over the telephone, the eBill was introduced as part of the eCare plan. Customers are automatically notified by email when their utility bill becomes available online. They can choose to receive a hard copy bill, the eBill notification, or both. Within only a few months, over 10,000 customers enrolled in this new service. Electronic payments such as Direct Debit and Rapid Pay are now accepted in addition to the online and telephone pay options. Over 17 percent of our rate payers use electronic payment transactions.



### **mCare Mobile Dispatch System**

The mCare software was purchased so our office and field service staff will be able to link electronically through a web-based, paperless, and wireless field service order system. Using this technology, field technicians will be able to respond immediately to service orders and send completion information directly to the office, eliminating office data entry and keeping records current.

### **Community Water Education**

GWP strives to provide its customers with information on all water-related issues with a focus on tips for water conservation. This year, when West Nile Virus became an issue because of its spread by mosquitoes in standing water, GWP was quick to disseminate prevention measures in its published materials.

### **First Energy & Water Expo**

Over 1,500 residents attended the first Energy and Water Exposition visiting the interactive demonstrations or informational booths which offered conservation tips and advice on how to reduce electric and water bills. Residents exchanged 1,200 halogen floor lamps for safer, more energy-efficient lamps provided free by GWP.

### **Free Landscape Classes**

The City of Glendale and GWP co-hosted six free landscape classes for residents. Designed for the non-technical gardener, the series of classes taught participants to identify common water-wasting problems in

irrigation systems and offered suggestions on plants to use in Southern California landscapes.

### **Livingwise Program**

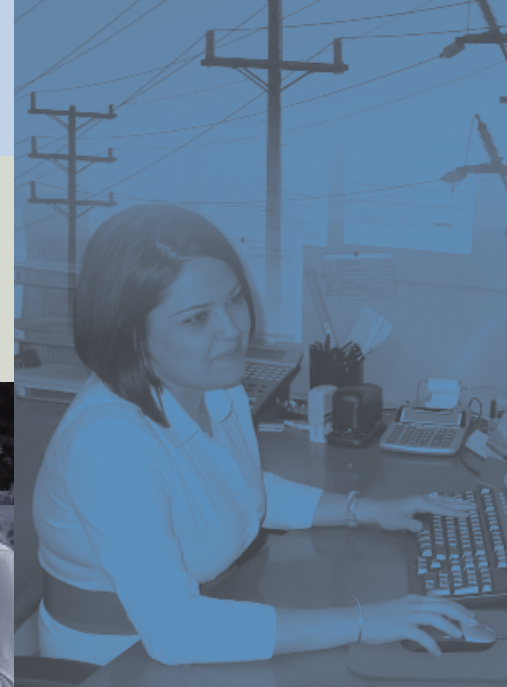
Sixth graders from Glendale public and private schools were involved in Livingwise, a one-of-a-kind, in-school energy and water conservation program. For the 2004-05 school year, 1,692 students and 40 teachers from 25 Glendale schools participated in the program.

### **Operation School House**

This program provides financial incentives to schools to complete pre-approved energy saving projects. Five schools in the Glendale Unified School District and the Glendale Adventist Academy received incentive funds totalling \$615,528. Annual energy savings from these projects is estimated to be 1,677 MWh.

### **Business Energy Solutions**

Larger businesses in Glendale save energy and money through energy audits conducted by the Public Benefits Program. Businesses which complete energy upgrades as a result of the audit receive incentive money of up to 25 percent of the total cost (and less than \$100,000) of the project. This year 16 large businesses received incentives totalling \$201,230 with a resulting estimated annual energy savings of 15,395 MWh. Some of the recipient companies include Nestle USA, Hilton Hotels, California Offset Printers, Filmbond, and Maquire Partners.



*"We at GWP are more responsive to serving this community. The people are our only customers. Everything we do goes back to the community."*

*- Ned Bassin*



## **Strengthening the Community and Environment through GWP Public Benefit Programs**

Glendale *Water & Power* invests in the community through a wide range of public benefit programs designed to help residents, schools, businesses, and public projects to use energy and water services more efficiently and to reduce operating costs. Several of the programs have been developed to consider the needs of low-income residents. The programs are funded through a state-mandated fee on all electricity bills. Public Benefit Programs are designed to create a balance among saving the customer money, protecting the environment, and managing our natural resources wisely. The following is a short explanation of the more utilized programs offered.

- **Smart Business Energy Saving Upgrade**  
Conducts energy audit and retrofits for business electric customers
- **Smart Business Lighting Rebates**  
Offers funds to small and medium-sized business electric customers to install energy efficient lighting
- **Cool Care**  
Gives qualified customers or customer landlords the option of a replacement Energy Star-rated refrigerator
- **Smart Home Energy Saving Upgrade**  
Allocates consultation and funds to residential customers and landlords for energy saving improvements
- **Smart Home/Smart Business AC Tune-ups**  
Provides rebates for residential and small electric customers to receive air conditioning testing and duct sealing services
- **Guardian**  
Provides discounts to electric customer households with doctor-prescribed electronic powered medical equipment
- **Helping Hand**  
Provides emergency bill payment or emergency security deposit assistance for qualifying customers
- **Senior Care**  
Provides customers over the age of 62 (55 if medically retired) with approximately \$10 per month off their electric bill
- **Smart Home Energy Water Saving Survey**  
Provides residential customers with electric and water efficiency audits
- **Smart Home Rebate**  
Provides cash back for the purchase and installation of energy efficient appliances and products
- **Tree Power**  
Provides up to three free shade trees to residents

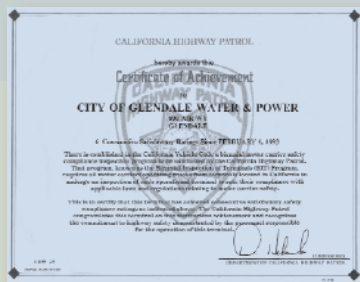


Build a creative and versatile organization that evolves and responds

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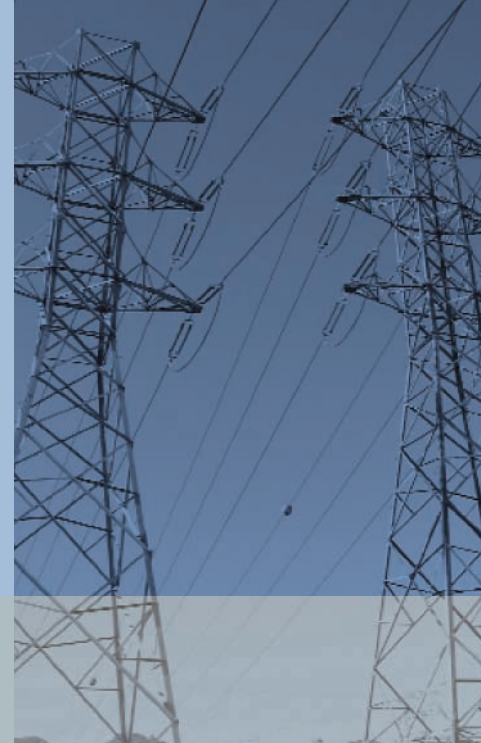
# calculated risk-taking

to effectuate the vision.



One trademark of a competitive company is having the ability to see beyond the customary way of doing things and to embrace innovation at all levels – from the field crew to the supervisors. When employees and management have the right skill sets and abilities to do the task, they gain the confidence to make safe and wise decisions – they are better able to take the calculated risk. We are developing the policies that guide companywide decision-making and focus on enhancing individual employee skills.

This year we have increased our support for employee enrichment through on-site training faculties, in-house training, and incentive programs. The company is empowered when employees gain the ability to take advantage of opportunities that improve productivity and safety, and reduce costs.



*“This strategic planning process started with a laundry list of ‘What We Do.’ Each manager asked employees, ‘What do you do?’ When employees can see where they fit in and what it means to the organization, they are more energized; they are more aligned with the organization’s goals.”*

- Ruwen Liu

### Water Services Certification

Recent state regulations have changed requirements for employee certifications. Two years ago, the GWP Water Service Division had only one employee qualified at the highest level of certification necessary for a level D5 utility system. We emphasized the need for our employees to meet the new requirements and complete the exams necessary. Employee education and training was recognized with pay incentives. Training opportunities were made more convenient with the training offered on site after work hours. All employees in the Water Services Section are now certified at or above the level necessary and we now have seven licensed employees at the highest level of qualification.

### Customer Service Training Center

We completed an on-site training room this year to support new employees and provide online training in Microsoft® Word®, Excel®, and Outlook® as well as Harris and the Internet. Automated Call Distribution (ACD) telephones were installed, offering training and instruction, practice, and real-time monitoring of customer calls for quality assurance. A trainer dedicated to the Customer Service Section delivered 314 hours of classroom work to 37 employees. Additionally, employees participated in the off-site classes for technical and software skills training.

### Manpower Plan

We developed a formal plan to ensure that appropriate amount of staff with the right skills sets are in place to meet organizational needs today and

in the future. The plan identifies current staffing levels, establishes a 5-year projection for future needs and is instrumental in succession planning efforts. It takes into account staffing changes due to retirements, completion or introduction of projects, automation, technology, and reorganization. This information assists GWP in planning recruitment and training strategies.

### Safety Statistics

GWP is committed to work place safety and training is one key to accomplish this goal. Reduced work-loss time is a factor that improves company productiveness. For example, we are proud that the employees working in the warehouse have achieved a record of 90 consecutive months without a loss time accident. It is an impressive achievement because these employees are working with storeroom items that can weigh up to 14,000 pounds and they are driving heavy equipment.

### Supervisory Certificate Program

In 2004-2005, GWP launched a Supervisory Certificate Program. During the year, two teams composed of approximately 25 employees each participated in a 10-session curriculum over a period of six months. The employees were grouped as a mix of office and field professionals who were either in supervisory or lead positions with the potential for career advancement into a supervisory position. The classes were chosen based on a needs analysis facilitated by GWP Human Resources and line management.

Build a creative and versatile  
 organization that evolves and responds as needs  
 dictate and encourages calculated risk-taking to

# effectuate the vision

*“Development of a  
 strategic plan ensures  
 that we plan and  
 upgrade during these  
 next five to 10 years to  
 ensure resources for  
 the more distant future.”*

- Ned Bassin

GWP management is intensifying efforts to institutionalize business fundamentals that will guarantee that this organization “in total” is sustainable and enduring. As part of this effort, the leadership team is working to formalize the business structure and systemize financial functions by developing a strategic plan that will identify how best to achieve our goals and objectives. Establishing sound management tools and operating procedures is equal in importance to the maintenance and development of the physical assets of the water and power infrastructure.

We are working to ensure the legacy of today’s workers for tomorrow. When any employee sits down to a desk or any technician works on a piece of equipment, they will have access to a knowledge base through records and information of completed processes and procedures. The importance of having this structure in place became all too clear this year when we experienced a higher number of retirements. In the Water Section alone, four engineers retired – sharing a combined total of 150 years of experience.



