

MANAGEMENT DISCUSSION AND ANALYSIS – ELECTRIC UTILITY

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

Financial Highlights

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

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

Overview of the Basic Financial Statements

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

The City of Glendale Electric Utility's financial statements comprise two components: 1) financial statements and 2) notes to the financial statements. In addition, this report also contains other supplementary information to provide the reader additional information about the Electric

Utility, including sales statistics and other relevant data. Included as part of the financial statements are three separate statements which collectively provide an indication of the Electric Utility's financial health.

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

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

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

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

Financial Analysis

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

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

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

Net Assets – Electric Utility

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

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

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

Changes Net Assets – Electric Utility

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

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

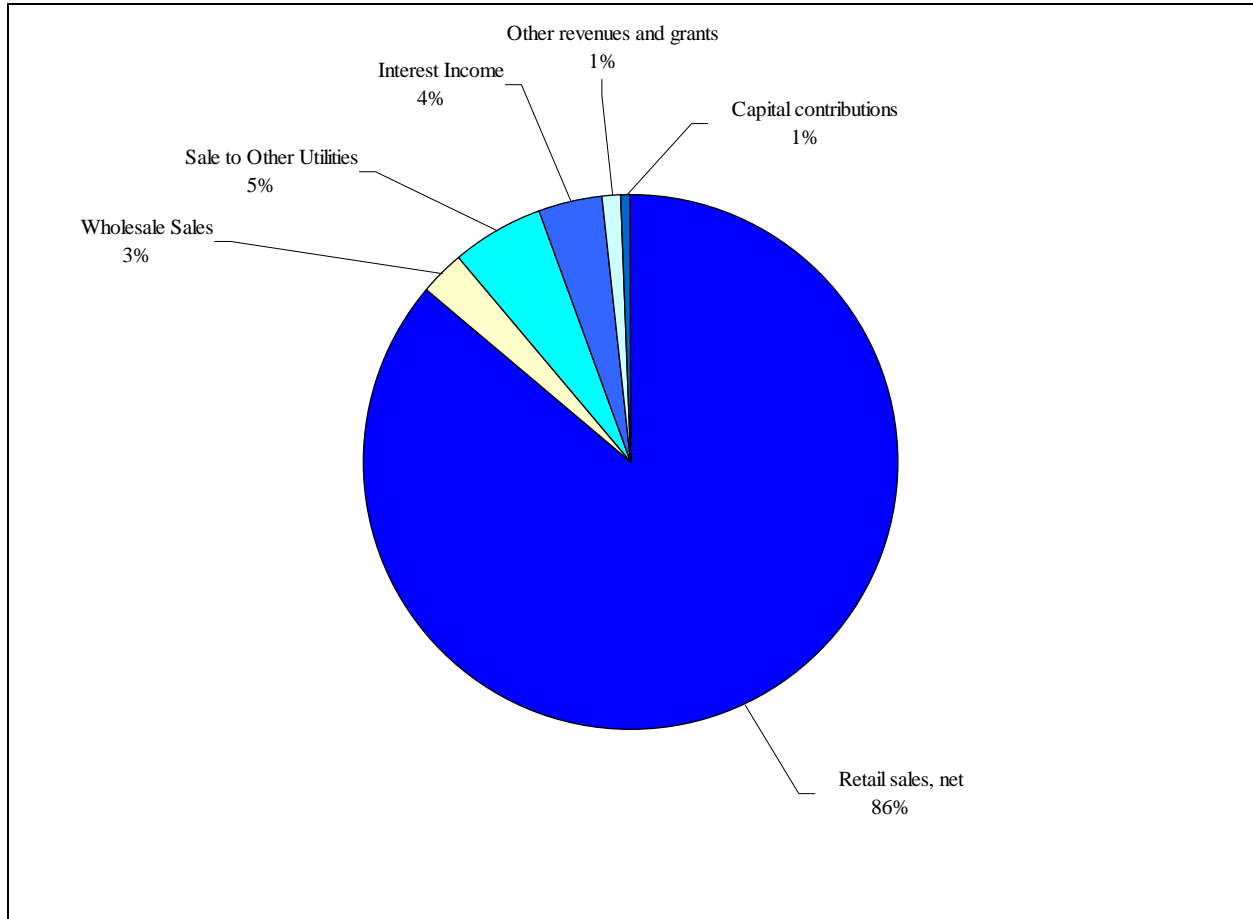
Retail sales (residential, commercial, industrial and other sales) continued to be the primary revenue source for the Electric Utility, making up 86% of total revenue. Retail sales showed a decrease of 1% from the prior year. Sales to Other Utilities accounted for the receipts from disposing of excess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

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

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

Utility’s investment portfolio.

