

G L E N D A L E

Water & Power

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Director's Message



The value of the Glendale *Water & Power* (GWP) municipal utility to the citizens and business community of Glendale was brought home when, in June 2000, the majority of California's electric customers were faced with escalating electricity prices, as well as possible electrical blackouts to their homes and businesses. By contrast, the City of Glendale had adequate electrical resources to ensure a reliable supply of electricity, while delivering a three percent rate reduction to all of its customers effective July 1, 2000. In addition, the water business had received a permit to begin pumping groundwater from the San Fernando groundwater basin,

which would enable a significant reduction in the cost of water as well as an increase in water reliability for all Glendale customers.

In the past year, GWP focused on the continued reduction of costs to be competitive and the commitment of all GWP employees to provide excellent customer service. The plan initiated in 1995 to meet the challenge of deregulation and make the electric business competitive was successful, and resulted in the projected payoff of the stranded investments of our electricity supply by mid-2002. Recent events indicate that electric market prices for the rest of the state may be far higher than those projected by the California Energy Commission. In this case, Glendale's electricity rates may be even more competitive than originally expected.

The challenge facing GWP's electric business this next year will be to keep its competitive position while assuring the continued reliability of its electrical supply. To do this GWP will need to explore alternatives to reinforce the electrical supply at Glendale's Grayson Power Plant. Possibilities include developing additional generation or replacing or repowering existing generation through strategic partnerships. Other alternatives include joint power authorities or GWP financing the improvements on its own. The challenges facing GWP's water business will focus on maintaining a healthy infrastructure, keeping costs competitive and assuring high water quality that meets or exceeds all federal and state requirements.

To reflect on a successful year, both businesses finished on a very healthy financial note with sound net incomes. The efforts of all GWP employees to improve customer service, as well as maintain a very competitive position in both the electric and water businesses, will continue in the upcoming year.



Ignacio R. Troncoso

Director

Glendale *Water & Power*

G L E N D A L E *Water & Power*

Fiscal Highlights

Year ended June 30

	Water		Electric	
	2000	1999	2000	1999
Sales	Gallons in Billions		Kilowatt Hours in Millions	
	9.9	9.5	1,086.1	1,091.4
	Dollars in Millions		Dollars in Millions	
Revenue ⁽¹⁾	28.9	28.1	135.6	141.5
Operating Cost ⁽²⁾	22.6	23.0	112.1	119.8
Net Income	3.4	2.5	12.5	10.8
Transfers to the City of Glendale ⁽³⁾	2.9	2.6	11.0	10.9

(1) Includes other income and expenses, net

(2) Includes depreciation expenses

(3) Included as a reduction to Net Income

Glendale *Water & Power* is a community-owned utility that, with the support of its Board of Commissioners, the City Council and the City Manager, has supplied the Glendale community with reliable, high-quality water and electricity for the last 90 years. Not only has GWP provided these services at a competitive cost to the customer, we have earned an elite ranking as one of 25 U. S. cities with a “Class 1” water rating. This highest possible designation is awarded to a water utility that has earned superior ratings for both fire service and water supply.

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

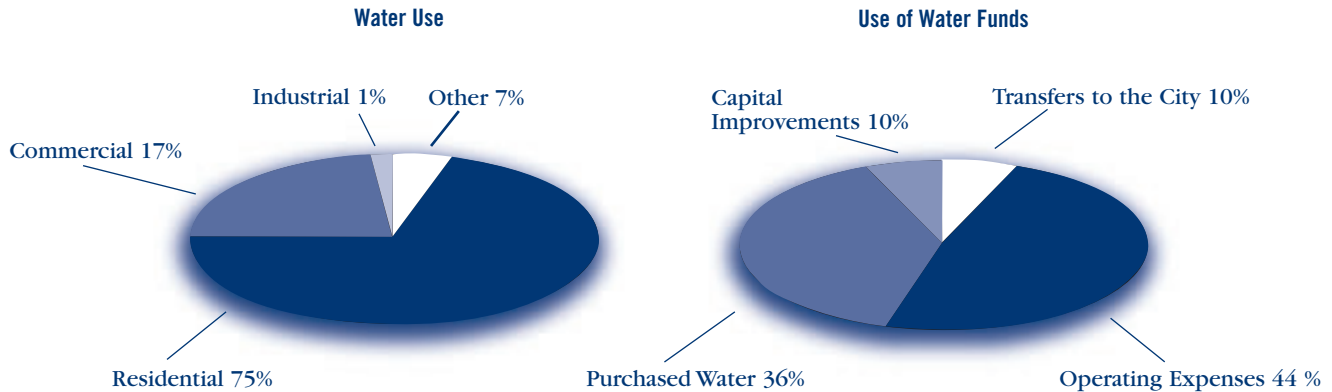
GWP continues to provide Glendale residents and businesses with a substantial

return from their public utility. In 1999-2000, we once again contributed more than \$13.5 million to the City's general fund. This re-investment in the community is a significant factor in helping the City to provide exceptional vital services such as police and fire protection, parks and recreation facilities, libraries and other important community services.

Our employees have created a conscientious organizational culture, one that pays attention to details, plans diligently for the future and creates value for the Glendale community. This commitment has placed GWP on a solid financial footing. The electric utility sold a \$37 million bond issue in FY 2000 with an AAA rating. We will continually work to maintain our financial health while improving the quality and reliability of our products and offering them to customers at competitive rates.

GLENDALE *Water & Power*

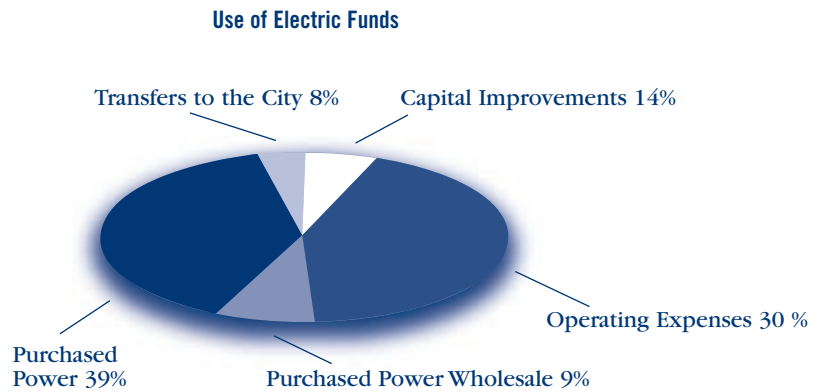
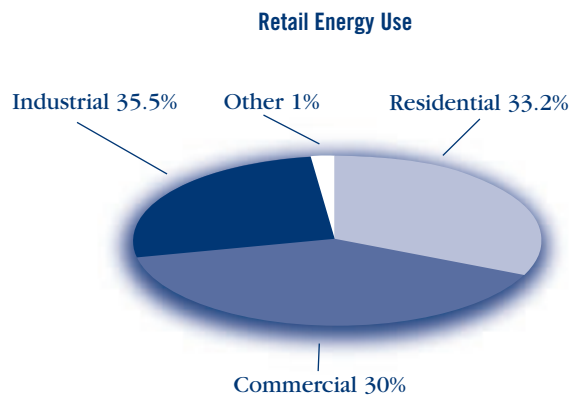
Facts in Brief



Water

Year ended June 30

	2000	1999
Number of Customers (average)	32,450	32,438
Use of Water		
Average Glendale population served	200,000	192,000
Average daily use per capita (gallons)	135	136
Water sales for fiscal year (billions of gallons)	9.9	9.5
Average daily demand (millions of gallons)	27	26
Water Supply (billions of gallons)		
Groundwater	1.0	1.0
Recycled water	0.6	0.5
Metropolitan Water District (California and Colorado River Aqueducts)	9.4	8.7
Gross supply	11.0	10.2

