



## Independent Auditor's Report

The Honorable Members of the City Council  
City of Glendale, CA

We have audited the accompanying statements of net assets of the Electric Enterprise Fund of the City of Glendale, California (the City), as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Electric Enterprise Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2011 and 2010, the changes in its financial position and, where applicable, its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Enterprise Fund of the City as of June 30, 2011 and 2010, and the changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Electric Enterprise Fund's financial statements. The introductory section and operating statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. This information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

*McGladrey & Pullen, LLP*

Los Angeles, CA  
November 28, 2011

## **MANAGEMENT DISCUSSION AND ANALYSIS – ELECTRIC UTILITY**

The management of Glendale *Water & Power* (a department of the City of Glendale), offers the readers of the City of Glendale Electric Enterprise Fund (Electric Utility) financial statements a narrative overview and analysis of the financial activities of the Electric Enterprise for the fiscal years ended June 30, 2011 and June 30, 2010. We encourage our readers to consider the information presented here in conjunction with the accompanying basic financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### **Financial Highlights**

During fiscal year 2011, the Electric Utility's retail operating revenues decreased by \$16,257 or 10% from prior year level. The decrease in retail revenues was attributable to a 5% reduction in the average rates charged to customers and a 5% decrease in retail sales volume. The decrease in operating revenues along with increases in the production and depreciation expenses resulted in net retail operating revenues of \$2,595 on revenues of \$167,641 less \$165,046 in expenses. The wholesale sector experienced higher net revenues of \$5,438 on revenues of \$20,160 less \$14,722 in expenses. The total net assets increased by \$118 after adding net non-operating revenues of \$11,192 and subtracting \$19,107 in the Transfers to the City.

During fiscal year 2010, the Electric Utility's retail operating revenues decreased by \$22,133 or 12% from prior year level. The decrease in retail revenues was attributable to an 8% reduction in the average rates charged to customers and a 4% decrease in retail sales volume. Operating revenues decreased while increases in the transmission and distribution expense were offset by decreases in production expense, which resulted in net retail operating revenues of \$15,335 on revenues of \$173,403 less \$158,068 in expenses. The wholesale sector experienced lower net revenues of \$651 on revenues of \$3,500 less \$2,849 in expenses. The total net assets increased by \$3,401 after adding net non-operating revenues of \$6,522 and subtracting \$19,107 in the Transfers to the City.

The assets of the Electric Utility exceeded its liabilities at the close of fiscal years 2011 and 2010 by \$353,454 and \$353,336 respectively. Of these amounts, \$116,193 and \$155,672 respectively was unrestricted and may be used to meet the Fund's ongoing obligations to creditors and customers. These unrestricted net assets represented 65% and 97% of annual operating expenses for fiscal years 2011 and 2010 respectively.

### **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 our readers 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 is more fully described in the accompanying Notes to the Financial Statements.

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

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 16 to 40 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 \$353,454 and \$353,336 as of June 30, 2011 and 2010, respectively. A portion of the Utility's net assets (63% and 53% as of June 30, 2011 and 2010, respectively) reflects its investment in capital assets such as production, transmission, and distribution facilities, less any related outstanding debt used to acquire those assets. The 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 (4% and 3% as of June 30, 2011 and 2010 respectively) represents resources that are subject to external restrictions on how they may be used. These restrictions are for items such as debt repayment and other legally restricted purposes.

The unrestricted portion of the Utility's net assets (33% and 44% as of June 30, 2011 and 2010 respectively) 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, 2011, 2010, 2009 are as follows:

	2011	2010	2009
Current and noncurrent assets	\$ 143,333	\$ 179,901	\$ 196,263
Capital assets	343,811	308,926	289,718
Total assets	487,144	488,827	485,981
Current liabilities	16,375	16,296	14,405
Long-term debt	117,315	119,195	121,641
Total liabilities	133,690	135,491	136,046
Net assets:			
Invested in capital assets, net of related debt	224,097	187,285	175,047
Restricted	13,164	10,379	10,563
Unrestricted	116,193	155,672	164,325
Total net assets	\$ 353,454	\$ 353,336	\$ 349,935

Net assets increased by \$118 (or 0%) and \$3,401 (or 1%) during fiscal years 2011 and 2010, respectively. In fiscal year 2011, the increase in net assets was primarily the result of a Federal Smart Grid Investment Grant from the U.S. Department of Energy under the American Recovery and Reinvestment Act as well as an increase in net wholesale revenue due to a refund of wholesale trading revenue from sales into the CAISO market in the fiscal year 2001.

In fiscal year 2010, the increase in net assets was primarily the result of a federal Smart Grid Investment Grant from the U.S. Department of Energy under the American Recovery and Reinvestment Act as well as a reduction in the cost of natural and landfill gas.

### Changes Net Assets – Electric Utility

The Electric Utility's changes in net assets for the year ended June 30, 2011, 2010, 2009 are as follows:

	2011	2010	2009
Revenues:			
Retail sales, net	\$ 150,204	\$ 166,461	\$ 188,594
Wholesale sales	20,160	3,500	10,888
Sale to other utilities	17,437	6,942	7,695
Interest income	1,134	2,793	4,916
Other revenues and grants	14,383	7,349	1,981
Capital contributions	1,677	1,351	2,285
Total revenues	<u>204,995</u>	<u>188,396</u>	<u>216,359</u>
Expenses:			
Production	129,809	113,560	142,341
Transmission and distribution	22,297	21,783	18,461
Customer accounting and sales	7,008	7,159	7,346
Depreciation	19,962	18,130	17,137
Gas depletion	692	285	330
Interest on Bonds	6,002	4,971	4,815
Total expenses	<u>185,770</u>	<u>165,888</u>	<u>190,430</u>
Transfers to the City's General Fund	<u>19,107</u>	<u>19,107</u>	<u>19,107</u>
Total expenses and transfers	<u>204,877</u>	<u>184,995</u>	<u>209,537</u>
Changes in net assets	<u>118</u>	<u>3,401</u>	<u>6,822</u>
Total net assets, beginning of year	<u>353,336</u>	<u>349,935</u>	<u>343,113</u>
Total net assets, end of year	<u>\$ 353,454</u>	<u>\$ 353,336</u>	<u>\$ 349,935</u>

