



## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Electric Enterprise Fund of the City of Glendale, California (the City), as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements of the Electric Enterprise Fund is intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities of the City of Glendale that is attributable to the transactions of the Electric Enterprise Fund. It does not purport to, and does not present fairly the financial position of the City as of June 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Enterprise Fund of the City as of June 30, 2006 and 2005, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2006, on our consideration of the City of Glendale's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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

*Vannitt, Tame, Day & Co., LLP*

Rancho Cucamonga, California  
November 17, 2006

## 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, 2006. 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 2006, the Electric Utility retail operating revenues increased 4% as the volume of sales increased 3% from the prior year. The increase in revenue is directly attributable to the increase in the rates charged to the customers and the increase in volume of sales. The continuing increases in the costs of labor, materials and energy resulted in net retail operating revenues of \$(13,138) on revenues of \$157,107 less \$170,245 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 \$174 on revenues of \$13,100 less \$12,926 in expenses. The total net assets decreased by \$25,020 after adding net non-operating revenues of \$5,628 and subtracting \$17,684 in the Transfers to the City.

The assets of the Electric Utility exceeded its liabilities at the close of fiscal year 2006 by \$327,779. Of this amount, \$136,756 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 75% of annual operating expenses for 2006.

### **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 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 \$327,779 at the close of the most recent fiscal year. A portion of the Utility's net assets (55.6%) 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 (2.6%) 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 (41.7%) 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:

	2006	2005
Current and Noncurrent Assets	\$ 163,330	\$ 227,425
Capital Assets	248,860	217,674
	<u>412,189</u>	<u>445,099</u>
Current Liabilities	17,553	24,740
Long-Term Debt	65,195	66,246
Other Noncurrent Liabilities	1,663	1,314
	<u>84,410</u>	<u>92,300</u>
Net Assets:		
Invested in capital assets, net of related debt	182,371	148,542
Restricted	8,653	12,460
Unrestricted	136,756	191,797
	<u>327,779</u>	<u>352,799</u>
Total Net Assets	<u>\$ 327,779</u>	<u>\$ 352,799</u>

The Electric Utility's net assets decreased by \$25,020 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:

	<u>2006</u>	<u>2005</u>
Revenues:		
Retail sales, net	\$ 141,467	\$ 135,862
Wholesale Sales	13,100	4,357
Sale to Other Utilities	15,641	8,580
Interest Income	4,532	6,056
Other revenues and grants	2,418	1,746
Capital contributions	<u>2,081</u>	<u>1,046</u>
 Total Revenues	 <u>179,238</u>	 <u>157,647</u>
Expenses:		
Production	145,013	104,226
Transmission and distribution	16,613	15,625
Customer accounting and sales	6,237	5,616
Depreciation	14,621	14,593
Gas Depletion	688	-
Interest expense	<u>3,403</u>	<u>4,074</u>
 Total Expenses	 <u>186,575</u>	 <u>144,133</u>
 Transfers to the City's General Fund	 <u>17,684</u>	 <u>17,008</u>
 Total Expenses and transfers	 <u>204,258</u>	 <u>161,141</u>
 Changes in net assets	 <u>(25,020)</u>	 <u>(3,494)</u>
 Total net assets, beginning of year	 <u>352,799</u>	 <u>356,293</u>
 Total net assets, end of year	 <u>\$ 327,779</u>	 <u>\$ 352,799</u>

Retail sales (residential, commercial, industrial and other sales) continued to be the primary revenue source for the Electric Utility, making up 79% of total revenue. Retail sales showed a increase of 4% from the prior year reflecting an increase of one-quarter penny per kWh beginning January 1, 2006 and an increase in volume of sales. Sales to Other Utilities accounted for the receipts from disposing of excess retail energy supply. This account was established to differentiate such sales from the wholesale operation. Sales to Other Utilities increased 82% largely due to an increase in receipts from the disposal of excess natural gas supply purchased for the Magnolia Power Project which had multiple months of inactivity. Gas Depletion is a new account established this year to record the usage of natural gas associated with the Electric Utility's share of the Natural Gas Project through SCPPA.