*“How do you manage  
 your organization in a  
 way that you lessen  
 the impact of  
 unexpected events?  
 Whether it is having  
 well trained employees  
 ready to respond,  
 having enough  
 suppliers available as  
 alternatives, or having  
 hedging programs to  
 pre-buy and lock in  
 prices when they are  
 low – it all boils down  
 to having sound  
 business management  
 practices.”*

- Ignacio Troncoso

### **Risk Management Policy**

GWP is one of the first utilities to institute formal procedures to mitigate exposure to fluctuating energy and natural gas prices. A component of the Risk Management Policy is a long-term resource plan designed to assure reliability of the electric and water systems and manage the risk of loss. A Risk Management Committee conducts economic analysis of data to support the management of energy and water costs.

### **Water Quality Retooling Initiative**

After the needs and issues of the water service delivery system were identified and prioritized, we developed a management plan for retooling to make the corrections and improvements. We reviewed all methods and equipment used to assess and maintain water quality. Obsolete equipment was replaced and all water quality personnel received training in the latest methods. We also reviewed the procedures and protective equipment for safely handling chemicals.

### **Debt Management Policy**

Adopted in April 2005 by the City Council, the Debt Management Policy establishes guidelines for issuing direct utility revenue debt and criteria for management of the debt portfolio. The primary objectives of this policy are to achieve and maintain high credit ratings, assure access to credit markets, reduce costs of debt, retain maximum financial flexibility, and support quality decision-making. The policy defines and establishes the approach, principals, policies, financing criteria, terms, and conditions of debt issuance, as well as guidelines for investment. A clearly delineated and well-executed Debt Management Policy will allow GWP to achieve a balanced and optimized portfolio that reduces the overall cost of capital within acceptable risk tolerance levels while maintaining flexibility in future financing decisions.





GLENDALE WATER & POWER

# financial statements

Annual Report 2004 - 2005



Vavrinek, Trine, Day & Co., LLP  
Certified Public Accountants & Consultants

VALUE THE DIFFERENCE

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Electric Enterprise Fund of the City of Glendale, California (the City), as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. 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 audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Electric Enterprise Fund is 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 Enterprise Fund. It does not purport to, and does not present fairly the financial position of the financial position of the City as of June 30, 2005 and 2004, 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 Electric Enterprise Fund of the City as of June 30, 2005 and 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2005, on our consideration of the City of Glendale's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the

internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on those pages referenced in the table of contents and the Schedule of Funding Progress in Note 4 are not required part of the financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Vavrinek, Trine, Day & Co., LLP*

Rancho Cucamonga, California  
November 18, 2005



As management of Glendale *Water & Power* (a department of the City of Glendale), we offer the readers of the City of Glendale Electric Enterprise Fund (Electric Utility) financial statements, a fund of the City, this narrative overview and analysis of the financial activities of the Electric Enterprise for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

#### **Financial Highlights**

During fiscal year 2005, the Electric Utility retail operating revenues remained stable as the volume of sales was at the similar level as in the prior year, and there were no changes in the rates charged to the customers. The continuing increases in the costs of labor, materials and energy resulted in lower net retail operating revenues of \$8,126 on revenues of \$144,442 less \$136,316 in expenses. The wholesale sector continued to experience fewer opportunities that met the Electric Utility's risk-adjusted return thresholds, resulting in lower net revenues of \$613 on revenues of \$4,357 less \$3,744 in expenses. The total net assets decreased by \$3,494 after adding net non-operating revenues of \$4,775 and subtracting \$17,008 in the Transfers to the City.

The assets of the Electric Utility exceeded its liabilities at the close of fiscal year 2005 by \$352,799. Of this amount, \$191,797 was unrestricted and may be used to meet the Fund's ongoing obligations to creditors and customers. At the end of the fiscal year, this unrestricted net assets represented 137% of annual operating expenses for 2005.

#### **Overview of the Basic Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Glendale Electric Utility financial statements. The Electric Utility is a business-type activity of the City, and its activities are recorded in a separate enterprise fund. These financial statements include only the activities for the City of Glendale Electric Utility and provide comparative information for the last two fiscal years. Information on citywide financial results is available in the City of Glendale's Comprehensive Annual Financial Report.

The City of Glendale Electric Utility's financial statements comprise two components: 1) financial statements and 2) notes to the financial statements. In addition, this report also contains other supplementary information to provide the reader additional information about the Electric Utility, including sales statistics and other relevant data. Included as part of the financial statements are three separate statements which collectively provide an indication of the Electric Utility's financial health.

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

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

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

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 40 to 60 of this report.

#### **Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the Electric Utility's financial position. In the case of the Electric Utility, assets exceeded liabilities by \$ 352,799 at the close of the most recent fiscal year. A portion of the Utility's net assets (42.1%) reflects its investment in capital assets, such as production, transmission, and distribution facilities, less any related outstanding debt used to acquire those assets. The Electric Utility uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the capital assets themselves cannot be used to liquidate these long-term liabilities.

An additional portion of the Electric Utility's net assets (3.5%) represents resources that are subject to external restrictions on how they may be used. These restrictions are for items such as debt repayment and other legally restricted purposes.

The Unrestricted portion of the Utility's net assets (54.4%) may be used to meet the Electric Utility's ongoing obligations to creditors and customers.

**Net Assets – Electric Utility**

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

	2005	2004
Current and Other Assets	227,425	237,493
Capital Assets	217,674	203,390
<b>Total Assets</b>	<b>445,099</b>	<b>440,883</b>
Long-Term Debt	66,246	67,614
Other Liabilities	26,054	16,976
<b>Total Liabilities</b>	<b>92,300</b>	<b>84,590</b>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	148,542	136,340
Restricted	12,460	11,947
Unrestricted	191,797	208,006
<b>Total Net Assets</b>	<b>352,799</b>	<b>356,293</b>

The Electric Utility's net assets decreased by \$3,494 during the current fiscal year. The decrease in net assets was primarily the result of increases in all cost categories, including labor, materials and energy.

**Changes Net Assets – Electric Utility**

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

	2005	2004
<b>Revenues:</b>		
Retail sales, net	135,862	136,664
Fuel Adjustment Charge (FAC) Adjustment	-	-
Wholesale Sales	4,357	15,054
Sale to Other Utilities	8,580	-
Interest Income	6,056	1,916
Other revenues and grants	1,746	5,606
Capital contributions	1,046	1,803
<b>Total Revenues</b>	<b>157,647</b>	<b>161,043</b>
<b>Expenses:</b>		
Production	104,226	103,897
Transmission and distribution	15,625	14,317
Customer accounting and sales	5,616	5,469
Depreciation	14,593	11,290
Interest expense	4,074	3,716
<b>Total Expenses</b>	<b>144,133</b>	<b>138,689</b>
<b>Transfers to the City's General Fund</b>	<b>17,008</b>	<b>15,950</b>
<b>Total Expenses and transfers</b>	<b>161,141</b>	<b>154,639</b>
<b>Changes in net assets</b>	<b>(3,494)</b>	<b>6,403</b>
<b>Total net assets, beginning of year</b>	<b>356,293</b>	<b>349,889</b>
<b>Total net assets, end of year</b>	<b>352,799</b>	<b>356,293</b>

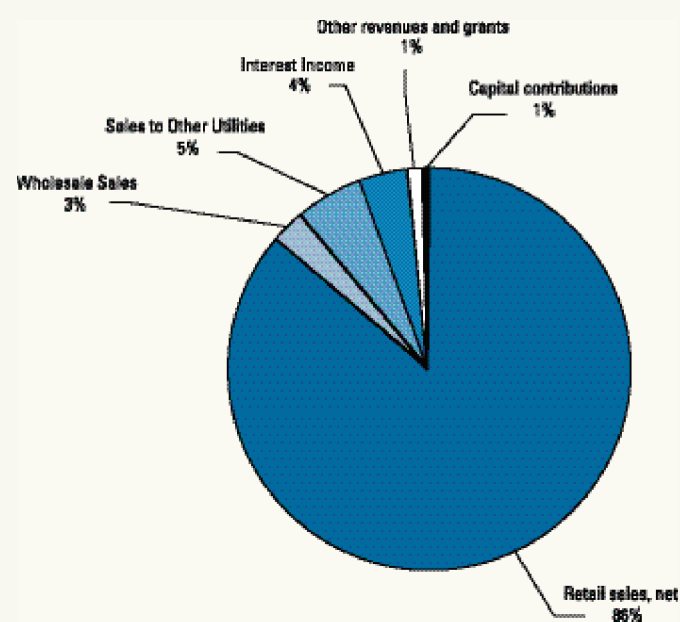


Retail sales (residential, commercial, industrial and other sales) continued to be the primary revenue source for the Electric Utility, making up 86% of total revenue. Retail sales showed a decrease of 1% from the prior year. Sales to Other Utilities accounted for the receipts from disposing of excess retail energy supply. This new account was established this year to differentiate such sales from the wholesale operation.

Wholesale sales decreased 71% compared to the prior year. The decrease was primarily the result of the creation of the new account, Sales to Other Utilities, as described previously.

The Investment Income increased by \$4,140, or 216% above the prior year level. The increase was related to favorable market conditions that resulted in higher earnings for the Electric Utility's investment portfolio.

Capital Contributions decreased by 42% from the prior year. The decreased reflected the reduced level of construction projects funded by others, primarily retail customers.



**Expenses by Source – Electric Utility**

Total expenses for the Electric Utility increased by \$5,444 (or 4%) over the prior year levels.

Production expenses were on par with the prior year level, the result of an effective energy risk management program amid fast rising energy costs in a highly volatile market. The Transmission and Distribution expenses increased by 9% over prior year, reflecting the intensified efforts and spending in improve system reliability. Customer accounting and sales expenses remained relatively unchanged. Depreciation expenses increased by 29% primarily resulting from the capitalization of a new 49-MW generation unit at Grayson Power Plant and two transmission projects.

Interest expenses increased by 10% as a result of the arbitrage rebate. Transfers to the City's General Fund are based on a formula representing a certain percentage of total retail revenues. Transfers to various City's funds increased by \$1,058, reflecting increases in the percentage.

**Capital Assets and Debt Administration**

**Capital Assets**

As of June 30, 2005, the Electric Utility's investment in capital assets totals \$217,674 (net of accumulated depreciation). This included investments in production, transmission, and distribution related facilities, as well as in general items such as office equipment, furniture, etc. This fiscal year showed a 7% increase in capital assets over the prior year. The department completed and capitalized the construction of certain major generation and transmission and distribution projects that had previously been accounted for as construction in progress.