### Revenue by Source – Electric Utility

#### *Year ended June 30, 2011*

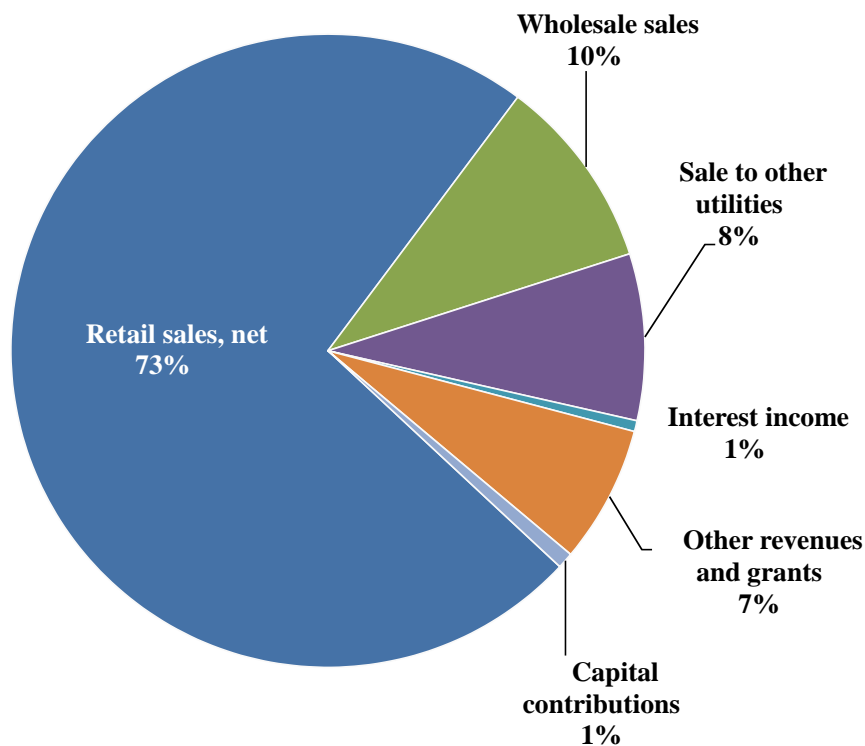
Retail sales (residential, commercial, industrial and other sales) continued to be the primary revenue source for the Electric Utility, making up 73% of total revenue. Retail sales showed a decrease of 10% from the prior year reflecting an average 5% rate decrease from the prior year and a 5% decrease in retail sales volume. Sales to other utilities accounts for the receipts from disposing of excess retail energy supply. This account was established to differentiate such sales from the wholesale operation. Sales to other utilities increased 151% largely due to an increase in receipts from the disposal of excess energy. Wholesale sales increased 476% from the prior year. The increase was primarily the result of the Electric Utility's increased participation in wholesale transactions due to favorable market conditions that meet the City's risk criteria as

well as a refund of \$4,979 for wholesale trading revenue from sales into the CAISO market in the fiscal year 2001.

Interest income decreased 59% from the prior year. The decrease was attributed to a combination of lower cash reserves and lower yields for the Electric Utility's investment portfolio.

Capital contributions increased 24% from the prior year. The increase reflects an increased level of construction projects funded by others, primarily retail customers.

### 2011 Revenues



### **Revenue by Source – Electric Utility**

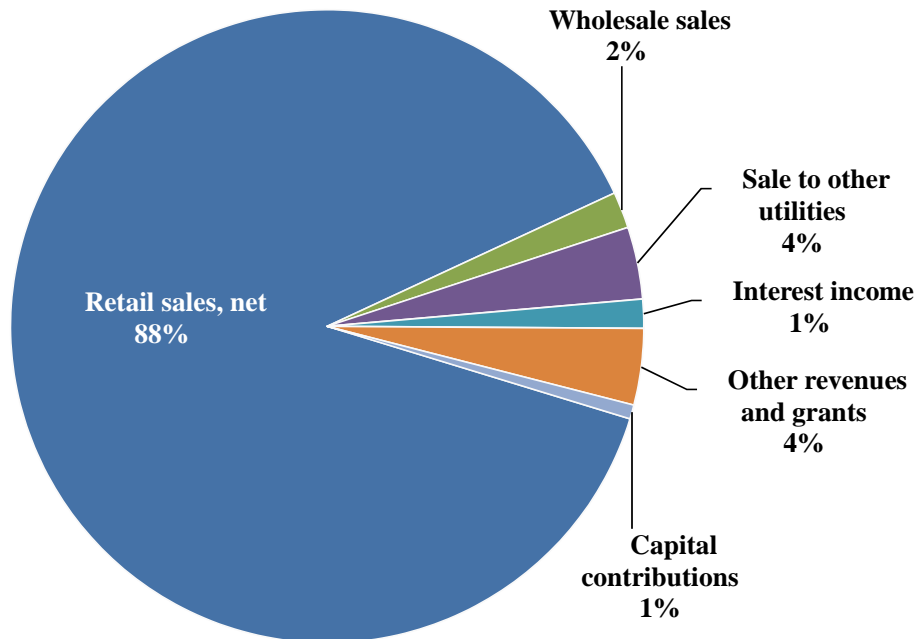
#### *Year ended June 30, 2010*

Retail sales (residential, commercial, industrial and other sales) continued to be the primary revenue source for the Electric Utility, making up 88% of total revenue. Retail sales showed a decrease of 12% from the prior year reflecting an average 8% rate decrease from the prior year and a 4% decrease in retail sales volume. Sales to other utilities accounts for the receipts from disposing of excess retail energy supply. This account was established to differentiate such sales from the wholesale operation. Sales to other utilities decreased 10% largely due to a decrease in receipts from the disposal of excess energy. Wholesale sales decreased 68% from the prior year. The decrease was primarily the result of the Electric Utility's decreased participation in wholesale transactions due to a lack of favorable market conditions that meet the City's risk criteria.

Interest income decreased 43% from the prior year. The decrease was attributed to a lower yield for the Electric Utility's investment portfolio.

Capital contributions decreased 41% from the prior year. The decrease reflects a decreased level of construction projects funded by others, primarily retail customers.

### 2010 Revenues



### **Expenses by Source – Electric Utility**

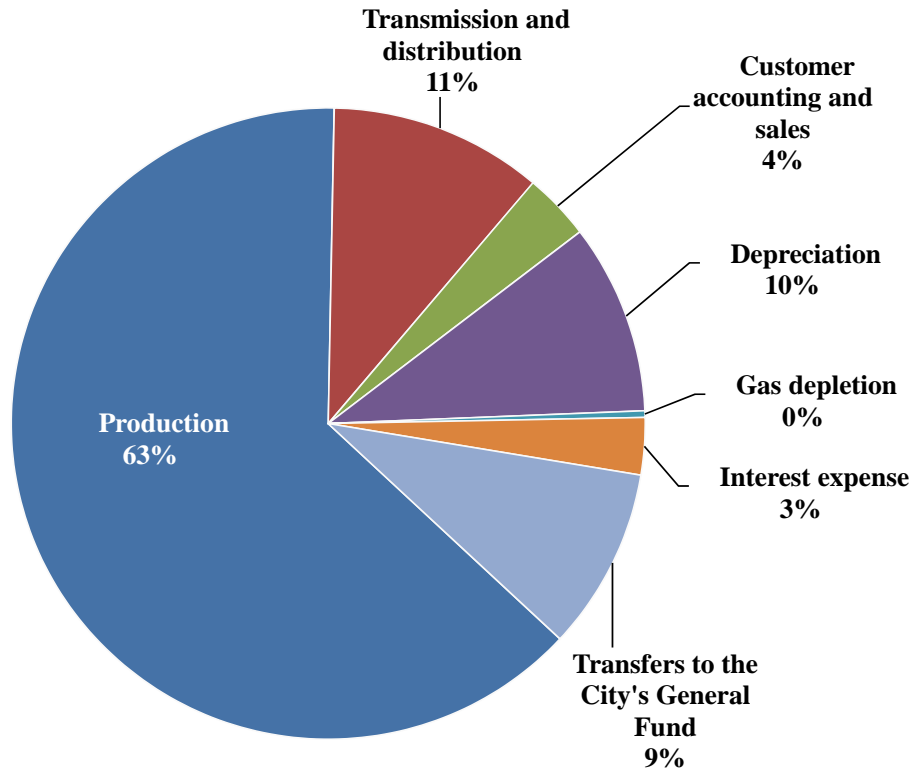
*Year ended June 30, 2011*

Total expenses for the Electric Utility increased \$19,882 (or 12%) from the prior year level. Production expenses increased 14% from prior year levels as a result of an increase in wholesale activity. Transmission and distribution expenses as well as customer accounting and sales expenses were on par with the prior year level. Depreciation expenses increased 10% primarily from increased investments in capital assets. The depletion of gas increased 143% due to an increase in drilling. The Gas Depletion account was established to record the usage of natural gas associated with the Electric Utility's share of the Natural Gas Project through the Southern California Public Power Authority (SCPPA).