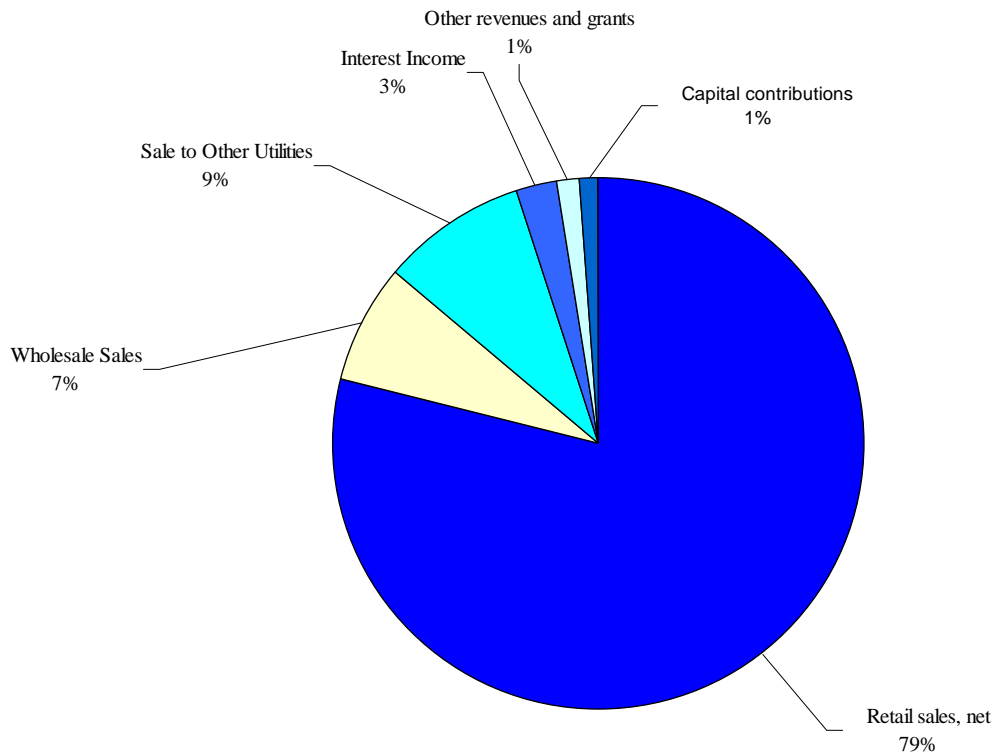
Wholesale sales increased 201% compared to the prior year. The increase was primarily the result of increased wholesale activity.

The Interest income decreased by \$1,524, or 25% below the prior year level. The decrease was attributable to a reduction of cash in the Electric Utility's investment portfolio.

Capital Contributions increased by 99% from the prior year. The increase reflects the increased



level of construction projects funded by others, primarily retail customers.

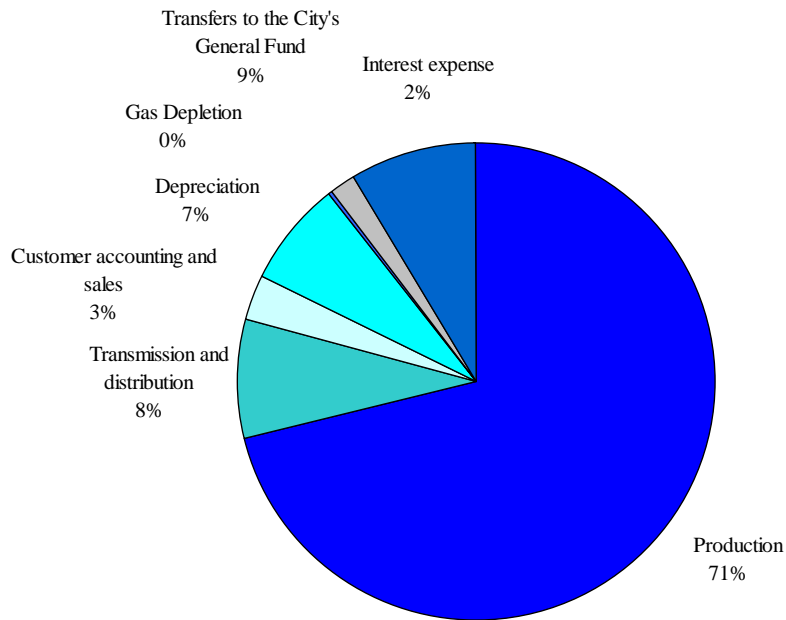


### **Expenses by Source – Electric Utility**

Total expenses for the Electric Utility increased by \$42,441 (or 29%) over the prior year levels.

Production expenses increased 39.1% reflecting the increase in wholesale activity and the rising cost of energy and natural gas. The Transmission and Distribution expenses were on par with the prior year level. Customer accounting and sales expenses increased 11.1% over the prior year reflecting continuing increases in labor costs. Depreciation expenses remain relatively unchanged.

Interest expenses decreased by 16.5% reflecting the absence of the arbitrage rebate recognized in the previous year and a reduction of interest expense due to the refunding of the Electric Revenue Bonds, Series 2000. 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 \$676, reflecting an increase in total retail revenues.



