

Financial Statements
electric utility

Independent Auditor's Report on the Financial Statements

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

We have audited the accompanying statement of net assets of the Electric Enterprise Fund, a fund of Glendale Water and Power (the Department), of the City of Glendale, California (the City), as of June 30, 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Electric Enterprise Fund for the year ended June 30, 2007 were audited by other auditors whose report, dated November 21, 2007, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Electric Enterprise Fund is a fund of the Department of the City and is administered by the City and the accompanying financial statements only include the financial position, the changes in financial position and cash flows of the Electric Enterprise Fund. They do not purport to, and were not intended to, present the aggregate financial position of the City as of June 30, 2008 and 2007, and the changes in its financial position, or, where applicable, 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 Department as of June 30, 2008, and the changes in financial position and cash flows, thereof for the year 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 26, 2008, on our consideration of the Department's internal control over financial reporting and 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 audit.

The Management's Discussion and Analysis as listed in the table of contents is not a required part of the financial statements but is 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Electric Enterprise Fund's financial statements. The introductory section and operating statistical sections, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying introductory and operating statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Pasadena, California
November 26, 2008

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 years ended June 30, 2008 and 2007. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

During fiscal year 2008, the Electric Utility's retail operating revenues increased by \$14,746 or 9% from prior year level. The increase in retail revenues was attributable to an increase in the rates charged to customers and a small increase in retail sales volume. The increase in operating revenues offset continued increases in the costs of labor, materials, and energy which resulted in net retail operating revenues of \$17,725 on revenues of \$185,672 less \$167,947 in expenses. The wholesale sector experienced lower net revenues of \$2,394 on revenues of \$18,825 less \$16,431 in expenses. The total net assets increased by \$14,758 after adding net non-operating revenues of \$13,014 and subtracting \$18,375 in the Transfers to the City.

During fiscal year 2007, the Electric Utility's retail operating revenues increased by \$21,998 or 16% while the volume of sales were on par with the prior year level. The revenue increase was directly attributable to the increase in the rates charged to the customers. The increase in operating revenues offset continued increases in the costs of labor and materials resulting in net retail operating revenues of \$5,246 on revenues of \$169,435 less \$164,189 in expenses. The wholesale sector experienced higher net revenues of \$2,767 on revenues of \$9,545 less \$6,778 in expenses. The total net assets increased by \$576 after adding net non-operating revenues of \$10,345 and subtracting \$17,782 in the Transfers to the City.

The assets of the Electric Utility exceeded its liabilities at the close of fiscal years 2008 and 2007 by \$343,113 and \$328,355, respectively. Of these amounts, \$180,231 and \$123,389, respectively, was unrestricted and may be used to meet the Fund's ongoing obligations to creditors and customers. These unrestricted net assets represented 98% and 72% of annual operating expenses for fiscal years 2008 and 2007, respectively.

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 32 to 48 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 \$343,113 and \$328,355 as of June 30, 2008 and 2007, respectively. A portion of the Utility's net assets (44% and 60% as of June 30, 2008 and 2007, respectively) reflects its investment in capital assets, such as production, transmission, and distribution facilities, less any related outstanding debt used to acquire those assets. The Electric Utility uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the capital assets themselves cannot be used to liquidate these long-term liabilities.

An additional portion of the Electric Utility's net assets (3% and 3% as of June 30, 2008 and 2007, respectively) 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 (53% and 38% as of June 30, 2008 and 2007, respectively) may be used to meet the Electric Utility's ongoing obligations to creditors and customers.

Net Assets - Electric Utility

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current and noncurrent assets	\$ 208,376	\$ 148,226	\$ 163,330
Capital assets	<u>277,542</u>	<u>261,768</u>	<u>248,860</u>
Total assets	<u>485,918</u>	<u>409,994</u>	<u>412,189</u>
Current liabilities	19,343	15,257	17,553
Long-term debt	123,462	63,548	65,195
Other noncurrent liabilities	<u>-</u>	<u>2,834</u>	<u>1,663</u>
Total liabilities	<u>142,805</u>	<u>81,639</u>	<u>84,410</u>
Net assets:			
Invested in capital assets, net of related debt	152,308	196,574	182,371
Restricted	10,574	8,392	8,653
Unrestricted	<u>180,231</u>	<u>123,389</u>	<u>136,756</u>
Total net assets	<u>\$ 343,113</u>	<u>\$ 328,355</u>	<u>\$ 327,779</u>

Net assets increased by \$14,758 or 4% and \$576 or 0% during fiscal years 2008 and 2007, respectively. These increases in net assets were primarily the result of the increase in the rates charged to the customers in fiscal years 2008 and 2007.

Changes in Net Assets – Electric Utility

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues:			
Retail sales, net	\$ 178,211	\$ 163,465	\$ 141,467
Wholesale sales	18,825	9,545	13,100
Sale to other utilities	7,461	5,970	15,641
Interest income	6,325	7,025	4,532
Other revenues and grants	6,541	2,202	2,418
Capital contributions	<u>3,275</u>	<u>4,295</u>	<u>2,081</u>
Total revenues	<u>220,638</u>	<u>192,502</u>	<u>179,238</u>
Expenses:			
Production	141,765	128,426	145,013
Transmission and distribution	19,336	19,754	16,613
Customer accounting and sales	6,452	6,367	6,237
Depreciation	16,431	15,980	14,621
Gas depletion	394	440	688
Interest expense	<u>3,127</u>	<u>3,177</u>	<u>3,403</u>
Total expenses	<u>187,505</u>	<u>174,144</u>	<u>186,575</u>
Transfers to the City's General Fund	<u>18,375</u>	<u>17,782</u>	<u>17,684</u>
Total expenses and transfers	<u>205,880</u>	<u>191,926</u>	<u>204,258</u>
Changes in net assets	<u>14,758</u>	<u>576</u>	<u>(25,020)</u>
Total net assets, beginning of year	<u>328,355</u>	<u>327,779</u>	<u>352,799</u>
Total net assets, end of year	<u>\$ 343,113</u>	<u>\$ 328,355</u>	<u>\$ 327,779</u>

