

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying statements of net assets of the Electric Enterprise Fund of the City of Glendale, California (the City), as of June 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. 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 present only the Electric Enterprise Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2009 and 2008, the changes in its financial position and, 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 City as of June 30, 2009 and 2008, and the changes in financial position and cash flows, where applicable, 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 24, 2009, on our consideration of the City'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 audits.

The Management's Discussion and Analysis as listed in the table of contents is not a required part of the basic 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 audits were 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, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. This information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

McGladrey & Pullen, LLP

Pasadena, CA
November 24, 2009

MANAGEMENT DISCUSSION AND ANALYSIS – ELECTRIC UTILITY

The management of Glendale *Water & Power* (a department of the City of Glendale), offers the readers of the City of Glendale Electric Enterprise Fund (Electric Utility) financial statements a narrative overview and analysis of the financial activities of the Electric Enterprise for the fiscal years ended June 30, 2009 and June 30, 2008. We encourage our readers to consider the information presented here in conjunction with the accompanying basic financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

During fiscal year 2009, the Electric Utility's retail operating revenues increased by \$10,383 or 6% from prior year level. The increase in retail revenues was directly attributable to the increase in the rates charged to customers. The increase in operating revenues offset increases in customer service and depreciation expenses which resulted in net retail operating revenues of \$19,680 on revenues of \$196,289 less \$176,609 in expenses. The wholesale sector experienced lower net revenues of \$1,882 on revenues of \$10,888 less \$9,006 in expenses. The total net assets increased by \$6,822 after adding net non-operating revenues of \$4,367 and subtracting \$19,107 in the Transfers to the City.

During fiscal year 2008, the Electric Utility's retail operating revenues increased by \$14,746 or 9% from the prior year level. The increase in retail revenues was attributable to an increase in the rates charged to customers and a slight 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.

The assets of the Electric Utility exceeded its liabilities at the close of fiscal years 2009 and 2008 by \$349,935 and \$343,113 respectively. Of these amounts, \$164,325 and \$180,231 respectively was unrestricted and may be used to meet the Fund's ongoing obligations to creditors and customers. These unrestricted net assets represented 89% and 98% of annual operating expenses for fiscal years 2009 and 2008 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 our readers 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 24 to 47 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 \$349,935 and \$343,113 as of June 30, 2009 and 2008 respectively. A portion of the Utility's net assets (50% and 44% as of June 30, 2009 and 2008 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, 2009 and 2008 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 (47% and 53% 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, 2009, 2008, and 2007 are as follows:

	2009	2008	2007
Current and noncurrent assets	\$ 196,263	\$ 208,376	\$ 148,226
Capital assets	<u>289,718</u>	<u>277,542</u>	<u>261,768</u>
Total assets	<u>485,981</u>	<u>485,918</u>	<u>409,994</u>
Current liabilities	14,405	19,343	15,257
Long-term debt	121,641	123,462	63,548
Other noncurrent liabilities	<u>-</u>	<u>-</u>	<u>2,834</u>
Total liabilities	<u>136,046</u>	<u>142,805</u>	<u>81,639</u>
Net assets:			
Invested in capital assets, net of related debt	175,047	152,308	196,574
Restricted	10,563	10,574	8,392
Unrestricted	<u>164,325</u>	<u>180,231</u>	<u>123,389</u>
Total net assets	<u>\$ 349,935</u>	<u>\$ 343,113</u>	<u>\$ 328,355</u>

Net assets increased by \$6,822 (or 2%) and \$14,758 (or 4%) during fiscal years 2009 and 2008 respectively. These increases in net assets were primarily the result of the increase in the rates charged to our customers in fiscal years 2009 and 2008.

