



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 Water 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 Water 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 Water 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 Water 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.

Vanniel, Tami, Day, Co., LLP

Rancho Cucamonga, California
November 17, 2006

MANAGEMENT DISCUSSION AND ANALYSIS – WATER UTILITY

As management of Glendale *Water & Power* (a department of the City of Glendale), we offer the readers of the City of Glendale Water Enterprise Fund (Water Utility) financial statements, a fund of the City, this narrative overview and analysis of the financial activities of the Water 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 the fiscal year 2006, the Water Utility retail operating revenues increased 5% while the volume of sales was at a similar level as in the prior year. The revenue increase was directly attributable to the increase in rates charged to the customers. Operating expenses increased due to the increases in production and depreciation expenses. The increase in production expenses was due to the increased cost of purchased water supplied by MWD, the cost of electricity for pumping water through the transmission and distribution system and labor. The increase in depreciation expenses resulted from an increase in capital assets. Net operating revenues was \$5,038. Total net assets increased by \$2,969 after adding net non-operating revenues of \$1,805 and subtracting \$3,874 in Transfers to the City's General Fund.

The assets of the Water Utility exceeded its liabilities at the close of fiscal year 2006 by \$88,118. Of this amount, \$8,089 was unrestricted and may be used to meet the Water Utility's ongoing obligations to creditors and customers. At the end of the fiscal year, this unrestricted net assets represented 31% 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 Water Utility financial statements. The Water 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 Water Utility and provide comparative information for the last two fiscal years. Information on city-wide financial results is available in the City of Glendale's Comprehensive Annual Financial Report.

The City of Glendale Water 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 Water 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 Water 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 Water 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 Water Utility's financial position. In the case of the Water Utility, assets exceeded liabilities by \$88,118 at the close of the most recent fiscal year. A portion of the Utility's net assets (90.8%) reflects its investment in capital assets, such as production, transmission, and distribution facilities, less any related outstanding debt used to acquire those assets. The Water 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.

There are no current external restrictions on the Water Utility's net assets that limit how they may be used.

The Unrestricted portion of the Utility's net assets (9.2%) may be used to meet the Water Utility's ongoing obligations to creditors and customers.

Net Assets – Water Utility

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

	2006	2005
Current and Noncurrent Assets	\$ 11,481	\$ 12,614
Capital Assets	80,029	75,582
Total Assets	<u>91,510</u>	<u>88,196</u>
Total Liabilities	<u>3,392</u>	<u>3,047</u>
Net Assets:		
Invested in capital assets, net of related debt	80,029	75,582
Unrestricted	<u>8,089</u>	<u>9,567</u>
Total Net Assets	<u>\$ 88,118</u>	<u>\$ 85,149</u>

The Water Utility's net assets increased by \$2,969 during the current fiscal year.

Changes Net Assets – Water Utility

The Water 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	\$ 31,189	\$ 29,698
Adjustable Rate Adjustment	-	55
Interest Income	223	295
Other revenues and grants	1,172	1,493
Capital contributions	410	321
	<u>32,993</u>	<u>31,862</u>
Expenses:		
Production	19,583	18,118
Transmission and distribution	2,300	2,645
Customer accounting and sales	2,068	2,167
Depreciation	2,199	2,098
	<u>26,151</u>	<u>25,028</u>
Transfers to the City's General Fund	3,874	3,719
	<u>30,024</u>	<u>28,747</u>
Total Expenses and transfers		
Changes in net assets	<u>2,969</u>	<u>3,115</u>
Total net assets, beginning of year	<u>85,149</u>	<u>82,034</u>
Total net assets, end of year	<u>\$ 88,118</u>	<u>\$ 85,149</u>

Revenues by Source – Water Utility

Retail sales (residential, commercial, industrial and other sales) continued to be the primary revenue source for the Water Utility, making up 95% of total revenue. Retail sales showed an increase of 5% from the prior year, directly attributable to the 15 cent per HCF increase in rates charged to the customers effective January 1, 2006.