Revenue by Source – Electric Utility

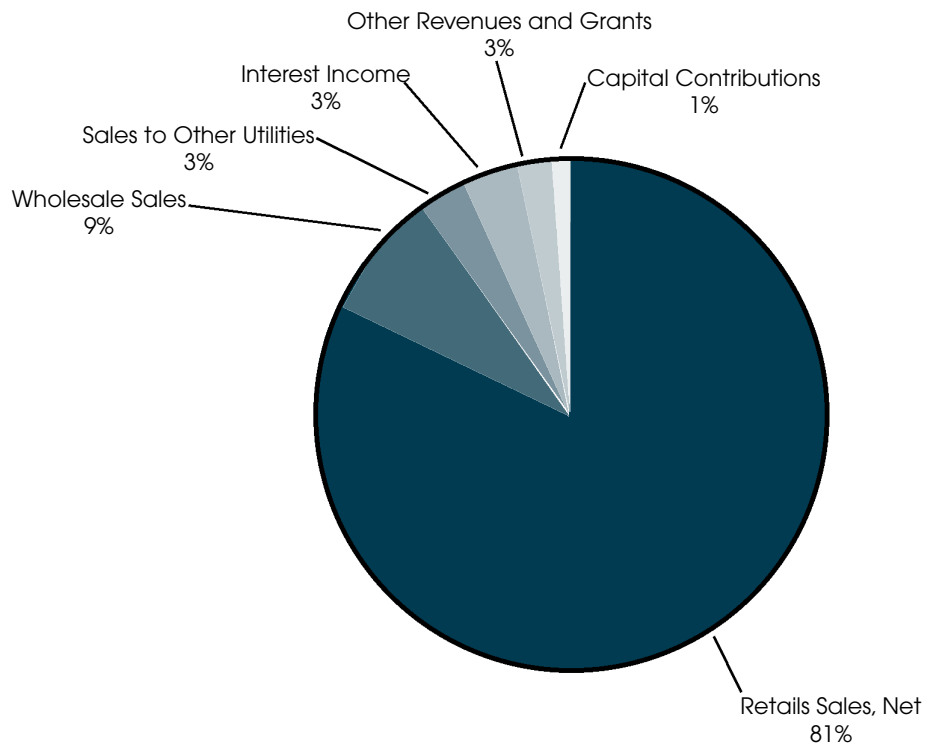
Year ended June 30, 2008

Retail sales (residential, commercial, industrial and other sales) continued to be the primary revenue source for the Electric Utility, making up 81% of total revenue. Retail sales showed an increase of 9% from the prior year reflecting an average 8% rate increase beginning July 1, 2007 and a 1% increase in retail sales volume. Sales to other utilities accounts 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 25% largely due to an increase in receipts from the disposal of excess energy. The Gas depletion account was established to record the usage of natural gas associated with the Electric Utility's share of the Natural Gas Project through the Southern California Public Power Authority (SCPPA).

Wholesale sales increased 97% from the prior year. The increase was primarily the result of the Electric Utility's increased participation in wholesale transactions due to favorable market conditions that meet the City's risk criteria.

Interest income decreased 10% from the prior year. The decrease was attributed to a lower yield for the Electric Utility's investment portfolio.

Capital contributions decreased 24% from the prior year. The decrease reflects a decreased level of construction projects funded by others, primarily retail customers.



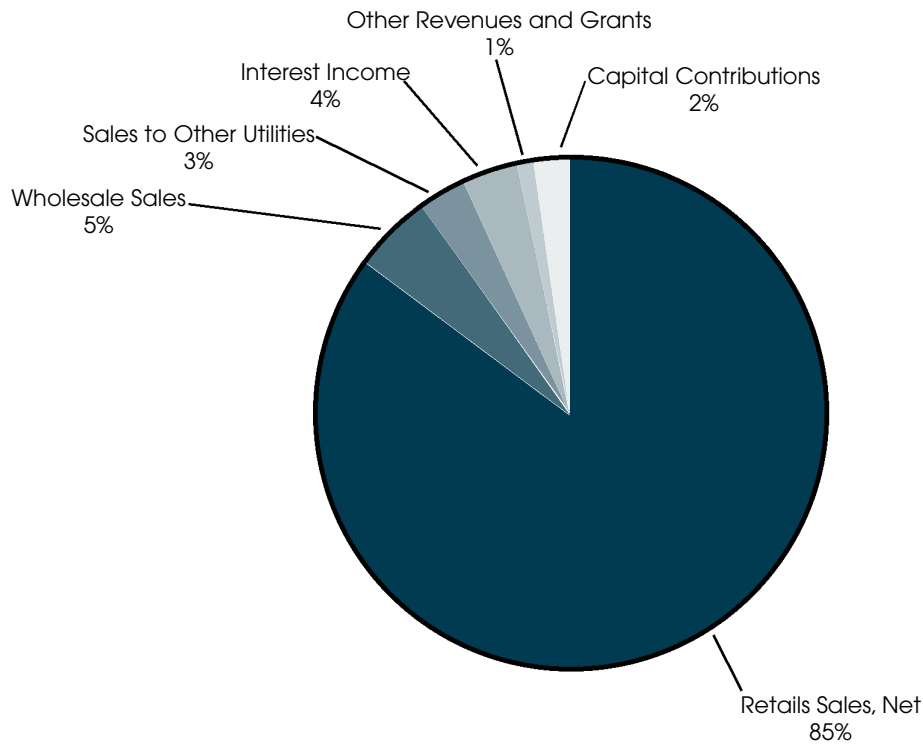
Year ended June 30, 2007

Retail sales (residential, commercial, industrial and other sales) continued to be the primary revenue source for the Electric Utility, making up 85% of total revenue. Retail sales showed an increase of 16% from the prior year reflecting a 12% rate increase beginning July 1, 2006. Sales to other utilities decreased 62% largely due to a decrease in receipts from the disposal of excess natural gas supply purchased for the Magnolia Power Project which had multiple months of inactivity in the prior year.