Changes Net Assets – Electric Utility

The Electric Utility's changes in net assets for the year ended June 30, 2009, 2008, and 2007 are as follows:

	2009	2008	2007
Revenues:			
Retail sales, net	\$ 188,594	\$ 178,211	\$ 163,465
Wholesale sales	10,888	18,825	9,545
Sale to other utilities	7,695	7,461	5,970
Interest income	4,916	6,325	7,025
Other revenues and grants	1,981	6,541	2,202
Capital contributions	2,285	3,275	4,295
Total revenues	<u>216,359</u>	<u>220,638</u>	<u>192,502</u>
Expenses:			
Production	142,341	141,765	128,426
Transmission and distribution	18,461	19,336	19,754
Customer accounting and sales	7,346	6,452	6,367
Depreciation	17,137	16,431	15,980
Gas depletion	330	394	440
Interest expense	4,815	3,127	3,177
Total expenses	<u>190,430</u>	<u>187,505</u>	<u>174,144</u>
Transfers to the City's General Fund	<u>19,107</u>	<u>18,375</u>	<u>17,782</u>
Total expenses and transfers	<u>209,537</u>	<u>205,880</u>	<u>191,926</u>
Changes in net assets	<u>6,822</u>	<u>14,758</u>	<u>576</u>
Total net assets, beginning of year	<u>343,113</u>	<u>328,355</u>	<u>327,779</u>
Total net assets, end of year	<u>\$ 349,935</u>	<u>\$ 343,113</u>	<u>\$ 328,355</u>

Revenue by Source – Electric Utility

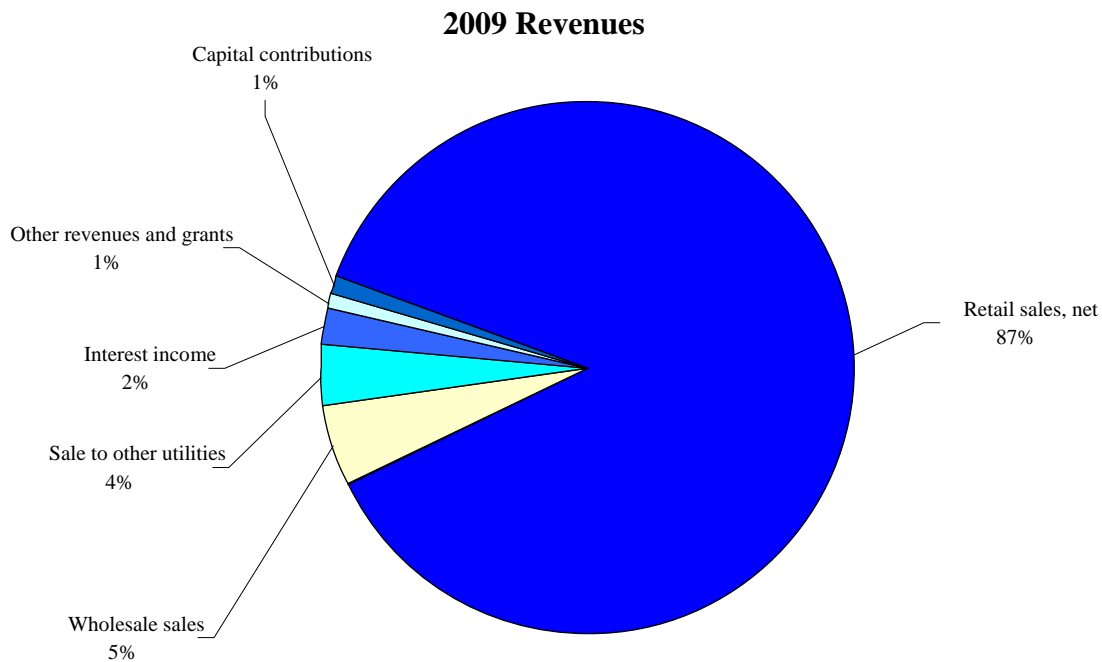
Year ended June 30, 2009

Retail sales (residential, commercial, industrial and other sales) continued to be the primary revenue source for the Electric Utility, making up 87% of total revenue. Retail sales showed an increase of 6% from the prior year reflecting an average 7% rate increase from the prior year and a 1% decrease 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 3% 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 decreased 42% from the prior year. The decrease was primarily the result of the Electric Utility's decreased participation in wholesale transactions due to a lack of favorable market conditions that meet the City's risk criteria.

Interest income decreased 22% from the prior year. The decrease was attributed to a lower yield for the Electric Utility's investment portfolio.

Capital contributions decreased 30% from the prior year. The decrease reflects a decreased level of construction projects funded by others, primarily retail customers.