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

	2005	2004
Production	\$ 104,434	\$ 101,421
Transmission and distribution	258,916	247,472
General	49,805	47,300
Less: Accumulated depreciation	(195,481)	(192,804)
<b>Total</b>	<b>\$ 217,674</b>	<b>\$ 203,389</b>

**Long-Term Debt**

As of June 30, 2005, the Electric Utility had outstanding long-term debt of \$66,246. The debt is secured by the Electric Utility's revenues (Electric Revenue Bonds).

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

	2005	2004
Electric Revenue Bonds	\$ 67,050	\$ 67,845
Less: Current portion	(1,512)	(820)
Unamortized bond premium	578	589
Unamortized accrued interest	131	-
<b>Total long-term debt</b>	<b>\$ 66,246</b>	<b>\$ 67,614</b>

The Electric Utility maintains an "A+" credit rating from Standard & Poor's and Fitch, Inc. for its revenue bonds and an A1 by Moody's Investors Service. Additional information on the Electric Utility's long-term debt can be found in Note 3 on pages 48 and 50 of this report.

**Economic Factors and Rates**

Although inflationary trends in the Glendale region remained relatively low, history has shown that certain costs, such as energy costs, can greatly exceed inflation. To hedge against the historically high energy prices, the Electric Utility has implemented a risk management program that resulted in stabilizing the rate amid significant market volatility. There was no rate increase during the last two fiscal years.

In addition, the Electric Cash Reserve Policy adopted by City Council in July 2003 provides the foundation for mitigating rate impact. The policy identifies and plans for meeting working capital and contingency needs during emergencies and disasters, as well as expected future capital needs for system expansion and long-term cost reduction initiatives. The policy also establishes a rate stabilization fund.

**Requests for Information**

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

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# Statements of Revenues, Expenses and Changes in Net Assets

## electric fund

Years Ending June 30, 2005 and 2004

	2005	2004
<b>Operating revenues</b>		
Electric Domestic Sales	\$ 48,775,385	\$ 49,466,888
Electric Commercial Sale	87,085,389	87,196,007
Electric St Light Sales	1,258	1,326
Electric Wholesale Sales	4,356,897	15,053,921
Sale to Other Utilities	8,579,689	-
Miscellaneous revenues	1,746,431	4,351,832
<b>Total operating revenues</b>	<b>150,545,049</b>	<b>156,069,974</b>
<b>Operating expenses:</b>		
Production	104,225,785	103,897,157
Transmission	15,624,721	14,316,793
Customer accounting and sales	5,616,372	5,468,788
Depreciation	14,592,753	11,290,210
<b>Total operating expenses</b>	<b>140,059,631</b>	<b>134,972,948</b>
<b>Operating income</b>	<b>\$ 10,485,418</b>	<b>\$ 21,097,026</b>

Years Ending June 30, 2005 and 2004

	2005	2004
<b>Non operating revenues (expenses):</b>		
Interest revenue	\$ 6,056,032	\$ 1,916,219
Grant revenue	-	1,253,716
Interest expense	(4,073,642)	(3,716,436)
Contribution in aid	1,046,255	1,802,923
<b>Total non operating revenues, net</b>	<b>3,028,645</b>	<b>1,256,422</b>
<b>Income before transfers</b>	<b>13,514,063</b>	<b>22,353,448</b>
<b>Transfer out:</b>		
Transfer-General Fund	(16,982,754)	(13,935,000)
Transfer-Special Revenue	-	(2,000,000)
Transfer-Capital Funds	(25,000)	(15,000)
<b>Total transfer</b>	<b>(17,007,754)</b>	<b>(15,950,000)</b>
<b>Change in net assets</b>	<b>(3,493,691)</b>	<b>6,403,448</b>
<b>Total Net asset, July 1</b>	<b>356,292,893</b>	<b>349,889,445</b>
<b>Total net assets, June 30</b>	<b>\$ 352,799,202</b>	<b>\$ 356,292,893</b>

# Statements of Cash Flows

## electric fund

Years Ending June 30, 2005 and 2004

	2005	2004
<b>Cash flows from operating activities:</b>		
Cash from customers	\$ 153,305,490	\$ 153,566,269
Cash paid to employees	(30,186,105)	(27,416,849)
Cash paid to suppliers	(87,534,272)	(97,297,048)
Net cash provided by operating activities	35,585,113	28,852,372
<b>Cash flows from noncapital financing activities:</b>		
Operating transfers out	(17,007,754)	(15,950,000)
Operating grant received	-	1,253,716
Net cash provided by noncapital financing activities	(17,007,754)	(14,696,284)
<b>Cash flows from capital and related financing activities:</b>		
Interest on long term debt	(4,089,542)	(3,716,436)
Bond, premium and interest accrued	810,924	(882,242)
Contribution in aid	1,046,255	1,802,923
Acquisition of property, plant, and equipment	(28,877,438)	(30,122,144)
Investment - gas/electric commodity	(62,589)	(552,300)
Net cash (used in) capital and related financing activities	(32,794,238)	(33,470,199)
Cash provided by investing activities - interest received	5,953,614	1,664,463
Net increase (decrease) in cash and cash equivalents	(8,263,265)	(17,649,648)
Cash and cash equivalents at beginning of year	201,436,276	219,085,924
Cash and cash equivalents at end of year	\$ 193,173,011	\$ 201,436,276

Years Ending June 30, 2005 and 2004

	2005	2004
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 10,485,418	\$ 21,097,026
<b>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</b>		
Depreciation	14,592,753	11,290,210
(Increase)Decrease Accounts receivable net	2,702,791	(4,572,792)
(Increase)Decrease Unbilled receivable	(1,196,067)	3,322,802
(Increase)Decrease Due from other agencies	1,253,716	(1,253,716)
(Increase)Decrease Inventories	(1,168,809)	210,662
(Increase)Decrease Prepaid expenses	368,110	336,161
(Increase)Decrease Deposits	7,283	(17,000)
(Increase)Decrease Deferred Charges	3,129	54,557
Increase(Decrease) Accrued salaries and withholding	71,122	84,689
Increase(Decrease) Compensated absences	7,358	293,691
Increase(Decrease) Post employment benefit	198,517	-
Increase(Decrease) Accounts payable	8,856,171	(2,872,895)
Increase(Decrease) Contracts - retention	(682,841)	488,075
Increase(Decrease) Deposits	111,462	365,902
Increase(Decrease) Claims payable	(25,000)	25,000
Total adjustments	25,099,695	7,755,346
Net cash provided (used) by operating activities	\$ 35,585,113	\$ 28,852,372



**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 Enterprise Fund.

**Funds and Account Groups**

The basic accounting and reporting entity of the City is a “fund.” A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts for recording cash and other resources together with all related liabilities, obligations, reserves and equities that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

**Basis of Presentation**

The City’s Electric Enterprise Fund (the Fund) is used to account for the construction, operation and maintenance of the City-owned electric utility. The Fund is considered to be enterprise funds, proprietary fund types, as defined under accounting principles generally accepted in the United States of America. The measurement focus is upon financial position, changes in financial position and cash flows. Accordingly, the accrual basis of accounting is followed by the Fund. In accordance with Government Accounting Standards Board (GASB) statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting, the Fund has elected to apply all applicable pronouncements of the Financial Accounting Standards Board (FASB) including those issued on or before November 30, 1989, except for those pronouncements which conflict with or contradict GASB pronouncements. The Fund is included in the City’s Comprehensive Annual Financial Report (CAFR), and therefore, these financial statements do not purport to represent the financial position and changes in financial position of the City.

**Cash and Investments**

The City values its cash and investments in accordance with the provisions of Government Accounting Standard Board (GASB) Statement No. 31, “Accounting and Financial Reporting for Certain Investments and External Investments Pools (GASB 31),” which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the statement of net assets/balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using published market prices.

The City manages its pooled idle cash and investments under a formal investment policy that is reviewed by the Investment Committee and adopted by the City Council and that follow the guidelines of the State of California Government Code. Individual investments cannot be identified with any single fund because the City may be required to liquidate its investments at any time to cover large outlays required in excess of normal operating needs. Funds must request large outlays in advance in order that the City Treasurer will have the funding available.

Interest income from the investment of pooled cash is allocated to all funds, except Capital Improvement Funds on a monthly basis based upon the prior month end cash balance of the fund as a percent of the month end total pooled cash balance. The City normally holds the investment to term; therefore no realized gain/loss is recorded.

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

**Capital Assets**

The capital assets of the Fund is 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 Fund is as follows:

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

**Inventories**

Inventories, consisting primarily of construction and maintenance materials and tools for the production and distribution system of the Electric utility are carried at weighted average cost.

**Compensated Absences**

The Electric Fund has a fully funded liability for earned but unused accumulated vacation and overtime. As of June 30, 2005 and 2004, Electric Fund had \$1,615,370 and \$1,608,013, respectively, of the Electric employees’ earned unused accumulated vacation and overtime.

**Post-Employment Benefit**

All City Employees, including employees of Electric Enterprise Fund, that are eligible for retirement with accumulated sick leave are entitled to convert their sick leave hours valued at the rate stated in their respective MOU or Ordinance, into a Retiree Health Savings Plan (RHSP). This RHSP account is controlled by the retiree and money deposited into the account is non-taxable. Money withdrawn from this account,

when used for eligible medical expenses as specified in IRS Publication 502 are non-taxable to the retiree. As of June 30, 2005 and 2004, \$5,730,795 and \$5,061,393, respectively, had been set-aside in the Internal Service Fund-Employee benefits Fund of the City related to such benefits.

#### **Unbilled Receivables**

The Fund records utility services delivered to customers but not billed. As of June 30, 2005 and 2004, the Electric Fund's unbilled receivables were \$10,636,493 and \$9,440,426, respectively.

#### **Deposits**

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

#### **Contracts - Retained Amount Due**

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

#### **Transfers**

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

#### **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

#### **Revenue Recognition**

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

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

#### **Budgets and Budgetary Accounting**

The Electric Utility presents and the City Council adopts an annual budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Electric Utility's budget in June each year via a resolution.

#### **Reclassifications**

Certain reclassifications have been made to the prior year's financial statement to conform with the current year's presentation.

## **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 Fund's interest in this pool is entirely insured or collateralized as of June 30, 2005. Income from the investment of pooled cash is allocated to the Fund on a monthly basis, based upon the month-end cash balance of the fund as a percent of the month-end total pooled cash balance. Of this total, \$193,173,011 and \$201,436,276 pertains to the Electric Fund for fiscal year 2005 and 2004, respectively. Invested cash is stated at the fair value. An increase (decrease) in the fair value of investments is recognized as an increase (decrease) to Interest Income Revenue. The City normally holds the investment to term; therefore, no realized gain/loss is recorded. All cash and investments are held in the City's cash management pool. Therefore, for purpose of the combined statement of cash flows for the Proprietary Funds, the City consider all cash, investment, imprest cash and cash with fiscal agents to be cash and cash equivalents.