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



Expenses by Source – Electric Utility

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

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

Interest expenses increased by 10% as a result of the arbitrage rebate. Transfers to the City’s General Fund are based on a formula representing a certain percentage of total retail revenues.

Transfers to various City’s funds increased by \$1,058, reflecting increases in the percentage.

Capital Assets and Debt Administration

Capital Assets

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

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

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

Long-Term Debt

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

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

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

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

Economic Factors and Rates

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

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

Requests for Information

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

ELECTRIC

Statement of Net Assets

Years Ending June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets		
Current assets:		
Cash and invested cash	\$ 82,509,250	\$ 49,324,737
Imprest cash	3,200	3,200
Cash with fiscal agent	1,077,179	808,339
Interest receivable	1,438,458	1,336,042
Investment-gas/elec commodity	3,945,568	3,882,979
Accounts receivable, net	10,670,101	13,372,894
Unbilled receivable	10,636,493	9,440,426
Due from other agencies	-	1,253,716
Due from other funds	1,331,140	1,331,140
Deposits	9,717	17,000
Inventories	4,470,457	3,301,646
Prepaid items	599,631	967,741
	<u>116,691,194</u>	<u>85,039,860</u>
Noncurrent assets:		
Designated & invested cash	109,583,382	151,300,000
Deferred charges	1,150,148	1,153,277
	<u>110,733,530</u>	<u>152,453,277</u>
Capital assets:		
Land	6,002,674	4,849,380
Buildings and improvements	56,202,126	51,791,171
Machinery and equipment	316,971,666	321,842,797
Bldg & impro accm depreciation	(195,480,811)	(192,803,810)
Construction in progress	33,978,572	17,710,003
	<u>217,674,227</u>	<u>203,389,541</u>
Total capital assets	<u>217,674,227</u>	<u>203,389,541</u>
Total assets	<u>445,098,951</u>	<u>440,882,678</u>

Liabilities and Net Assets

Current liabilities:

Accounts payable	17,640,520	8,784,349
Contracts-retained amount due	719,650	1,402,491
Accrued wages and withholding	1,079,506	1,008,384
Interest payable	1,374,416	1,525,877
Long term debt, due in one year	1,511,993	819,647
Compensated absences	500,000	-
Deposits	1,913,586	1,802,125
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Total current liabilities	24,739,671	15,342,873
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Noncurrent liabilities:

Claims payable	-	25,000
Compensated absences	1,115,370	1,608,013
Post employment benefits	198,517	-
Long term debt	66,246,191	67,613,899
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Total noncurrent liabilities	67,560,078	69,246,912
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Total liabilities	92,299,749	84,589,785
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Net assets:

Investment in general FA	148,541,626	136,339,541
Restricted		
Debt service	1,070,384	1,603,339
Reserved for Elec-SCAQMD	11,389,940	10,343,844
Unrestricted	191,797,252	208,006,169
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Total net assets	\$ 352,799,202	\$ 356,292,893
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Electric Fund

Statement of Revenues, Expenses and Changes in Net Assets

Years Ending June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating revenues		
Electric Domestic Sales	\$ 48,775,385	\$ 49,466,888
Electric Commercial Sale	87,085,389	87,196,007
Electric St Light Sales	1,258	1,326
Electric Wholesale Sales	4,356,897	15,053,921
Sale to Other Utilities	8,579,689	-
Miscellaneous revenues	1,746,431	4,351,832
	<u>150,545,049</u>	<u>156,069,974</u>
 Operating expenses:		
Production	104,225,785	103,897,157
Transmission	15,624,721	14,316,793
Customer accounting and sales	5,616,372	5,468,788
Depreciation	14,592,753	11,290,210
	<u>140,059,631</u>	<u>134,972,948</u>
 Operating income	<u>10,485,418</u>	<u>21,097,026</u>
 Non operating revenues (expenses):		
Interest revenue	6,056,032	1,916,219
Grant revenue	-	1,253,716
Interest expense	(4,073,642)	(3,716,436)
Contribution in aid	1,046,255	1,802,923
	<u>3,028,645</u>	<u>1,256,422</u>
Total non operating revenues, net	<u>3,028,645</u>	<u>1,256,422</u>
Income before transfers	<u>13,514,063</u>	<u>22,353,448</u>
 Transfer out:		
Transfer-General Fund	(16,982,754)	(13,935,000)
Transfer-Special Revenue	-	(2,000,000)
Transfer-Capital Funds	(25,000)	(15,000)
	<u>(17,007,754)</u>	<u>(15,950,000)</u>
Total transfer	<u>(17,007,754)</u>	<u>(15,950,000)</u>
 Change in net assets	(3,493,691)	6,403,448
Total Net asset, July 1	<u>356,292,893</u>	<u>349,889,445</u>
 Total net assets, June 30	<u>\$ 352,799,202</u>	<u>\$ 356,292,893</u>