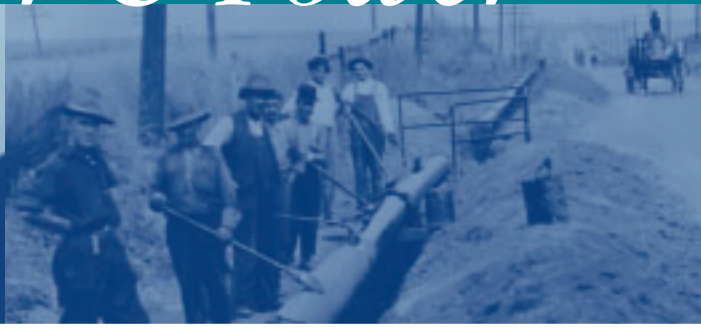


Electricity

Year ended June 30

	2000	1999
Number of Customers (average)		
Residential	73,539	70,411
Commercial	12,692	12,376
Industrial	287	274
Others	16	4
Total customers of all classes	86,534	83,065
Energy Use		
Sales to ultimate customers (kilowatt hours)	1,086,111,000	1,091,411,783
Sales to other utilities (kilowatt hours)	80,181,000	575,357,000
Average annual kilowatt hours per residential customer	4,866	4,329
Net local generation capacity (kilowatts)	239,000	239,000

GLENDALE *Water & Power*



1906

Mr. L.C. Brand offered to sell his Light and Power Company to the newly incorporated City of Glendale. Glendale purchased his company for \$23,000 in 1909. From that moment on, Glendale was in the utility business.

1909

Glendale's water pumping station and well tower at Glendale Avenue and Glenoaks.

1914

Workers laid pipeline along San Fernando Road and Glendale began serving both electricity and water to its customers. The department responsible for these services became the Public Service Department.

A Tradition of Community Service (History)

The 90-year history of Glendale *Water & Power* has been written with vision, growth and community partnership.

This community-owned utility began with 195 electric customers in 1909, and by the year 2000 had grown to 86,000 electric and 35,000 water customers. It has progressed from buying all its power from an outside source to generating enough power for the entire city with its own power plant. Pumping of water from local wells has been replaced by buying water from as far away as 500 miles through a vast system of interconnected pipelines.

From the early days as the Glendale Electric Light Department, through the years as the Public Service Department and now as Glendale *Water & Power*,



1914

The progressive Public Service Department began installing underground utilities. Pictured here is Broadway Avenue before the improvements were made. By the end of 1914, attractive electric street lights had been installed in place of the electric lines.



1918

A "modern" water pumping station on San Fernando Road in the growing City of Glendale.



1920

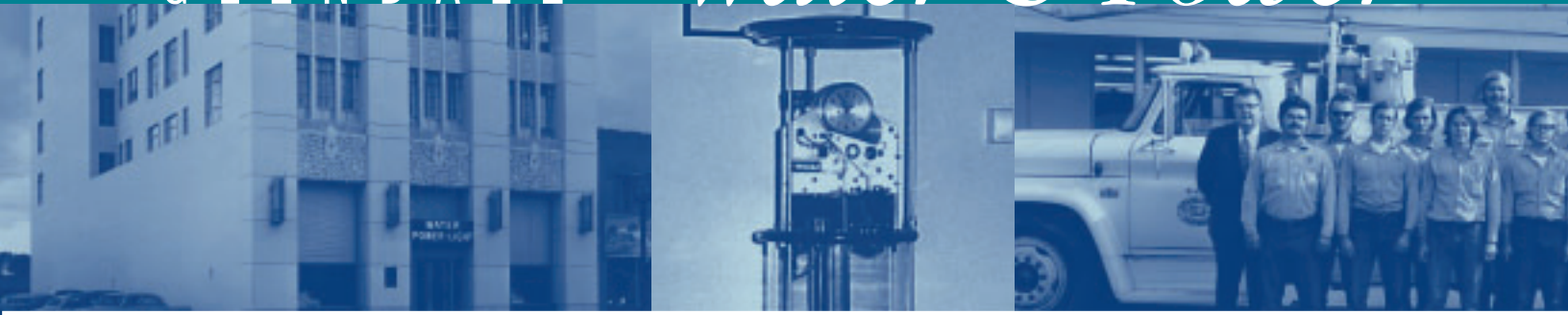
As the City of Glendale grew in size and population with the annexation of surrounding areas, the Public Service Department needed to lay more water system pipes to serve its customers, as shown here.

the utility has had the foresight to build infrastructure and reliable services that would meet the demands of its customer-owners—always with an eye to future needs. And by forging partnerships with its business customers, GWP has contributed to Glendale's prosperity, which makes the City a great place to live and work.

With the onset of deregulation, the electric utility industry is changing. As we go forward, the vision, growth and community partnership that have served the community so well for the past 90 years will continue to drive the future of Glendale *Water & Power*.



GLENDALE *Water & Power*



1929

“Glendale Builds a Six Story Office Building” was the headline in the local newspaper. Originally called the Water, Power and Light Building, this facility later became known as the Public Service Building. It survived 65 years until the City constructed the new Perkins Building next to it and leveled the old building.

1940

When Glendale Public Service Department began generating its own electricity, it purchased this master clock for \$2,214. For 36 years, the clock kept perfect time, regulating the generating plant and all electrical clocks in the city. Although the clock still worked perfectly, “progress” caught up with it in 1976 when the Department retired it in favor of an electronic clock.

1971

Glendale Public Service Department graduates its first Power Line Apprentice Class.

1999-2000:

A Crucial Year (Present)

This year witnessed an unprecedented turning point for the utility industry, one that would forever change the scope and delivery of water and energy services. Amid this upheaval, Glendale *Water & Power* remained a calm in the storm: providing reliable service when surrounding areas were facing shortages, reaching close to customers when communication was most vital, continuing its financial contribution to the city and setting aside funds to pay off stranded investments when other utilities faced financial hardship.

This illustrated once again GWP’s strong commitment to public safety and trusted service to the community. Reliable delivery of vital services like water and electricity contribute to Glendale’s well-being, while the transfer to the City’s general fund pays for other crucial services, including police and fire response along with parks and libraries. GWP’s general fund contribution is one of many ways we channel our resources back to the City to benefit residents and businesses.



1976

Public Service commissioners and administrators tour the site for a \$20 million expansion of the Grayson Power Plant. This expansion provided an increase of 50 percent in the generating capacity of the plant with a 25 percent improvement in efficiency.

2000

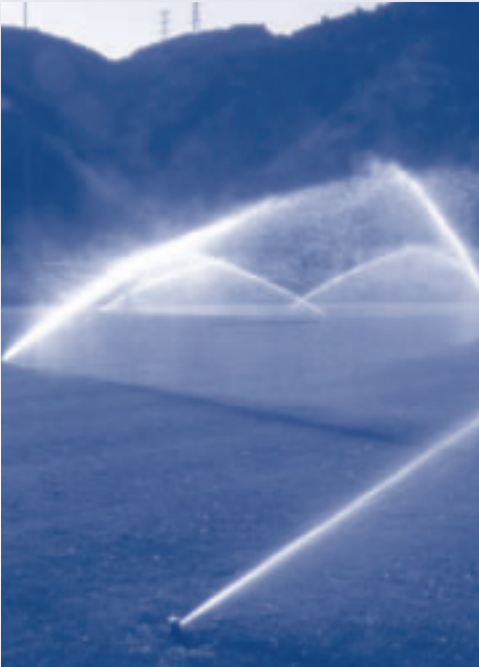
Construction of the Glendale Groundwater Treatment Plant was completed. It will eventually result in a 10 percent reduction in water rates for Glendale Water & Power customers.

