

Notes to Financial Statements – Electric Enterprise Fund

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 that 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.

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, 2004, Electric Fund had \$1,608,013 of the Electric employees' earned unused accumulated vacation and overtime.

Post-Employment Benefit

All City Employees 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, 2004, \$5,061,393 had been set aside in the Internal Service Fund-Employee Benefits Fund of the City related to such benefits.

Unbilled Receivables

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

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. Unbilled accounts receivable totaled \$9,440,426 at June 30, 2004.

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. As of June 30, 2004, the balance in this account was \$220,000.

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 statements 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, 2004. 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, \$200,624,737 pertains to the Electric Fund for fiscal year 2004. 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.

The carrying amount of the City's cash and invested cash at June 30, 2004, and reconciliation to amounts shown on the City's Balance Sheet are as follows:

Cash and Investments:	
Historical cost of net investments	\$ 583,453,409
Net increase in fair value	(6,231,168)
Sub-total	577,222,241
Cash on hand	6,494,160
Imprest cash	37,280
Total	583,753,681
Statement of net assets:	
Cash and invested cash	410,366,903
Designated cash and invested cash	158,200,000
Cash with fiscal agent	15,186,778
Total	\$ 583,753,681

At June 30, 2004, the carrying amount of the City's cash deposits totaled \$6,494,160 and the bank balance of the City's cash deposits maintained in financial institutions is \$19,081,116. The City's agent in the City's name holds the cash deposits. The first \$100,000 of cash deposits is insured by the Federal Depository Insurance Corporation and the remainder \$18,981,116 is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name (Category 3). The primary differences between the carrying amount and the bank balance are deposits in transit and outstanding checks. In accordance with state statutes, the City maintains deposits at those depository institutions insured by the Federal Deposit Insurance Corporation. The California Government Code requires California banks and savings and loan associations to collateralize the deposits of governmental entities by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of those deposits. California law also allows financial institutions to secure the deposits of governmental entities by pledging first trust deed mortgage notes having a collateral value of 150% of a City's total deposits.

Investments: State statutes authorize the City to invest any available funds in securities issued or guaranteed by the United States Treasury or agencies of the United States, bank certificates of deposit, bankers acceptances, negotiable certificates of deposit, the State Treasurer's Investment Pool, Local Agency Investment Fund (LAIF), repurchase agreements, commercial paper and bonds, and registered warrants or treasury notes of the State of California and its local agencies. An advisory board has been established to monitor LAIF's compliance with regulations and investment alternatives established by the State.

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

Notes to Financial Statements – Electric Enterprise Fund

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

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

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

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

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

The following is a summary of the City's investments as of June 30, 2004:

	Category			Uncategorized	Total Fair Value
	1	2	3		
City-held investments					
U.S. Government securities		\$	479,712,172		479,712,172
Corporate notes			36,259,244		36,259,244
Federal Agency Discount Notes			6,999,038		6,999,038
Total	-	-	522,970,454	-	522,970,454
Trustee-held investments					
U.S. Government Securities			10,277,644		10,277,644
Guaranteed Investment Contract				4,909,098	4,909,098
Total	-	-	10,277,644	4,909,098	15,186,742
Investment in pool					
Investment (LAIF)				39,065,045	39,065,045
Total investments	-	-	\$ 533,248,098	43,974,143	577,222,241

Fair Value of Investments: Accounting pronouncement GASB Statement No. 31 generally applies to investments in external investment pools, investments purchased with maturities greater than one year, mutual funds, and certain investment agreements. Generally, governmental entities need to report the fair value changes for these investments at year-end and record these gains or losses on their income statement.

Methods and assumptions used to estimate fair value: The City maintains investment accounting records on amortized cost and adjusts those records to fair value on an annual basis.

The City's investment custodian provides market values on each investment instrument on a monthly basis. The investments held by the City are widely traded in the financial markets, and trading values are readily available from numerous published sources.

Unrealized gains and losses are recorded on an annual basis, and the carrying value of its investments is considered fair value. A separate line item on the statement of activities indicates the amount of investment income.

State of California State Treasurer's Local Agency Investment Fund (LAIF): The City holds an investment in LAIF that is subject to being adjusted to fair value. The City is required to disclose its methods and assumptions used to estimate the fair value of its holdings in LAIF. The City relied upon information provided by the State Treasurer in estimating the City's fair value position of its holdings in LAIF. The City had a contractual withdrawal value of \$39,128,270 whose pro-rata share of fair value was estimated by the State Treasurer to be \$39,065,045. The fair value change in the City's investment of \$30,701, the GRA's investment of \$30,701 and the GRA 2002 Bond's investment of \$1,823 for the year ended June 30, 2004 is included in investment income in the statement of activities.