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

	2005	2004
Investments	\$ 558,306,802	\$ 565,955,722
Cash with fiscal agents	18,622,859	15,186,778
	576,929,661	581,142,500
Cash on hand	(649,867)	6,494,160
Total	\$ 576,279,794	\$ 587,636,660

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

Information Relating to the City of Glendale Investment Pool:

	2005	2004
Cash and investments	\$ 439,805,054	\$ 410,329,623
Imprest cash	28,930	37,280
Cash with fiscal agents	18,622,859	15,186,778
Investment-gas/electric commodity	3,945,569	3,882,979
Designated cash and investments	113,877,382	158,200,000
Total	\$ 576,279,794	\$ 587,636,660

**Authorized Investments**

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

	Maximum Maturity	Maximum % of Portfolio
U.S. Treasuries	5 years	100%
Federal Agencies	5 years	100%
Medium Term Corporate Notes	5 years	15%
Commercial Paper (A1,P1 minimum rating)	180 days	15%
Bankers Acceptance	180 days	30%
Negotiable Certificates of Deposit	1 year	30%
Local Agency Investment Fund (State Pool)	N/A	LAIF maximum
Money Market Mutual Funds	90 days	5%
Time Deposits	1 year	10%

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

**Investments Authorized by Debt Agreements**

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

**Disclosure Relating to Interest Rate Risk**

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

		Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Commercial Paper	\$ 12,990,571	12,990,571	-	-	-
Federal Agency Term Notes	88,396,123	43,691,250	29,877,329	14,827,544	-
Federal Agency Callable Bonds	385,539,403	44,602,869	111,798,657	229,137,877	-
Corporate Notes	35,490,245	17,925,704	8,078,693	9,485,848	-
State Investment Pool	18,957,204	18,957,204	-	-	-
Money Market	16,933,256	16,933,256	-	-	-
Held by Fiscal Agents					
Federal Agency Term Notes	8,880,479	8,880,479	-	-	-
Guaranteed Investment Contracts	4,909,098	-	-	-	4,909,098
Money Market	4,833,282	4,833,282	-	-	-
	\$ 576,929,661	168,814,615	149,754,679	253,451,269	4,909,098

The City assumes that callable investments will not be called.

**Disclosures Relating to Credit Risks**

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

Rating as of Year End

		Rating as of Year End				
		AAA	AA	Aa2	A1,P1	Unrated
Commercial Paper	\$ 12,990,571	-	-	-	12,990,571	-
Federal Agency Term Notes	88,396,123	88,396,123	-	-	-	-
Federal Agency Callable Bonds	385,539,403	385,539,403	-	-	-	-
Corporate Notes	35,490,245	24,992,435	10,497,810	-	-	-
State Investment Pool	18,957,204	-	-	-	-	18,957,204
Money Market	16,933,256	16,933,256	-	-	-	-
Held by Fiscal Agent						
Federal Agency Term Notes	8,880,479	8,880,479	-	-	-	-
Guaranteed Investment Contracts	4,909,098	-	-	4,909,098	-	-
Money Market	4,833,282	4,838,282	-	-	-	-
	\$ 576,929,661	529,579,978	10,497,810	4,909,098	12,990,571	18,957,204

**Concentration on Credit Risk**

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

Issuer	Investment Type	Reported Amount
FHLB	Federal Agency Term Notes	\$ 51,540,938
FHLB	Federal Agency Callable Bonds	248,340,822
	Total	299,881,760
FHLMC	Federal Agency Term Notes	18,729,405
FHLMC	Federal Agency Callable Bonds	66,881,618
	Total	85,611,023
FNMA	Federal Agency Term Notes	9,806,250
FNMA	Federal Agency Callable Bonds	60,509,150
	Total	\$ 70,315,400

**Custodial Credit Risk**

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

At June 30, 2005, the carrying amount of the City's deposits was (\$649,867) and the corresponding bank balance was \$1,073,920. The difference of \$1,723,787 was principally due to outstanding warrants, wires and deposits in transit. Of the Bank balance, \$100,000 was insured by the FDIC depository insurance and \$973,920 was uncollateralized and not insured by FDIC depository insurance.

**Investment in State Investment Pool**

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

**Cash with Fiscal Agent**

The City has monies held by trustees or fiscal agents pledged to the payment or security of certain bonds. These are subject to the same risk category as the invested cash. The California Government Code provides that these funds, in the absence of specific statutory provisions governing the issuance of bonds or certificates, may be invested in accordance with the ordinances, resolutions or indentures specifying the types of investments its trustees or fiscal agents may make. These ordinances are generally more restrictive than the City's general investment policy.

**3. Long-Term Debt**

The Electric utility's long-term debt as of June 30, 2005 and 2004 consists of the following:

	Remaining Interest Rates	Original Issue	Outstanding June 30, 2005	Outstanding June 30, 2004
Electric Revenue Bonds, 2000 Series	5.75%-6.00%	\$37,000,000	\$37,000,000	\$37,000,000
Electric Revenue Bonds, 2003 Series	3.25%-6.00%	\$31,640,000	\$30,050,000	\$30,845,000

**Electric Revenue Bonds, 2000 Series**

The Electric utility of GWP 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 reserved 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%.

**Electric Revenue Bonds, 2003 Series**

The Electric utility of Glendale Water and Power issued \$31,640,000 in revenue bonds in February 2003 to finance the costs of acquisition, construction and installation of a nominally rated 49 MW gas-fired simple cycle combustion turbine for the Electric System of the City. The terms of the 2003 Electric Revenue Bonds' (2003 Bonds) indenture require the trustee to establish and maintain a reserve equal to the Reserve Fund Requirement. The reserve requirement of the bond issue is satisfied by a cash reserve fund with a minimum funding requirement of \$1,070,000. The bonds mature in regularly increasing amounts ranging from \$795,000 to \$1,865,000 annually from 2005 to 2032. The 2003 Bonds maturing on or prior to February 1, 2013 are not subject to redemption prior to maturity. The 2003 bonds maturing on and after February 1, 2014 are subject to redemption prior to maturity, at the option of the City, as a whole or in part, on February 1, 2013, or on any date thereafter, at a redemption price equal to 100% of the principal amount of the 2003 Bonds to be redeemed, together with accrued interest to the redemption date.

June 30, 2005	Amount outstanding at June 30, 2004	Additions	Retirements	Amount outstanding at June 30, 2005	Due within one year
Electric Revenue Bonds, 2000 Series	\$ 37,000,000	-	-	37,000,000	690,000
Electric Revenue Bonds, 2003 Series	30,845,000	-	795,000	30,050,000	795,000
Accrued interest	-	135,561	4,899	130,662	4,900
Bond Premium	588,546	-	11,024	577,522	22,092
Total bonds payable	\$ 68,433,546	135,561	810,923	67,758,184	1,511,992

June 30, 2004	Amount outstanding at June 30, 2003	Additions	Retirements	Amount outstanding at June 30, 2004	Due within one year
Electric Revenue Bonds, 2000 Series	\$ 37,000,000	-	-	37,000,000	-
Electric Revenue Bonds, 2003 Series	31,640,000	-	795,000	30,845,000	795,000
Accrued interest	-	-	-	-	-
Bond Premium	613,195	-	24,649	588,546	24,647
Total bonds payable	\$ 69,253,195	-	819,649	68,433,546	819,647



The annual debt service requirements to amortize long-term bonded debt at June 30, 2005 are as follows:

Fiscal year	Revenue Bonds		
	Interest	Principal	Total
2006	3,580,425	1,485,000	5,065,425
2007	3,493,050	1,520,000	5,013,050
2008	3,403,662	1,560,000	4,963,662
2009	3,333,838	1,600,000	4,933,838
2010	3,259,726	1,720,000	4,979,726
2011-2015	15,012,075	9,095,000	24,107,075
2016-2020	12,484,480	11,495,000	23,979,480
2021-2025	9,069,065	15,035,000	24,104,065
2026-2030	4,391,500	19,900,000	24,291,500
2031-2032	275,250	3,640,000	3,912,250
	<b>58,303,071</b>	<b>67,050,000</b>	<b>125,350,071</b>

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

**Rate Covenants**

The City has covenanted in the Indenture of Trust that Net Income of the Electric System for each fiscal year will be at least equal to 1.10 times the amount necessary to pay principal and interest as the same become due on all Bonds and Parity Obligations for such fiscal year. At June 30, 2005 and 2004, the City's actual debt service ratio for the Electric Fund was 6.18\*\* and 7.9\*\*, respectively.

\*\* (Calculated using net income add depreciation, add transfer, add interest expense, minus contributions in aid divided by the annual debt service requirement)

**4. Pension Plan**

Full-time employees of GWP participate with other City employees in the Public Employees Retirement System (PERS) of the State of California, which is an agent multiple-employer public employee retirement system. GWP's contributions represent a pro rata share of the City's contribution, including the employees' contribution that is paid by GWP, which is based on PERS's actuarial determination as of July 1 of the current fiscal year. PERS does not provide data to participating organizations in such a manner so as to facilitate separate disclosure for GWP's share of the actuarial computed pension benefit obligation, the plan's net assets available for benefit obligation and the plan's net assets available for benefits. Approximately 22% 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 required to participate in CalPERS, and related benefits vest after five years of service. Upon five years of service, employees who retire at age 50 or older are entitled to receive an annual retirement benefit. The benefit is payable monthly for life. The benefit is calculated as follows: years of credited service multiplied by their highest twelve consecutive months of salary multiplied by a percentage factor. This factor is age-based – public safety employees use the 3% at age 50 factor while all others use the 2% at age 55 factor. Effective December 1, 2005 the general employees will use the 2.5% at age 55 factor. The system also provides death and disability benefits. CalPERS issues a publicly available financial report that includes financial statements and required supplemental information of participating public entities within the state of California. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office – 400 P Street, Sacramento, CA 95814.

**Funding Policy**

CalPERS is a contributory plan deriving funds from employee 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. Effective December 1, 2005 general members contribution rate will increase to 8% of reportable earnings. The City is also required to contribute at an actuarially determined rate; the current public safety rate and the current general employee rates are 24.99% and 0% respectively of annual covered payroll. The contribution requirements of plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. The City's rate for safety members that CALPERS charges have decreased in fiscal year 2005-06 from 24.99% to 24.577%, the rate for general employees have increased from 0% to 6.289%. Effective December 1, 2005 this rate will increase from 6.289% to 9.591%

**Annual Pension Cost**

Contributions to CalPERS totaling \$9,832,076 were made during the fiscal year ended June 30, 2005 in accordance with actuarially determined contribution requirements through an actuarial valuation performed at June 30, 2003. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.75% a year compounded annually (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45%, (c) no additional projected salary increases attributable to seniority/merit and (d) no post retirement benefit increases. The actuarial value of the City's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three year period depending on the size of investment gains and/or losses. CalPERS uses the entry age normal actuarial cost method, which is a projected benefit cost method. That is, it takes into account those benefits that are expected to be earned in the future as well as those

already accrued. According to this cost method, the normal cost for an employee is the level amount which would fund the projected benefit if it were paid annually from date of employment until retirement. In addition, the employer's total normal cost is expressed as a level percentage of payroll. CalPERS also uses the level percentage of payroll method to amortize any unfunded actuarial liabilities. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percent of pay over a closed 20 year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization.