## Capital Assets and Debt Administration

### *Capital Assets*

As of June 30, 2006, the Electric Utility's investment in capital assets totals \$248,860 (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 14% 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 share of the Natural Gas Project through SCPPA, completed on July 1, 2005, was capitalized this year.

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

	2006	2005
Production	\$ 105,649	\$ 104,434
Transmission and distribution	286,983	258,916
Natural Gas Reserve	14,246	-
General	50,403	49,805
Less: Accumulated depreciation	(208,421)	(195,481)
<b>Total</b>	<b>\$ 248,860</b>	<b>\$ 217,674</b>



### *Long-Term Debt*

As of June 30, 2006, the Electric Utility had outstanding long-term debt of \$65,195. 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:

	2006	2005
Electric Revenue Bonds	\$ 68,085	\$ 67,050
Less: Current portion	(1,384)	(1,512)
Unamortized bond premium	718	578
Unamortized accrued interest	126	131
Deferred Amount on Refunding	(2,350)	-
Total long-term debt	<u>\$ 65,195</u>	<u>\$ 66,246</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 a rate increase of one-quarter penny per kWh beginning January 1, 2006.

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.

**CITY OF GLENDALE**  
**ELECTRIC FUND**  
Statements of Net Assets  
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Current assets:		
Cash and invested cash	\$ 64,118,796	\$ 82,509,250
Imprest cash	3,200	3,200
Cash with fiscal agent	2,558,601	1,077,179
Interest receivable	1,057,558	1,438,458
Investment-gas/elec commodity	2,814,247	3,945,568
Accounts receivable, net	8,655,954	10,670,101
Unbilled receivable	15,259,810	10,636,493
Due from other agencies	46,909	-
Due from other funds	1,331,140	1,331,140
Deposits	9,717	9,717
Inventories	5,510,638	4,470,457
Prepaid items	977,317	599,631
	<hr/>	<hr/>
Total current assets	102,343,887	116,691,194
Noncurrent assets:		
Designated & invested cash	60,087,138	109,583,382
Deferred charges	898,635	1,150,148
	<hr/>	<hr/>
Total noncurrent assets	60,985,773	110,733,530
Capital assets:		
Land	6,083,674	6,002,674
Natural Gas Reserve	14,245,862	-
Buildings and improvements	56,519,074	56,202,126
Machinery and equipment	343,295,366	316,971,666
Bldg & impro accm depreciation	(207,733,762)	(195,480,811)
Gas Depletion	(687,692)	-
Construction in progress	37,137,222	33,978,572
	<hr/>	<hr/>
Total capital assets	248,859,744	217,674,227
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Total assets	412,189,404	445,098,951

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

## Liabilities and Net Assets

### Current liabilities:

Accounts payable	9,835,706	17,640,520
Contracts-retained amount due	1,889,840	719,650
Accrued wages and withholding	1,127,582	1,079,506
Interest payable	807,062	1,374,416
Bonds payable, due in one year	1,383,611	1,511,993
Compensated absences	265,012	500,000
Deferred revenues	158,100	-
Deposits	2,085,673	1,913,586

Total current liabilities	<u>17,552,586</u>	<u>24,739,671</u>
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### Noncurrent liabilities:

Compensated absences	1,464,509	1,115,370
Post employment benefits	198,517	198,517
Long term debt	65,194,852	66,246,191

Total noncurrent liabilities	<u>66,857,878</u>	<u>67,560,078</u>
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Total liabilities	<u>84,410,464</u>	<u>92,299,749</u>
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### Net assets:

Investment in capital assets, net of related debt	182,370,523	148,541,626
Restricted		
Debt service	2,397,824	1,070,384
SCAQMD emission controls	6,254,725	11,389,940
Unrestricted	136,755,868	191,797,252

Total net assets	<u>\$ 327,778,940</u>	<u>\$ 352,799,202</u>
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**CITY OF GLENDALE****ELECTRIC FUND**

## Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Electric Domestic Sales	\$ 50,870,056	\$ 48,775,385
Electric Commercial Sale	90,595,242	87,085,389
Electric St Light Sales	1,313	1,258
Electric Wholesale Sales	13,100,161	4,356,897
Sale to Other Utilities	15,640,657	8,579,689
Miscellaneous revenues	2,414,656	1,746,431
	<u>172,622,086</u>	<u>150,545,049</u>
Total operating revenues		
Operating expenses:		
Production	145,013,420	104,225,785
Transmission	16,613,045	15,624,721
Customer accounting and sales	6,237,021	5,616,372
Depreciation	14,620,507	14,592,753
Gas depletion	687,692	-
	<u>183,171,685</u>	<u>140,059,631</u>
Total operating expenses		
Operating income (loss)	<u>(10,549,599)</u>	<u>10,485,418</u>
Non operating revenues (expenses):		
Interest revenue	4,531,640	6,056,032
Grant revenue	2,936	-
Interest expense	(3,402,983)	(4,073,642)
Donations & Contribution	2,081,331	1,046,255
	<u>3,212,924</u>	<u>3,028,645</u>
Total non operating revenues, net		
Income before transfers	<u>(7,336,675)</u>	<u>13,514,063</u>
Transfer out:		
Transfer-General Fund	(17,683,587)	(16,982,754)
Transfer-Capital Funds	-	(25,000)
	<u>(17,683,587)</u>	<u>(17,007,754)</u>
Total transfer		
Change in net assets	(25,020,262)	(3,493,691)
Total Net asset, July 1	<u>352,799,202</u>	<u>356,292,893</u>
Total Net assets, June 30	<u>\$ 327,778,940</u>	<u>\$ 352,799,202</u>