Wholesale sales decreased 27% from the prior year. The decrease was primarily the result of fewer opportunities for the Electric Utility to participate in wholesale transactions due to unfavorable market conditions that did not meet the City's risk criteria.

The Interest income increased 55% from the prior year. The increase was related to favorable market conditions that resulted in higher earnings for the Electric Utility's investment portfolio.

Capital contributions increased 106% from the prior year. The increase reflects the increased level of construction projects funded by others, primarily retail customers.



Expenses by Source – Electric Utility

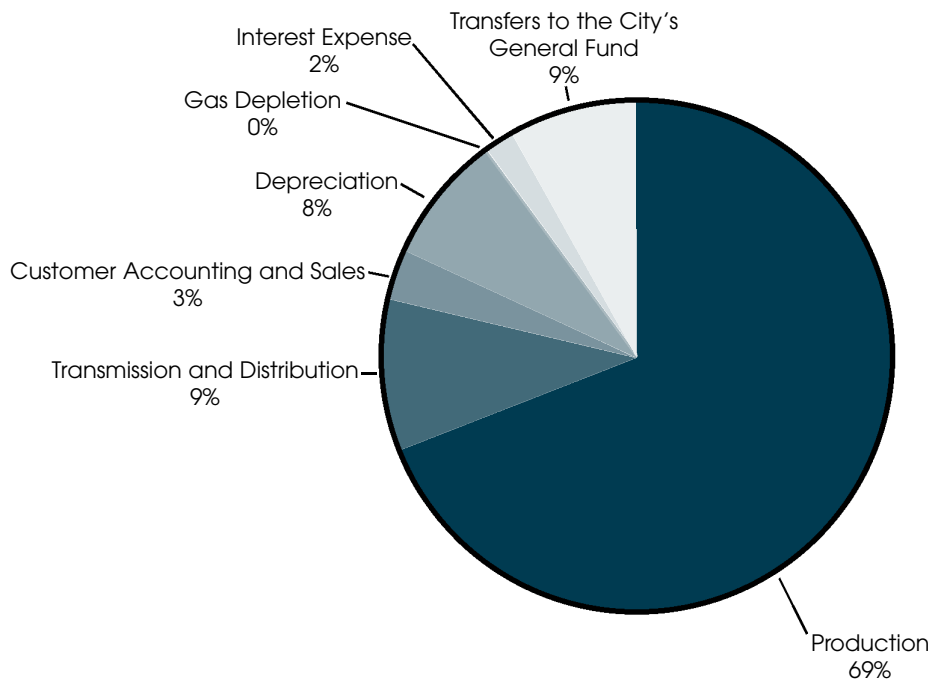
Year ended June 30, 2008

Total expenses for the Electric Utility increased \$13,361 or 8% above the prior year levels.

Production expenses increased 10% reflecting an increase in wholesale activity and continued increases in the cost of energy and natural gas. Transmission and distribution expenses were on par with the prior year level. Customer accounting and sales expenses remained relatively unchanged as well. Depreciation expenses increased 3% primarily from increased investment in capital assets.

Interest expenses were on par with the prior year level due to the capitalization of interest associated with the Electric Revenue Bonds, Series 2008.

Transfers to the City's General Fund are based on a fixed amount that increased \$593 or 3% from the prior year.



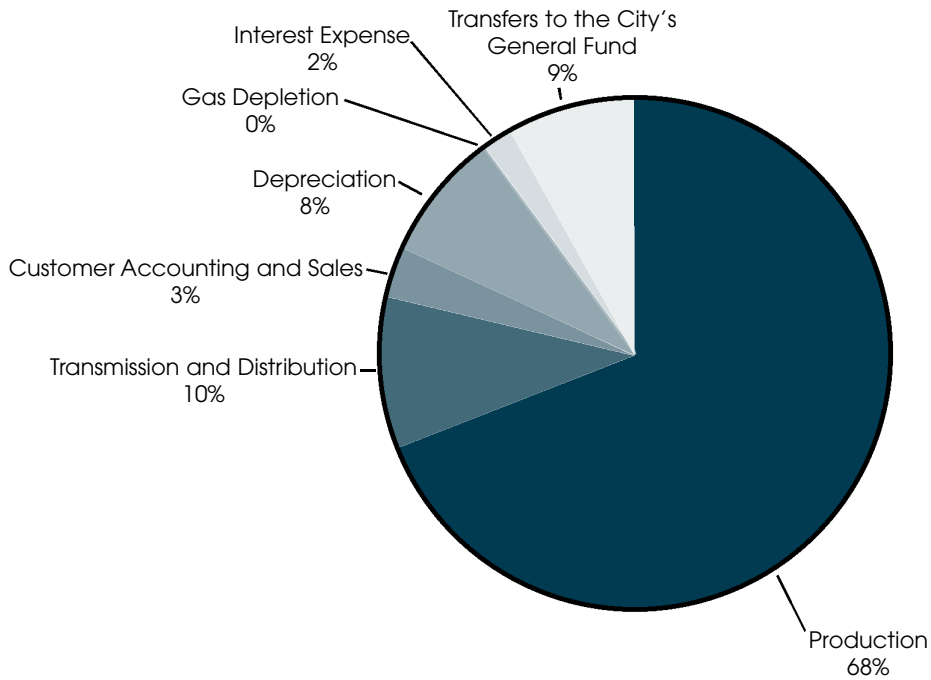
Year ended June 30, 2007

Total expenses for the Electric Utility decreased \$12,431 or 7% below the prior year levels.

Production expenses decreased 11% reflecting reduced disposal of excess natural gas supply purchased for the Magnolia Power Project and reduced wholesale activity. Transmission and distribution expenses increased 19% due to a reclassification of labor costs from production to distribution category. Customer accounting and sales expenses increased 2% over the prior year reflecting continuing increases in labor costs. Depreciation expenses increased 9% primarily from the capitalization of the new Kellogg 69kV gas insulated switching station.

Interest expenses decreased 7% reflecting 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 fixed amount that increased \$99 or 1% from the prior year.