Three Year Trend Information

Fiscal year ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/03	\$ 561,070	100%	0
6/30/04	\$ 2,090,971	100%	0
6/30/05	\$ 9,832,076	100%	0

REQUIRED SUPPLEMENTARY INFORMATION - Schedule of Funding Progress (Unaudited)

Valuation Date	Actuarial Value of Assets fag	Actuarial Accrued <AAL> - Entry Age fbg	Liability AAL / Overfunded AAL fa-bg	(Unfunded) Funded Ratio fa/bg	Covered Payroll fcg	(Unfunded AAL)/ Overfunded AAL as a Percentage of Covered Payroll f(a-b)/cg
06/30/2001	815,521,178	687,539,962	127,981,216	118.6%	101,369,092	126.3%
06/30/2002	766,978,940	732,667,128	34,311,812	104.7%	109,853,251	31.2%
06/30/2003	770,652,222	795,007,184	(24,354,962)	96.9%	114,964,463	(21.2%)

5. Self-Insurance Program

The City is self-insured for Workers' Compensation claims up to \$3,000,000 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 Fund for its estimated share of the liability. At June 30, 2005, 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, 2005 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. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets are reported as unrestricted when there are no limitations imposed on their use.

Excess capital surcharge revenue designated to retrofit the City's Grayson Power Plant as mandated by Air Quality Management for fiscal years 2005 and 2004 was \$11,389,940 and \$10,343,844, respectively.

Cash Reserve Policy for Electric Fund was first established in 2003. Its provision calls for annual review of the reserves to determine if the recommended levels are sufficient. The annual review of the Cash Reserve Policy for fiscal year ending June 30, 2005, established a target of \$161,700,000 of designated cash in the following categories: \$36,700,000 for contingency reserve; \$20,000,000 for rate stabilization reserve; \$75,000,000 for capital reserve; and \$30,000,000 for Reserve for Gas Reserve Project. As of June 30, 2005, the reserve level is at \$122,600,000 with \$109,583,382 in designated cash and \$13,016,618 in Cash with SCPPA. The goal of meeting the remaining balance of \$39,100,000 is with future available cash.

## 7. Capital Assets

A summary of the changes in Electric Fund 2004 - 2005 Capital Assets is as follows:

	Balance at July 01, 2004	Additions	Retirements	Balance at June 30, 2005
Production plant	\$ 101,420,523	2,576,335	(436,939)	104,433,797
Transmission & distribution plant	247,472,481	22,273,065	10,829,272	258,916,274
General Plant	47,300,347	4,050,978	1,546,358	49,804,967
Total electric fund	396,193,351	28,900,378	11,938,691	413,155,038
Less allowance for accumulated depreciation	192,803,810	14,592,753	11,915,752	195,480,811
Net book value of electric fund	\$ 203,389,541	14,307,625	22,939	217,674,227

A summary of the changes in Electric Fund 2003 - 2004 Capital Assets is as follows:

	Balance at July 01, 2003	Additions	Retirements	Reclassification	Balance at June 30, 2004
Production plant	\$ 89,728,680	14,381,426	667,582	(2,022,001)	101,420,523
Transmission & distribution plant	235,604,451	13,450,906	3,600,438	2,017,562	247,472,481
General Plant	45,565,170	2,315,328	181,296	(398,855)	47,300,347
Total electric fund	370,898,301	30,147,660	4,449,316	(403,294)	396,193,351
Less allowance for accumulated depreciation	186,340,695	11,290,210	4,449,316	(377,779)	192,803,810
Net book value of electric fund	\$ 184,557,606	18,857,450	-	(25,515)	203,389,541

## 8. Jointly Governed Organizations

The City has entered into seven "Take or Pay" contracts, which require 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 48% of its total energy requirements during fiscal year 2004-05. 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 Project, a subdivision of the State of Utah, was formed in January 1974 to finance the construction of a 1,400 megawatt coal-fired generating plant, consisting of two generating units located near Delta, Utah.

The project began uprating of the two generating units in early 2003. When the uprating was finished in March 2004, it increased the capacity of the plant from 1,400 MW to 1,800 MW.

The City through contract is obligated for 30 megawatts or 1.704% of the generation. In addition, the City entered into an "Excess Power Sales Agreement" with the ICPA, agent for the Utah Municipal Purchasers and the Cooperative Purchasers, which entitles the City to an additional share of 9 megawatts or 0.501% beginning March 24, 2004. The total City's obligation from Intermountain Power Project (IPP) is 39 megawatts.

The City joined the Southern California Public Power Authority (SCPPA) on November 1, 1980. This authority, consisting of the California cities of Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Los Angeles, Pasadena, Riverside, Vernon, and the Imperial Irrigation District, was formed for the purpose of financing future power resources. The City has entered into six 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 City receives 9.9 megawatts or 4.400% of SCPPA's entitlement. As of June 30, 2005, Glendale's share is 4.400% (PV).

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 \$133,100,000 at June 30, 2005. Based on the most recent (2004) estimate of decommissioning costs, SCPPA estimates that its share of the amount required for decommissioning of PVNGS is now fully funded. No assurance can be given, however, that such amount will be sufficient to 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 City's share of the line is 2.2740% or approximately 44 megawatts. As of June 30, 2005, Glendale's share is 2.2740% (STS).

A third project financed through SCPPA is the acquisition of a 41.80% ownership interest in a coal-fired 497 megawatt unit in San Juan Generating Station, Unit 3, located in New Mexico. SCPPA members are entitled to 208 megawatts. The City is obligated for 20 megawatts or 9.8047% of the SCPPA entitlement. As of June 30, 2005, Glendale's share is 9.8047% (SJ).

A fourth project financed through SCPPA is Mead-Adelanto Project. The project 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 City is obligated for 90 megawatts or 11.0430% of the SCPPA entitlement. As of June 30, 2005, Glendale's share is 11.0430% (MA).

A fifth project financed through SCPPA is Mead Phoenix Project. The project 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 City'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 City'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. As of June 30, 2005, Glendale's share is 14.8000% (MP).

A sixth project financed through SCPPA is the Magnolia Power Project located on Burbank Water & Power's generation station complex adjacent to Magnolia Boulevard in Burbank, California. The project consists of a combined cycle natural gas-fired generating plant with a nominally rated net base capacity of 242 megawatts. The City is obligated for 40 megawatts or 16.5289% of the project's output. As of June 30, 2005, Glendale's share is 16.5289% (MPP).

Take-or-Pay commitments expire upon final maturity of outstanding bonds for each project. Final fiscal year maturities are as follows:

Project	Final Maturity Date	Glendale's Share
Intermountain Power Project (IPP)	2027	2.1889%
Palo Verde Project (PV)	2030	4.4000%
Southern Transmission System (STS)	2027	2.2740%
San Juan Project (SJ)	2030	9.8047%
Mead-Phoenix Project (MP)	2030	14.8000%
Mead-Adelanto Project (MA)	2030	11.0430%
Magnolia Power Project (MPP)	2036	16.5289%

A summary of the City's "Take or Pay" contracts and related projects and its contingent liability at June 30, 2005 is as follows (in thousands):

	IPP	SJ	PV	STS	MA	MP	MPP	TOTAL
2006	\$ 4,038	\$ 1,825	\$ 676	\$ 1,553	\$ 2,333	\$ 970	\$ 2,983	\$ 14,378
2007	4,175	1,822	672	1,603	2,337	973	3,100	14,682
2008	4,342	1,820	672	1,492	2,333	972	3,100	14,731
2009	4,408	1,817	672	1,466	2,338	970	3,100	14,771
2010	4,466	1,815	560	1,411	2,395	1,114	3,100	14,861
2011-2015	17,110	10,148	2,801	7,873	11,890	5,192	15,500	70,514
2016-2020	17,394	6,395	1,120	8,013	11,874	4,757	15,501	65,054
2021-2025	4,883			6,538			15,500	26,921
2026-2030							15,500	15,500
2031-2035							15,499	15,499
2036-2038							8,575	8,575
Total	\$ 60,816	\$ 25,642	\$ 7,173	\$ 29,949	\$ 35,500	\$ 14,948	\$ 101,458	\$ 275,486

In addition to debt service, the City's entitlement requires the payment for fuel costs, operating and maintenance (O&M), administrative and general (A&G), and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for fiscal year 2004-05 and budgets for fiscal year 2005-06 are as follows (in thousands):

**9. Contingent Liabilities and Commitments**

Fiscal Year	IPP	SJ	PV	STS	MA	MP	MPP	TOTAL
2005	\$ 4,210	\$ 4,064	\$ 1,342	\$ 422	\$ 188	\$ 180	\$ 1,362	\$ 11,768
2006	5,396	5,412	1,598	413	181	173	2,590	15,763

**Power Purchase Agreements**

The City first participated in Boulder Canyon Project for electric service from the Hoover Power Plant in 1937 for a term of 50-year, expired on May 31, 1987. The plant was operated by Southern California Edison and Los Angeles Department of Water and Power under the supervision of the Bureau of Reclamation during the contract term.

Before the expiration of the contract, Hoover Powerplant Act of 1984 authorized the uprating of the 17 main generating units and provided long-term contingent capacity and firm energy to the participants in a renewal contract. The uprating program replaced all 17 original turbines in the Hoover Dam Power Plant began in 1986. When the program was finished in 1993, it increased the capacity of the plant from 1,344 MW to 2,079 MW.

In January 1987, the City renewed the contract with the United States Bureau of Reclamation providing for the advancement of funds for the Hoover Uprating Project and Western Area Power Administration for the purchase of power from the project. The renewed contract is for a term of 30-year from 1987 to 2017. The Bureau of Reclamation also assumed control of operation and maintenance of the plant in 1987. Under this renewed contract, the City is entitled to 21 MW or 1.0251% of the capacity and 1.5874% of the firm energy.

The City's electric operation 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 2004-05 was approximately 1,080,029 MMBtu and the average purchase price was \$10.35 per MMBtu.

The City's electric operation executed two power sale and exchange agreements in 1988. 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 City is entitled to 10 megawatts annually, plus an additional 10 megawatts during the summer peaking period. The City 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 City during off-peak hours in lieu of City'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 City to receive 20 megawatts of capacity and associated energy over the Pacific Northwest Intertie at its discretion. In exchange, the City may call up to 30 megawatts during the summer months (June through September) and PGE may call for the same amount in winter months (November through February). Energy cannot exceed 1,800 megawatts per week.