GWP's dedicated employees and management brought innovation and improvement to every facet of the water, electricity and customer service operations during FY 1999-2000.

Water

Water sales were at a record level during this fiscal year. Committed to maintaining the highest possible water quality for the City's residents and businesses, GWP continued its vigilant monitoring and testing to meet all the increasingly stringent federal and state standards for water quality. In addition, GWP completed installation of additional piping in large underground reservoirs to improve water circulation and freshness. GWP employees regularly cleaned tanks and reservoirs and flushed water mains as part of the ongoing operation and maintenance program, and they were able to more capably monitor chlorine levels in the distribution system with new automated chlorine analysis equipment.

1999-2000: A Crucial Year (continued)



In an unusual example of a multi-million dollar project that drives down costs to customers, GWP finalized construction of its new groundwater treatment plant and eight wells to produce and treat groundwater for distribution. When it becomes fully operational, this project will produce nearly 25 percent of the City's water needs. We will pump the treated water from the new Flower Street facility to a blending facility at the Grandview Pumping Plant, where it is combined with water from Metropolitan Water District (MWD) for delivery to our customers. Because the project allows us to buy less water from MWD (the largest source of the City's water supply), water costs are decreasing, allowing us to pass

the savings along to customers. This facility should be delivering water to the city in early 2001.

To reduce outside water purchases and benefit the environment, GWP's award-winning recycled water program was completed two years ago and continues to add new users and achieve national acclaim. This system delivers highly treated wastewater for irrigation to parks, golf courses, schools, cemeteries and street median areas throughout the city.

To plan for the City's future water needs, GWP initiated a major financial analysis of the city's water infrastructure. Designed to identify whether the City has adequate funds to manage the aging Glendale water system, the study is looking at GWP's financial resources in view of its water system operation, maintenance and capital improvement programs. In the meantime, we continued our current infrastructure programs by installing new water mains, rehabilitating steel tanks and replacing electrical components in some of the old pumping stations.

GWP worked closely with MWD on their strategic plan to modify their water rate structure. This new plan includes provisions to unbundle water services, introduce a free market environment to the water utility business and create wheeling operations. We will monitor these developments closely to make sure that our customers will continue to receive the most reliable water service at the lowest possible rates.



Electricity

During 1999-2000, GWP administrators and City leaders presented the deregulation issue to the City's business owners and residents at a series of meetings and gathered their feedback. The Glendale City Council and Glendale *Water & Power* Commission

then met in a joint study session to discuss issues and concerns about deregulation of electric service in Glendale. After weighing the various cost and benefit issues, the Council decided to vote against open access that year and to revisit the issue annually in the future. It became obvious by the end of the fiscal year that they had chosen wisely, as the State's electricity markets entered a deepening crisis.

Energy Supply

GWP carried through on its commitment to supply reliable, competitively priced electricity in a variety of ways. We continued our stranded investment paydown and thereby improved our financial condition, a crucial factor in competitive energy markets. In addition, we began negotiations to develop a strategic alliance with a power marketing company to sell our excess power generation on the open market. By becoming a scheduling coordinator with the state's Independent System Operator, GWP was positioned for real time access to the open energy markets. Finally, Glendale's own Grayson Power Plant continued to run in top operating condition, providing a hedge against fluctuating market prices and availability.

1999-2000: A Crucial Year (continued)



All these activities were part of a strategy to ensure adequate supplies of electricity while still maintaining GWP's contribution to the City's general fund.

Energy Services

Energy usage increased three percent over last fiscal year, which we attribute to the addition of more computer and air conditioning load throughout the city.

GWP significantly improved electricity reliability in 1999-2000 by installing a third large transformer at the Air Way Receiving Station to ensure continual electrical capacity for the city. In addition, the contract tree-trimming program all but eliminated outages due to trees. Reliability continued to improve as we rebuilt electrical circuits for 12kV operation rather than 4 kV. This process entails replacing existing cables and transformers and installing all new electrical connections, so making this voltage conversion reduces electricity losses, provides better voltage control and improves operating efficiency.

To better serve electric customers, we revamped our engineering processes to provide one point of customer contact and restructured and simplified our electric rate schedule.

Major electrical service projects completed during 1999-2000 included the new Fashion Center on Glendale Avenue, the ABC 7 News Headquarters near DreamWorks and the 400 North Brand Boulevard Complex.



Customer Service

The high-energy Customer Services staff increased community awareness of Glendale *Water & Power* operations and they brought issues important to the community back to the utility. They also listened to customer opinions and delivered Public Benefit programs to all community sectors. In addition, they benchmarked their performance with other utilities throughout the nation and completed

implementation of new Customer Information and Customer Management Systems.

How GWP Increased Its Community Awareness

GWP developed a multi-media communication campaign in three languages that informed Glendale customers about deregulation issues. More than a dozen new programs were developed to assist Glendale residents, business and schools. The programs included a low-income weatherization program, energy retrofits to nine Glendale schools, increased benefits to the Senior Citizen Low-Income program and a medical equipment discount program. GWP also offered a shade tree program, conducted energy audits of City buildings, and initiated a Business Energy Solutions program and an on peak-off peak pumping program as part of the Public Benefits package. Public education and community outreach rounded out this effort.

Customer Service employees also participated in many City events, bringing GWP closer to the community by reaching more than 90,000 Glendale residents. Highlights include electric caravan appearances at parades, speaking engagements at school career days, booths at various civic festivals and teaming with the Glendale Police Department's annual "COPPS for Kids" party.

1999-2000: A Crucial Year (continued)



We Listened to Customer Opinions

Using focus groups and customer telephone surveys, GWP sought ideas and comments from the community on ways to improve service. The community was overwhelmingly generous with their time and valuable ideas, some of which GWP has already begun to implement. In addition, customers with outdoor water leaks asked for financial assistance on their water bill and GWP

responded by working with Glendale Public Works to roll out a Water Leak Assistance Program

We Benchmarked with Other Utilities

GWP is committed to providing customer service that is competitive in cost and quality. In 1998, GWP participated in a nationwide customer service benchmarking survey conducted by utility consultants Theodore Barry and Associates. We spent much of 1999-2000 analyzing the results, which showed that GWP was already doing well in many areas, but we will continually look for ways to improve cost and customer service.

This year, GWP outsourced mail-in payment processing to reduce costs and improve service. We also upgraded our Itron meter reading devices so that the new, more sophisticated meters could be read electronically.



We Successfully Implemented New Systems

Installation of the Harris Customer Information System was completed this year to meet Year 2000 requirements. The hard work and dedication of many employees made the transition from 1999 to 2000 transparent for Glendale customers. These employees also developed a new Customer Management System to track profiles and key information about GWP's business customers. This

information has proven to be a valuable tool in helping Customer Service representatives provide high-quality service to the business community.

New systems... new programs... new horizons... new water and energy markets... new relationships with customers... GWP saw many innovations in 1999-2000, but our core objective never wavered. Through it all, we delivered reliable water and electric service at a competitive price and helped support the community we serve.