MANAGEMENT DISCUSSION AND ANALYSIS – ELECTRIC UTILITY

Electric Fund

Statement of Cash Flows

Years Ending June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Cash from customers	\$ 153,305,490	\$ 153,566,269
Cash paid to employees	(30,186,105)	(27,416,849)
Cash paid to suppliers	(87,534,272)	(97,297,048)
Net cash provided by operating activities	<u>35,585,113</u>	<u>28,852,372</u>
Cash flows from noncapital financing activities:		
Operating transfers out	(17,007,754)	(15,950,000)
Operating grant received	-	1,253,716
Net cash provided by noncapital financing activities	<u>(17,007,754)</u>	<u>(14,696,284)</u>
Cash flows from capital and related financing activities:		
Interest on long term debt	(4,089,542)	(3,716,436)
Bond, premium and interest accrued	(810,924)	(882,242)
Contribution in aid	1,046,255	1,802,923
Acquisition of property, plant, and equipment	(28,877,438)	(30,122,144)
Investment - gas/electric commodity	(62,589)	(552,300)
Net cash (used in) capital and related financing activities	<u>(32,794,238)</u>	<u>(33,470,199)</u>
Cash provided by investing activities - interest received	5,953,614	1,664,463
Net increase (decrease) in cash and cash equivalents	(8,263,265)	(17,649,648)
Cash and cash equivalents at beginning of year	<u>201,436,276</u>	<u>219,085,924</u>
Cash and cash equivalents at end of year	<u>193,173,011</u>	<u>201,436,276</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>10,485,418</u>	<u>21,097,026</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	14,592,753	11,290,210
(Increase)Decrease Accounts receivable net	2,702,791	(4,572,792)
(Increase)Decrease Unbilled receivable	(1,196,067)	3,322,802
(Increase)Decrease Due from other agencies	1,253,716	(1,253,716)
(Increase)Decrease Inventories	(1,168,809)	210,662
(Increase)Decrease Prepaid expenses	368,110	336,161
(Increase)Decrease Deposits	7,283	(17,000)
(Increase)Decrease Deferred Charges	3,129	54,557
Increase(Decrease) Accrued salaries and withholding	71,122	84,689
Increase(Decrease) Compensated absences	7,358	293,691
Increase(Decrease) Post employment benefit	198,517	-
Increase(Decrease) Accounts payable	8,856,171	(2,872,895)
Increase(Decrease) Contracts - retention	(682,841)	488,075
Increase(Decrease) Deposits	111,462	365,902
Increase(Decrease) Claims payable	(25,000)	25,000
Total adjustments	<u>25,099,695</u>	<u>7,755,346</u>
Nest cash provided (used) by operating activities	<u>\$ 35,585,113</u>	<u>\$ 28,852,372</u>

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.

Funds and Account Groups

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

Basis of Presentation

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

Cash and Investments

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

fair value of investments in the year in which the change occurred. Fair value is determined using published market prices.

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

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

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

Capital Assets

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

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

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

Inventories

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

Compensated Absences

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

respectively, of the Electric employees' earned unused accumulated vacation and overtime.

Post-Employment Benefit

All City Employees, including employees of Electric Enterprise Fund, that are eligible for retirement with accumulated sick leave are entitled to convert their sick leave hours valued at the rate stated in their respective MOU or Ordinance, into a Retiree Health Savings Plan (RHSP). This RHSP account is controlled by the retiree and money deposited into the account is non-taxable. Money withdrawn from this account, when used for eligible medical expenses as specified in IRS Publication 502 are non-taxable to the retiree. As of June 30, 2005 and 2004, \$5,730,795 and \$5,061,393, respectively, had been set-aside in the Internal Service Fund-Employee benefits Fund of the City related to such benefits.