The State Treasurer's Local Agency Investment Fund (LAIF) is a governmental investment pool managed and directed by the California State Treasurer and is not registered with the Securities and Exchange Commission. An oversight committee, comprised of California State officials and various participants, provides oversight to the management of the fund. The daily operations and responsibilities of LAIF fall under the auspices of the State Treasurer's office. The City is a voluntary participant in the investment pool. The management of the State of California Pooled Investment Account (generally referred to as LAIF) has indicated to the City that as of June 30, 2004, the carrying amount of the pool was \$57,630,116,554 and the estimated market value for the pool (including accrued interest) was \$57,637,500,817. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of asset-backed securities totaling \$923,459,000. LAIF's (and the City's) exposure to risk (credit, market or legal) is not currently available.

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, 2004 consists of the following:

	Remaining Interest Rates	Original Issue	Outstanding June 30, 2004
Electric Revenue Bonds, 2000 Series	5.75% - 6%	\$37,000,000	\$37,000,000
Electric Revenue Bonds, 2003 Series	3.25% - 6%	\$31,640,000	\$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 GWP 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. As of June 30, 2004, the City's cash reserve balance with the bond's fiscal agent was \$808,339. 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.

	Amount outstanding at June 30, 2003	Issuance	Redemption	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
	68,640,000	-	795,000	67,845,000	795,000
Bond premium	613,195	-	24,647	588,548	24,647
Total bonds payable	\$ 69,253,195	-	819,647	68,433,548	819,647

The annual debt service requirements to amortize long-term bonded debt at June 30, 2004 are as follows:

Fiscal year	Revenue Bonds		
	Interest	Principal	Total
2005	3,628,125	795,000	4,423,125
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
2010-2014	15,449,226	8,850,000	24,299,226
2015-2019	13,049,500	10,910,000	23,959,500
2020-2024	9,841,605	14,240,000	24,081,605
2025-2029	5,444,715	18,800,000	24,244,715
2030-2032	707,050	8,085,000	8,792,050
	61,931,196	67,845,000	129,776,196

There are a number of limitations and restrictions contained in the bond indenture. The utility is in compliance with all significant limitations and restrictions except for meeting the reserve requirement of \$1,070,000 for 2003 Bonds. As of June 30, 2004, the City's cash reserve balance with fiscal agent was \$808,339.

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, 2004, the City's actual debt service ratio for the Electric Fund was 7.9**.

** (Calculated using net income, add depreciation, add transfer, add interest expense, minus contributions in aid divided by FY 2003-04 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. 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. The City is also required to contribute at an actuarially determined rate; the current public safety rate and the current general employee rates are 5.812% and 0% respectively of annual covered payroll, as the City's retirement is fully funded. 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 dramatically increased in fiscal year 2004-05 from 5.812% to 24.99%; the rate for general employees remained at zero percent.

Annual Pension Cost

Contributions to CalPERS totaling \$11,054,452 were made during the fiscal year ended June 30, 2004 in accordance with actuarially determined contribution requirements through an actuarial

valuation performed at June 30, 2002. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.25% a year compounded annually (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 4.27% to 11.59%, (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 percentage 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
6/30/02	\$ 8,291,590	100%	0
6/30/03	\$ 9,457,653	100%	0
6/30/04	\$ 11,054,452	100%	0

REQUIRED SUPPLEMENTARY INFORMATION - Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets <a>	Actuarial Liability <AAL> – Entry Age 	(Unfunded AAL) / Overfunded AAL <a-b>	Funded Ratio <a/b>	Covered Payroll <c>	(Unfunded AAL)/ Overfunded AAL as a Percentage of Covered Payroll <(a-b)/c>
06/30/2000	794,954,969	639,884,600	155,070,369	124.2%	95,697,086	162.0%
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%

5. Self-Insurance Program

The City is self-insured for Workers' Compensation claims up to \$2,000,000 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, 2004, 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, 2004 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 year 2004 was \$10,343,844.

A Cash Reserve Policy for the Electric Fund was first established in 2003. Its provision calls for annual review of the reserves to determine if the recommended levels are sufficient. The annual review of the Cash Reserve Policy for fiscal year ending June 30, 2004, established a target of \$192,055,700 of designated cash in the following categories: \$36,700,000 for contingency reserve; \$15,355,700 for rate stabilization reserve; and \$140,000,000 for capital reserve. As of June 30, 2004, \$151,300,000 is designated with the goal of meeting the remaining \$40,755,700 with future available cash.

7. Capital Assets

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

	Balance at July 1, 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 and 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 43% of its total energy requirements during fiscal year 2003-04. 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 agency, a subdivision of the State of Utah, was formed in January 1974 to finance the construction of a 1,685 megawatt coal-fueled generating plant consisting of two generating units located near Delta, Utah. The City through contract is obligated for 29 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 7 megawatts or 0.501% beginning March 24, 2004. The City's total obligation from Intermountain Power Project (IPP) is 36 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, 2004, 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 \$128,100,000 at June 30, 2004. Based on the most recent (2002) 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, 2004, Glendale's share is 2.2740% (IPP).