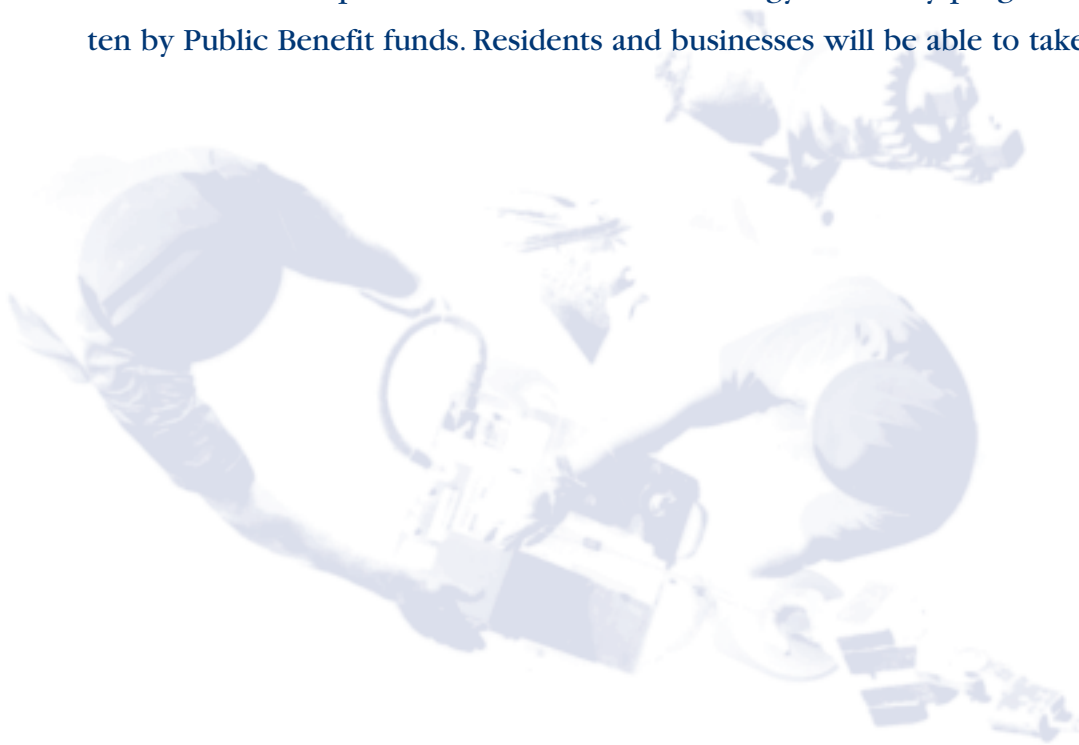
Vision (Future)



The 90-year history of GWP has seen us continually supplying vital water and electricity services to our growing community. This past year we built up and reinforced two kinds of vital infrastructure: our relationships with our customers and the physical system that keeps water and power flowing throughout the City.

The future of electricity and water supplies in the state looms large on the horizon: electrical demand is increasing as population grows and industry expands, and water allotments from other states are being reclaimed. We expect that supplies on the state's power grid may soon be stretched thin and the price of purchased water may increase.

To help ensure adequate supplies of vital water and power for the City, GWP will soon deliver an expanded suite of water and energy efficiency programs underwritten by Public Benefit funds. Residents and businesses will be able to take advantage





of the information and equipment rebates these programs will offer.

We'll also continue to get to know our customers and tune into their needs, making sure they can rely on GWP to listen and to provide reliable water and energy services. And we'll continually

work to negotiate the most advantageous contracts for purchased water and power—and pass the savings along to our customers.

Glendale Water & Power: A proud tradition of working with the community, working for the future.

Water Business Operating Statistics

Fiscal Year Ended June 30, 2000

Water Distribution System

Pumping plants	28 stations
Total water storage capacity (30 reservoirs & tanks)	185 million gallons
Chlorination facilities	13
Mains	378 miles
Gate valves	6,531
Meters	32,450
Firelines	853
Fire hydrants	2,843
Pressure zones	7 zones
Wells:	
San Fernando Basin	8
Verdugo Basin	5 plus pickup facility

Water Treatment Plants

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

Recycled Water Distribution System

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

Water Sources (AF)		% of Total Supply
Metropolitan Water District	28,954	86
Local ground water	3,188	9
Recycled water	1,783	5
Total supply	<u>33,925</u>	

Customers & Sales	2000	% of Total	1999	% of Total
Number of customers:				
Residential	28,556	88	28,479	88
Commercial	3,245	10	2,969	9
Industrial	353	1	397	1
Others	296	1	593	2
Total	32,450		32,438	
Sales in hundred cubic feet:				
Residential	9,878,100	75	9,545,162	75
Commercial	2,239,036	17	2,160,050	17
Industrial	197,562	1	195,704	1
Others (including recycled)	856,102	7	853,268	7
Total	13,170,800		12,754,184	
Revenues from sales of water (\$):				
Residential	21,089,188	75	19,355,485	75
Commercial	4,780,216	17	4,380,105	17
Industrial	421,784	1	396,845	1
Others (including recycled)	1,827,730	7	1,730,240	7
Total	28,118,918		25,862,675	

Electrical Business Operating Statistics

Fiscal Year Ended June 30, 2000

Electric Distribution System

Meters	83,270	Padmount transformers	54
Receiving stations	1	Underground transformers	2,670
Generation/switching stations	1	Overhead transformers	6,500
Distribution stations	13	Underground lines (miles)	317
Poles	15,000	Overhead lines (miles)	208
Underground vaults	2,000	Streetlights	11,094

	Capacity Available (MW)	Actual Energy (MWh)	Percent of Total Energy
Power Supply Resources			
Glendale-owned generating facilities:			
Natural gas units (Grayson)	239	234,000	15
Joint power agency/remote ownership:			
(IPA)	34	295,000	19
PVNGS (SCPPA)	9.9	81,000	5
San Juan Unit 3 (SCPPA)	19	151,000	10
Hoover	20	78,000	5
Purchased power:			
BPA contract	20	105,000	7
Portland General	50	142,000	9
Market purchases	—	<u>468,000</u>	30
Total	394	1,554,000	100
Losses and retail sales	—	1,197,000	77

Power Generated & Purchased (MWh)	2000	% of Total	1999	% of Total
Generated	234,009	85	400,888	78
Purchased	<u>1,320,335</u>	15	<u>1,424,009</u>	22
Total supply	1,554,341		1,824,897	
Sales:				
Net retail system load	1,086,111		1,091,412	
Net wholesale system load	279,166		575,357	
System peak demand (MW)	287		315	
Customers, Sales & Demand				
Number of customers:				
Residential	73,539	85	70,411	85
Commercial	12,692	15	12,376	15
Industrial	287	--	274	--
Other (Government)	<u>16</u>	--	<u>4</u>	--
Total	86,534		83,065	
Megawatt-hour sales:				
Residential	357,819	26	375,091	22
Commercial	322,481	24	338,050	20
Industrial	396,611	29	415,695	24
Streetlighting	<u>9,200</u>	1	<u>9,645</u>	1
Total retail energy sales	1,086,111		1,138,480	
Wholesale sales to other utilities	<u>279,166</u>	20	<u>575,357</u>	33
Total energy sales	1,365,277		1,713,837	
Revenues from sales of energy (\$):				
Residential	41,384,454	32	41,715,371	31
Commercial	38,029,056	29	38,333,141	28
Industrial	34,567,926	27	34,844,336	26
Streetlighting	1,177,156	1	1,186,569	1
Wholesale sales to other- utilities	<u>13,839,514</u>	11	<u>19,086,700</u>	14
Total energy sales	128,998,106		135,166,117	

GLENDALE *Water & Power*



GLENDALE

Water & Power

1999-2000

**Financial
Highlights**



Independent Auditor's Report



The Honorable City Council
of the City of Glendale, California

We have audited the accompanying balance sheet of the Electric and Water Enterprise Funds of the City of Glendale, California (the City) as of June 30, 2000, and the related statement of revenues, expenses and changes in retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statement of the Electric and Water Enterprise Funds of the City of Glendale, California for the year ended June 30, 1999 were audited by other auditors whose report, dated November 11, 1999, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. 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 opinion.