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

Statements of Cash Flows  
Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash from customers	\$ 169,966,011	\$ 153,305,490
Cash paid to employees	(33,697,600)	(30,186,105)
Cash paid to suppliers	(141,474,451)	(87,534,272)
Net cash provided (used) by operating activities	<u>(5,206,040)</u>	<u>35,585,113</u>
Cash flows from noncapital financing activities:		
Operating transfers out	(17,683,587)	(17,007,754)
Operating grant received	2,936	-
Net cash provided (used) by noncapital financing activities	<u>(17,680,651)</u>	<u>(17,007,754)</u>
Cash flows from capital and related financing activities:		
Interest on long term debt	(3,970,338)	(4,089,542)
Bond, premium and interest accrued	(1,179,721)	(810,924)
Contribution in aid	2,081,331	1,046,255
Acquisition of property, plant, and equipment	(46,493,718)	(28,877,438)
Investment - gas/electric commodity	1,131,321	(62,589)
Net cash (used in) capital and related financing activities	<u>(48,431,125)</u>	<u>(32,794,238)</u>
Cash provided by investing activities - interest received	<u>4,912,540</u>	<u>5,953,614</u>
Net increase (decrease) in cash and cash equivalents	(66,405,276)	(8,263,265)
Cash and cash equivalents at beginning of year	<u>193,173,011</u>	<u>201,436,276</u>
Cash and cash equivalents at end of year	<u><u>126,767,735</u></u>	<u><u>193,173,011</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>(10,549,599)</u>	<u>10,485,418</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	14,620,507	14,592,753
Gas Depletion	687,692	-
(Increase)Decrease Accounts receivable net	2,014,151	2,702,791
(Increase)Decrease Unbilled receivable	(4,623,316)	(1,196,067)
(Increase)Decrease Due from other agencies	(46,909)	1,253,716
(Increase)Decrease Inventories	(1,040,181)	(1,168,809)
(Increase)Decrease Prepaid expenses	(377,686)	368,110
(Increase)Decrease Deposits	-	7,283
(Increase)Decrease Deferred Charges	251,513	3,129
Increase(Decrease) Accrued salaries and withholding	48,076	71,122
Increase(Decrease) Compensated absences	114,151	7,358
Increase(Decrease) Post employment benefit	-	198,517
Increase(Decrease) Accounts payable	(7,804,816)	8,856,171
Increase(Decrease) Deferred revenue	158,100	-
Increase(Decrease) Contracts - retention	1,170,190	(682,841)
Increase(Decrease) Deposits	172,087	111,462
Increase(Decrease) Claims payable	-	(25,000)
Total adjustments	<u>5,343,559</u>	<u>25,099,695</u>
Nest cash provided (used) by operating activities	<u>\$ (5,206,040)</u>	<u>\$ 35,585,113</u>
Noncash investing, capital, and financing activities:		
Increase in fair value of investments	(2,679,167)	(2,239,619)

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

# Notes to Financial Statements

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## *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 an enterprise fund, proprietary fund type, as defined under accounting principles generally accepted in the United States of America. The measurement focus is upon financial position, changes in financial position and cash flows. Accordingly, the accrual basis of accounting is followed by the Fund. In accordance with Government Accounting Standards Board (GASB) statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting, the Fund has elected to apply all applicable pronouncements of the Financial Accounting Standards Board (FASB) 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 are capitalized at historical cost. Donated assets representing utility service assets, which are donated to the City by independent contractors, are recorded at actual installation cost to the donor. Depreciation for both purchased and contributed assets are computed using a straight-line method, based upon average estimated useful life of an asset.

#### **A summary of the useful lives of the capital assets of the 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, 2006 and 2005, Electric Fund had \$1,729,521 and \$1,615,370, respectively, of the Electric employees' earned unused accumulated vacation and overtime.