In August 2003, the City entered into a 25-year contract, cancelable after 20 years, with PPM Energy, Inc. for the purchase of 9 megawatts of capacity from wind-powered resources. On September 1, 2003, the City began taking delivery of the energy under the contract, which totals 26,280 megawatt hours annually at \$53.50 per megawatt hour with no cost escalation through the contract term.

In March 2004, the City entered into a 20-year Power Sales Agreement with the Southern California Public Power Authority for up to a 4.5-MW share of Chiquita Landfill Gas to Energy Project. The price of energy is fixed at \$54/MWh with no cost escalation during the term, and the variable O&M cost is initially estimated to be less than \$2/MWh. The anticipated commercial operation of the project is in January 2006.

In June 2005, the City entered into a power sales agreement with SCPPA for the Ormat Geothermal Energy Project for purchase of up to three megawatts of the project electric energy at \$57.50 per MWh with escalating factor of 1.5% per annum. The anticipated commercial operation of the project is in December 2005.

**Litigation**

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

**Construction Commitments**

As of June 30, 2005, the City's electric operation had major commitments of approximately \$6.1 million with respect to Gas Insulated Switchgear (GIS) Project. The source of funding for the project is from the unrestricted net assets of the Electric Fund. The project is expected to be completed in May 2006.

## 10. Derivative Products

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, 2005 and 2004, carrying value and market value of the options are \$169,500 and \$155,700, and \$429,800 and \$709,450, respectively.

## 11. Subsequent Events

In June 2005, the City elected to participate in the Natural Gas Project through SCPPA for up to 2,000 mmBtu per day. The project calls for the acquisitions and development of gas resources, reserves, fields, wells, and related facilities to provide a long-term supply of natural gas for its participants. The first acquisition was completed on July 1, 2005 with the total cost to the participants at \$306.1 million. The City's share in the project is \$13 million or 4.2553%, with estimated peak daily volume between 1,600 to 1,800 mmBtu. GWP has reserved \$17 million for future additional gas field acquisitions and drilling programs to achieve the estimated peak daily volume of 2,000 mmBtu per day.

On April 19, 2006, the City completed the issuance of \$38,830,000 in Electric Revenue Bonds, 2006 Refunding Series. The bond proceeds will be deposited in an escrow account and are sufficient to retire all outstanding Electric Revenue Bonds, 2000 Series, with the par amount of \$36,310,000. A refunding loss of \$2,394,771.98 will be recorded as a non-current liability to be amortized over the remaining life of the 2006 Refunding Series, effectively reducing the net interest expense for each period. The net present value savings of the refunding transaction is \$2,967,649.10.

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Vavrinek, Trine, Day & Co., LLP  
Certified Public Accountants & Consultants

VALUE THE DIFFERENCE

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Water Enterprise Fund of the City of Glendale, California (the City), as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. 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 audit in accordance with the auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Water Enterprise Fund is 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 Water Enterprise Fund. It does not purport to, and does not present fairly the financial position of the financial position of the City as of June 30, 2005 and 2004, 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 Water Enterprise Fund of the City as of June 30, 2005 and 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2005, on our consideration of the City of Glendale's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the

internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on those pages referenced in the table of contents and the Schedule of Funding Progress in Note 4 are not required part of the financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Vavrinek, Trine, Day & Co., LLP*

Rancho Cucamonga, California  
November 18, 2005

As management of Glendale *Water & Power* (a department of the City of Glendale), we offer the readers of the City of Glendale Water Enterprise Fund (Water Utility) financial statements, a fund of the City, this narrative overview and analysis of the financial activities of the Water Enterprise for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

#### **Financial Highlights**

During fiscal year 2005, the region experienced one of the wettest years in history. The Water Utility had a 4.5% decrease in total water operating revenues – directly attributed to the 4.5% decline in water consumption. Operating expenses remained relatively unchanged due to the offsetting effects of the increase in production expenses and the decrease in depreciation expenses. The increase in production expenses was due to the increased cost of purchased water supplied by MWD, and the increased cost of electricity for pumping water through the transmission and distribution system. The decrease in depreciation expenses resulted from the retirements of assets. Net operating revenues were \$4,725. Total net assets increased by \$3,115 after adding net non-operating revenues of \$2,109 and subtracting \$3,719 in Transfers to the City's General Fund.

The assets of the Water Utility exceeded its liabilities at the close of fiscal year 2005 by \$85,149. Of this amount, \$9,567 was unrestricted and may be used to meet the Water Utility's ongoing obligations to creditors and customers. At the end of the fiscal year, this unrestricted net assets represented 38% of annual operating expenses for 2005.

#### **Overview of the Basic Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Glendale Water Utility financial statements. The Water Utility is a business-type activity of the City, and its activities are recorded in a separate enterprise fund. These financial statements include only the activities for the City of Glendale Water Utility and provide comparative information for the last two fiscal years. Information on city-wide financial results is available in the City of Glendale's Comprehensive Annual Financial Report.

The City of Glendale Water Utility's financial statements comprise two components: 1) financial statements and 2) notes to the financial statements. In addition, this report also contains other supplementary information to provide the reader additional information about the Water Utility, including sales statistics and other relevant data. Included as part of the financial statements are three separate statements which collectively provide an indication of the Water Utility's financial health.

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

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

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

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 74 to 85 of this report.

#### **Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the Water Utility's financial position. In the case of the Water Utility, assets exceeded liabilities by \$85,149 at the close of the most recent fiscal year. A portion of the Utility's net assets (88.8%) reflects its investment in capital assets, such as production, transmission, and distribution facilities, less any related outstanding debt used to acquire those assets. The Water Utility uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the capital assets themselves cannot be used to liquidate these long-term liabilities.

There are no current external restrictions on the Water Utility's net assets that limit how they may be used.

The Unrestricted portion of the Utility's net assets (11.2%) may be used to meet the Water Utility's ongoing obligations to creditors and customers.

### Net Assets – Water Utility

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

	2005	2004
Current and Other Assets	\$ 12,614	\$ 15,077
Capital Assets	75,582	70,016
<b>Total Assets</b>	<b>88,196</b>	<b>85,094</b>
Other Liabilities	3,047	3,060
<b>Total Liabilities</b>	<b>3,047</b>	<b>3,060</b>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	75,582	70,016
Unrestricted	9,567	12,018
<b>Total Net Assets</b>	<b>\$ 85,149</b>	<b>\$ 82,034</b>

The Water Utility's net assets increased by \$3,115 during the current fiscal year.

### Changes Net Assets – Water Utility

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

	2005	2004
<b>Revenues:</b>		
Retail sales, net	\$ 29,698	\$ 30,928
Adjustable Rate Adjustment	55	449
Interest Income	295	111
Other revenues and grants	1,493	1,498
Capital contributions	321	287
<b>Total Revenues</b>	<b>31,862</b>	<b>33,273</b>
<b>Expenses:</b>		
Production	18,118	17,689
Transmission and distribution	2,645	2,700
Customer accounting and sales	2,167	2,041
Depreciation	2,098	2,590
<b>Total Expenses</b>	<b>25,028</b>	<b>25,021</b>
<b>Transfers to the City's General Fund</b>	<b>3,719</b>	<b>3,232</b>
<b>Total Expenses and transfers</b>	<b>28,747</b>	<b>28,253</b>
<b>Changes in net assets</b>	<b>3,115</b>	<b>5,020</b>
<b>Total net assets, beginning of year</b>	<b>82,034</b>	<b>77,014</b>
<b>Total net assets, end of year</b>	<b>\$ 85,149</b>	<b>\$ 82,034</b>



**Revenues by Source – Water Utility**

Retail sales (residential, commercial, industrial and other sales) continued to be the primary revenue source for the Water Utility, making up 93% of total revenue. Retail sales showed a decrease of 4.5% from the prior year, the result of a 4.5% decline in consumption during one of the wettest years in history.

The Adjustable Rate Adjustment recognized as revenues the difference between the adjustable water rate revenues collected from retail customers and the costs of purchased water from MWD and the electricity for pumping water through the transmission and distribution system.

Investment income increased by \$185, or 166% above the prior year level. The increase was related to favorable market conditions that resulted in higher earnings for the Water Utility’s investment portfolio.

Capital contributions increased 12% from prior year levels. The increased amount over prior year reflected an increased level of construction projects funded by others, primarily by retail customers.

Grants decreased by \$103, or 26% compared to the prior year level, reflecting the decrease in grant funds received from EPA for water quality projects.

**Expenses by Source – Water Utility**

Total expenses for the Water Utility remained relatively unchanged.

Production expenses comprising primarily of MWD water supply cost increased by 2.4%. Transmission and distribution expenses decreased by 2% as a result of the decrease in consumption. Depreciation expense decreased by 19% as old assets were retired while increased capital expenses recorded as construction in progress, the depreciation expenses for which would be incurred in future periods after they are capitalized.

Transfers to the City’s General Fund are based on a formula representing a certain percentage of total retail revenues. Transfers to the City’s General Fund increased by \$487, reflecting an increase in the percentage.

**Capital Assets and Debt Administration**

**Capital Assets**

The Water Utility’s investment in capital assets as of June 30, 2005 totaled \$75,582 (net of accumulated depreciation). This included investments in production, transmission, and distribution related facilities, as well as general items such as office equipment, furniture, etc. This fiscal year showed an 8% increase in capital assets over the prior year as the implementation of long-term infrastructure improvement programs began.

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

	2005	2004
Production	\$ 24,100	\$ 22,513
Transmission and distribution	83,575	79,507
General	12,769	11,336
Less: Accumulated depreciation	(44,862)	(43,340)
<b>Total</b>	<b>\$ 75,582</b>	<b>\$ 70,016</b>

**Long-Term Debt**

As of June 30, 2005, the Water Utility had no long-term debt outstanding.

**Economic Factors and Rates**

Although inflationary trends in the Glendale region remained relatively low, the Water Utility’s cost escalation is not strictly attributable to inflation. One of the main drivers of the increase in costs relates to the drought conditions the region has been experiencing for several years. This has resulted in additional costs to purchase water, much more costly than the groundwater supply. In addition, the costs of the long-term capital improvement programs to improve the aging infrastructure will place additional pressure on the Water Utility’s financial conditions.

Recognizing the need for long-term financial planning for the Water Utility, City Council adopted the Water Cash Reserve Policy in December 2003 to provide the foundation for strengthening the financial health of the Water Utility. The policy identifies and plans for meeting working capital and contingency needs during emergencies and disasters, as well as expected future capital needs for system improvement.

There was no rate increase during the last two fiscal years.