As discussed in Note 1, the financial statement present only the Electric and water Enterprise Funds and are not intended to present fairly the financial position of the City and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric and Water Enterprise Funds of the City as June 30, 2000, and the results of operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

McGladrey & Pullen, LLP

G L E N D A L E *Water & Power*

Electric Fund - Balance Sheet

June 30, 2000 and 1999

Assets	2000	1999
Current assets:		
Cash and invested cash	\$90,182,780	72,276,118
Cash with fiscal agents	31,730,197	3,564
Imprest cash	2,800	2,800
Interest receivable	1,224,665	698,872
Due from other fund	—	123,120
Accounts receivable, net	8,785,721	15,719,478
Unbilled receivable	7,871,817	6,460,000
Inventories	3,886,024	2,167,457
Prepaid items	1,450,265	783,564
Total current assets	145,134,269	98,234,973
Fixed assets:		
Land	1,847,259	1,847,259
Buildings and improvements	47,309,595	47,259,179
Machinery and equipment	232,566,506	227,035,489
Less allowance for accumulated depreciation	(152,484,484)	(143,951,629)
Construction in progress	16,395,971	1,691,903
Total fixed assets	145,634,847	133,882,201
Total assets	290,769,116	232,117,174

Liabilities and Fund Equity	2000	1999
Current liabilities:		
Accounts payable	11,799,572	4,958,820
Contracts - retained amount due	611,826	178,670
Deposits	1,902,954	2,719,146
Other current liabilities	238	—
Accrued wages and withholdings	789,219	794,106
Compensated absence	1,256,063	866,590
Deferred revenue	—	112,634
Bonds and interest payable	904,706	—
Total current liabilities	<u>17,264,578</u>	<u>9,629,966</u>
Long term debt:		
Bonds payable, net of current portion	<u>37,000,000</u>	—
Total long term debt	<u>37,000,000</u>	—
Total liabilities	<u>54,264,578</u>	<u>9,629,966</u>
Fund equity:		
Contributed capital	28,409,392	26,900,430
Retained earnings:		
Reserved for capital	13,771,996	16,766,013
Reserved for deregulation	19,756,454	18,313,802
Unreserved	<u>174,566,696</u>	<u>160,506,963</u>
Total retained earnings	208,095,146	195,586,778
Total fund equity	<u>236,504,538</u>	<u>222,487,208</u>
Total liabilities and fund equity	<u>\$ 290,769,116</u>	<u>232,117,174</u>

G L E N D A L E *Water & Power*

Water Fund - Balance Sheet

June 30, 2000 and 1999

Assets	2000	1999
Current assets:		
Cash and invested cash	1,103,983	—
Imprest cash	1,000	1,000
Interest receivable	30,842	1,677
Accounts receivable, net	2,177,856	1,677,331
Unbilled receivable	2,387,997	1,868,000
Inventories	350,150	221,767
Prepaid items	19,584	19,294
Total current assets	6,071,412	3,789,069
Fixed assets:		
Land	622,568	622,568
Buildings and improvements	59,170,802	58,022,160
Machinery and equipment	35,447,574	34,877,223
Less allowance for accumulated depreciation	(34,614,294)	(32,693,777)
Construction in progress	1,924,599	923,354
Total fixed assets	62,551,249	61,751,528
Total assets	68,622,661	65,540,597
Liabilities and Fund Equity		
Current liabilities:		
Accounts payable	3,177,475	3,573,333
Due to other fund	—	123,120
Contracts - retained amount due	68,250	162,328
Accrued wages and withholdings	95,208	89,810
Compensated absence	314,016	696,875
Deposit	343,765	
Total current liabilities	3,998,714	4,645,466
Fund equity:		
Contributed capital	21,408,198	21,122,259
Retained earnings - unreserved	43,215,749	39,772,872
Total fund equity	64,623,947	60,895,131
Total liabilities and fund equity	\$ 68,622,661	65,540,597

Electric Fund - Statement of Cash Flows

Years ended June 30, 2000 and 1999

	2000	1999
Cash flows from operating activities:		
Operating income (loss)	\$ 16,906,695	15,379,285
Depreciation	9,788,188	9,380,587
Other nonoperating revenue	1,184,007	1,728,538
Other nonoperating expense	—	(8,438)
Changes in assets and liabilities:		
Due from other fund	123,120	2,684,599
Accounts receivable	6,933,757	(4,537,420)
Unbilled receivables	(1,411,817)	(139,000)
Inventories	(1,718,567)	591,162
Prepaid expenses	(666,701)	214,402
Accounts payable	6,840,752	1,089,240
Contracts-retained amount due	433,156	52,038
Deposits	(816,192)	299,757
Other current liabilities	238	(477,966)
Accrued wages and withholdings	(4,887)	218,993
Compensated absence	389,473	(187,728)
Deferred revenue	(112,634)	(17,177)
Cash provided by (used in) operating activities	37,868,588	26,270,872
Cash flows from noncapital financing activities:		
Operating transfers out to general fund	(10,845,000)	(10,845,000)
Operating transfers out to capital projects fund	(150,000)	(75,000)
Operating grant received	—	1,217,373
Net cash flow provided by (used in) noncapital financing activities	(10,995,000)	(9,702,627)
Cash flows from capital and related financing activities:		
Proceeds from sale of revenue bonds	37,000,000	—
Contributions in aid of construction	1,508,962	1,093,890
Acquisition of property, plant, and equipment	(21,540,834)	(8,169,730)
Interest paid	—	(85,108)
Principal payments-bonds payable	904,706	(1,800,000)
Net cash (used in) capital and related financing activities	17,872,834	(8,960,948)
Cash provided by investing activities - interest received	4,886,873	3,629,021
Net increase (decrease) in cash and cash equivalents	49,633,295	11,236,318
Cash and cash equivalents at beginning of year	72,282,482	61,046,164
Cash and cash equivalents at end of year	\$ 121,915,777	72,282,482

G L E N D A L E *Water & Power*

Water Fund - Statement of Cash Flows

Years ended June 30, 2000 and 1999

	2000	1999
Cash flows from operating activities:		
Operating income (loss)	\$ 5,478,864	2,903,537
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	2,162,727	2,016,197
Other nonoperating revenue	749,723	2,170,189
Other nonoperating expense	—	(3,012)
Changes in assets and liabilities:		
Accounts receivable	(500,525)	228,215
Unbilled receivable	(519,997)	(132,000)
Inventories	(128,383)	74,436
Prepaid items	(290)	—
Accounts payable	(395,858)	1,559,818
Due to other fund	(123,120)	(2,684,599)
Contracts-retained amount due	(94,078)	131,628
Other current liabilities	—	(1,320,276)
Accrued wages and withholdings	5,398	(5,111)
Compensated absence	(382,859)	287,566
Deposits	343,765	—
Cash provided by (used in) operating activities	<u>6,595,367</u>	<u>5,226,588</u>
Cash flows from noncapital financing activities:		
Operating transfers out to general fund	(2,863,235)	(2,614,671)
Operating grant received	9,312	29,700
Net cash flow provided by (used in) noncapital financing activities	<u>(2,853,923)</u>	<u>(2,584,971)</u>
Cash flows from capital and related financing activities:		
Contributions in aid of construction	285,939	150,422
Acquisition of property, plant, and equipment	<u>(2,962,448)</u>	<u>(2,806,765)</u>
Net cash (used in) capital and related financing activities	<u>(2,676,509)</u>	<u>(2,656,343)</u>
Cash provided by investing activities - interest received a	<u>39,048</u>	<u>14,726</u>
Net increase (decrease) in cash and cash equivalents	1,103,983	—
Cash and cash equivalents at beginning of year	1,000	1,000
Cash and cash equivalents at end of year	<u>\$ 1,104,983</u>	<u>1,000</u>