## **Post-Employment Benefit**

All City Employees, including employees of the 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, 2006 and 2005, \$5,442,905 and \$5,730,795, respectively, had been set-aside in the Internal Service Fund-Employee benefits Fund of the City related to such benefits. For additional details please refer to the City of Glendale Comprehensive Annual Report.

## **Unbilled Receivables**

The Fund records utility services delivered to customers but not billed. As of June 30, 2006 and 2005, the Electric Fund's unbilled receivables were \$15,259,810 and \$10,636,493, 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 Investments*

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. 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, \$126,767,735 and \$193,173,011 pertains to the Electric Fund for fiscal year 2006 and 2005, 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:**

	2006	2005
Investments	\$ 466,122,189	\$ 558,306,802
Cash with fiscal agents	16,387,568	18,622,859
	<u>482,509,756</u>	<u>576,929,661</u>
Cash on hand	(2,922,632)	(649,867)
Total	<u>\$ 479,587,125</u>	<u>\$ 576,279,794</u>

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

	2006	2005
Cash and investments	\$ 393,626,073	\$ 439,805,054
Imprest cash	29,480	28,930
Cash with fiscal agents	16,387,568	18,622,859
Investment-gas/electric commodity	2,814,247	3,945,569
Designated cash and investments	66,729,757	113,877,382
Total	<u>\$ 479,587,125</u>	<u>\$ 576,279,794</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.

		Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Commercial Paper	\$	27,364,310	27,364,310	-	-
Federal Agency Term Notes		88,295,418	71,701,887	16,593,531	-
U.S. Government Agency Callable Bonds		306,674,280	76,158,671	167,912,549	62,603,060
Corporate Notes		12,256,334	2,990,754	2,937,285	6,328,295
State Investment Pool		28,947,389	28,947,389	-	-
Money Market		2,584,458	2,584,458	-	-
Held by Fiscal Agents					
Federal Agency Term Notes		3,737,896	-	3,737,896	-
Guaranteed Investment Contracts		4,909,098	-	-	4,909,098
Money Market		7,740,573	7,740,573	-	-
	\$	<u>482,509,756</u>	<u>221,225,938</u>	<u>187,443,365</u>	<u>68,931,355</u>
					<u>4,909,098</u>

The City assumes that callable investments will not be called.

## Disclosures Relating to Credit Risks

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

		Rating as of Year End				
		AAA	AA	Aa2	A1,P1	Unrated
Commercial Paper	\$	27,364,310	-	-	-	27,364,310
Federal Agency Term Notes		88,295,418	88,295,418	-	-	-
U.S. Government Agency Callable Bonds		306,674,280	306,674,280	-	-	-
Corporate Notes		12,256,334	4,916,750	7,339,584	-	-
State Investment Pool		28,947,389	-	-	-	28,947,389
Money Market		2,584,458	2,584,458	-	-	-
Held by Fiscal Agents						
Federal Agency Term Notes		3,737,896	3,737,896	-	-	-
Guaranteed Investment Contracts		4,909,098	-	4,909,098	-	-
Money Market		7,740,573	-	-	-	-
	\$	<u>482,509,756</u>	<u>413,949,375</u>	<u>7,339,584</u>	<u>4,909,098</u>	<u>27,364,310</u>
						<u>28,947,389</u>

## 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
LAIF	State Investment Pool	\$	<u>28,947,389</u>
FHLB	Federal Agency Term Notes		38,453,125
FHLB	Federal Agency Callable Bonds		<u>201,056,234</u>
	Total		<u>239,509,359</u>
FHLMC	Federal Agency Term Notes		30,622,450
FHLMC	Federal Agency Callable Bonds		<u>47,219,052</u>
	Total		<u>77,841,502</u>
FNMA	Federal Agency Term Notes		9,889,062
FNMA	Federal Agency Callable Bonds		<u>48,616,182</u>
	Total	\$	<u>58,505,244</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, 2006, the carrying amount of the City's deposits was (\$2,922,632) and the corresponding bank balance was \$2,039,505. The difference of \$4,962,137 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 \$1,939,505 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, 2006 and 2005 consists of the following:**

	Remaining Interest Rates	Original Issue	Outstanding June 30, 2006	Outstanding June 30, 2005
Electric Revenue Bonds, 2000 Series	5.75%-6.00%	\$37,000,000	\$0	\$37,000,000
Electric Revenue Bonds, 2003 Series	3.25%-6.00%	\$31,640,000	\$29,255,000	\$30,050,000
Electric Revenue Bonds, 2006 Refunding Series	4.00%-5.00%	\$38,830,000	\$38,830,000	\$0

## **Electric Revenue Bonds, 2000 Series**

The Electric Revenue Bonds, 2000 Series were refunded in April 2006 with the Electric Revenue Bonds, 2006 Refunding Series. The proceeds from the Electric Revenue Bonds, 2006 Refunding Series were deposited in an escrow account and were used to refund the Electric Revenue Bonds, 2000 Series through a legal defeasance. Accordingly, the liability for the defeased bonds has been removed from the long-term debt.