A third project financed through SCPPA is the acquisition of an ownership interest in Unit 3 of the San Juan Generating Station located approximately 15 miles northwest of Farmington, New Mexico. Members of SCPPA in this project consist of the Imperial Irrigation District and the California cities of Glendale, Azusa, Banning and Colton. SCPPA holds 41.8000% interest, the Public Service Company of New Mexico holds a 50% interest, and Tri-State G & T holds the remaining 8.2000% interest in the Unit. SCPPA members are entitled to receive approximately 204 megawatts of power from the 488 megawatt unit. The City is obligated for 20 megawatts or 9.8046% of SCPPA's entitlement. As of June 30, 2004, Glendale's share is 9.8047% (SJ).

A fourth project financed through SCPPA 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, 2004, Glendale's share is 11.0430% (MA).

A fifth project financed through SCPPA consists of a 256-mile long 500 kV AC transmission line from the Westwing Substation in the vicinity of Phoenix, Arizona to 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, 2004, Glendale's share is 14.5193% (MP).

A sixth project financed through SCCPPA is the Magnolia Power Project located on four (4) acres of Burbank Water & Power's generation station complex adjacent to Magnolia Boulevard in Burbank California. Members of SCPPA in this project are the cities of Anaheim, Burbank, Glendale, Pasadena, Cerritos and Colton. Glendale is obligated for 40 megawatts or 16.5289% of the project's output. As of June 30, 2004, Glendale's share is 16.5289% (MPP).

Currently, construction of the Magnolia Power Project is underway to provide a clean, reliable, and lower-cost electricity resource for the cities by mid-2005. The natural-gas-fired 310-megawatt power plant will help maintain lower electric rates for municipal utility customers. In April, 2003, SCPPA successfully financed \$299 million in 30-year bonds, at an average cost of 4.91% to fund the \$234

million power plant's construction and for interest during construction, insurance costs, and contingency needs.

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

Project	Final Maturity Date	Glendale's Share
Intermountain Power Project (IPA)	2027	2.2740%
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	14.5193%
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, 2004 is as follows (in thousands):

	IPA	SJ	PV	STS	MA	MP	MPP	Total
2005	\$ 6,588	\$ 1,845	\$ 3,535	\$ 1,499	\$ 1,135	\$ 480	\$ 2,617	\$ 17,699
2006	6,681	1,842	1,256	1,553	1,135	480	2,617	15,564
2007	6,666	1,839	1,256	1,603	2,303	940	3,249	17,856
2008	6,865	1,838	1,256	1,492	2,306	942	3,369	18,068
2009	6,431	1,835	2,510	1,466	2,302	940	3,365	18,849
2010-2014	34,851	10,217	10,904	7,667	11,450	5,102	16,738	96,929
2015-2019	28,147	6,631	26,596	7,860	11,420	4,461	16,636	101,751
2020-2024	-	1,188	-	8,309	4,584	1,799	16,566	32,446
2025-2029	-	-	-	-	-	-	16,468	16,468
2030-2034	-	-	-	-	-	-	16,343	16,343
2035-2037	-	-	-	-	-	-	15,406	15,406
Total	96,229	27,234	47,312	31,450	36,635	15,144	113,374	367,379

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 2003-04 and budgets for fiscal year 2004-05 are as follows (in thousands):

Fiscal Year	IPA	SJ	PV	STS	MA	MP	MPP	Total
2004	\$ 4,650	\$ 4,027	\$ 1,635	\$ 459	\$ 230	\$ 138	\$ -	\$ 11,139
2005	6,188	4,379	1,500	315	(25)	69	-	12,426

9. Contingent Liabilities and Commitments

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.

Power Purchase Agreements

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 2003-04 was approximately 1,011,460 MMBtu and the average purchase price was \$8.72 per MMBtu.

The City's electric operation executed two power sale and exchange agreements in 1988. These agreements provide long-term obligations to provide and purchase energy and capacity to and from other utilities. The first agreement is with Bonneville Power Administration (BPA).

The agreement extends for 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 the 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. The anticipated commercial operation of the project will be in January 2006.

Construction Commitments

As of June 30, 2004, the City's electric operation had major commitments of approximately \$20 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 entered into the following agreements, which represent derivative products:

a. The City has negotiated fixed-for-float swap transactions based on the commodity price of natural gas at the San Juan and Permian basins to mitigate the market risk of its long-term take-or-pay landfill gas purchase contract.

b. 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, 2004, carrying value and market value of the options are \$429,800 and \$709,450 respectively.

11. Subsequent Event

As of June 30, 2004, \$712,991 was set aside in the retention payable account of the Electric Fund for a contract with Applied Utility Services. On February 10, 2005, the City's electric operation paid \$975,000 to Applied Utility Services according to a legal settlement.

12. Restatement of Prior Year Fund Balance/Net Assets

Energy Sales Revenue Accrual

\$5,590,714 of energy sales revenue for the fiscal year ended June 30, 2003 was erroneously recorded as revenue in fiscal year 2003-2004. To correct the error, the Electric Fund beginning balance of fiscal year 2003-2004 was restated.