Interest on bonds increased 21% from the prior year due to interest no longer being capitalized to capital projects paid for with the Electric Revenue Bonds, Series 2008.

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

## 2011 Expenses



### **Expenses by Source – Electric Utility**

*Year ended June 30, 2010*

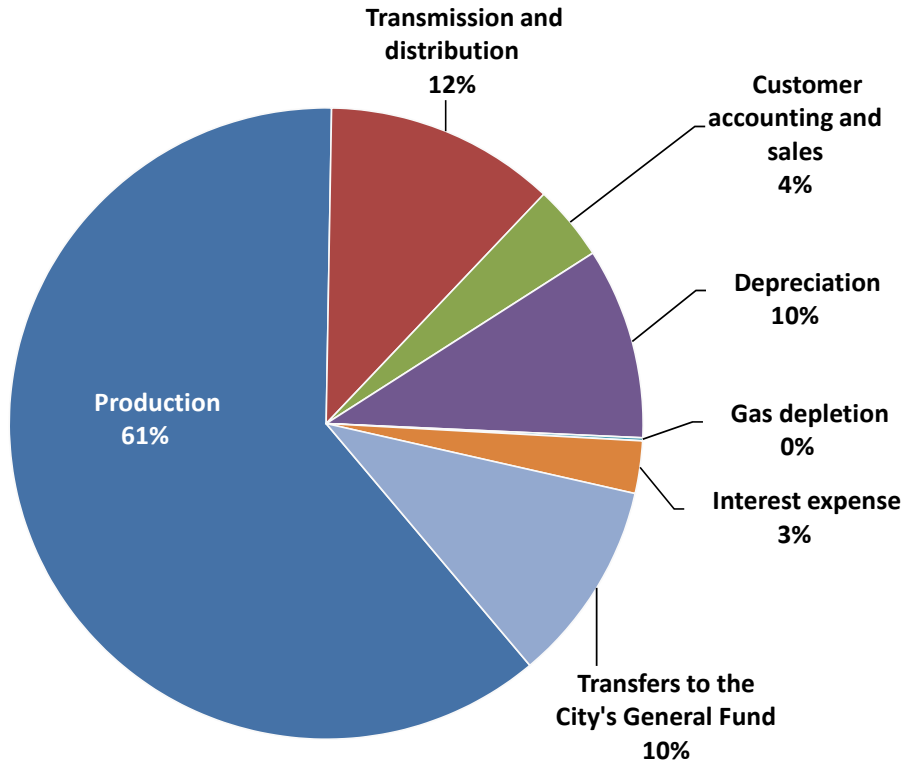
Total expenses for the Electric Utility decreased \$24,542 (or 13%) from the prior year level. Production expenses decreased 20% from prior year levels as a result of decreases in the cost of natural & landfill gas coupled with a reduction in wholesale activity. Transmission and distribution expenses increased 18% from the prior year level reflecting an intensified effort to improve system reliability. Customer accounting and sales expenses were on par with the prior year level. Depreciation expenses increased 6% primarily from increased investment in capital assets. Gas depletion was on par with the prior year. The Gas Depletion account was established to record the usage of natural gas associated with the Electric Utility's share of the Natural Gas Project through the Southern California Public Power Authority (SCPPA).

Interest on bonds increased 3% from the prior year level due to additional interest expense associated with the Electric Revenue Bonds, Series 2008.

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



**2010 Expenses**



**Capital Assets and Debt Administration**

*Capital Assets*

The Electric Utility’s investment in capital assets as of June 30, 2011 and 2010 was \$343,811 and \$308,926 respectively (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. Capital assets showed an 11% and 7% increase as of June 30, 2011 and 2010, respectively, over the prior years. In both years, the department completed and capitalized the construction of certain major generation, transmission and distribution projects that had previously been accounted for as construction in progress.

The Electric Utility’s capital assets as of June 30, 2011, 2010, 2009 are as follows:

	2011	2010	2009
Production	\$ 115,564	\$ 112,016	\$ 113,068
Transmission and distribution	415,580	373,921	346,704
Natural Gas Reserve	17,993	15,633	14,876
General	60,161	57,595	54,354
Less: accumulated depreciation	(265,487)	(250,239)	(239,284)
<b>Total</b>	<b>\$ 343,811</b>	<b>\$ 308,926</b>	<b>\$ 289,718</b>

### *Long-Term Debt*

As of June 30, 2011 and 2010, the Electric Utility had outstanding long-term debt of \$117,315 and \$119,195 respectively.

The Electric Utility's outstanding debt as of June 30, 2011, 2010, 2009 is as follows:

	2011	2010	2009
Electric Revenue Bonds	\$ 119,245	\$ 121,150	\$ 123,005
Less: current portion	(2,304)	(2,345)	(1,840)
Unamortized bond premium	1,940	2,082	2,209
Unamortized accrued interest	-	-	111
Deferred amount on refunding	(1,566)	(1,712)	(1,863)
Abitrage rebate	-	20	19
	<hr/>	<hr/>	<hr/>
Total long-term debt	\$ 117,315	\$ 119,195	\$ 121,641

During fiscal year 2011, the Electric Utility was upgraded to an "AA-" credit rating from "A+" by Standard & Poor's, maintained an "A+" credit rating from Fitch, Inc., and maintained an Aa3 credit rating from Moody's Investors Service for its revenue bonds. Additional information on the Electric Utility's long-term debt can be found in Note 4 on pages 27 to 30 of this report.

### **Economic Factors and Rates**

In 2011, the City continued its effort to minimize exposure to market spikes in power and natural gas by consulting with The Energy Authority (TEA) for advisory services related to risk management of the utility's exposure to natural gas prices and energy portfolio management. As a result, the Electric Utility has continued to define and expand its comprehensive energy risk management program in an effort to stabilize rates amid significant market volatility.

The Electric Utility advanced its commitment to environmental improvement by procuring long-term, short-term, and local renewable energy resources. In January 4, 2011, the City Council approved a purchase power agreement for the La Paz Solar Tower Project through the Southern California Public Power Authority. (Note: this agreement is still under negotiation.) This Solar Tower technology project, to be constructed in the Arizona desert, uses solar energy to heat air beneath a large translucent collector (greenhouse) that in turn creates a constant flow of air to drive turbines. One of the many strengths of the Solar Tower technology is its ability to generate utility scale power reliably day and night without the use of water. The project is projected to provide 6% (66,225 MWH) of GWP's annual energy demands upon completion.

Acquiring this renewable energy is an important step in meeting GWP's Renewables Portfolio Standard (RPS) target which was established by the Glendale City Council in December 2003. The current RPS target is 20 percent renewable resources - including Hoover power (large hydropower) in the inventory - by 2017 and up to 23% if economically feasible. GWP's RPS will be updated by January 2012 to reflect California's Senate Billx1 2 (SBx1 2) which, effective December 2011, establishes a mandatory statewide 33% renewable portfolio standard to be achieved by December 31, 2020. GWP boasts a healthy and diversified energy portfolio, which includes 22.6% renewables (including large hydroelectric power from Hoover Dam) and is well situated to meet the impending SBx1 2 mandates with a diverse and healthy resource mix. The commercial operation of La Paz raises GWP's resource mix to 28.6% renewables; with an

additional 6.6% in wind options available to exercise through 2015 as needed. In addition to the La Paz solar resource, GWP is also negotiating a purchase power agreement with a biomass developer in Arizona, is collaborating with other municipalities on the development of geothermal resources in the Imperial Valley of California, and is considering other offers of geothermal and biomethane supplies, both in-state and out-of-state. Finally, GWP is developing plans for more efficient use of the Scholl Canyon landfill gas available within the City of Glendale.