Year ended June 30, 2008

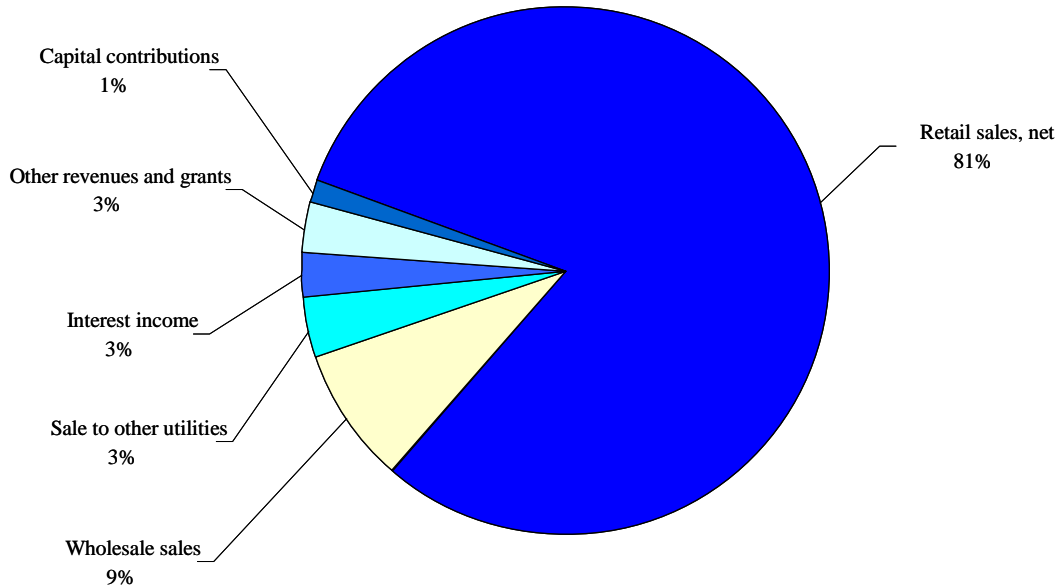
Retail sales (residential, commercial, industrial and other sales) continued to be the primary revenue source for the Electric Utility, making up 81% of total revenue. Retail sales showed an increase of 9% from the prior year reflecting an average 8% rate increase beginning July 1, 2007 and a 1% increase 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.

2008 Revenues



Expenses by Source – Electric Utility

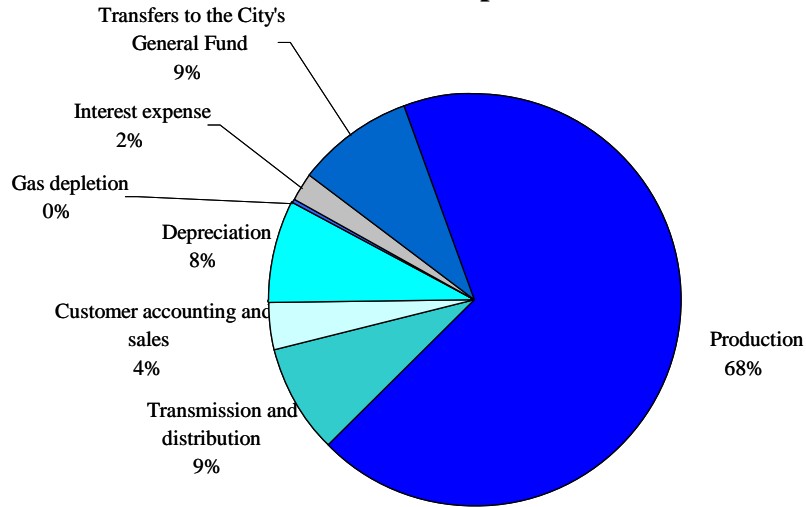
Year ended June 30, 2009

Total expenses for the Electric Utility increased \$2,925 (or 2%) above the prior year level. Production expenses remained on par with prior year levels as a result of increases in the cost of natural gas being offset by reductions in wholesale activity. Transmission and distribution expenses decreased 5% from the prior year level reflecting an increased focus of labor resources to electric distribution capital improvements in place of routine electric distribution maintenance. Customer accounting and sales expenses increased 14% from the prior year level due to an increase in bad debt expenses from utility retail customers, merchant fees, and staffing of approved positions. Depreciation expenses increased 4% primarily from increased investment in capital assets.