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

Years ended June 30, 2000 and 1999

	2000	1999
Operating revenues - charges for services:	\$ 128,998,106	135,166,067
Operating expenses:		
Production	86,848,019	97,148,577
Transmission and distributions	11,307,853	9,447,932
Customer accounting and sales	4,147,351	3,601,686
Depreciation	9,788,188	9,588,587
Total operating expenses	112,091,411	119,786,782
Operating income	16,906,695	15,379,285
Nonoperating revenues (expenses):		
Interest revenue	5,412,666	3,505,827
Grant revenue	—	1,217,373
Other revenue	1,184,007	1,728,538
Interest expense	—	(92,908)
Other expense	—	(8,438)
Total nonoperating revenues, net	6,596,673	6,350,392
Net income before transfers	23,503,368	21,729,677
Transfers out - General Fund	(10,845,000)	(10,845,000)
Transfers out - Capital Projects Funds	(150,000)	(75,000)
Net income	12,508,368	10,809,677
Retained earnings, July 1	195,586,778	184,777,101
Retained earnings, June 30	\$ 208,095,146	195,586,778

G L E N D A L E *Water & Power*

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

Years ended June 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Operating revenues - charges for services: \$	28,118,918	25,862,675
Operating expenses:		
Production	17,295,871	17,518,815
Transmission and distributions	1,889,541	2,455,866
Customer accounting and sales	1,291,913	968,260
Depreciation	2,162,729	2,016,197
Total operating expenses	<u>22,640,054</u>	<u>22,959,138</u>
Operating income	<u>5,478,864</u>	<u>2,903,537</u>
Nonoperating revenues (expenses):		
Interest revenue	68,213	16,403
Grant revenue	9,312	29,700
Other revenue	749,723	2,170,189
Other expense	—	(3,012)
Total nonoperating revenues, net	<u>827,248</u>	<u>2,213,280</u>
Net income before transfers	6,306,112	5,116,817
Transfers out - General Fund	<u>(2,863,235)</u>	<u>(2,614,671)</u>
Net income	<u>3,442,877</u>	<u>2,502,146</u>
Retained earnings, July 1	<u>39,772,872</u>	<u>37,270,726</u>
Retained earnings, June 30	<u>\$ 43,215,749</u>	<u>39,772,872</u>

1. Summary of Significant Accounting Policies

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

Funds and Account Groups

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

Basis of Presentation

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

Fixed Assets

The fixed assets of the Funds are capitalized at historical cost. Donated assets representing utility service assets, which are donated to the City by independent contractors, are recorded at actual installation cost to the donor. Depreciation for both purchased and contributed assets are computed using a straight-line method, based upon average estimated useful life of an asset.

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

Electric Works

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

Water

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

Inventories

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

Compensated Absences

The Electric and Water Departments each has a fully funded liability for earned but unused accumulated vacation and overtime. As of June 30, 2000 and 1999 Electric Fund has \$1,256,063 and \$866,590, Water Fund has \$314,016 and \$696,875, respectively of the Electric and Water employees' earned unused accumulated vacation and overtime.

Post Employment Benefit

Employees with sick leave accumulated over 100 days are entitled to cash surrender value at retirement in the form of medical insurance premiums at the rate of one sick day for each month of post employment medical insurance. As of June 30, 2000 and 1999, \$5,628,320 and \$5,139,391, respectively, are recorded on the City's Internal Service Funds - Employee Funds.

Unbilled Receivable

The Funds record utility services delivered to customers but not billed. As of June 30, 2000 and 1999 respectively, the Electric Fund's unbilled receivable is \$7,871,817 and \$6,460,000, the Water Fund's unbilled receivable is \$2,387,997 and \$1,868,000.

Deposits

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

Contracts - retained amount due

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

Reclassifications

Certain items in the June 30, 1999 Statements of Revenues, Expenses and Changes in Retained Earnings have been reclassified to conform with the June 30, 2000 presentation. These reclassifications had no effect on net income or equity.

2. Cash and Invested Cash

Cash resources of the individual funds are combined to form a pool of cash and investments, which is managed by the City Treasurer under a formal investment policy that is reviewed by the Investment Committee and adopted annually by the City Council. Therefore, individual investments cannot be identified with any single fund. The Funds' interest in this pool is entirely insured or collateralized as of June 30, 2000. Income from the investment of pooled cash is allocated to Funds on a monthly basis, based upon the month-end cash balance of the fund as a percent of the month-end total pooled cash balance. Of this total \$90,182,780 and \$1,103,983 pertains to the Electric Fund and Water Fund respectively, for fiscal year 2000.

Invested cash is now stated at the fair value. Increase (decrease) in the fair value of investments is recognized as an increase (decrease) to Interest Income Revenue. The prior period impact of this change was deemed to be immaterial and is reflected within the current year. The City normally holds the investment to term; therefore no realized gain/loss is recorded.

The carrying amount of the City's cash and invested cash at June 30, 2000, and reconciliation to amounts shown on the Combined Balance Sheet are as follows:

Cash and investment	\$360,905,858
Decrease in fair value	(3,085,096)
Cash on hand	4,616,726
	<u>362,437,488</u>
Combined balance sheet	323,461,796
Cash and invested cash	38,845,468
Investment in street bonds	130,224
	<u>\$362,437,488</u>

At June 30, 2000, the bank balance of the City's cash deposits maintained in financial institution is \$6,504,276. The cash deposits are held by the City's agent in the City's name. The first \$100,000 of cash deposits are insured by the Federal Depository Insurance Corporation and the remainder are collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name. The primary difference between the carrying amount and the bank balance are deposits in transit and outstanding checks.

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

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

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

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

G L E N D A L E *Water & Power*

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

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

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

The following is the summary of investments as of June 30, 2000:

	Category				
	1	2	3	Uncategorized	Fair Value
City Held Investments					
Street Assessment Bonds	\$130,224	—	—	—	130,224
U.S. Government Securities	—	298,850,306	—	—	298,850,306
Total City Held	130,224	298,850,306	—	—	298,980,530
Trustee Held Investments					
U.S. Government Securities	—	38,845,468	—	—	38,845,468
Total Trustee Held	—	38,845,468	—	—	38,845,468
Investment in Pool					
California State Local Agency Investment Fund (LAIF)	—	—	—	19,994,764	19,994,764
Total Investments	\$130,224	337,695,774	—	19,994,764	357,820,762

The City participates in a voluntary external investment pool, the Local Agency Investment Fund (LAIF) that is managed by the State Treasurer. LAIF has oversight provided by the Local Agency Investment Advisory Board (the “Board”). The Board consists of five members as designated by State statute. The Chairman of the Board is the State Treasurer or his designated representative. The fair value of the City’s shares in the pool approximates the fair value of the position in the pool. The total amount invested by all public agencies in LAIF is \$43,227,355,507. Of that amount 93.772 percent is invested in nonderivative financial products, and 6.228 percent in derivative financial products.

Cash with Fiscal Agents

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 monies, in absence of specific statutory provisions governing the issuance of bonds or certificates, may be invested in accordance with the ordinances, resolutions or indentures specifying the types of investments its trustees or fiscal agents may make. These ordinances are generally more restrictive than the City’s general investment policy.

3. Long-Term Debt

The electric utilities long-term debt as of June 30, 2000 consists of the following:

	Remaining Interest Rates	Original issue	Outstanding June 30, 2000
Electric Revenue Bonds, 2000 Series	5.75%	\$37,000,000	\$37,000,000

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The electric utility of Glendale Water & Power issued revenue bonds in February 2000 to finance the costs of acquisition and construction of certain capital improvements. The terms of the 2000 Electric Revenue Bonds' (2000 Bonds) indenture requires the trustee to establish and maintain a reserve account equal to the 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 percent of the maximum debt service. The bonds mature in regularly increasing amounts ranging from \$690 to \$2,035 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 percent to 100 percent.