### **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 General Manager of Glendale Water & Power – 141 North Glendale Avenue, Level 4, Glendale, California 91206.

**CITY OF GLENDALE****ELECTRIC FUND**

## Statements of Net Assets

June 30, 2011 and 2010 (in thousands)

	<u>2011</u>	<u>2010</u>
Assets		
Current assets:		
Pooled Cash and invested cash	\$ 39,024	\$ 68,807
Imprest cash	3	3
Cash with fiscal agent	4,704	4,704
Interest receivable	380	563
Restricted Investment	3,675	2,408
Accounts receivable, net	17,343	12,259
Unbilled Services	11,874	13,733
Due from other agencies	2,038	2,390
Due from other funds of the City	12,174	1,331
Deposits	10	10
Inventories	5,583	6,238
Prepaid items	5,966	21,525
	<hr/>	<hr/>
Total current assets	102,774	133,971
	<hr/>	<hr/>
Noncurrent assets:		
Designated & invested cash	27,176	43,181
Deferred charges	13,383	2,749
	<hr/>	<hr/>
Total noncurrent assets	40,559	45,930
	<hr/>	<hr/>
Capital assets:		
Land	6,141	6,141
Natural Gas Reserve	17,993	15,633
Buildings and improvements	61,145	58,875
Machinery and equipment	446,297	428,420
Building & improvements accumulated depreciation	(262,658)	(248,102)
Gas depletion	(2,829)	(2,137)
Construction in progress	77,722	50,096
	<hr/>	<hr/>
Total capital assets	343,811	308,926
	<hr/>	<hr/>
Total assets	487,144	488,827
	<hr/> <hr/>	<hr/> <hr/>

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

**CITY OF GLENDALE****ELECTRIC FUND**

Statements of Net Assets (Continued)

June 30, 2011 and 2010 (in thousands)

	<u>2011</u>	<u>2010</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	6,011	8,117
Contracts-retained amount due	2,792	846
Interest payable	2,848	2,425
Bonds payable, due in one year	2,304	2,345
Deposits	2,420	2,563
	<u>16,375</u>	<u>16,296</u>
Total current liabilities	16,375	16,296
Noncurrent liabilities:		
Long term debt	117,315	119,195
	<u>117,315</u>	<u>119,195</u>
Total noncurrent liabilities	117,315	119,195
Total liabilities	<u>133,690</u>	<u>135,491</u>
Net assets:		
Investment in capital assets, net of related debt	224,097	187,285
Restricted		
Debt service	7,453	4,638
SCAQMD emission controls	5,711	5,741
Unrestricted	116,193	155,672
	<u>116,193</u>	<u>155,672</u>
Total net assets	<u>\$ 353,454</u>	<u>\$ 353,336</u>

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

**CITY OF GLENDALE**  
**ELECTRIC FUND**

Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended June 30, 2011 and 2010 (in thousands)

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Electric domestic sales	\$ 53,558	\$ 59,917
Electric commercial sale	96,642	106,540
Electric street light sales	4	4
Wholesale sales	20,160	3,500
Sale to other utilities	17,437	6,942
Miscellaneous revenues	3,352	1,901
Total operating revenues	<u>191,153</u>	<u>178,804</u>
Operating expenses:		
Production	129,809	113,560
Transmission	22,297	21,783
Customer accounting and sales	7,008	7,159
Depreciation	19,962	18,130
Gas depletion	692	285
Total operating expenses	<u>179,768</u>	<u>160,917</u>
Operating income	<u>11,385</u>	<u>17,887</u>
Non operating revenues (expenses):		
Interest revenue	1,134	2,793
Grant revenue	11,031	5,448
Interest on Bonds	(6,002)	(4,971)
Total non operating revenues, net	<u>6,163</u>	<u>3,270</u>
Income before transfers	<u>17,548</u>	<u>21,157</u>
Contribution in aid	1,677	1,351
Transfer out:		
Transfer-General Fund	(19,107)	(19,107)
Change in net assets	118	3,401
Total net assets, July 1	<u>353,336</u>	<u>349,935</u>
Total net assets, June 30	<u>\$ 353,454</u>	<u>\$ 353,336</u>

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

**CITY OF GLENDALE**  
**ELECTRIC FUND**

Statements of Cash Flows

Years ended June 30, 2011 and 2010 (in thousands)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash from customers	\$ 177,438	\$ 177,333
Cash paid to employees	(41,000)	(40,716)
Cash paid to suppliers	(112,836)	(120,581)
	<hr/>	<hr/>
Net cash provided by operating activities	23,602	16,036
Cash flows from noncapital financing activities:		
Operating transfers out	(19,107)	(19,107)
Investment - gas/electric commodity	(1,267)	(733)
Operating grant received	11,031	5,448
	<hr/>	<hr/>
Net cash used in noncapital financing activities	(9,343)	(14,392)
Cash flows from capital and related financing activities:		
Interest on long term debt	(5,574)	(4,534)
Bond principal and capital lease payments	(1,926)	(1,840)
Contribution in aid	1,677	1,351
Acquisition of property, plant, and equipment	(55,540)	(37,623)
	<hr/>	<hr/>
Net cash used in capital and related financing activities	(61,363)	(42,646)
Cash provided by investing activities - interest received	<hr/>	<hr/>
	1,316	3,027
Net (decrease) in cash and cash equivalents	(45,788)	(37,975)
Cash and cash equivalents at beginning of year	<hr/>	<hr/>
	116,695	154,670
Cash and cash equivalents at end of year	<hr/>	<hr/>
	70,907	116,695
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<hr/>	<hr/>
	11,385	17,887
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	19,962	18,130
Gas depletion	692	285
(Increase) Accounts receivable net	(16,958)	(2,468)
Decrease Unbilled Services	13,733	3,385
(Increase)Decrease Due from other agencies	353	(2,388)
(Increase) Due from other funds	(10,842)	-
Decrease Inventories	655	868
(Increase)Decrease prepaid expenses	15,558	(20,621)
(Increase)Decrease Deferred charges	(10,634)	111
Increase(Decrease) Accounts payable	(2,104)	769
Increase Contracts - retention	1,945	247
(Decrease) Deposits	(143)	(169)
	<hr/>	<hr/>
Total adjustments	12,217	(1,851)
Net cash provided by operating activities	<hr/>	<hr/>
	\$ 23,602	\$ 16,036
Noncash investing, capital, and financing activities:		
Increase in fair value of investments	236	611

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

# Notes to Financial Statements

## *1. Summary of Significant Accounting Policies*

The following is a summary of significant accounting policies of the City of Glendale (the City) as they pertain to the Electric Enterprise Fund. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### **Funds**

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the City’s enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.



## **Cash and Investments**

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

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

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

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

## **Designated Cash and Investments**

A Cash Reserve Policy for the 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 the fiscal year ending June 30, 2010, established a target of \$66,400 of designated cash in the following categories: \$40,400 for contingency reserve; \$10,000 for rate stabilization reserve; and \$16,000 for Reserve for Gas Reserve Project. As of June 30, 2011 and 2010, \$27,176 and \$43,181 was designated, respectively.

## **Capital Assets**

The Fund’s capital assets include land, building, improvements and equipments that are reported in the Fund’s financial statements. The Fund follows the City’s asset capitalization policy. Capital assets are defined by the City as assets with an initial, individual cost of \$5 or more and

an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated assets representing utility service assets, which are donated to the City by independent contractors, are recorded at estimated fair market value at the date of donation. Depreciation for both purchased and contributed assets are computed using a straight-line method, based upon average estimated useful life of an asset. Interest incurred during the construction phase of the capital assets is included as part of the capitalized value of the assets constructed.