## **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 Fund Requirement is defined by the Debt Indentures as the maximum annual debt service on the debt service schedule. Up to 50% of the Reserve Fund Requirement amount may be held in an unrestricted fund or account. The reserve requirement of the bond issue is satisfied by a cash reserve fund with a minimum funding requirement of \$1,070,000.

The bonds mature in regularly increasing amounts ranging from \$795,000 to \$1,865,000 annually from 2004 to 2032. The 2003 Bonds maturing on or prior to February 1, 2013 are not subject to redemption prior to maturity. The 2003 bonds maturing on and after February 1, 2014 are subject to redemption prior to maturity, at the option of the City, as a whole or in part, on February 1, 2013, or on any date thereafter, at a redemption price equal to 100% of the principal amount of the 2003 Bonds to be redeemed, together with accrued interest to the redemption date.

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

The Electric utility of Glendale Water and Power issued \$38,830,000 in revenue bonds in April 2006 to provide moneys for the refunding of all of the City's outstanding Electric Revenue Bonds, 2000 Series. The bond proceeds were deposited in an escrow account and will be used to refund the Electric Revenue Bonds, 2000 Series through a legal defeasance. The advance refunding of Electric Revenue Bonds, 2000 Series resulted in a difference between the reacquisition price of refunding bonds and the net carrying amount of the refunded bonds. Deferred loss on refunding of \$2,394,772 is recognized and reported in the financial statements as a contra account to bonds payable and is being amortized through the year 2030.

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

requirement of \$1,327,440.

The bonds mature in regularly increasing amounts ranging from \$725,000 to \$2,570,000 annually from 2007 to 2030. The 2006 Refunding Bonds maturing on or prior to February 1, 2016 are not subject to redemption prior to maturity. The 2006 Refunding Bonds maturing on and after February 1, 2017 are subject to redemption prior to maturity, at the option of the City, as a whole or in part, on February 1, 2016, or on any date thereafter, at a redemption price equal to 100% of the principal amount of the 2006 Refunding Bonds to be redeemed, together with accrued interest to the redemption date.

The Electric utility of Glendale Water and Power completed the current refunding to reduce its total debt service payments by approximately \$4,850,891 and obtain an economic gain (difference between the present value of the old and new debt service payments) of approximately \$2,992,295.

<b>June 30, 2006</b>	Amount outstanding at			Amount outstanding at		Due within one year
	June 30, 2005	Additions	Retirements	June 30, 2006		
Electric Revenue Bonds, 2000 Series	\$ 37,000,000	-	37,000,000	-	-	-
Electric Revenue Bonds, 2003 Series	30,050,000	-	795,000	29,255,000	795,000	795,000
Electric Revenue Bonds, 2006 Refunding Series	-	38,830,000	-	38,830,000	725,000	725,000
Accrued interest	130,662	-	4,900	125,762	4,900	4,900
Bond Premium	577,522	302,229	161,897	717,853	31,215	31,215
Deferred Amount on Refunding	-	(2,394,772)	(44,620)	(2,350,152)	(172,504)	(172,504)
<b>Total bonds payable</b>	<b>\$ 67,758,184</b>	<b>36,737,457</b>	<b>37,917,177</b>	<b>66,578,463</b>	<b>1,383,611</b>	<b>1,383,611</b>

<b>June 30, 2005</b>	Amount outstanding at			Amount outstanding at		Due within one year
	June 30, 2004	Additions	Retirements	June 30, 2005		
Electric Revenue Bonds, 2000 Series	37,000,000	-	-	37,000,000	690,000	690,000
Electric Revenue Bonds, 2003 Series	30,845,000	-	795,000	30,050,000	795,000	795,000
Accrued interest	-	135,561	4,899	130,662	4,900	4,900
Bond Premium	588,546	-	11,024	577,522	22,092	22,092
<b>Total bonds payable</b>	<b>68,433,546</b>	<b>135,561</b>	<b>810,923</b>	<b>67,758,184</b>	<b>1,511,993</b>	<b>1,511,993</b>