Capital Assets and Debt Administration

Capital Assets

The Electric Utility's investment in capital assets as of June 30, 2008 and 2007 was \$277,542 and \$261,768, respectively (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. Capital assets showed a 6% and 5% increase as of June 30, 2008 and 2007, respectively, over the prior years. In both years, the department completed and capitalized the construction of certain major generation, transmission and distribution projects that had previously been accounted for as construction in progress.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Production	\$ 111,474	\$ 109,239	\$ 105,649
Transmission and distribution	325,188	305,705	286,983
Natural Gas Reserve	14,769	15,532	14,246
General	52,513	51,038	50,403
Less: accumulated depreciation	<u>(226,402)</u>	<u>(219,746)</u>	<u>(208,421)</u>
Total	<u>\$ 277,542</u>	<u>\$ 261,768</u>	<u>\$ 248,860</u>

Long-Term Debt

As of June 30, 2008 and 2007, the Electric Utility had outstanding long-term debt of \$123,462 and \$63,548, respectively. Total long-term debt outstanding increased as of June 30, 2008 because the Electric Utility issued \$60 million in revenue bonds, in February of 2008, to pay for capital improvements to the electric system. 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:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Electric Revenue Bonds	\$ 124,810	\$ 66,565	\$ 68,085
Less: current portion	(1,773)	(1,647)	(1,384)
Unamortized bond premium	2,327	687	718
Unamortized accrued interest	116	121	126
Deferred amount on refunding	<u>(2,018)</u>	<u>(2,178)</u>	<u>(2,350)</u>
Total long-term debt	<u>\$ 123,462</u>	<u>\$ 63,548</u>	<u>\$ 65,195</u>

During fiscal year 2008, the Electric Utility maintained an "A+" credit rating from Standard & Poor's and Fitch, Inc. for its revenue bonds and an Aa3 by Moody's Investors Service. Additional information on the Electric Utility's long-term debt can be found in Note 3 on pages 38 to 41 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. The Electric Utility continues to develop its risk management program to stabilize the rate amid significant market volatility.

During the Electric Utility strategic planning and budgeting processes, immediate capital needs for the next 2-3 years have been defined to replace and/or upgrade several components of the aging infrastructure of the electric system including transformers, underground cables, vaults, and poles to improve reliability of service. Additionally a reliability improvement program was established to upgrade the system capacity to improve the efficiency and reliability of the electric distribution system. A \$60 million bond was issued in February 2008 at a rate of 4.64% to finance capital projects. This results in lower annual payments spread over a long period of time, allowing the infrastructure improvements to proceed at this time without extraordinary outlays of cash.

On November 20, 2007, City Council approved a purchase power agreement with the Southern California Public Power Authority for the purchase of twenty megawatts of renewable energy from Pebble Springs Wind Generation for a term of eighteen years. Acquiring this renewable energy is an important step in meeting GWP's Renewables Portfolio Standard (approved by City Council on December 16, 2003) which calls for the addition of cost-effective renewable resources to meet 20% of GWP's retail electric energy needs by 2017. The Electric Utility will continue its commitment to environmental improvement by procuring long-term, short-term, and local renewable energy resources.

On August 21, 2007, City Council approved a Prepaid Natural Gas Agreement between the City of Glendale and the Southern California Public Power Authority for the purpose of providing long-term fuel supplies to operate its gas-fired generating resources. This agreement will provide a secure and long-term supply of natural gas at a savings of approximately \$1.0 million annually or \$29.5 million over the next 30 years. By executing this long-term supply Agreements, Glendale will diversify its gas supply arrangements, as well as mitigate price and supply volatility.

There was an 8% rate increase beginning July 1, 2007.

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 General Manager of Glendale Water & Power, 141 North Glendale Avenue, Level 4, Glendale, California 91206.

CITY OF GLENDALE
ELECTRIC FUND
Statements of Net Assets
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Current assets:		
Cash and invested cash	\$ 94,751,910	\$ 66,209,001
Imprest cash	2,900	3,200
Cash with fiscal agent	6,426,971	2,468,059
Interest receivable	1,374,474	1,329,844
Investment-gas/elec commodity	4,749,263	1,975,332
Accounts receivable, net	13,084,509	9,197,295
Unbilled receivable	16,760,317	14,257,476
Due from other agencies	17,640	633,950
Due from other funds of the City	1,331,140	1,331,140
Deposits	9,717	9,717
Inventories	7,304,830	7,377,813
Prepaid items	324,262	353,957
	<u>146,137,933</u>	<u>105,146,784</u>
Noncurrent assets:		
Designated & invested cash	59,508,379	42,229,244
Deferred charges	2,728,835	849,409
	<u>62,237,214</u>	<u>43,078,653</u>
Capital assets:		
Land	6,083,674	6,083,674
Natural Gas Reserve	14,769,171	14,686,211
Buildings and improvements	56,522,771	56,521,876
Machinery and equipment	379,145,671	355,452,866
Building & improvements accumulated depreciation	(224,879,640)	(218,617,875)
Gas depletion	(1,522,337)	(1,128,027)
Construction in progress	47,423,125	47,924,379
Drilling in progress	-	845,367
	<u>277,542,435</u>	<u>261,768,471</u>
Total capital assets	<u>277,542,435</u>	<u>261,768,471</u>
Total assets	<u><u>485,917,582</u></u>	<u><u>409,993,908</u></u>

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

(Continued)

CITY OF GLENDALE
ELECTRIC FUND

Statements of Net Assets (Continued)

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	12,575,694	9,061,764
Contracts-retained amount due	638,657	567,188
Accrued wages and withholding	-	500,252
Interest payable	1,814,864	1,014,579
Bonds payable, due in one year	1,772,449	1,647,224
Compensated absences	-	210,559
Deferred revenues	-	304,304
Deposits	2,541,026	1,951,158
	<u>19,342,690</u>	<u>15,257,028</u>
Noncurrent liabilities:		
Compensated absences	-	1,720,230
Post employment benefits	-	1,113,857
Long term debt	123,462,034	63,547,629
	<u>123,462,034</u>	<u>66,381,716</u>
Total liabilities	<u>142,804,724</u>	<u>81,638,744</u>
Net assets:		
Investment in capital assets, net of related debt	152,307,952	196,573,618
Restricted		
Debt service	4,638,608	2,397,824
SCAQMD emission controls	5,934,873	5,994,778
Unrestricted	180,231,425	123,388,944
	<u>343,112,858</u>	<u>328,355,164</u>
Total net assets	<u>\$ 343,112,858</u>	<u>\$ 328,355,164</u>