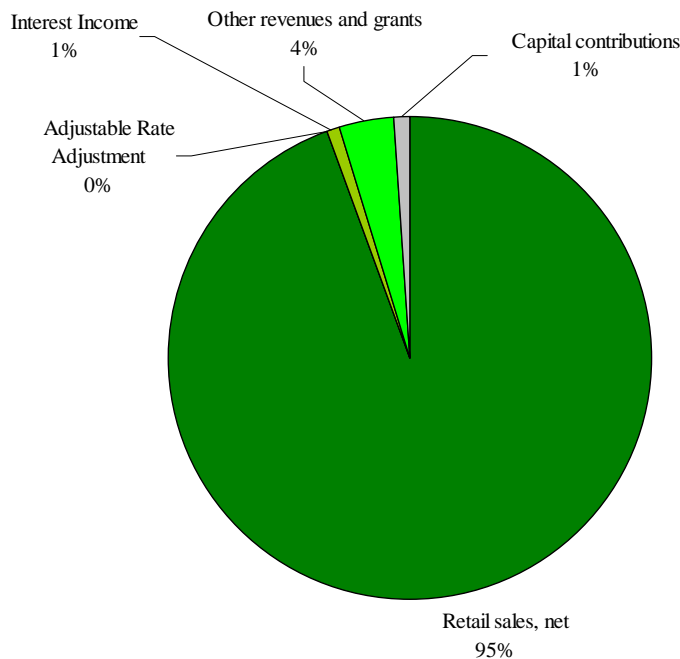
The Adjustable Rate Adjustment recognized as revenues the difference between the adjustable

water rate revenues collected from retail customers and the costs of purchased water from MWD and the electricity for pumping water through the transmission and distribution system.

Interest income decreased by \$73, or 25% below the prior year level. The decrease was attributable to a reduction of cash in the Water Utility's investment portfolio.

Capital contributions increased 28% from prior year levels. The increased amount over prior year reflected an increased level of construction projects funded by others, primarily by retail customers.

Grants decreased by \$100, or 34% compared to the prior year level, reflecting the decrease in grant funds received from EPA for water quality projects.



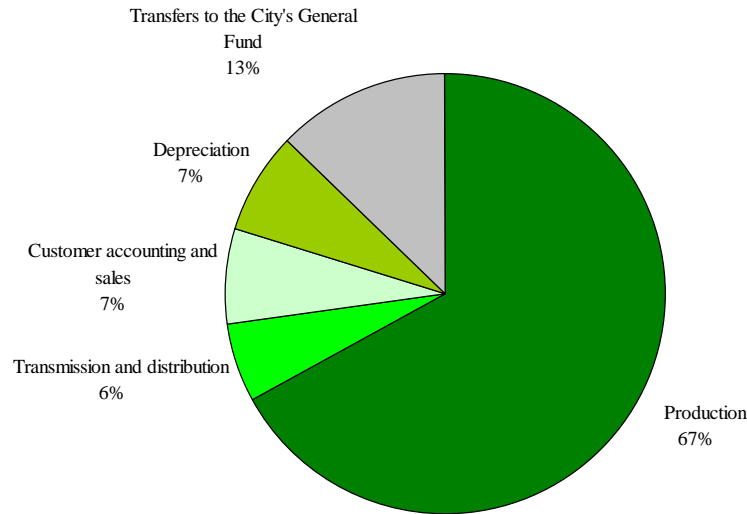
Expenses by Source – Water Utility

Total expenses for the Water Utility remained relatively unchanged.

Production expenses, comprised primarily of MWD water supply cost, increased by 8% reflecting the increase in the cost of purchased water supplied by MWD, electricity for pumping water through the transmission and distribution system and labor. Transmission and distribution expenses decreased by 13% as a result of reduced maintenance requirements on transmission infrastructure. Depreciation expense increased by 5% reflecting an increase in capital assets.