**The annual debt service requirements to amortize long-term bonded debt at June 30, 2006 are as follows:**

Fiscal year	Revenue Bonds		
	Interest	Principal	Total
2007	2,833,311	1,520,000	4,353,311
2008	3,043,738	1,755,000	4,798,738
2009	2,969,900	1,805,000	4,774,900
2010	2,891,575	1,855,000	4,746,575
2011	2,808,763	1,905,000	4,713,763
2012-2016	12,677,533	10,560,000	23,237,533
2017-2021	10,183,528	12,980,000	23,163,528
2022-2026	7,005,383	16,155,000	23,160,383
2027-2031	2,844,775	17,685,000	20,529,775
2032	93,250	1,865,000	1,958,250
	<u>47,351,754</u>	<u>68,085,000</u>	<u>115,436,754</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, 2006 and 2005, the City's actual debt service ratio for the Electric Fund was 3.9\*\* and 6.18\*\*, 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 and employer contributions as well as earnings from investments. According to the plan, City employees were required to contribute 7% of annual salary for general members and 9% of annual salary for public safety members. Effective December 1, 2005, the general members contribution rate increased to 8% of reportable earnings. The City is also required to contribute at an actuarially determined rate; the public safety and the general employee rates were 24.99% and 0% of the annual covered payroll, respectively. As of July 1, 2005, the City's contribution rate for safety members decreased from 24.99% to 24.577% while the City's contribution rate for general members increased from 0% to 6.289%. The City's contribution rate for general members increased again as of 12/1/06 to 9.591%. The contribution requirements of plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

## **Annual Pension Cost**

Contributions to CalPERS totaling \$17,792,610 were made during the fiscal year ended June 30, 2006 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.

<b>Three Year Trend Information</b>			
Fiscal year ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/04	\$ 2,090,971	100%	0
6/30/05	\$ 9,832,076	100%	0
6/30/06	\$17,792,610	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>
6/30/2003	\$770,652,222	795,007,184	(24,354,962)	96.9%	114,964,463	(21.2 %)
6/30/2004	\$806,230,814	864,127,882	(57,897,068)	93.3%	122,073,007	(47.4%)
6/30/2005	\$854,260,613	929,960,421	(75,699,808)	91.9%	131,264,713	57.7%

**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 City's Internal Service Funds charge the Electric Fund for its estimated share of the liability. At June 30, 2006, 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, 2006 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 2006 and 2005 was \$6,254,725 and \$11,389,940, respectively.

Cash Reserve Policy for the Electric Fund was first established in 2003. Its provision calls for annual review of the reserves to determine if the recommended levels are sufficient. The annual review of the Cash Reserve Policy for fiscal year ending June 30, 2006, established a target of \$66,400,000 of designated cash in the following categories: \$40,400,000 for contingency reserve; \$10,000,000 for rate stabilization reserve; and \$16,000,000 for Reserve for Gas Reserve Project. As of June 30, 2006 and 2005, \$60,087,138 and \$109,583,382 was designated, respectively. As of June 30, 2006, the goal of meeting the remaining balance of \$6,312,862 will be met with future available cash.

## *7. Capital Assets*

### **Natural Gas Project**

In June 2005, the City elected to participate in the Natural Gas Reserve 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 \$13.1 million or 4.2553%,

with estimated peak daily volume between 1,600 to 1,800 mmBtu. As of June 30, 2006, balance for Natural Gas Reserve Project including drilling program capitalization of \$1,068,358 was \$14,245,862.

GWP has reserved \$15.7 million for future additional gas field acquisitions and drilling programs to achieve the estimated peak daily volume of 2,000 mmBtu per day. Costs of the drilling program that result in producing wells are capitalized as a component of Natural Gas Reserve. Costs of the drilling program that resulted in non-producing wells are expensed.

**A summary of the changes in Electric Fund 2005 - 2006 Capital Assets is as follows:**

	Balance at June 30, 2005	Additions	Retirements	Balance at June 30, 2006
Production plant	\$ 104,433,797	1,009,063	(206,262)	105,649,122
Transmission & distribution plant	258,916,274	29,823,619	1,756,768	286,983,125
Natural Gas Reserve	-	14,245,862	-	14,245,862
General Plant	49,804,967	1,420,289	822,165	50,403,091
Total electric fund	413,155,038	46,498,833	2,372,671	457,281,199
Less allowance for accumulated depreciation and depletion	195,480,811	15,308,199	2,367,556	208,421,454
Net book value of electric fund	\$ 217,674,227	31,190,634	5,115	248,859,744

**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

**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 2005-06. 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. The Palo Verde (PV) nuclear project consists of three (3) units, each having an electric output of approximately 1,270 megawatts. SCPPA has purchased approximately 225 megawatts of capacity and associated energy (approximately 5.910% of total Palo Verde output), of which the City receives 9.9 megawatts or 4.400% of SCPPA’s entitlement. As of June 30, 2006, 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 \$134,600,000 at June 30, 2006. 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 (STS) that transmits power from the coal-fired IPP to Southern California. The 500 kV DC line is rated at 1,920 megawatts. The City's share of the line is 2.2740% or approximately 44 megawatts. As of June 30, 2006, Glendale's share is 2.2740% (STS).