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

<b>Assets</b>	<b>Years</b>
Building and improvements	10 to 75
Machinery and equipment	4 to 10

**Inventories**

Inventories, consisting primarily of construction and maintenance materials and tools for the production and distribution system of the Electric utility are stated at cost, using the weighted average cost method or disposal value.

**Long-Term Debt**

The long-term debt and other obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance cost are reported as deferred charges and amortized over the term of the related debt.

**Compensated Absences**

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

The Fund also provides sick leave conversion benefits through the Retiree Health Saving Plan (RHSP). Unused sick leave is converted to a dollar amount and deposited in the employee's RHSP account at retirement. The account is used to pay healthcare premiums for the retiree and

beneficiaries. After the account is exhausted, the retirees can terminate coverage or elect to continue paying the healthcare premiums from personal funds.

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

### **Post-Employment Benefits**

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

The City also has a Retiree Healthcare Plan which is a single-employer defined benefit healthcare plan administered by the City. The plan provides healthcare benefits to eligible retirees and their dependents. Benefit provisions are established by and may be amended by the City. The City does not have a separate audited GAAP-basis postemployment benefit plan report for this defined benefit plan.

For additional details on the Post-Employment Benefit, please refer to the City of Glendale Comprehensive Annual Report.

### **Accounts Receivable**

The Fund records revenues that have already been earned but not yet received as of June 30 from individual customers, private entities & government agencies. In addition, this account includes utility customer closed accounts that are written off when deemed uncollectible. Also, recoveries to utility customer receivables previously written off are recorded when received. As of June 30, 2011 and 2010, the Fund's net accounts receivable were \$17,343 and \$12,259, respectively.

### **Unbilled Services**

The Fund records utility services delivered to customers but not billed. As of June 30, 2011 and 2010, the Electric Fund's unbilled services were \$11,874 and \$13,733, respectively.

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

These accounts are used when a fund has a temporary cash overdraft. It is also used to record receivables for advances made to other fund of the City.

## **Deposits**

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

## **Contracts - Retained Amount Due**

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

## **Transfers to the City**

The City's charter provides for certain percentages of operating revenues in the 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 Fund first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

## **Revenue Recognition**

The Electric Utility uses the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Electric Utility customers are billed either monthly or bi-monthly. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

An allowance for doubtful account 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.

## **Pronouncements Issued but Not yet Adopted**

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

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

## *2. Cash and Investments*

Cash resources of the Fund are combined with other City funds to form a pool of cash and investments, which is managed by the City Treasurer under a formal investment policy that is reviewed by the Investment Committee and adopted annually by the City Council. Therefore, individual investments cannot be identified with any single fund. Income from the investment of pooled cash is allocated to the Fund on a monthly basis, based upon the month-end cash balance of the fund as a percent of the month-end total pooled cash balance. Of this total, \$66,203 and \$111,991 pertains to the Electric Fund for fiscal year 2011 and 2010, respectively. Invested cash is stated at the fair value. An increase (decrease) in the fair value of investments is recognized as an increase (decrease) to Interest Income Revenue. The City normally holds its investments to term; therefore, no realized gain/loss is recorded. All cash and investments are held in the City's cash management pool. Therefore, for purposes of the combined statement of cash flows for the Proprietary Funds, the City considers all cash, investments, imprest cash and cash with fiscal agents to be cash and cash equivalents.

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

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

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

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

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

**Authorized Investments**

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

	<u>Maximum Maturity</u>	<u>Maximum % of Portfolio</u>
U.S. Treasuries	5 years	100%
Federal Agencies	5 years	100%
Medium Term Corporate Notes	5 years	15%
Commercial Paper (A1,P1 minimum rating)	180 days	15%
Bankers Acceptance	180 Days	30%
Negotiable Certificates of Deposit	1 year	30%
Local Agency Investment Fund (State Pool)	N/A	LAIF maximum
Money Market Mutual Funds	90 days	20%
Time Deposits	1 year	10%

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

### **Investments Authorized by Debt Agreements**

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

### **Disclosure Relating to Interest Rate Risk**

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

		Remaining Maturity (in Months)				
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months	
Commercial Paper	\$ 5,000	5,000	-	-	-	
Federal Agency Term Notes	30,311	5,051	-	25,260	-	
U.S. Government Agency Callable Bonds	192,262	-	21,557	170,705	-	
Corporate Notes	30,310	2,565	14,629	13,116	-	
State Investment Pool	150,236	150,236	-	-	-	
Money Market Fund	72,776	72,776	-	-	-	
Held by Fiscal Agents						
Federal Agency Term Notes	9,847	9,847	-	-	-	
Guaranteed Investment Contracts	6,313	-	-	-	6,313	
Money Market	14,356	14,356	-	-	-	
	\$	<u>511,411</u>	<u>259,831</u>	<u>36,186</u>	<u>209,081</u>	<u>6,313</u>

The City assumes that callable investments will not be called.

### **Disclosures Relating to Credit Risks**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The City invests only in the most risk-adverse instruments, such as AAA rated government securities, AAA or AA rated corporate securities, and A1, P1 rated

commercial paper, negotiable certificates of deposits and banker's acceptance securities. The City's Investment Policy requires the City to sell any security with a credit rating below A.

		Rating as of Year End				
		AAA	AA	Aa2	A1,P1	Unrated
Commercial Paper	\$ 5,000	-	-	-	5,000	-
Federal Agency Term Notes	30,311	30,311	-	-	-	-
U.S. Government Agency Callable Bonds	192,262	192,262	-	-	-	-
Corporate Notes	30,310	-	12,863	-	17,447	-
State Investment Pool	150,236	-	-	-	-	150,236
Money Market Fund	72,776	72,776	-	-	-	-
Held by Fiscal Agents						
Federal Agency Term Notes	9,847	9,847	-	-	-	-
Guaranteed Investment Contracts	6,313	-	-	6,313	-	-
Money Market	14,356	14,356	-	-	-	-
	\$ 511,411	319,552	12,863	6,313	22,447	150,236

### Concentration on Credit Risk

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

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

### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the



public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2011, the carrying amount of the City's deposits was <\$17> and the corresponding bank balance was \$7,933. The difference of \$7,950 was principally due to outstanding warrants, wires, deposits in transit and some pending miscellaneous adjustments. Of the Bank balance, \$250 was insured by the FDIC depository insurance and \$7,683 was covered by the collateralization requirement. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit).

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of June 30, 2011, in accordance with the City's investment policy, none of the City's investments were held with counter-party. All of the City's investments were held with an independent third party custodian bank. The City uses Bank of America as a third party custody and safekeeping service for its investment securities.

### **Investment in State Investment Pool**

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

### **Cash with Fiscal Agent**

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

### 3. Capital Assets

#### Natural Gas Project

In June 2005, the City elected to participate in the Natural Gas Reserve Project through SCPPA and entered into a 25 year Gas Sales Agreement with SCPPA for up to 2,000 MMBtu per day. The project calls for the acquisition 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 \$13.1 million or 4.2553%, with estimated peak daily volume between 1,600 to 1,800 MMBtu. As of June 30, 2011, the net balance for Natural Gas Reserve Project was \$15,164.