Transfers to the City's General Fund are based on a formula representing a certain

percentage of total retail revenues. Transfers to the City's General Fund increased by \$155, reflecting an increase in total retail revenues.



Capital Assets and Debt Administration

Capital Assets

The Water Utility's investment in capital assets as of June 30, 2006 totaled \$80,029 (net of accumulated depreciation). This included investments in production, transmission, and distribution related facilities, as well as general items such as office equipment, furniture, etc. This fiscal year showed an 6% increase in capital assets over the prior year as the implementation of long-term infrastructure improvement programs began.

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

	2006	2005
Production	\$ 25,987	\$ 24,100
Transmission and distribution	88,156	83,575
General	12,834	12,769
Less: Accumulated depreciation	<u>(46,948)</u>	<u>(44,862)</u>
Total	<u>\$ 80,029</u>	<u>\$ 75,582</u>

Long-Term Debt

As of June 30, 2006, the Water Utility had no long-term debt outstanding.

Economic Factors and Rates

Although inflationary trends in the Glendale region remained relatively low, the Water Utility's cost escalation is not strictly attributable to inflation. One of the main drivers of the increase in costs relates to the drought conditions the region has been experiencing for several years. This has resulted in additional costs to purchase water, much more costly than the groundwater supply. In addition, the costs of the long-term capital improvement programs to improve the aging infrastructure will place additional pressure on the Water Utility's financial conditions.

Recognizing the need for long-term financial planning for the Water Utility, City Council adopted the Water Cash Reserve Policy in December 2003 to provide the foundation for strengthening the financial health of the Water Utility. 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 improvement.

There was a 15 cent per HCF increase in rates charged to the customers effective January 1, 2006.

Requests for Information

This financial report is designed to provide a general overview of the Water 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
WATER FUND**

Statements of Net Assets
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Current assets:		
Cash and invested cash	\$ 4,088,027	\$ 3,800,967
Imprest cash	1,000	1,000
Interest receivable	54,922	63,800
Accounts receivable, net	1,589,784	1,781,635
Unbilled receivable	3,058,015	2,598,137
Due from other agencies	46,441	74,756
Total current assets	<u>8,838,189</u>	<u>8,320,295</u>
Noncurrent assets:		
Designated & invested cash	<u>2,642,619</u>	<u>4,294,000</u>
Total noncurrent assets	<u>2,642,619</u>	<u>4,294,000</u>
Capital assets:		
Land	1,033,999	1,006,999
Buildings and improvements	76,396,475	70,765,043
Machinery and equipment	40,622,633	39,821,864
Bldg & impro accm depreciation	(46,947,584)	(44,861,872)
Construction in progress	<u>8,923,541</u>	<u>8,849,775</u>
Total capital assets	<u>80,029,064</u>	<u>75,581,809</u>
Total assets	<u>91,509,872</u>	<u>88,196,104</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	1,911,871	1,570,046
Contracts-retained amount due	163,706	279,330
Accrued wages and withholding	145,579	138,323
Compensated absences	88,337	25,000
Deposits	<u>528,003</u>	<u>454,691</u>
Total current liabilities	<u>2,837,496</u>	<u>2,467,390</u>
Noncurrent liabilities:		
Compensated absences	488,170	513,457
Post employment benefits	<u>66,172</u>	<u>66,172</u>
Total noncurrent liabilities	<u>554,342</u>	<u>579,629</u>
Total liabilities	<u>3,391,838</u>	<u>3,047,019</u>
Net assets:		
Investment in capital assets, net of related debt	80,029,064	75,581,809
Unrestricted	<u>8,088,970</u>	<u>9,567,276</u>
Total net assets	<u>\$ 88,118,034</u>	<u>\$ 85,149,085</u>