A third project financed through SCPPA is the acquisition of 41.80% ownership interest in a coal-fired 497 megawatt unit in San Juan Generating Station, Unit 3, located in New Mexico. SCPPA members are entitled to 208 megawatts. The City is obligated for 20 megawatts or 9.8047% of the SCPPA entitlement. As of June 30, 2006, Glendale's share is 9.8047% (SJ).

A fourth project financed through SCPPA is Mead-Adelanto Project (MA). The project consists of a 202-mile 500 kV AC transmission line 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, 2006, Glendale's share is 11.0430% (MA).

A fifth project financed through SCPPA is Mead Phoenix Project (MP). The project consists of a 256-mile long 500 kV AC transmission line from the Westwing Substation in the vicinity of Phoenix, Arizona to the Marketplace Substation approximately 17 miles southwest of Boulder City, Nevada with an interconnection to the Mead Substation in southern Nevada. The project consists of three separate components: the Westwing-Mead Component, the Mead Substation Component, and the Mead-Marketplace Component. The City's participation shares in the components range from 11.7647% to 22.7273%. The Mead-Phoenix Project in conjunction with the Mead-Adelanto Project provides an alternative path for the City's purchases from the Palo Verde Nuclear Generating Station, San Juan Generating Station and Hoover Power Plant. These transmission lines also provide access to the southwest U.S. where economical coal energy is readily available. As of June 30, 2006, Glendale's share is 14.8000% (MP).

A sixth project financed through SCPPA is the Magnolia Power Project (MPP) located on Burbank Water & Power's generation station complex adjacent to Magnolia Boulevard in Burbank, California. The project consists of a combined cycle natural gas-fired generating plant with a nominally rated net base capacity of 242 megawatts. The City is obligated for 40 megawatts or 16.5289% of the project's output. As of June 30, 2006, 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, 2006 is as follows (in thousands):

**Contingent Liability as of June 30, 2006 (in thousands)**

	<u>IPA</u>	<u>SJ</u>	<u>PV</u>	<u>STS</u>	<u>MA</u>	<u>MP</u>	<u>MPP</u>	<u>Total</u>
<b>2007</b>	5,750	1,845	721	1,580	2,333	970	2,983	16,183
<b>2008</b>	6,117	1,845	717	1,642	2,337	973	3,100	16,731
<b>2009</b>	5,755	1,845	712	1,619	2,333	972	3,100	16,336
<b>2010</b>	6,126	1,845	596	1,563	2,338	970	3,100	16,539
<b>2011</b>	7,183	1,845	592	1,575	2,395	1,114	3,100	17,803
<b>2012-2016</b>	27,611	10,154	2,897	8,907	11,890	5,192	15,500	82,151
<b>2017-2021</b>	25,886	4,893	566	8,896	11,874	4,757	15,501	72,373
<b>2022-2026</b>	6,502			5,204			15,500	27,206
<b>2027-2031</b>							15,500	15,500
<b>2032-2036</b>							15,499	15,499
<b>2037-2041</b>							8,575	8,575
<b>Total</b>	90,930	24,271	6,802	30,986	35,500	14,948	101,459	304,896

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 2005-06 and budgets for fiscal year 2006-07 are as follows (in thousands):

<u>Fiscal Year</u>	<u>IPA</u>	<u>SJ</u>	<u>PV</u>	<u>STS</u>	<u>MA</u>	<u>MP</u>	<u>MPP</u>	<u>Total</u>
2006	\$ 4,951	\$ 5,412	\$ 1,886	\$ 393	\$ 178	\$ 170	\$ 1,923	\$ 14,913
2007	7,362	6,402	1,729	435	204	195	4,201	20,528

## 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 2005-06 was approximately 1,162,317 MMBtu and the average purchase price was \$13.79 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 June 2005, the City entered into a power sales agreement with SCPPA for the Ormat Geothermal Energy Project for purchase of up to three megawatts of the project electric energy at \$57.50 per MWh with escalating factor of 1.5% per annum. The project began commercial operation in January 2006.

## **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.

## *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, 2006 and 2005, carrying value and market value of the options are \$510,000 and \$219,050, and \$169,500 and \$155,700, respectively.

## *11. Subsequent Event*

In October 2006, the City entered into a 16-year contract with PPM Energy, Inc. for the purchase of 10 megawatts of capacity from wind-powered resources in Wyoming. The City began taking delivery of the energy under WSPP master agreement from July 1, 2006 through September 30, 2006. The contract term starts on October 1, 2006 for approximately 28,360 MWh annually at \$63 per megawatt hour with no cost escalation through the contract term.