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

CITY OF GLENDALE**ELECTRIC FUND**

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Electric domestic sales	\$ 64,314,761	\$ 58,836,653
Electric commercial sale	113,893,797	104,626,361
Electric street light sales	1,679	1,543
Electric wholesale sales	18,825,241	9,545,014
Sale to other utilities	7,461,421	5,969,693
Miscellaneous revenues	6,540,499	1,503,324
Total operating revenues	<u>211,037,398</u>	<u>180,482,588</u>
Operating expenses:		
Production	141,764,989	128,425,753
Transmission	19,336,071	19,753,227
Customer accounting and sales	6,451,435	6,367,430
Depreciation	16,430,985	15,980,236
Gas depletion	394,311	440,335
Total operating expenses	<u>184,377,791</u>	<u>170,966,981</u>
Operating income	<u>26,659,607</u>	<u>9,515,607</u>
Non operating revenues (expenses):		
Interest revenue	6,325,393	7,024,922
Grant revenue	-	700,220
Interest expense	(3,126,901)	(3,177,219)
Contribution in aid	3,274,595	4,294,702
Total non operating revenues, net	<u>6,473,087</u>	<u>8,842,625</u>
Income before transfers	<u>33,132,694</u>	<u>18,358,232</u>
Transfer-General Fund	<u>(18,375,000)</u>	<u>(17,782,008)</u>
Change in net assets	14,757,694	576,224
Total net assets, July 1	328,355,164	327,778,940
Total net assets, June 30	<u>\$ 343,112,858</u>	<u>\$ 328,355,164</u>

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

CITY OF GLENDALE
ELECTRIC FUND
Statements of Cash Flows
Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash from customers	\$ 205,263,652	\$ 180,356,538
Cash paid to employees	(42,397,047)	(36,173,866)
Cash paid to suppliers	(126,606,131)	(121,162,762)
Net cash provided by operating activities	<u>36,260,474</u>	<u>23,019,910</u>
Cash flows from noncapital financing activities:		
Operating transfers out	(18,375,000)	(17,782,008)
Operating grant received	-	700,220
Net cash used in noncapital financing activities	<u>(18,375,000)</u>	<u>(17,081,788)</u>
Cash flows from capital and related financing activities:		
Interest on long term debt	(2,326,616)	(2,969,702)
Bond, premium and interest accrued	60,039,630	(1,383,610)
Contribution in aid	3,274,595	4,294,702
Acquisition of property, plant, and equipment	(32,599,259)	(29,329,296)
Investment - gas/electric commodity	(2,773,931)	838,915
Net cash provided (used in) capital and related financing activities	<u>25,614,419</u>	<u>(28,548,991)</u>
Cash provided by investing activities - interest received	6,280,763	6,752,638
Net increase (decrease) in cash and cash equivalents	49,780,656	(15,858,231)
Cash and cash equivalents at beginning of year	<u>110,909,504</u>	<u>126,767,735</u>
Cash and cash equivalents at end of year	160,690,160	110,909,504
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>26,659,607</u>	<u>9,515,607</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	16,430,985	15,980,236
Gas depletion	394,311	440,335
(Increase) accounts receivable net	(3,887,214)	(541,343)
(Increase) decrease unbilled receivable	(2,502,842)	1,002,334
(Increase) decrease due from other agencies	616,310	(587,041)
(Increase) decrease inventories	72,985	(1,867,176)
Decrease prepaid expenses	29,695	623,360
(Increase) decrease deferred charges	(1,879,427)	49,226
(Decrease) accrued salaries and withholding	(500,252)	(627,330)
Increase (decrease) compensated absences	(3,044,646)	201,267
Increase post employment benefit	-	915,339
Increase (decrease) accounts payable	3,513,931	(773,942)
Increase (decrease) deferred revenue	(304,304)	146,204
Increase (decrease) contracts - retention	71,468	(1,322,651)
Increase (decrease) deposits	589,867	(134,515)
Total adjustments	<u>9,600,867</u>	<u>13,504,303</u>
Net cash provided by operating activities	<u>\$ 36,260,474</u>	<u>\$ 23,019,910</u>
Noncash investing, capital, and financing activities:		
Increase in fair value of investments	18,250	(707,103)

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

Notes to Financial Statements

electric 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 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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 Investment 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

Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded 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. Interest incurred during the construction phase of the capital assets is included as part of the capitalized value of the assets constructed.

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

Assets	Years
Building and improvements	5 to 50
Machinery and equipment	5 to 50

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 City records and funds a liability for its employees' earned but unused accumulated vacation and overtime that has matured and is expected to be paid with currently available resources. The unused accumulated vacation and overtime are expensed in the fund, which incurs the liability. The amount that has not matured is reported as a long-term liability. The liability is recorded in the Internal Service Fund-Employee Benefits Fund of the City. For additional details please refer to the City of Glendale Comprehensive Annual Report.

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, 2008 and 2007, \$4,133,347 and \$6,217,451, 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, 2008 and 2007, the Electric Fund's unbilled receivables were \$16,760,317 and \$14,257,476, 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 withholds 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 to the City

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.

Pronouncements Issued but Not yet Adopted

Governmental Accounting Standards Board Statement No. 49

On December 1, 2006, the Governmental Accounting Standards Board (GASB) issued Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. This Statement identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. According to the standard, a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and if various recognition triggers occur. Liabilities and expenses would be estimated using an "expected cash flows" measurement technique, which is used by environmental professionals. Statement 49 also will require governments to disclose information about their pollution obligations associated with clean up efforts in the notes to the financial statements. Statement 49 will be effective for financial statements for periods beginning after December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. The impact of the implementation of this Statement to the City's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 53

In June 2008, the GASB issued Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. Statement No. 53 also addresses hedge accounting requirements, which includes a government's objective for entering into the derivative instrument, significant terms of the derivative instrument, and the net cash flows of derivative instruments that hedge debt. The disclosure also should highlight the risks to which derivative instruments expose a government. Statement No. 53 is effective for financial statements for reporting periods beginning after June 15, 2009.