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

CITY OF GLENDALE
WATER 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:		
Water Metered Sales	\$ 29,486,026	\$ 28,056,678
Water Private Fire	327,155	320,157
Water Other Sales	337,581	291,254
Water-Capital	1,037,932	1,029,466
Water Adjustment Revenue	-	55,416
Miscellaneous revenues	981,647	1,203,138
	<u>32,170,342</u>	<u>30,956,109</u>
Total operating revenues		
Operating expenses:		
Production	19,583,052	18,118,239
Transmission	2,300,246	2,645,344
Customer accounting and sales	2,067,863	2,166,504
Depreciation	2,199,425	2,098,030
	<u>26,150,586</u>	<u>25,028,116</u>
Total operating expenses		
Operating income (loss)	<u>6,019,756</u>	<u>5,927,993</u>
Non operating revenues (expenses):		
Interest revenue	222,768	295,496
Grant revenue	189,931	289,933
Donations & Contribution	410,313	320,929
	<u>823,012</u>	<u>906,358</u>
Total non operating revenues, net		
Income before transfers	<u>6,842,768</u>	<u>6,834,351</u>
Transfer out:		
Transfer-General Fund	<u>(3,873,819)</u>	<u>(3,719,121)</u>
Change in net assets	2,968,949	3,115,230
Total Net asset, July 1	85,149,085	82,033,855
Total Net assets, June 30	<u>\$ 88,118,034</u>	<u>\$ 85,149,085</u>

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

**CITY OF GLENDALE
WATER 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	\$ 31,930,630	31,004,642
Cash paid to employees	(3,367,445)	(2,894,840)
Cash paid to suppliers	(20,238,896)	(19,760,318)
Net cash provided (used) by operating activities	<u>8,324,289</u>	<u>8,349,484</u>
Cash flows from noncapital financing activities:		
Operating transfers out	(3,873,819)	(3,719,121)
Operating grant received	189,931	289,933
Net cash provided (used) by noncapital financing activities	<u>(3,683,888)</u>	<u>(3,429,188)</u>
Cash flows from capital and related financing activities:		
Contribution in aid	410,313	320,929
Acquisition of property, plant, and equipment	(6,646,680)	(7,663,549)
Net cash (used in) capital and related financing activities	<u>(6,236,367)</u>	<u>(7,342,620)</u>
Cash provided by investing activities - interest received	<u>231,645</u>	<u>295,657</u>
Net increase (decrease) in cash and cash equivalents	(1,364,321)	(2,126,667)
Cash and cash equivalents at beginning of year	<u>8,095,967</u>	<u>10,222,634</u>
Cash and cash equivalents at end of year	<u><u>6,731,646</u></u>	<u><u>8,095,967</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>6,019,756</u>	<u>5,927,993</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	2,199,425	2,098,030
(Increase)Decrease Accounts receivable net	191,851	486,040
(Increase)Decrease Unbilled receivable	(459,878)	(362,752)
(Increase)Decrease Due from other agencies	28,315	(74,756)
(Increase)Decrease Inventories	-	287,555
Increase(Decrease) Accrued salaries and withholding	7,257	2,943
Increase(Decrease) Compensated absences	38,050	136,454
Increase(Decrease) Post employment benefit	-	66,172
Increase(Decrease) Accounts payable	341,826	(204,663)
Increase(Decrease) Contracts - retention	(115,625)	42,200
Increase(Decrease) Deposits	73,312	(55,732)
Total adjustments	<u>2,304,533</u>	<u>2,421,491</u>
Nest cash provided (used) by operating activities	<u>\$ 8,324,289</u>	<u>8,349,484</u>
Noncash investing, capital, and financing activities:		
Increase in fair value of investments	(139,138)	(99,334)

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

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies of the City of Glendale (the City) as they pertain to the Water 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 Water Enterprise Fund (the Fund) is used to account for the construction, operation and maintenance of the City-owned water 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 is capitalized at historical cost. Donated assets representing utility service assets, which are donated to the City by independent contractors, are recorded at actual installation cost to the donor. Depreciation for both purchased and contributed assets are computed using a straight-line method, based upon average estimated useful life of an asset.