**Requests for Information**

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

# Statements of Net Assets

## water fund

Years Ending June 30, 2005 and 2004

Assets	2005	2004
<b>Current assets:</b>		
Cash and invested cash	\$ 3,800,967	\$ 3,321,634
Imprest cash	1,000	1,000
Interest receivable	63,800	63,961
Accounts receivable, net	1,781,635	2,267,676
Unbilled receivable	2,598,137	2,235,385
Due from other agencies	74,756	-
Inventories	-	287,555
<b>Total current assets</b>	<b>8,320,295</b>	<b>8,177,211</b>
<b>Noncurrent assets:</b>		
Designated & invested cash	4,294,000	6,900,000
<b>Total noncurrent assets</b>	<b>4,294,000</b>	<b>6,900,000</b>
<b>Capital assets:</b>		
Land	1,006,999	622,568
Buildings and improvements	70,765,043	65,176,218
Machinery and equipment	39,821,864	39,116,575
Bldg & impro accm depreciation	(44,861,872)	(43,340,356)
Construction in progress	8,849,775	8,441,285
<b>Total capital assets</b>	<b>75,581,809</b>	<b>70,016,290</b>
<b>Total assets</b>	<b>\$ 88,196,104</b>	<b>\$ 85,093,501</b>

Years Ending June 30, 2005 and 2004

Liabilities and Net Assets	2005	2004
<b>Current liabilities:</b>		
Accounts payable	\$ 1,570,046	\$ 1,774,710
Contracts-retained amount due	279,330	237,130
Accrued wages and withholding	138,323	135,380
Compensated absences	25,000	-
Deposits	454,691	510,423
<b>Total current liabilities</b>	<b>2,467,390</b>	<b>2,657,643</b>
<b>Noncurrent liabilities:</b>		
Compensated absences	513,457	402,003
Post employment benefits	66,172	-
<b>Total noncurrent liabilities</b>	<b>579,629</b>	<b>402,003</b>
<b>Total liabilities</b>	<b>3,047,019</b>	<b>3,059,646</b>
<b>Net assets:</b>		
Investment in general FA	75,581,809	70,016,291
Restricted		
Unrestricted	9,567,276	12,017,564
<b>Total net assets</b>	<b>\$ 85,149,085</b>	<b>\$ 82,033,855</b>

# water fund

Years Ending June 30, 2005 and 2004

	2005	2004
<b>Operating revenues</b>		
Water Metered Sales	\$ 28,056,678	\$ 29,053,832
Water Private Fire	320,157	366,201
Water Other Sales	291,254	488,161
Water-Capital	1,029,466	1,019,780
Water Adjustment Revenue	55,416	449,049
Miscellaneous revenues	1,203,138	1,105,021
<b>Total operating revenues</b>	<b>30,956,109</b>	<b>32,482,044</b>
<b>Operating expenses:</b>		
Production	18,118,239	17,688,757
Transmission	2,645,343	2,700,185
Customer accounting and sales	2,166,504	2,041,492
Depreciation	2,098,030	2,590,462
<b>Total operating expenses</b>	<b>25,028,116</b>	<b>25,020,896</b>
<b>Operating income</b>	<b>\$ 5,927,993</b>	<b>\$ 7,461,148</b>

Years Ending June 30, 2005 and 2004

	2005	2004
<b>Non operating revenues</b>		
Interest revenue	\$ 295,496	\$ 110,966
Grant revenue	289,933	392,930
Contribution in aid	320,929	286,807
<b>Total non operating revenues, net</b>	<b>906,358</b>	<b>790,703</b>
<b>Income before transfers</b>	<b>6,834,351</b>	<b>8,251,851</b>
<b>Transfer out:</b>		
Transfer-General Fund	(3,719,121)	(3,231,833)
<b>Total transfer</b>	<b>(3,719,121)</b>	<b>(3,231,833)</b>
<b>Change in net assets</b>	<b>3,115,230</b>	<b>5,020,018</b>
<b>Total Net asset, July 1</b>	<b>82,033,855</b>	<b>77,013,837</b>
<b>Total net assets, June 30</b>	<b>\$ 85,149,085</b>	<b>\$ 82,033,855</b>



# Statements of Cash Flows

## water fund

Years Ending June 30, 2005 and 2004

	2005	2004
<b>Cash flows from operating activities:</b>		
Cash from customers	\$ 31,004,642	\$ 32,076,277
Cash paid to employees	(2,894,840)	(2,721,301)
Cash paid to suppliers	(19,760,318)	(19,500,750)
<b>Net cash provided by operating activities</b>	<b>8,349,484</b>	<b>9,854,226</b>
<b>Cash flows from noncapital financing activities:</b>		
Operating transfers out	(3,719,121)	(3,231,833)
Operating grant received	289,933	392,930
<b>Net cash provided by noncapital financing activities</b>	<b>(3,429,188)</b>	<b>(2,838,903)</b>
<b>Cash flows from capital and related financing activities:</b>		
Contribution in aid	320,929	286,807
Acquisition of property, plant, and equipment	(7,663,549)	(6,202,152)
<b>Net cash (used in) capital and related financing activities</b>	<b>(7,342,620)</b>	<b>(5,915,345)</b>
<b>Cash provided by investing activities - interest received</b>	<b>295,657</b>	<b>92,560</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(2,126,667)</b>	<b>1,192,538</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>10,222,634</b>	<b>9,030,096</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 8,095,967</b>	<b>\$ 10,222,634</b>

Years Ending June 30, 2005 and 2004

	2005	2004
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 5,927,993	\$ 7,461,148
<b>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</b>		
Depreciation	2,098,030	2,590,462
(Increase)Decrease Accounts receivable net	486,040	(694,448)
(Increase)Decrease Unbilled receivable	(362,752)	288,679
(Increase)Decrease Due from other agencies	(74,756)	-
(Increase)Decrease Inventories	287,555	31,643
Increase(Decrease) Accrued salaries and withholding	2,943	22,739
Increase(Decrease) Compensated absences	136,454	71,622
Increase(Decrease) Post employment benefit	66,172	-
Increase(Decrease) Accounts payable	(204,663)	38,911
Increase(Decrease) Contracts - retention	42,200	139,418
Increase(Decrease) Deposits	(55,732)	(95,948)
<b>Total adjustments</b>	<b>2,421,491</b>	<b>2,393,078</b>
<b>Net cash provided (used) by operating activities</b>	<b>\$ 8,349,484</b>	<b>\$ 9,854,226</b>
<b>Noncash investing, capital, and financing activities</b>		
Contributions of capital assets from government		
Increase in fair value of investments	(99,334)	(105,814)

## 1. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies of the City of Glendale (the City) as they pertain to the Water Enterprise Fund.

### Funds and Account Groups

The basic accounting and reporting entity of the City is a "fund." A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts for recording cash and other resources together with all related liabilities, obligations, reserves and equities that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

### Basis of Presentation

The City's Water Enterprise Fund (the Fund) is used to account for the construction, operation and maintenance of the City-owned water utility. The Fund is considered to be enterprise funds, proprietary fund types, as defined under accounting principles generally accepted in the United States of America. The measurement focus is upon financial position, changes in financial position and cash flows. Accordingly, the accrual basis of accounting is followed by the Fund. In accordance with Government Accounting Standards Board (GASB) statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting, the Fund has elected to apply all applicable pronouncements of the Financial Accounting Standards Board (FASB) including those issued on or before November 30, 1989, except for those pronouncements which conflict with or contradict GASB pronouncements. The Fund is included in the City's Comprehensive Annual Financial Report (CAFR), and therefore, these financial statements do not purport to represent the financial position and changes in financial position of the City.

### Cash and Investments

The City values its cash and investments in accordance with the provisions of Government Accounting Standard Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools (GASB 31)," which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the statement of net assets/balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using published market prices.

The City manages its pooled idle cash and investments under a formal investment policy that is reviewed by the Investment Committee and adopted by the City Council and that follow the guidelines of the State of California Government Code. Individual investments cannot be identified with any single fund because the City may be required to liquidate its investments at any time to cover large outlays required in excess of normal operating needs. Funds must request large outlays in advance in order that the City Treasurer will have the funding available.

Interest income from the investment of pooled cash is allocated to all funds, except Capital Improvement Funds on a monthly basis based upon the prior month end cash balance of the fund as a percent of the month end total pooled cash balance. The City normally holds the investment to term; therefore no realized gain/loss is recorded.

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

### Capital Assets

The capital assets of the Fund is 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 Fund is as follows:

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 the production and distribution system of the Water utility, are carried at weighted average cost.

### Compensated Absences

The Water Fund has a fully funded liability for earned but unused accumulated vacation and overtime. As of June 30, 2005 and 2004, the Water Fund had \$538,457 and \$402,003, respectively, of the Water employees' earned unused accumulated vacation and overtime.

### Post-Employment Benefit

All City Employees, including employees of Water Enterprise Fund, that are eligible for retirement with accumulated sick leave are entitled to convert their sick leave hours valued at the rate stated in their respective MOU or Ordinance, into a Retiree Health Savings Plan (RHSP). This RHSP account is controlled by the retiree and money deposited into the account is non-taxable. Money withdrawn from this account,

when used for eligible medical expenses as specified in IRS Publication 502 are non-taxable to the retiree. As of June 30, 2005 and 2004, \$5,730,795 and \$5,061,393 had been set-aside in the Internal Service Fund-Employee benefits Fund of the City related to such benefits.

#### **Unbilled Receivables**

The Fund record utility services delivered to customers but not billed. As of June 30, 2005 and 2004, the Water Fund's unbilled receivables were \$2,598,137 and \$2,235,385, respectively.

#### **Deposits**

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

#### **Contracts - Retained Amount Due**

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

#### **Transfers**

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

#### **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

#### **Revenue Recognition**

The Water Utility uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Water Utility customers are billed either monthly or bi-monthly. Unbilled water service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$2,598,137 and \$2,235,385 at June 30, 2005 and 2004, respectively.

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

#### **Budgets and Budgetary Accounting**

The Water Utility presents and the City Council adopts an annual budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Water Utility's budget in June each year via a resolution.

## **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 Fund's interest in this pool is entirely insured or collateralized as of June 30, 2005. Income from the investment of pooled cash is allocated to the Fund on a monthly basis, based upon the month-end cash balance of the fund as a percent of the month-end total pooled cash balance. Of this total, \$8,095,967 and \$10,221,634 pertains to the Water Fund for fiscal year 2005 and 2004, respectively. Invested cash is stated at the fair value. An increase (decrease) in the fair value of investments is recognized as an increase (decrease) to Interest Income Revenue. The City normally holds the investment to term; therefore, no realized gain/loss is recorded. All cash and investments are held in the City's cash management pool. Therefore, for purpose of the combined statement of cash flows for the Proprietary Funds, the City consider all cash, investment, imprest cash and cash with fiscal agents to be cash and cash equivalents.