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

	Balance at June 30, 2010	Increases	Decreases (Reclass & Retirements)	Balance at June 30, 2011
Capital assets not being depreciated/depleted:				
Land	\$ 6,141	-	-	6,141
Construction in progress	50,096	27,626		77,722
Total assets not being depreciated/depleted	56,237	27,626	-	83,863
Depreciable capital assets:				
Building and improvements	58,875	2,270	-	61,145
Machinery and equipment	428,420	23,172	5,295	446,297
Total other capital assets at cost	487,295	25,442	5,295	507,442
Depletable capital assets:				
Natural Gas Reserve	15,633	2,360	-	17,993
Less accumulated depreciation:				
Building and improvements	46,056	1,640	15,864	31,832
Machinery and equipment	202,046	18,322	(10,458)	230,826
Total accumulated depreciation	248,102	19,962	5,406	262,658
Less allowance for gas depletion				
Natural Gas Reserve	2,137	692	-	2,829
Total assets being depreciated	252,689	7,148	(111)	259,948
Electric Fund capital assets, net	\$ 308,926	34,774	(111)	343,811

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

	Balance at July 1, 2009	Increases	Decreases (Reclass & Retirements)	Balance at June 30, 2010
Capital assets not being depreciated/depleted:				
Land	\$ 6,084	57	-	6,141
Construction in progress	60,781	(10,685)		50,096
Total assets not being depreciated/depleted	66,865	(10,628)	-	56,237
Depreciable capital assets:				
Building and improvements	56,810	2,065	-	58,875
Machinery and equipment	390,451	45,428	7,459	428,420
Total other capital assets at cost	447,261	47,493	7,459	487,295
Depletable capital assets:				
Natural Gas Reserve	14,876	757	-	15,633
Less accumulated depreciation:				
Building and improvements	28,630	17,426	-	46,056
Machinery and equipment	208,802	703	7,459	202,046
Total accumulated depreciation	237,432	18,129	7,459	248,102
Less allowance for gas depletion				
Natural Gas Reserve	1,852	285	-	2,137
Total assets being depreciated	222,853	29,836	-	252,689
Electric Fund capital assets, net	\$ 289,718	19,208	-	308,926

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

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

	Remaining Interest Rates	Original Issue	Outstanding June 30, 2011	Outstanding June 30, 2010
Electric Revenue Bonds, 2003 Series	3.25%-6.00%	\$31,640	\$25,280	\$26,075
Electric Revenue Bonds, 2006 Refunding Series	4.00%-5.00%	\$38,830	\$33,965	\$35,075
Electric Revenue Bonds, 2008 Series	4.00%-5.00%	\$60,000	\$60,000	\$60,000

#### **Electric Revenue Bonds, 2003 Series**

The Electric utility of Glendale Water & Power issued \$31,640 in revenue bonds in February 2003 to finance the costs of acquisition, construction and installation of a nominally rated 49 megawatts 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 Fund

Requirement is defined by the Debt Indenture as the maximum annual debt service on the debt service schedule. Up to 50% of the Reserve Fund Requirement amount may be held in an unrestricted fund or account. The reserve requirement of the bond issue is satisfied by a cash reserve fund with a minimum funding requirement of \$1,070.

The bonds mature in regularly increasing amounts ranging from \$795 to \$1,865 annually from 2012 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.

### **Electric Revenue Bonds, 2006 Refunding Series**

The Electric utility of Glendale Water & Power issued \$38,830 in revenue bonds in April 2006 to provide moneys for the refunding of all of the City's outstanding Electric Revenue Bonds, 2000 Series. The bond proceeds were deposited in an escrow account and will be used to refund the Electric Revenue Bonds, 2000 Series through a legal defeasance. The advance refunding of Electric Revenue Bonds, 2000 Series resulted in a difference between the reacquisition price of refunding bonds and the net carrying amount of the refunded bonds. Deferred loss on refunding as of June 30, 2011 for \$1,566 is recognized and reported in the financial statements as a contra account to bonds payable and is being amortized through February 1, 2030. As of June 30, 2009, \$37 million of the 2000 series bonds outstanding are considered defeased. Liabilities for defeased bonds are not included in the City's financial statements.

The terms of the Electric Revenue Bonds, 2006 Refunding Series' (2006 Refunding Bonds) indenture require the trustee to establish and maintain a reserve equal to the Reserve Fund Requirement. The Reserve Fund Requirement is defined by the Debt Indenture as the maximum annual debt service on the debt service schedule. Up to 50% of the Reserve Fund Requirement amount may be held in an unrestricted fund or account. The reserve requirement of the bond issue is satisfied by a cash reserve fund with a minimum funding requirement of \$1,327.

The bonds mature in regularly increasing amounts ranging from \$1,170 to \$2,570 annually from 2012 to 2030. The 2006 Refunding Bonds maturing on or prior to February 1, 2016 are not subject to redemption prior to maturity. The 2006 Refunding Bonds maturing on and after February 1, 2017 are subject to redemption prior to maturity, at the option of the City, as a whole or in part, on February 1, 2016, or on any date thereafter, at a redemption price equal to 100% of the principal amount of the 2006 Refunding Bonds to be redeemed, together with accrued interest to the redemption date.

## Electric Revenue Bonds, 2008 Series

The Electric utility of Glendale Water & Power issued \$60,000 in revenue bonds in February 2008 to finance the costs of acquisition and construction of certain improvements to the Electric System of the City.

The terms of the 2008 Electric Revenue Bonds' (2008 Bonds) indenture require the trustee to establish and maintain a reserve equal to the Reserve Fund Requirement. The Reserve Fund Requirement is defined by the Debt Indenture as the maximum annual debt service on the debt service schedule. Up to 50% of the Reserve Fund Requirement amount may be held in an unrestricted fund or account. The reserve requirement of the bond issue is satisfied by a cash reserve fund with a minimum funding requirement of \$2,241.

The bonds mature in regularly increasing amounts ranging from \$1,880 to \$4,195 annually from 2018 to 2038. The 2008 Bonds maturing on or prior to February 1, 2018 are not subject to redemption prior to maturity. The 2008 bonds maturing on and after February 1, 2019 are subject to redemption prior to maturity, at the option of the City, as a whole or in part, on February 1, 2018, or on any date thereafter, at a redemption price equal to 100% of the principal amount of the 2008 Bonds to be redeemed, together with accrued interest to the redemption date.

<b>June 30, 2011</b>	Amount outstanding at June 30, 2010	Additions	Retirements	Amount outstanding at June 30, 2011	Due within one year
Electric Revenue Bonds, 2003 Series	\$ 26,075	-	795	25,280	795
Electric Revenue Bonds, 2006 Refunding Series	35,075	-	1,110	33,965	1,170
Electric Revenue Bonds, 2008 Series	60,000	-	-	60,000	-
Accrued interest	-	-	-	-	-
Bond Premium	2,082	-	142	1,940	480
Deferred Amount on Refunding	(1,712)	-	(146)	(1,566)	(141)
Arbitrage rebate	20	-	20	-	-
<b>Total bonds payable</b>	<b>121,540</b>	<b>-</b>	<b>1,921</b>	<b>119,619</b>	<b>2,304</b>

<b>June 30, 2010</b>	Amount outstanding at June 30, 2009	Additions	Retirements	Amount outstanding at June 30, 2010	Due within one year
Electric Revenue Bonds, 2003 Series	\$ 26,870	-	795	26,075	795
Electric Revenue Bonds, 2006 Refunding Series	36,135	-	1,060	35,075	1,110
Electric Revenue Bonds, 2008 Series	60,000	-	-	60,000	-
Accrued interest	111	-	111	-	-
Bond Premium	2,209	-	127	2,082	566
Deferred Amount on Refunding	(1,863)	-	(151)	(1,712)	(146)
Arbitrage rebate	19	1		20	20
<b>Total bonds payable</b>	<b>123,481</b>	<b>1</b>	<b>1,942</b>	<b>121,540</b>	<b>2,345</b>