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

Production plant	15 to 40 years
Transmission & distribution plant	25 to 75 years
General plant	10 to 50 years

Compensated Absences

The Water Fund has a fully funded liability for earned but unused accumulated vacation and overtime. As of June 30, 2006 and 2005, the Water Fund had \$576,507 and \$538,457, respectively, of the Water employees' earned unused accumulated vacation and overtime.

Post-Employment Benefit

All City Employees, including employees of Water 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, \$5,431,405 and \$5,730,795, respectively, had been set-aside in the Internal Service Fund-Employee benefits Fund of the City related to such benefits.

Unbilled Receivables

The Fund record utility services delivered to customers but not billed. As of June 30, 2006 and 2005, the Water Fund's unbilled receivables were \$3,058,015 and \$2,598,137, 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 Water 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 Water Utility uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Water Utility customers are billed either monthly or bi-monthly. Unbilled water 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 Water Utility presents and the City Council adopts an annual budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Water Utility's budget in June each year via a resolution.

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. The Fund's interest in this pool is entirely insured or collateralized as of June 30, 2005. Income from the investment of pooled cash is allocated to the Fund on a monthly basis, based upon the month-end cash balance of the fund as a percent of the month-end total pooled cash balance. Of this total, \$6,731,645 and \$8,095,967 pertains to the Water 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
	482,509,756	576,929,661
Cash on hand	(2,922,632)	(649,867)
Total	\$ 479,587,125	\$ 576,279,794

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:

	Maximum <u>Maturity</u>	Maximum <u>% 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.

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><u>239,509,359</u></u>
FHLMC	Federal Agency Term Notes		30,622,450
FHLMC	Federal Agency Callable Bonds		<u>47,219,052</u>
	Total		<u><u>77,841,502</u></u>
FNMA	Federal Agency Term Notes		9,889,062
FNMA	Federal Agency Callable Bonds		<u>48,616,182</u>
	Total	\$	<u><u>58,505,244</u></u>

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Entity's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 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)

3. 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.

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.

Three Year Trend Information			
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 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>
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. 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.

In December of 2003, GWP management received approval from the City Council to implement a cash reserve policy for the Water Fund to ensure a long term sustainable financial health of the water operation. The policy 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 \$7,500,000 of designated cash in the following categories: \$6,500,000 for contingency reserve; and \$1,000,000 for rate stabilization reserve. As of June 30, 2006 and 2005, \$2,642,619 and \$4,294,000 was designated, respectively. As of June 30, 2006, the goal of meeting the remaining balance of \$4,857,381 will be met with future available cash.

6. Capital Assets

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

	Balance at July 01, 2005	Additions	Retirements	Balance at June 30, 2006
Production plant	\$ 24,099,818	1,381,385	(505,412)	25,986,615
Transmission & distribution Plant	83,575,321	4,734,132	153,812	88,155,641
General plant	12,768,543	533,130	467,280	12,834,392
Total water fund	120,443,681	6,648,647	115,680	126,976,649
Less allowance for accumulated depreciation	44,861,872	2,199,425	113,713	46,947,584
Net book value of water fund	\$ 75,581,809	4,449,222	1,967	80,029,064

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

	Balance at July 01, 2004	Additions	Retirements	Balance at June 30, 2005
Production plant	\$ 22,513,260	809,497	(777,061)	24,099,818
Transmission & distribution Plant	79,507,342	4,785,802	717,823	83,575,321
General plant	11,336,044	2,068,251	635,752	12,768,543
Total water fund	113,356,646	7,663,549	576,514	120,443,681
Less allowance for accumulated depreciation	43,340,356	2,098,030	576,514	44,861,872
Net book value of water fund	\$ 70,016,290	5,565,519	-	75,581,809

7. Contingent Liabilities

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.