The following is a summary of bonds payable for the year ended June 30, 2000:

Bonds payable at July 1, 1999	—
Bond issues	\$37,000,000
	<hr/>
Bonds payable at June 30, 2000	<u>\$37,000,000</u>

The annual debt service requirements to amortize long-term bonded debt at June 30, 2000 are as follows:

Year ending June 30	Principal	Interest	Total
2001	—	2,171,295	2,171,295
2002	—	2,171,295	2,171,295
2003	—	2,171,295	2,171,295
2004	—	2,171,295	2,171,295
2005	—	2,171,295	2,171,295
2006 - 2030	\$37,000,000	\$34,799,500	\$71,799,500
	<hr/>		
	\$37,000,000	\$45,655,975	\$82,655,975

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

4. Pension Plan

Full-time employees of the Public Service 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 Public Service's contributions represent a pro rata share of the City's Contribution, including the employees' contribution which is paid by the Public Service, which is based on PERS's actuarial determination as July 1 of the current fiscal year. PERS does not provide data to participating organizations in such a manner so as to facilitate separate disclosure for the Public Service's share of the actuarial computed pension benefit obligation and the plan's net assets available for benefits. Approximately 19.37 percent of full-time City workers are employed by Public Service.

Plan Description

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

All full-time employees are eligible to participate in CalPERS, and related benefits vest after five years of service. Upon five years of service, public safety employees who retire at age 50 and general employees who retire at age 55 are entitled to receive an annual retirement benefit. The benefit is payable monthly for life, in an amount equal to two percent of the employee's average salary during the last year of employment for each year of credited service. The system also provides death and disability benefits. CalPERS issues a publicly available financial report that includes financial statements and required supplemental information of participating public entities within the state of California. Copies of the 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 seven percent of annual salary for general members and nine percent of annual salary for public safety members. The City is also required to contribute at an actuarially determined rate; the current public safety rate is 2.163 percent and the current general employee rate is .566 percent 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.

Annual Pension Cost

Contributions to CalPERS totalling \$8,423,039 were made during the fiscal year ended June 30, 2000 in accordance with actuarially determined contribution requirements through an actuarial valuation performed at June 30, 1997. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.25 percent a year compounded annually (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 3.75 percent to 14.20 percent, (c) no additional projected salary increases attributable to seniority/merit and (d) no post retirement benefit increases. The actuarial value of the City's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a two to five-year period depending on the size of investment gains and/or losses. CalPERS uses the entry-age-normal-actuarial-cost method, which is a projected-benefit-cost method. That is, it takes into account those benefits that are expected to be earned in the future as well as those already accrued. According to this cost method, the normal cost for an employee is the level amount which would fund the projected benefit if it were paid annually from date of employment until retirement. CalPERS uses a modification of the entry-age-cost method in which the employer's total normal cost is expressed as a level percentage of payroll. CalPERS also uses the level-percentage-of-payroll method to amortize any unfunded actuarial liabilities.

Three Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/98	\$7,609,000	100%	\$ 0
6/30/99	\$8,505,000	100%	0
6/30/00	\$8,423,000	100%	0

Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets <a>	Actuarial Accrued Liability <AAL> - Entry Age 	(Unfunded AAL) / Over-funded AAL <a-b>
06/30/1997	\$538,514,689	\$488,268,305	\$50,246,384
06/30/1998	\$635,145,075	\$527,710,053	\$107,435,022
06/30/1999	\$714,481,049	\$560,822,323	\$153,658,726

	Funded Ratio <a/b>	Covered Payroll <c>	(Unfunded AAL)/ Overfunded AAL as a Percentage of Covered Payroll <(a-b)/c>
06/30/1997	\$110.29%	\$84,525,937	59.44%
06/30/1998	\$120.36%	\$85,118,111	126.22%
06/30/1999	\$127.40%	\$91,017,813	\$168.82%

5. Self-Insurance Program

The City is self-insured for workers' compensation claims. Workers' compensation insurance protection is provided through an internal service fund maintained by the City. The City is also self-insured for unemployment insurance, general auto and public liability through separate internal service funds. The Internal Service Funds charge the Electric and Water Funds for their estimated share of the liability. At June 30, 2000 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, 2000 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. Reserved Retained Earnings

Excess capital surcharge revenue designated to retrofit the City's Grayson Power Plant as mandated by Air Quality Management for fiscal years 2000 and 1999 were \$13,771,996 and \$16,766,013. In addition, as part of the Electric operation's strategy to face deregulation net revenues from electric wholesale power transactions totaled \$19,756,454 and \$18,313,802 for fiscal years 2000 and 1999, respectively. Savings from cost reduction are reserved to accelerate debt retirement and to meet obligations from the "take or pay" contracts per Note 8.

7. Fixed Assets

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

	Land	Building and Improvements	Machinery and Equipment	Total Plant in Service	Construction in Progress	Total
Electric Fund:						
Production plant	\$876,456	4,629,407	52,653,116	58,158,979	6,162,979	64,321,958
Transmission and distribution plant	710,389	17,522,852	165,589,077	183,822,318	10,192,626	194,014,944
General plant	260,414	25,157,336	14,324,313	39,742,063	40,366	39,782,429
Total Electric Fund	1,847,259	47,309,595	232,566,506	281,723,360	16,395,971	298,119,331
Water Fund:						
Production plant	535,763	8,411,701	10,171,853	19,119,317	1,298,568	20,417,885
Transmission and distribution plant	—	46,813,169	20,779,708	67,592,877	300,024	67,892,901
General plant	86,805	3,945,932	4,496,013	8,528,750	326,007	8,854,757
Total Water Fund	622,568	59,170,802	35,447,574	95,240,944	1,924,599	97,165,543
Total fixed assets	\$2,469,827	106,480,397	268,014,080	376,964,304	18,320,570	395,284,874

G L E N D A L E *Water & Power*

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

	Balance at June 30, 1999	Additions/ Reclass	Retirements/ Reclass	Balance at June 30, 2000
Electric Fund:				
Production plant	\$57,791,556	6,530,402	-	64,321,958
Transmission and distribution plant	181,972,402	13,082,316	1,039,353	194,015,365
General plant	38,069,872	1,928,116	215,980	39,782,008
Total Electric Fund	277,833,830	21,540,834	1,255,333	298,119,331
Water Fund:				
Production plant	19,150,113	1,298,624	30,852	20,417,885
Transmission and distribution plant	67,052,594	978,159	137,852	67,892,901
General plant	8,242,598	685,666	73,507	8,854,757
Total Water Fund	94,445,305	2,962,449	242,211	97,165,543
Total before Accumulated Depreciation	372,279,135	24,503,283	1,497,544	395,284,874
Less Depreciation	(176,645,406)			(187,098,778)
	<u>\$195,633,729</u>			<u>208,186,096</u>

8. Jointly Governed Organizations

The Electric Utility has entered into six “Take or Pay” contracts to provide for current and future electric generating capacity and transmission of energy for City residents. Through these contracts, the City purchased approximately 43 percent of its total energy requirements during fiscal year 1999-00. This energy will displace some of the energy that was to have been supplied by the local generating plant. The Electric Utility 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.

The Intermountain Power Agency (IPA), a subdivision of the State of Utah was formed in January 1974 to finance the construction of a 1,680 megawatt coal-fueled generating plant consisting of two generating units located near Delta, Utah. The Electric Utility through contract is obligated for 27 megawatts or 1.7040 percent 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 7 megawatts or 0.5016 percent through March 24, 2003. The total City’s obligation from Intermountain Power Project (IPP) is 34 megawatts.

The Electric Utility joined the Southern California Public Power Authority (SCPPA) on November 1, 1980. This authority, consisting of the California Cities of Anaheim, Azusa, Banning, Burbank, Colton, Glendale, Los Angeles, Pasadena, Riverside, Vernon, and the Imperial Irrigation District, was formed for the purpose of financing future power resources. The City has entered into five projects with SCPPA.