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

Fiscal year	Revenue Bonds		
	Interest	Principal	Total
2012	\$ 5,488	1,965	7,453
2013	5,398	2,047	7,445
2014	5,305	2,118	7,423
2015	5,208	2,171	7,379
2016	5,112	2,238	7,350
2017-2021	23,470	20,777	44,247
2022-2026	18,159	27,853	46,012
2027-2031	11,231	32,253	43,484
2032-2036	5,489	19,887	25,376
2037-2040	789	8,310	9,099
	<b>\$ 85,649</b>	<b>119,619</b>	<b>205,268</b>

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

## *5. Pension Plan*

Full-time employees of the Fund participate with other City employees in the Public Employees Retirement System (PERS) of the State of California, which is an agent multiple-employer public employee retirement system. The Fund's contributions represent a pro rata share of the City's contribution, including the employees' contribution that is paid by the Fund, which is based on PERS's actuarial determination as of July 1 of the current fiscal year. PERS does not provide data to participating organizations in such a manner so as to facilitate separate disclosure for the Fund's share of the actuarial computed pension benefit obligation, the plan's net assets

available for benefit obligation and the plan's net assets available for benefits. Approximately 22% of full-time City workers are employed by the Fund.

## **Plan Description**

The City contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California.

All full-time employees, which includes both safety and general employees, are required to participate in the single CalPERS plan, in which all related benefits vest after five years of service. Upon five years of service, employees who retire at age 50 or older are entitled to receive an annual retirement benefit. The benefit is payable monthly for life. For all employees hired under the 1st tier plan, the benefit is calculated as follows: years of credited service multiplied by their highest twelve consecutive months of salary multiplied by a percentage factor. Effective January 1, 2011 the City implemented a 2nd tier plan and for all new hired miscellaneous employees, the benefit is calculated as follows: years of credited service multiplied by their highest three average years multiplied by a percentage factor. The percentage factor is age-based. All public safety employees hired under the 1st tier plan use the 3% at age 50 factor and effective January 1, 2011, the 2nd tier plan implemented all new hired fire safety employees to use the 3% at age 55 factor.

All miscellaneous employees hired under the 1st tier plan use the 2.5% at age 55 factor, and effective January 1, 2011, the 2nd tier plan implemented all new hired miscellaneous employees to use the 2.0% at age 55 factor. The system also provides death and disability benefits. CalPERS issues a publicly available financial report that includes financial statements and required supplemental information of participating public entities within the state of California. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office – 400 P Street, Sacramento, CA 95814.

## **Funding Policy**

CalPERS is a contributory plan deriving funds from employee and employer contributions as well as earnings from investments. The City's miscellaneous employees hired under the 1st tier plan are required to contribute 8.0% of their annual salary and effective January 1, 2011, the 2nd tier plan implemented all new hired miscellaneous employees are required to contribute 7.0% of their annual salary. All the City's safety employees are required to contribute 9.0% of their annual salary. The City is also required to contribute at an actuarially determined rate. The City's contribution rate for miscellaneous members effective July 1, 2010 was 11.672%. The City's

contribution rate for safety members effective July 1, 2010 was 25.067%. The contribution requirements of plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

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

### **Annual Pension Cost**

Contributions to CalPERS totaling \$24,838 were made during the fiscal year ended June 30, 2011 in accordance with actuarially determined contribution requirements through an actuarial valuation performed at June 30, 2009. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.75% a year compounded annually (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45%, (c) no additional projected salary increases attributable to seniority/merit and (d) no post retirement benefit increases. The actuarial value of the City's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen year period depending on the size of investment gains and/or losses. CalPERS uses the entry age normal actuarial cost method, which is a projected benefit cost method. That is, it takes into account those benefits that are expected to be earned in the future as well as those already accrued. According to this cost method, the normal cost for an employee is the level amount which would fund the projected benefit if it were paid annually from date of employment until retirement. In addition, the employer's total normal cost is expressed as a level percentage of payroll. CalPERS also uses the level percentage of payroll method to amortize any unfunded actuarial liabilities. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percent of pay over a closed 20 year period. Gains and losses that occur in the operation of the plan are amortized over a rolling 30 year period. If the



plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization.

### Three Year Trend Information

Fiscal year ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2009:			
Misc.	\$ 12,004	100%	0
Safety	11,885	100%	0
Total	<u>\$ 23,889</u>		
6/30/2010:			
Misc.	\$ 11,829	100%	0
Safety	12,023	100%	0
Total	<u>\$ 23,852</u>		
6/30/2011:			
Misc.	\$ 11,922	100%	0
Safety	12,916	100%	0
Total	<u>\$ 24,838</u>		

### Schedule of Pension Funding Progress (Unaudited)

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

## 6. Self-Insurance Program

The Fund is covered by the City's unemployment and workers' compensation insurance. For purposes of general liability, the Fund is self-insured through the City's self-insurance program which is accounted for in the Internal Service Fund of the City. The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City retains risks for the following types of liabilities: workers' compensation insurance, unemployment insurance, post employment benefits, general auto, dental, medical and vision as well as public liability through separate Internal Service Funds. The City purchased several commercial insurance policies from third-party insurance companies for errors and omissions of its officers and employees, and destruction of assets as well as excess workers' compensation and general public liability claims. The City also purchases property insurance for GWP-owned and non-GWP-owned facilities, aviation insurance for Police helicopter and employee dishonesty insurance. There were no significant settlements or reductions in insurance coverage from settlements for the past three years. The insurance schedule for fiscal year 2011-12 is as follows:

Insurance Type	Program Limits	Deductible /SIR (self insured retention)
Excess Liability Insurance	\$20,000	\$2,000 SIR per occurrence
D &O Employment Practices	\$2,000	\$250 SIR non-safety; \$500 SIR safety
Excess Workers' Comp Employer's Liability Insurance	Statutory	\$2,000 SIR per occurrence
Property Insurance (GWP)	\$250,000	Various deductibles up to \$250
Property Insurance (Non-GWP)	\$400,000	\$25 deductible all locations
Aviation Insurance (Police Helicopter)	\$50,000	Various deductibles
Employee Dishonesty – Crime Policy	\$1,000	\$10

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

Claims payable liability has been established in these funds based on estimates of incurred but not reported and litigated claims. Management believes that provisions for claims at June 30, 2011 are adequate to cover the cost of claims incurred to date. However, such liabilities are, by necessity, based upon estimates and there can be no assurance that the ultimate cost will not exceed such estimates. A reconciliation of the changes in the aggregate liabilities for claims for the current fiscal and the prior fiscal year are as follows:

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

## *7. Net Assets*

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

Excess capital surcharge revenue designated to retrofit the City's Grayson Power Plant as mandated by Air Quality Management for fiscal years 2011 and 2010 was \$5,711 and \$5,741, respectively.

## *8. Jointly Governed Organizations*

The City has entered into twelve "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 58% of its total energy requirements during fiscal year 2010-2011. 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 megawatts to 1,800 megawatts.

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 8 megawatts or 0.501% beginning March 24, 2004. The total City's obligation from Intermountain Power Project (IPP) is 38 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 eleven projects with SCPPA.

The first of the SCPPA projects is a 3,810 megawatt nuclear fuel generation plant in Arizona. The Palo Verde (PV) 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, 2011, Glendale's share is 4.400% (PV).

A second project financed through SCPPA is the Southern Transmission System (STS) 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, 2011, Glendale's share is 2.2740% (STS).

A third project financed through SCPPA is the acquisition of 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, 2011, Glendale's share is 9.8047% (SJ).