Unbilled Receivables

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

Deposits

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

Contracts - Retained Amount Due

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

Transfers

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital

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

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

Revenue Recognition

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

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

Budgets and Budgetary Accounting

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

Reclassifications

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

2. Cash and Invested Cash

Cash resources of the individual funds are combined to form a pool of cash and investments, which is managed by the City Treasurer under a formal investment policy that is reviewed by the Investment Committee and adopted annually by the City Council. Therefore, individual investments cannot be identified with any single fund. The Fund's interest in this pool is entirely insured or collateralized as of June 30, 2005. Income from the investment of pooled cash is allocated to the Fund on a monthly basis, based upon the month-end cash balance of the fund as

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

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

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

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

	2005	2004
Cash and investments	\$ 439,805,054	\$ 410,329,623
Imprest cash	28,930	37,280
Cash with fiscal agents	18,622,859	15,186,778
Investment-gas/electric commodity	3,945,569	3,882,979
Designated cash and investments	113,877,382	158,200,000
Total	<u>\$ 576,279,794</u>	<u>\$ 587,636,660</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	5%
Time Deposits	1 year	10%

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

Investments Authorized by Debt Agreements

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

Disclosure Relating to Interest Rate Risk

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

MANAGEMENT DISCUSSION AND ANALYSIS – ELECTRIC UTILITY

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

The City assumes that callable investments will not be called.

Disclosures Relating to Credit Risks

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

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

Concentration on Credit Risk

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

Issuer	Investment Type	Reported Amount
FHLB	Federal Agency Term Notes	\$ 51,540,938
FHLB	Federal Agency Callable Bonds	<u>248,340,822</u>
	Total	<u><u>299,881,760</u></u>
FHLMC	Federal Agency Term Notes	18,729,405
FHLMC	Federal Agency Callable Bonds	<u>66,881,618</u>
	Total	<u><u>85,611,023</u></u>
FNMA	Federal Agency Term Notes	9,806,250
FNMA	Federal Agency Callable Bonds	<u>60,509,150</u>
	Total	\$ <u><u>70,315,400</u></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 custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Entity's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2005, the carrying amount of the City's deposits was (\$649,867) and the corresponding bank balance was \$1,073,920. The difference of \$1,723,787 was principally due to outstanding warrants, wires and deposits in transit. Of the Bank balance, \$100,000 was insured

by the FDIC depository insurance and \$973,920 was uncollateralized and not insured by FDIC depository insurance.

Investment in State Investment Pool

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

Cash with Fiscal Agent

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

3. Long-Term Debt

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

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

Electric Revenue Bonds, 2000 Series

The Electric utility of GWP issued revenue bonds in February 2000 to finance the costs of acquisition and construction of certain capital improvements. The terms of the 2000 Electric Revenue Bonds’ (2000 Bonds) indenture requires the trustee to establish and maintain a reserve account equal to the reserved requirement. The reserve requirement of this bond issue is satisfied by a bond insurance policy with MBIA Insurance Corporation. This policy insured the

bondholders up to \$1.46 million, which is 50% of the maximum debt service. The bonds mature in regularly increasing amounts ranging from \$690,000 to \$2,755,000 annually from 2006 to 2030. The 2000 Bonds maturing on or prior to February 1, 2010 are not subject to call and redemption prior to maturity. The 2000 bonds maturing on and after February 1, 2011 are subject to call and redemption prior to maturity, at a redemption price ranging from 101% to 100%.

Electric Revenue Bonds, 2003 Series

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

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

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

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

are as follows:

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

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

Rate Covenants

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

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

4. Pension Plan

Full-time employees of GWP participate with other City employees in the Public Employees Retirement System (PERS) of the State of California, which is an agent multiple-employer public employee retirement system. GWP's contributions represent a pro rata share of the City's contribution, including the employees' contribution that is paid by GWP, which is based on PERS's actuarial determination as of July 1 of the current fiscal year. PERS does not provide data to participating organizations in such a manner so as to facilitate separate disclosure for GWP's share of the actuarial computed pension benefit obligation, the plan's net assets available for benefit obligation and the plan's net assets available for benefits. Approximately 22% of full-time

City workers are employed by GWP.