The first of the SCPPA projects is a 3,810 megawatt nuclear fuel generation plant in Arizona (Palo Verde). The Palo Verde nuclear project consists of three (3) units, each having an electric output of approximately 1,270 megawatts. SCPPA has purchased approximately 225 megawatts of capacity and associated energy (approximately 5.910 percent of total Palo Verde output), of which the City receives 9.9 megawatts or 4.4000 percent of SCPPA’s entitlement. As required by the Participation Agreement, the co-owners of the Palo Verde Nuclear Generating Station (PVNGS) have created external accounts for the decommissioning of PVNGS at the end of its life. The market value of the Authority’s accounts for decommissioning was approximately \$77,679 at June 30, 2000. Based on the most recent (1998) estimate of decommissioning costs, SCPPA estimates that its share of the amount required for decommissioning of PVNGS is approximately 74 percent

funded. Under the forgoing assumptions, an additional \$27,221, of which Glendale's share is \$1,198, would be required for SCPPA to fully fund its share of decommissioning costs. No assurance can be given, however, that such amount will be sufficient to fully fund SCPPA's share of decommissioning costs. SCPPA anticipates receiving a new estimate of decommissioning costs every three years.

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

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

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

815 megawatts. The Electric Utility is obligated for 90 megawatts or 11.0430 percent of the SCPPA entitlement.

A fifth project financed through SCPPA consists of a 256 mile long 500 kV AC transmission line from the Westwing Substation in the vicinity of Phoenix, Arizona to a new 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 Mead-Phoenix Component, the Mead Substation Component, and the Mead-Marketplace Component. The Electric Utility's participation shares in the components range from 11.7647 percent to 22.7273 percent. 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 Generation Station and Hoover Power Plant. These transmission lines also provide access to the southwest U.S. where economical coal energy is readily available.

A summary of the City's "Take or Pay" contracts and related projects and its contingent liability at June 30, 2000 is as follows: (Note: all amounts in \$000)

Project	Bonds and Notes Authorized	Bonds and Notes sold Outstanding	Interest	Combined Total debt Service	City of Glendale Percenta	City of Glendale Obligations
Intermountain Power Project	\$4,442,017	4,294,137	3,438,958	7,733,095	2.2056%	\$170,561
So. California Public Power Authority (Palo Verde)	763,169	578,059	230,855	808,914	4.4000%	35,592
So. California Public Power Authority (IPP Southern Transmission System)	1,132,135	1,049,085	779,454	1,828,539	2.2740%	41,581
So. California Public Power Authority (San Juan Power Project-Unit 3)	237,375	208,130	116,273	324,403	9.8047%	31,807
So. California Public Power Authority (Mead-Adelanto)	280,655	268,335	177,994	446,329	11.0430%	49,288
So. California Public Power Authority (Mead-Phoenix)	90,635	86,155	56,419	142,574	14.5136%	20,693
						<u>\$349,522</u>

As discussed in Note 10 rules and regulations for the electric industry are changing. As a result of these changes it is uncertain that the Electric Utility will fully utilize the output for which it is obligated and that its obligation under the “Take or Pay” contracts will be recovered through utility fees.

9. Contingent Liability

It is the opinion of management that the City will fully utilize the output for which it is obligated and that its obligation under the “Take or Pay” contracts should be recovered through utility fees. Accordingly, no liability has been recorded in the accompanying financial statements

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

The Electric Utility is committed to purchase all available landfill gas generated by Scholl Canyon LFG Limited Partnership at a price between an escalated floor and ceiling. The October 31, 1991 floor and ceiling price is adjusted on January 1st of each succeeding year based on the change in the Consumer Price Index. For this fiscal year, the floor and ceiling price are \$2.85 and \$4.62 respectively. The term of this commitment is for a period of 20 years from July 1994 to July 2014. The landfill gas purchase for fiscal year 1999-00 was approximately 1,073,445 MMBtu and the average purchase price was \$4.14 per MMBtu.

The Electric Utility executed two power sale and exchange agreements in 1988. These agreements provide long term obligations to provide and purchase energy and capacity to and from other utilities. The first agreement is with Bonneville Power Administration (BPA). The agreement extends for 20 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 capacity. The Electric Utility is required to purchase 73,000 megawatt-hours of energy annually under this agreement. In the exchange mode, BPA (under periods of adverse hydro conditions) may elect to receive energy from the City during off-peak hours in lieu of City's monthly charges for this agreement. 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 deliver 20 megawatts of capacity and associated energy over the Pacific Northwest DC 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 the winter months. Energy cannot exceed 1,800 megawatt-hours per week.

10. Electric Industry Restructuring

The Electric Utility currently operates in a highly regulated environment in which it has an obligation to provide electric service to all electric customers within the City limits. The State of California has redefined the definition and terms of electric service in ways that dramatically change the role of electric utilities, both investor- and community-owned. On January 1, 1998, investor-owned utilities (IOUs) were required to allow customers to choose their electricity suppliers. Additionally, the customer may choose a provider of billing and meter reading services. Between

March 31, 1998 and March 31, 2002, IOUs will be able to charge any customer choosing another electricity supplier for the costs of stranded investments through a Competition Transition Charge (CTC).

Community-owned utilities (COUs), including municipal utilities, had a choice of maintaining their monopoly status or beginning open access by March 31, 2000, and completing this process by March 31, 2010. After a public hearing in February 2000, the City Council acted to defer its participation in open access and maintain its monopoly status.

Approximately 60 percent of the energy that services the City is produced from out-of-state power plants for which Glendale and other southern California cities have arranged joint financing or long-term “take or pay” contracts as discussed in Note 9. These are long-term obligations and were intended to be paid from future electric revenue generated over the life of the plants. Energy obtained from these resources will cost more than the anticipated market clearing prices (currently estimated at 3.3 cents per kilowatt-hour in 2000). Under open access, this would create a stranded investment.

Electric Utility’s stranded investment for these outside power sources (based on the most recent estimates of future market conditions) is approximately \$100.7 million. In addition, to the outside power resources, the stranded investment value of above-market local generation is estimated to be about \$100 million, but this generation is required for system reliability and stability and to burn landfill gas. As such, these costs are distribution system costs, not generation, and thus would be non-bypassable.

GWP developed a “Menu of Actions” for assembling funds to mitigate its stranded investments in a timely fashion. This plan initially forecasted the City’s electric rates to

be six percent below the neighboring IOU by 2003 if all actions were implemented. As of June 30, 2000 efforts in the eleven areas identified in the plan have accumulated about \$90 million for reducing the outside power source stranded investments. With interest earnings and additional savings, this is expected to completely offset the stranded investment by July 2002.

Progress in accumulating these stranded investment reserve funds has been helped by two phases of electric rate restructuring done in 1996 and 1998. These changes adjusted rates to reflect cost of service. Additional contributions have come from reductions in our capital program along with efficiency savings from staffing reductions as positions are eliminated through attrition. The legislation that established the new competitive energy market in California allows municipal utilities to choose whether or not they will provide open access for other energy suppliers. If cities elect to provide open access under state guidelines, they can receive state protection for a competition charge to recover the cost of stranded investments from customers who purchase from other energy suppliers.

11. Pronouncements Issued

In December 1998, the GASB issued Statement of Governmental Accounting Standards No. 33, Accounting and Financial Reporting for Nonexchange Transactions. This Statement establishes accounting and financial reporting standards for nonexchange transactions involving financial or capital resources (e.g., most taxes, grants and private donations). In a nonexchange transaction, a government gives (or

receives) value without directly receiving (or giving) equal value in return. Statement No. 33 is required to be adopted for years beginning after June 15, 2000. The Agency has not completed its assessment of the effect that the adoption of Statement No. 33 will have on its financial statements.

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