A fourth project financed through SCPPA is Mead-Adelanto Project (MA). The project consists of a 202-mile 500 kV AC transmission line extending between the Adelanto substation in Southern California and the Marketplace substation in Nevada, and the development of the Marketplace Substation at the southern Nevada terminus 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, 2011, Glendale's share is 11.0430% (MA).

A fifth project financed through SCPPA is Mead-Phoenix Project (MP). 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, 2011, Glendale's share is 14.8000% (MP).

A sixth project financed through SCPPA is the Magnolia Power Project (MPP) 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, 2011, Glendale's share is 16.5289% (MPP).

A seventh project financed through SCPPA is Natural Gas Prepaid Project (NGPP). In August 2007, the City entered into a 30-year Prepaid Natural Gas Agreement with the SCPPA. The agreement will provide a secure and long-term supply of natural gas up to 5,000 MMBtu per day at a discounted price below spot market price. The delivery of natural gas started in July 2008. As of June 30, 2011, Glendale's share is 23.0000% (NGPP)

An eighth project financed through SCPPA is the Linden Wind Energy Project (LIN) located in Klickitat County in the state of Washington. The facility is a 50 MW capacity wind farm. The 25 year purchase power agreement with SCPPA is for purchase of 10% (approximately 5 MW) of the capacity of the project. The city has a three year agreement to sell its output entitlement share to Los Angeles Water and Power (LADWP) and LADWP is obligated to pay Glendale's share of the monthly costs for such output entitlement share under the power purchase agreement. As of June 30, 2011, Glendale's share is 10.0000% (LIN).

A ninth project financed through SCPPA is the Tieton Hydropower Project (THP) located near the town of Tieton in Yakima County, Washington. The Project has a maximum capacity of approximately 20 megawatts. The Project includes a 115 kV transmission line, approximately 22-miles long, connecting the generating station with PacificCorp's Tieton Substation. The City is obligated for approximately 6.8 megawatts or 50% of the project's output. As of June 30, 2011, Glendale's share is 50.0000 % (THP).

A tenth project financed through SCPPA is Windy Point/Windy Flats project (WP) located in Klickitat County in the state of Washington. The Project has a maximum capacity of approximately 262.2 megawatts. The City Council approved a 20 year purchase power agreement with SCPPA for the purchase of approximately 20 megawatts or 7.63% of the renewable energy output from the Project. The city has a three year agreement to sell its output entitlement share to Los Angeles Water and Power (LADWP) and LADWP is obligated to pay Glendale's share of the monthly costs for such output entitlement share under the power purchase agreement. As of June 30, 2011, Glendale's share is 7.6300 % (WP).

An eleven project financed through SCPPA is the Milford II Wind Project (MIL2) located near Beaver and Millard Counties, Utah. The Project has a capacity of approximately 102 megawatts. The City Council approved 20 year purchase power agreement with SCPPA for the purchase of approximately 5 megawatts or 4.902% of the Project's output. The city has a three year agreement to sell its output entitlement share to Los Angeles Water and Power (LADWP) and LADWP is obligated to pay Glendale's share of the monthly costs for such output entitlement share under the power purchase agreement. As of June 30, 2011, Glendale's share is 4.9020% (MIL2).

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

<u>Project</u>	<u>Contract Expiration Date</u>	<u>Glendale's Share</u>
Intermountain Power Project (IPP)	2027	1.9679%
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	17.2536%
Natural Gas Prepaid Project (NGPP)	2038	23.0000%
Linden Wind Energy Project (LIN)	2030	10.0000%
Tieton Hydropower Project (THP)	2029	50.0000%
Windy Point/Windy Flats Project (WP)	2030	7.6300%
Milford II Wind Project (MIL2)	2031	4.9020%

A summary of the City's "Take or Pay" contracts and related projects and its contingent liability at June 30, 2011 is as follows:

	IPP	SJ	PV	STS	MA	MP	MPP	NGPP	LIN	WP	THP	MIL2*	TOTAL
2012	\$ 5,706	1,845	545	2,113	2,525	1,176	3,808	5,020	929	3,132	1,680	536	29,015
2013	4,526	1,845	547	1,905	2,529	1,177	3,811	4,849	929	3,132	1,679	630	27,559
2014	4,746	3,171	551	1,910	2,506	985	3,811	4,628	929	3,131	1,680	631	28,679
2015	4,280	1,647	554	1,916	2,504	1,010	3,812	4,538	929	3,132	1,679	630	26,631
2016	4,748	1,646	556	1,883	2,373	951	3,813	4,539	930	3,132	1,679	631	26,881
2017-2021	22,872	4,893	560	9,485	9,511	3,810	14,960	23,706	4,647	15,659	8,401	3,153	121,657
2022-2026	5,828	-	-	5,923	-	-	16,027	27,894	4,647	15,658	9,209	3,153	88,339
2027-2031	-	-	-	820	-	-	16,748	32,814	4,647	12,527	8,339	3,153	79,048
2032-2036	-	-	-	-	-	-	25,263	23,057	3,717	-	8,338	-	60,375
2037-2041	-	-	-	-	-	-	-	9,325	-	-	8,353	-	17,678
2042-2046	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 52,706</b>	<b>15,046</b>	<b>3,313</b>	<b>25,954</b>	<b>21,948</b>	<b>9,108</b>	<b>92,054</b>	<b>140,369</b>	<b>22,306</b>	<b>59,502</b>	<b>51,036</b>	<b>12,516</b>	<b>505,862</b>

\* Bonds issued in FY 2011-12

In addition to debt service, the City's entitlement requires the payment for fuel costs, operation 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 2010-11 and budgets for fiscal year 2011-12 are as follows:

Fiscal Year	IPP	SJ	PV	STS	MA	MP	MPP	NGPP	LIN	WP	THP	MIL2	Total
2011	\$ 6,995	6,694	2,418	550	262	174	3,662	25	-	-	-	-	20,780
2012	8,806	7,455	2,316	599	245	172	4,439	26	1,192	3,067	834	1,331	30,482

## 9. *Contingent Liabilities and Commitments*

### **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 Power Plant 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 megawatts to 2,079 megawatts.

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 megawatts 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 contract was bought out in January 2010 by the City of Glendale and the entire landfill gas delivery facility is currently being operated by the City.

The City's electric operation executed two power sale and exchange agreements in 1988. The first agreement is with Bonneville Power Administration (BPA). The 20-year agreement with

BPA expired in April 2008. The second agreement is a 25-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 in California. The City began taking delivery of the energy on September 1, 2003.

In June 2005, the City entered into a 25-year power sales agreement with SCPPA for the Ormat Geothermal Energy Project for purchase of up to 3 megawatts of the project electric energy. The project began commercial operation in January 2006.

In October 2006, the City entered into a 16-year contract with PPM Energy, Inc. for the purchase of 10 megawatts of capacity from wind-powered resources in Wyoming. The City began taking delivery of the energy under WSPP master agreement from July 1, 2006 through September 30, 2006. The contract term started on October 1, 2006.

In November 2007, City Council approved a purchase power agreement with the SCPPA for the purchase of 20 megawatts of renewable energy from Pebble Springs Wind Generation Facility for a term of 18-year. The project began commercial operation in January 2009.

In October 2009, the City Council approved a purchase power agreement with SCPPA for the purchase of 50%, approximately 6.8 megawatts of renewable energy from a small hydroelectric resource near the town of Tieton in Yakima County, Washington. The Tieton Hydropower Project (THP) has a maximum capacity of approximately 20 megawatts. The Project includes a 115 kV transmission line, approximately 22-miles long, connecting the generating station with PacificCorp's Tieton Substation. Delivery of energy from the project to the City started in May 2009.

## **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.