Plan Description

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

All full-time employees are required to participate in CalPERS, and related benefits vest after five years of service. Upon five years of service, employees who retire at age 50 or older are entitled to receive an annual retirement benefit. The benefit is payable monthly for life. The benefit is calculated as follows: years of credited service multiplied by their highest twelve consecutive months of salary multiplied by a percentage factor. This factor is age-based – public safety employees use the 3% at age 50 factor while all others use the 2% at age 55 factor. Effective December 1, 2005 the general employees will use the 2.5% at age 55 factor. The system also provides death and disability benefits. CalPERS issues a publicly available financial report that includes financial statements and required supplemental information of participating public entities within the state of California. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office – 400 P Street, Sacramento, CA 95814.

Funding Policy

CalPERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments. According to the plan, City employees are required to contribute 7% of annual salary for general members and 9% of annual salary for public safety members. Effective December 1, 2005 general members contribution rate will increase to 8% of reportable earnings. The City is also required to contribute at an actuarially determined rate; the current public safety rate and the current general employee rates are 24.99% and 0% respectively of annual covered payroll. The contribution requirements of plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. The City's rate for safety members that CALPERS charges have decreased in fiscal year 2005-06 from 24.99% to 24.577%, the rate for general employees have increased from 0% to 6.289%. Effective December 1, 2005 this rate will increase from 6.289% to 9.591%

Annual Pension Cost

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

Three Year Trend Information

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

REQUIRED SUPPLEMENTARY INFORMATION - Schedule of Funding Progress (Unaudited)

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

5. Self-Insurance Program

The City is self-insured for Workers' Compensation claims up to \$3,000,000 per occurrence and general public liability up to \$2,000,000 per occurrence. Additional coverage in excess of these limits has been purchased from third-party insurance companies. Workers' Compensation and general public liability insurance protection is provided through internal service funds maintained by the City. The City is also self-insured for unemployment insurance and general auto liability through separate Internal Service Funds. The Internal Service Funds charge the Electric Fund for its estimated share of the liability. At June 30, 2005, such liability has been fully funded to the City.

A claims payable liability has been established in these funds on case basis estimates of reported claims and an estimate for claims incurred but not reported. Management believes that provisions for claims at June 30, 2005 are adequate to cover the net cost of claims incurred to date. However, such liabilities are, by necessity, based upon estimates and there can be no assurance that the ultimate cost will not exceed such estimates.

6. Net Assets

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

Excess capital surcharge revenue designated to retrofit the City's Grayson Power Plant as

mandated by Air Quality Management for fiscal years 2005 and 2004 was \$11,389,940 and \$10,343,844, respectively.

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

7. Capital Assets

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

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

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

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

8. Jointly Governed Organizations

The City has entered into seven “Take or Pay” contracts, which require payments to be made whether or not projects are completed or operable, or whether output from such projects is suspended, interrupted or terminated. Such payments represent the City’s share of current and long-term obligations. Payment for these obligations is expected to be made from operating

revenues received during the year that payment is due. These contracts provide for current and future electric generating capacity and transmission of energy for City residents. Through these contracts, the City purchased approximately 48% of its total energy requirements during fiscal year 2004-05. This energy will displace some of the energy that was to have been supplied by the local generating plant. The City is obligated to pay the amortized cost of indebtedness regardless of the ability of the contracting agency to provide electricity. The original indebtedness will be amortized by adding the financing costs to purchase energy over the life of the contract. All of these agreements contain “step-up” provisions obligating the City to pay a share of the obligations of any defaulting participant.

The Intermountain Power Project, a subdivision of the State of Utah, was formed in January 1974 to finance the construction of a 1,400 megawatt coal-fired generating plant, consisting of two generating units located near Delta, Utah.

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

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

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

The first of the SCPPA projects is a 3,810 megawatt nuclear fuel generation plant in Arizona (Palo Verde). The Palo Verde nuclear project consists of three (3) units, each having an electric output of approximately 1,270 megawatts. SCPPA has purchased approximately 225 megawatts of capacity and associated energy (approximately 5.910% of total Palo Verde output), of which the City receives 9.9 megawatts or 4.400% of SCPPA’s entitlement. As of June 30, 2005, Glendale’s share is 4.400% (PV).