Reclassifications

Certain reclassifications have been made to 2007 financial information in order to conform to the 2008 presentation. These reclassifications had no impact on change in net assets or fund net assets.

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, \$154,263,189 and \$108,441,445 pertains to the Electric Fund for fiscal year 2008 and 2007, 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 its investments 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.

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

	2008	2007
Investments	\$ 555,786,044	\$ 484,933,416
Cash with fiscal agents	27,673,006	16,416,111
	<u>583,459,050</u>	<u>501,349,527</u>
Cash on hand & petty cash	163,127	(2,843,274)
Total	<u>\$ 583,622,177</u>	<u>\$ 498,506,253</u>

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

	2008	2007
Cash and investments	\$ 460,404,217	\$ 414,836,407
Imprest cash	58,680	58,580
Cash with fiscal agents	27,673,006	16,416,111
Investment-gas/electric commodity	4,749,263	1,975,332
Designated cash and investments	90,737,011	65,219,823
Total	<u>\$ 583,622,177</u>	<u>\$ 498,506,253</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.

		<u>Remaining Maturity (in Months)</u>			
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More than 60 Months</u>
Commercial Paper	\$ 19,853,381	19,853,381	-	-	-
Federal Agency Term Notes	19,737,520	14,620,332	5,117,188	-	-
U.S. Government Agency Callable Bonds	288,386,903	-	109,187,689	179,199,214	-
Corporate Notes	30,639,735	10,625,942	-	20,013,793	-
Corporate Callable Notes	4,945,105	-	4,945,105	-	-
Negotiable Certificates of Dep	14,000,000	14,000,000	-	-	-
Banker's Acceptances	987,506	987,506	-	-	-
State Investment Pool	145,492,757	145,492,757	-	-	-
Money Market	31,743,138	31,743,138	-	-	-
Held by Fiscal Agents					
Federal Agency Term Notes	5,061,696	5,061,696	-	-	-
Guaranteed Investment Contracts	11,156,359	-	-	-	11,156,359
Money Market	11,454,950	11,454,950	-	-	-
	\$ <u>583,459,050</u>	<u>253,839,702</u>	<u>119,249,982</u>	<u>199,213,007</u>	<u>11,156,359</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	\$ 19,853,381	-	-	-	19,853,381	-
Federal Agency Term Notes	19,737,520	19,737,520	-	-	-	-
U.S. Government Agency Callable Bonds	288,386,903	288,386,903	-	-	-	-
Corporate Notes	30,639,735	8,109,389	22,530,346	-	-	-
Corporate Callable Notes	4,945,105	4,945,105	-	-	-	-
Negotiable Certificates of Dep	14,000,000	-	-	-	14,000,000	-
Banker's Acceptances	987,506	-	-	-	-	987,506
State Investment Pool	145,492,757	-	-	-	-	145,492,757
Money Market	31,743,138	31,743,138	-	-	-	-
Held by Fiscal Agents						
Federal Agency Term Notes	5,061,696	5,061,696	-	-	-	-
Guaranteed Investment Contracts	11,156,359	-	-	11,156,359	-	-
Money Market	11,454,950	11,454,950	-	-	-	-
	\$ 583,459,050	369,438,701	22,530,346	11,156,359	33,853,381	146,480,263

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>145,492,757</u>
FFCB	Federal Agency Callable Bonds	<u>18,385,156</u>
FHLB	Federal Agency Term Notes	17,223,750
FHLB	Federal Agency Callable Bonds	113,281,094
	Total	<u>130,504,844</u>
FHLMC	Federal Agency Term Notes	2,513,770
FHLMC	Federal Agency Callable Bonds	121,902,892
	Total	<u>124,416,662</u>
FNMA	Federal Agency Callable Bonds	\$ <u>30,994,688</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 City'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, 2008, the carrying amount of the City's deposits was \$163,127 and the corresponding bank balance was \$7,060,108. The difference of \$6,896,981 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 \$6,960,108 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, 2008 and 2007 consists of the following:

	Remaining Interest Rates	Original Issue	Outstanding June 30, 2008	Outstanding June 30, 2007
Electric Revenue Bonds, 2003 Series	3.25%-6.00%	\$31,640,000	\$27,665,000	\$28,460,000
Electric Revenue Bonds, 2006 Refunding Series	4.00%-5.00%	\$38,830,000	\$37,145,000	\$38,105,000
Electric Revenue Bonds, 2008 Series	4.00%-5.00%	\$60,000,000	\$60,000,000	\$0

Electric Revenue Bonds, 2003 Series

The Electric utility of Glendale Water & 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 Indenture 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 \$1,070,384.

The bonds mature in regularly increasing amounts ranging from \$795,000 to \$1,865,000 annually from 2009 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 & 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 as of June 30, 2008 for \$2,018,445 is recognized and reported in the financial statements as a contra account to bonds payable and is being amortized through February 1, 2030. As of June 30, 2008, \$37 million of the 2000 series bonds outstanding are considered defeased. Liabilities for defeased bonds are not included in the City's financial statements.

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 Indenture 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 \$1,010,000 to \$2,570,000 annually from 2009 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.

Electric Revenue Bonds, 2008 Series

The Electric utility of Glendale Water & Power issued \$60,000,000 in revenue bonds in February 2008 to finance the costs of acquisition and construction of certain improvements to the Electric System of the City.

The terms of the 2008 Electric Revenue Bonds' (2008 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 Indenture 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 \$2,240,784.

The bonds mature in regularly increasing amounts ranging from \$1,880,000 to \$4,195,000 annually from 2018 to 2038. The 2008 Bonds maturing on or prior to February 1, 2018 are not subject to redemption prior to maturity. The 2008 bonds maturing on and after February 1, 2019 are subject to redemption prior to maturity, at the option of the City, as a whole or in part, on February 1, 2018, or on any date thereafter, at a redemption price equal to 100% of the principal amount of the 2008 Bonds to be redeemed, together with accrued interest to the redemption date.