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

	2005	2004
Investments	\$ 558,306,802	\$ 565,955,722
Cash with fiscal agents	18,622,859	15,186,778
	576,929,661	581,142,500
Cash on hand	(649,867)	6,494,160
Total	\$ 576,279,794	\$ 587,636,660

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

	2005	2004
Cash and investments	\$ 439,805,054	\$ 410,329,623
Imprest cash	28,930	37,280
Cash with fiscal agents	18,622,859	15,186,778
Investment-gas/electric commodity	3,945,569	3,882,979
Designated cash and investments	113,877,382	158,200,000
Total	\$ 576,279,794	\$ 587,636,660

Information Relating to the City of Glendale Investment Pool:

**Authorized Investments**

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

	Maximum Maturity	Maximum % of Portfolio
U.S. Treasuries	5 years	100%
Federal Agencies	5 years	100%
Medium Term Corporate Notes	5 years	15%
Commercial Paper (A1,P1 minimum rating)	180 days	15%
Bankers Acceptance	180 days	30%
Negotiable Certificates of Deposit	1 year	30%
Local Agency Investment Fund (State Pool)	N/A	LAIF maximum
Money Market Mutual Funds	90 days	5%
Time Deposits	1 year	10%

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

**Disclosure Relating to Interest Rate Risk**

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

		Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Commercial Paper	\$ 12,990,571	12,990,571	-	-	-
Federal Agency Term Notes	88,396,123	43,691,250	29,877,329	14,827,544	-
Federal Agency Callable Bonds	385,539,403	44,602,869	111,798,657	229,137,877	-
Corporate Notes	35,490,245	17,925,704	8,078,693	9,485,848	-
State Investment Pool	18,957,204	18,957,204	-	-	-
Money Market	16,933,256	16,933,256	-	-	-
Held by Fiscal Agents					
Federal Agency Term Notes	8,880,479	8,880,479	-	-	-
Guaranteed Investment Contracts	4,909,098	-	-	-	4,909,098
Money Market	4,833,282	4,833,282	-	-	-
	\$ 576,929,661	168,814,615	149,754,679	253,451,269	4,909,098

The City assumes that callable investments will not be called.

**Disclosures Relating to Credit Risks**

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

Rating as of Year End

		AAA	AA	Aa2	A1,P1	Unrated
Commercial Paper	\$ 12,990,571	-	-	-	12,990,571	-
Federal Agency Term Notes	88,396,123	88,396,123	-	-	-	-
Federal Agency Callable Bonds	385,539,403	385,539,403	-	-	-	-
Corporate Notes	35,490,245	24,992,435	10,497,810	-	-	-
State Investment Pool	18,957,204	-	-	-	-	18,957,204
Money Market	16,933,256	16,933,256	-	-	-	-
Held by Fiscal Agent						
Federal Agency Term Notes	8,880,479	8,880,479	-	-	-	-
Guaranteed Investment Contracts	4,909,098	-	-	4,909,098	-	-
Money Market	4,833,282	4,838,282	-	-	-	-
	\$ 576,929,661	529,579,978	10,497,81	4,909,098	12,990,571	18,957,204

**Concentration on Credit Risk**

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

Issuer	Investment Type	Reported Amount
FHLB	Federal Agency Term Notes	\$ 51,540,938
FHLB	Federal Agency Callable Bonds	248,340,822
Total		299,881,760
FHLMC	Federal Agency Term Notes	18,729,405
FHLMC	Federal Agency Callable Bonds	66,881,618
Total		85,611,023
FNMA	Federal Agency Term Notes	9,806,250
FNMA	Federal Agency Callable Bonds	60,509,150
Total		\$ 70,315,400

**Custodial Credit Risk**

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

At June 30, 2005, the carrying amount of the City's deposits was (\$649,867) and the corresponding bank balance was \$1,073,920. The difference of \$1,723,787 was principally due to outstanding warrants, wires and deposits in transit. Of the Bank balance, \$100,000 was insured by the FDIC depository insurance and \$973,920 was uncollateralized and not insured by FDIC depository insurance.

**Investment in State Investment Pool**

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

**3. Self-Insurance Program**

The City is self-insured for Workers' Compensation claims up to \$3,000,000 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 Fund for its estimated share of the liability. At June 30, 2005, 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, 2005 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.

#### 4. Pension Plan

Full-time employees of GWP participate with other City employees in the Public Employees Retirement System (PERS) of the State of California, which is an agent multiple-employer public employee retirement system. GWP's contributions represent a pro rata share of the City's contribution, including the employees' contribution that is paid by GWP, which is based on PERS's actuarial determination as of July 1 of the current fiscal year. PERS does not provide data to participating organizations in such a manner so as to facilitate separate disclosure for GWP's share of the actuarial computed pension benefit obligation, the plan's net assets available for benefit obligation and the plan's net assets available for benefits. Approximately 22% 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 required to participate in CalPERS, and related benefits vest after five years of service. Upon five years of service, employees who retire at age 50 or older are entitled to receive an annual retirement benefit. The benefit is payable monthly for life. The benefit is calculated as follows: years of credited service multiplied by their highest twelve consecutive months of salary multiplied by a percentage factor. This factor is age-based – public safety employees use the 3% at age 50 factor while all others use the 2% at age 55 factor. Effective December 1, 2005 the general employees will use the 2.5% at age 55 factor. The system also provides death and disability benefits. CalPERS issues a publicly available financial report that includes financial statements and required supplemental information of participating public entities within the state of California. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office – 400 P Street, Sacramento, CA 95814.

##### Funding Policy

CalPERS is a contributory plan deriving funds from employee 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. Effective December 1, 2005 general members contribution rate will increase to 8% of reportable earnings. The City is also required to contribute at an actuarially determined rate; the current public safety rate and the current general employee rates are 24.99% and 0% respectively of annual covered payroll. The contribution requirements of plan members are established by State statute and the employer contribution rate is

established and may be amended by CalPERS. The City's rate for safety members that CALPERS charges have decreased in fiscal year 2005-06 from 24.99% to 24.577%, the rate for general employees have increased from 0% to 6.289%. Effective December 1, 2005 this rate will increase from 6.289% to 9.591%

##### Annual Pension Cost

Contributions to CalPERS totaling \$9,832,076 were made during the fiscal year ended June 30, 2005 in accordance with actuarially determined contribution requirements through an actuarial valuation performed at June 30, 2003. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.75% a year compounded annually (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45%, (c) no additional projected salary increases attributable to seniority/merit and (d) no post retirement benefit increases. The actuarial value of the City's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three year period depending on the size of investment gains and/or losses. CalPERS uses the entry age normal actuarial cost method, which is a projected benefit cost method. That is, it takes into account those benefits that are expected to be earned in the future as well as those already accrued. According to this cost method, the normal cost for an employee is the level amount which would fund the projected benefit if it were paid annually from date of employment until retirement. In addition, the employer's total normal cost is expressed as a level percentage of payroll. CalPERS also uses the level percentage of payroll method to amortize any unfunded actuarial liabilities. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percent of pay over a closed 20 year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization.



Three Year Trend Information

Fiscal year ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/03	\$ 561,070	100%	0
6/30/04	\$ 2,090,971	100%	0
6/30/05	\$ 9,832,076	100%	0

REQUIRED SUPPLEMENTARY INFORMATION - Schedule of Funding Progress (Unaudited)

(Unfunded AAL)/  
Overfunded  
AAL as a  
Percentage  
of Covered  
Payroll

Valuation Date	Actuarial Value of Assets fag	Actuarial Accrued <AAL> - Entry Age fbg	Liability AAL / Overfunded AAL fa-bg	(Unfunded) Funded Ratio fa/bg	Covered Payroll fcg	Percentage of Covered Payroll f(a-b)/cg
06/30/2001	815,521,178	687,539,962	127,981,216	118.6%	101,369,092	126.3%
06/30/2002	766,978,940	732,667,128	34,311,812	104.7%	109,853,251	31.2%
06/30/2003	770,652,222	795,007,184	(24,354,962)	96.9%	114,964,463	(21.2%)

5. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets are reported as unrestricted when there are no limitations imposed on their use.

In December of 2003, GWP management received approval from the City Council to implement a cash reserve policy for the Water Fund to ensure a long term sustainable financial health of the water operation. The policy calls for annual review of the reserves to determine if the recommended levels are sufficient. The annual review of the Cash Reserve Policy for fiscal year ending June 30, 2005, established a target of \$7,400,000 of designated cash in the following categories: \$5,700,000 for contingency reserve; and \$1,700,000 for rate stabilization reserve. As of June 30, 2005, \$4,294,000 is designated with the goal of meeting the remaining \$3,106,000 with future available cash.

6. Capital Assets

A summary of the changes in Water Fund 2004- 2005 Capital Assets is as follows:

	Balance at July 1, 2004	Additions	Retirements	Balance at June 30, 2005
Production plant	\$ 22,513,260	809,497	(777,061)	24,099,818
Transmission & distribution Plant	79,507,342	4,785,802	717,823	83,575,321
General plant	11,336,044	2,068,251	635,752	12,768,543
Total water fund	113,356,646	7,663,549	576,514	120,443,681
Less allowance for accumulated depreciation	43,340,356	2,098,030	576,514	44,861,872
Net book value of water fund	\$ 70,016,290	5,565,519	-	75,581,809

A summary of the changes in Water Fund 2003- 2004 Capital Assets is as follows:

	Balance at July 1, 2004	Additions	Retirements	Reclassification	Balance at June 30, 2005
Production plant	\$ 23,323,995	1,243,093	356,817	(1,697,011)	22,513,260
Transmission & distribution Plant	74,660,475	4,593,371	10,887	264,383	79,507,342
General plant	9,544,111	326,428	53,057	1,518,562	11,336,044
Total water fund	107,528,581	6,162,892	420,761	85,934	113,356,646
Less allowance for accumulated depreciation	41,123,987	2,590,456	420,761	46,674	43,340,356
Net book value of water fund	\$ 66,404,594	3,572,436	-	39,260	70,016,290

7. Contingent Liabilities

Litigation

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

## city council

### **April 2004 - April 2005**

Bob Yousefian – Mayor  
Gus Gomez – Councilmember  
Dave Weaver – Councilmember  
Frank Quintero – Councilmember  
Rafi Manoukian – Councilmember

### **April 2005 - April 2006**

Rafi Manoukian – Mayor  
Ara Najarian – Councilmember  
Dave Weaver – Councilmember  
Frank Quintero – Councilmember  
Bob Yousefian – Councilmember

### **GLENDALE WATER & POWER COMMISSION**

Ed Cameron  
A. Gosselin, Jr.  
Greg Gregorian  
Ruben Rubi  
Lenore Solis



*GLENDALE WATER & POWER*



We Recycle