As required by the Participation Agreement, the co-owners of the Palo Verde Nuclear Generating Station (PVNGS) have created external accounts for the decommissioning of

PVNGS at the end of its life. The market value of the Authority's accounts for decommissioning was approximately \$133,100,000 at June 30, 2005. Based on the most recent (2004) estimate of decommissioning costs, SCPPA estimates that its share of the amount required for decommissioning of PVNGS is now fully funded. No assurance can be given, however, that such amount will be sufficient to fund SCPPA's share of decommissioning costs. SCPPA anticipates receiving a new estimate of decommissioning costs every three years.

A second project financed through SCPPA is the Southern Transmission System that transmits power from the coal-fired IPP to Southern California. The 500 kV DC line is rated at 1,920 megawatts. The City's share of the line is 2.2740% or approximately 44 megawatts. As of June 30, 2005, Glendale's share is 2.2740% (STS).

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

A fourth project financed through SCPPA is Mead-Adelanto Project. The project consists of a 202-mile 500 kV AC transmission line from a termination in southern Nevada, to a termination in the vicinity of Adelanto, California, and the development of the Marketplace Substation at the southern Nevada line termination approximately 17 miles southwest of Boulder City, Nevada. The initial transfer capability of the Mead-Adelanto Project is estimated at 1,200 megawatts. SCPPA members in the project are entitled to 815 megawatts. The City is obligated for 90 megawatts or 11.0430% of the SCPPA entitlement. As of June 30, 2005, Glendale's share is 11.0430% (MA).

A fifth project financed through SCPPA is Mead Phoenix Project. The project consists of a 256-mile long 500 kV AC transmission line from the Westwing Substation in the vicinity of Phoenix, Arizona to the Marketplace Substation approximately 17 miles southwest of Boulder City, Nevada with an interconnection to the Mead Substation in southern Nevada. The project consists of three separate components: the Westwing-Mead Component, the Mead Substation Component, and the Mead-Marketplace Component. The City's participation shares in the components range from 11.7647% to 22.7273%. The Mead-Phoenix Project in conjunction with the Mead-Adelanto Project provides an alternative path for the City's purchases from the Palo Verde Nuclear Generating Station, San Juan Generating Station and Hoover Power Plant. These transmission lines also provide access to the southwest U.S. where economical coal energy is readily available. As of June 30, 2005, Glendale's share is 14.8000% (MP).

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

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

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

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

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

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

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

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

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

The City's electric operation is committed to purchase all available landfill gas generated by Scholl Canyon LFG Limited Partnership at a price based on various natural gas indices. The term of this commitment is for a period of twenty years from July 1994 to July 2014. The landfill gas purchase for fiscal year 2004-05 was approximately 1,080,029 MMBtu and the average purchase price was \$10.35 per MMBtu.

The City's electric operation executed two power sale and exchange agreements in 1988. The first agreement is with Bonneville Power Administration (BPA). The agreement extends for twenty years and operates in either a sale or exchange mode. Under the sale mode the City is entitled to 10 megawatts annually, plus an additional 10 megawatts during the summer peaking period. The City is required to purchase 73,000 megawatt hours of energy annually under this agreement. In

the exchange mode, BPA (under periods of adverse hydro conditions) may elect to receive energy from the City during off-peak hours in lieu of City's monthly charges for this agreement.

The second agreement is a twenty-five year power sale and exchange agreement with Portland General Electric Company (PGE). The sale portion calls for the City to receive 20 megawatts of capacity and associated energy over the Pacific Northwest Intertie at its discretion. In exchange, the City may call up to 30 megawatts during the summer months (June through September) and PGE may call for the same amount in winter months (November through February). Energy cannot exceed 1,800 megawatts per week.

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

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

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

Litigation

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

Construction Commitments

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

10. Derivative Products

The City has purchased and sold options (calls and puts) in natural gas futures contracts at appropriate strike prices in upcoming months. These transactions allow the City to stabilize the ultimate purchase price of natural gas for the City's power plant. They, and other transactions, also give the City the ability to manage its overall exposure to fluctuations in the purchase price of natural gas. The options are carried at the lower of cost or market in the accompanying financial statements. At June 30, 2005 and 2004, carrying value and market value of the options are \$169,500 and \$155,700, and \$429,800 and \$709,450, respectively.

11. Subsequent Events

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

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