June 30, 2008	Amount outstanding at			Amount outstanding at June 30, 2008	Due within one year
	June 30, 2007	Additions	Retirements		
Electric Revenue Bonds, 2003 Series	\$ 28,460,000	-	795,000	27,665,000	795,000
Electric Revenue Bonds, 2006 Refunding Series	38,105,000	-	960,000	37,145,000	1,010,000
Electric Revenue Bonds, 2008 Series		60,000,000		60,000,000	
Accrued interest	120,862	-	4,900	115,962	4,900
Bond Premium	686,639	1,705,807	65,481	2,326,965	117,637
Deferred Amount on Refunding	(2,177,648)	-	(159,203)	(2,018,445)	(155,088)
Total bonds payable	\$ 65,194,853	61,705,807	1,666,178	125,234,482	1,772,449

June 30, 2007	Amount outstanding at			Amount outstanding at June 30, 2007	Due within one year
	June 30, 2006	Additions	Retirements		
Electric Revenue Bonds, 2003 Series	\$ 29,255,000	-	795,000	28,460,000	795,000
Electric Revenue Bonds, 2006 Refunding Series	38,830,000	-	725,000	38,105,000	960,000
Accrued interest	125,762	-	4,900	120,862	4,900
Bond Premium	717,853	-	31,214	686,639	46,528
Deferred Amount on Refunding	(2,350,152)	-	(172,504)	(2,177,648)	(159,203)
Total bonds payable	\$ 66,578,463	-	1,383,610	65,194,853	1,647,224

The annual debt service requirements to amortize long-term bonded debt at June 30, 2008 are as follows:

Fiscal year	Revenue Bonds		
	Interest	Principal	Total
2009	\$ 5,590,614	1,805,000	7,395,614
2010	5,658,311	1,855,000	7,513,311
2011	5,575,499	1,905,000	7,480,499
2012	5,488,199	1,965,000	7,453,199
2013	5,397,899	2,020,000	7,417,899
2014-2018	25,560,226	13,315,000	38,875,226
2019-2023	21,513,741	24,625,000	46,138,741
2024-2028	15,591,727	30,430,000	46,021,727
2029-2033	8,024,575	27,595,000	35,619,575
2034-2038	2,838,760	19,295,000	22,133,760
	<u>\$ 101,239,551</u>	<u>124,810,000</u>	<u>226,049,551</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, 2008 and 2007, the City's actual debt service ratio for the Electric Fund was 10.3 and 7.7, respectively.

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 21% 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, which includes both safety and general employees, are required to participate in the single CalPERS plan, in which all 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 percentage factor is age-based – public safety employees use the 3% at age 50 factor and general employees 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, the City's general employees are required to contribute 8% of their annual salary and the City's safety employees are required to contribute 9% of their annual salary. The City is also required to contribute at an actuarially determined rate. The City's contribution rate for safety members starting on July 1, 2007 was 24.172%. The City's contribution rate for general members starting on July 1, 2007 was 10.866%. 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 \$21,903,947 were made during the fiscal year ending June 30, 2008 in accordance with actuarially determined contribution requirements through an actuarial valuation performed at June 30, 2005. 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 fifteen 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 30 year period. 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
6/30/2006	\$17,792,610	100%	0
6/30/2007	\$20,138,463	100%	0
6/30/2008	\$21,903,947	100%	0

Schedule of Funding Progress (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets <a>	Actuarial Accrued Liability <AAL> – Entry Age 	(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>
6/30/2005	\$854,260,613	929,960,421	(75,699,808)	91.9%	131,264,713	(57.7%)
6/30/2006	\$913,955,041	1,006,837,400	(92,882,359)	90.8%	134,183,520	(69.2%)
6/30/2007	\$989,601,219	1,082,217,007	(92,615,788)	91.4%	139,213,403	(66.5%)

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 City's Internal Service Funds charge the Electric Fund for its estimated share of the liability.

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, 2008 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. There were no significant settlements or reductions in insurance coverage from settlements for the past three years.

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 2008 and 2007 was \$5,934,873 and \$5,994,778, respectively.

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 the fiscal year ending June 30, 2008, 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, 2008 and 2007, \$59,508,379 and \$42,229,244 was designated, respectively. As of June 30, 2008, the goal of meeting the remaining balance of \$6,891,621 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 acquisition 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, 2008, the balance for Natural Gas Reserve Project, including drilling program capitalization was \$14,769,171.

GWP has designated \$13.5 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 2007 - 2008 Capital Assets is as follows:

	Balance at July 1, 2007	Increases	Decreases (Reclass & Retirements)	Balance at June 30, 2008
Capital assets not being depreciated/depleted:				
Land	6,083,674	-	-	6,083,674
Construction in progress	47,924,379	-	501,254	47,423,125
Drilling in progress	845,367	-	845,367	-
Total assets not being depreciated/depleted	54,853,420	-	1,346,621	53,506,799
Depreciable capital assets:				
Building and improvements	56,521,876	895	-	56,522,771
Machinery and equipment	355,452,866	33,874,587	10,181,782	379,145,671
Total other capital assets at cost	411,974,742	33,875,482	10,181,782	435,668,442
Depletable capital assets:				
Natural Gas Reserve	14,686,211	82,960	-	14,769,171
Less accumulated depreciation:				
Building and improvements	39,421,148	15,780,034	28,109,735	27,091,447
Machinery and equipment	179,196,727	650,951	(17,940,515)	197,788,193
Total accumulated depreciation	218,617,875	16,430,985	10,169,220	224,879,640
Less allowance for gas depletion				
Natural Gas Reserve	1,128,027	394,310	-	1,522,337
Total assets being depreciated	206,915,051	17,133,147	12,562	224,035,636
Electric Fund capital assets, net	261,768,471	17,133,147	1,359,183	277,542,435

A summary of the changes in Electric Fund 2006 - 2007 Capital Assets is as follows:

	Balance at July 1, 2006	Increases	Decreases (Reclass & Retirements)	Balance at June 30, 2007
Capital assets not being depreciated/depleted:				
Land	6,083,674	-	-	6,083,674
Construction in progress	37,137,222	10,787,157	-	47,924,379
Drilling in progress	-	845,367	-	845,367
Total assets not being depreciated/depleted	43,220,896	11,632,524	-	54,853,420
Depreciable capital assets:				
Building and improvements	56,519,074	2,802	-	56,521,876
Machinery and equipment	343,295,366	17,253,624	5,096,124	355,452,866
Total other capital assets at cost	399,814,440	17,256,426	5,096,124	411,974,742
Depletable capital assets:				
Natural Gas Reserve	14,245,862	440,349	-	14,686,211
Less accumulated depreciation:				
Building and improvements	24,005,778	15,415,370	-	39,421,148
Machinery and equipment	183,727,984	561,867	5,096,124	179,196,727
Total accumulated depreciation	207,733,762	15,980,237	5,096,124	218,617,875
Less allowance for gas depletion				
Natural Gas Reserve	687,692	440,335	-	1,128,027
Total assets being depreciated	205,638,848	1,276,203	-	206,915,051
Electric Fund capital assets, net	248,859,744	12,908,727	-	261,768,471

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 57% of its total energy requirements during fiscal year 2007-2008. 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 8 megawatts or 0.501% beginning March 24, 2004. The total City's obligation from Intermountain Power Project (IPP) is 38 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, 2008, Glendale's share is 4.400% (PV).

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, 2008, 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, 2008, 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 extending between the Adelanto substation in Southern California and the Marketplace substation in Nevada, and the development of the Marketplace Substation at the southern Nevada terminus 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, 2008, 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, 2008, 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, 2008, Glendale's share is 16.5289% (MPP).

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

<u>Project</u>	<u>Contract Expiration 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, 2008 is as follows (in thousands):

Fiscal Year	IPP	SJ	PV	STS	MA	MP	MPP	Total
2009	\$ 4,736	1,845	785	1,577	2,338	970	3,744	15,995
2010	5,258	1,845	660	1,588	2,395	1,114	3,744	16,604
2011	6,518	1,845	649	1,606	2,387	1,110	3,744	17,859
2012	5,863	1,845	637	1,980	2,385	1,109	3,743	17,562
2013	4,669	1,845	626	1,790	2,389	1,111	3,745	16,175
2014-2018	23,273	9,757	2,378	8,854	11,845	4,716	17,120	77,943
2019-2023	20,015	1,599	-	9,049	4,759	1,904	14,771	52,097
2024-2028	290	-	-	-	-	-	14,811	15,101
2029-2033	-	-	-	-	-	-	14,886	14,886
2034-2038	-	-	-	-	-	-	15,521	15,521
Total	\$ 70,622	20,581	5,735	26,444	28,498	12,034	95,829	259,743

In addition to debt service, the City's entitlement requires the payment for fuel costs, operation 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 2007-08 and budgets for fiscal year 2008-09 are as follows (in thousands):

Fiscal Year	IPP	SJ	PV	STS	MA	MP	MPP	Total
2008	\$ 6,249	7,657	2,234	320	173	239	4,367	21,239
2009	8,118	5,818	2,480	442	199	421	4,746	22,224

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 Power Plant 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 2007-08 was approximately 1,208,050 MMBtu and the average purchase price was \$11.71 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 twenty years agreement with BPA has expired in April 2008. 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 in California. The City began taking delivery of the energy on September 1, 2003.

In June 2005, the City entered into a 25-year power sales agreement with SCPPA for the Ormat Geothermal Energy Project for purchase of up to three megawatts of the project electric energy. The project began commercial operation in January 2006.

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 started on October 1, 2006.

In August 2007, the City entered into a 30-year Prepaid Natural Gas Agreement with the SCPPA. The agreement will provide a secure and long-term supply of natural gas up to 5,000 MMBtu per day at a discounted price below spot market price. The projected savings from the agreement is approximately \$29.5 million over the next 30 years. The delivery of natural gas starts in July 2008.

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. Subsequent Event

The recent turmoil in the financial markets has been unprecedented. CalPERS has notified the City that as of June 30, 2008 the fair value of the Retirement System's total portfolio was approximately \$239 billion (unaudited). As of October 31, 2008, CalPERS has estimated the fair value to be \$189 billion (unaudited), which represents a decrease of \$50 billion, or 21%, during the first four months in fiscal year 2009 (all values are based on available unaudited information). Changes in the value of the Retirement System assets are the result of gains and losses in investments and the variability of cash flows. The market continues to be volatile after October 31, 2008, but this cutoff date was chosen because it is the most recently closed period in CalPERS management's monthly investment reporting process and a reasonable cut off period for disclosure of subsequent events to the fiscal year 2008 financial statements.

As is the case with most retirement systems, CalPERS is exposed to general market risk. This general market risk is reflected in asset valuations fluctuating with market volatility. Any impact from market volatility on the Retirement System depends in large measure on how deep the market downturn is, how long it lasts, and how it fits within fiscal year reporting periods. The resulting market risk and associated realized and unrealized gains and losses could impact the financial condition of the Retirement System and the City's required contribution to the Retirement System. The reader of these financial statements is advised that financial markets continue to be volatile and are experiencing significant changes on almost a daily basis.

The good news is that cushioning the impact of investment set backs is the fact that CalPERS experienced double digit gains in the four years leading up to the 2007-2008 fiscal year. In previous down markets, flat or negative investment returns contributed substantially to increases in employer contributions the following year. However, CalPERS rate stabilization policies now spread market gains and losses over 15 years, thus reducing the volatility of employer rates.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To 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, a fund of Glendale Water and Power (the Department), a Department of the City of Glendale, California (the City) as of and for the year ended June 30, 2008, and have issued our report thereon dated November 26, 2008. We conducted our audit 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Electric Enterprise Fund's financial statements of the Department are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Mayor, members of the City Council, Audit Committee of the City of Glendale, and management, and is not intended to be, and should not be, used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Pasadena, California
November 26, 2008