Interest on bonds increased 54% from the prior year level due to additional interest expense associated with the Electric Revenue Bonds, Series 2008.

Transfers to the City’s General Fund are based on a fixed amount that increased \$732 (or 4%) from the prior year.

2009 Expenses



Year ended June 30, 2008

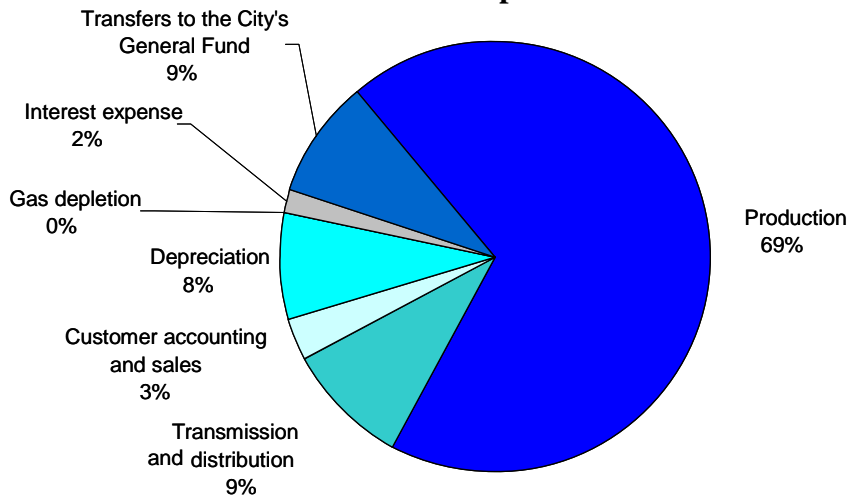
Total expenses for the Electric Utility increased \$13,361 (or 8%) above the prior year levels.

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 on bonds was 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.

2008 Expenses



Capital Assets and Debt Administration

Capital Assets

The Electric Utility's investment in capital assets as of June 30, 2009 and 2008 was \$289,718 and \$277,542 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 4% and 6% increase as of June 30, 2009 and 2008, 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, 2009, 2008, 2007 are as follows:

	2009	2008	2007
Production	\$ 113,068	\$ 111,474	\$ 109,239
Transmission and distribution	346,704	325,188	305,705
Natural Gas Reserve	14,876	14,769	15,532
General	54,354	52,513	51,038
Less: accumulated depreciation	<u>(239,284)</u>	<u>(226,402)</u>	<u>(219,746)</u>
Total	<u>\$ 289,718</u>	<u>\$ 277,542</u>	<u>\$ 261,768</u>

Long-Term Debt

As of June 30, 2009 and 2008, the Electric Utility had outstanding long-term debt of \$121,641 and \$123,462 respectively. Total outstanding long-term debt 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, 2009, 2008, 2007 is as follows:

	2009	2008	2007
Electric Revenue Bonds	\$ 123,005	\$ 124,810	\$ 66,565
Less: current portion	(1,840)	(1,773)	(1,647)
Unamortized bond premium	2,209	2,327	687
Unamortized accrued interest	111	116	121
Deferred amount on refunding	(1,863)	(2,018)	(2,178)
Arbitrage rebate	<u>19</u>	<u>-</u>	<u>-</u>
Total long-term debt	<u>\$ 121,641</u>	<u>\$ 123,462</u>	<u>\$ 63,548</u>

During fiscal year 2009, 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 33 to 36 of this report.

Economic Factors and Rates

In a continued effort to develop its risk management program, in September of 2008, the City entered into a three-year contract with The Energy Authority (TEA) for advisory services related to risk management of the utility's exposure to natural gas prices and energy portfolio management. As a result, the Electric Utility has implemented a comprehensive energy risk management program in a continued effort to stabilize rates amid significant market volatility.

The Electric Utility advanced its commitment to environmental improvement by procuring long-term, short-term, and local renewable energy resources. In May 2009, the City entered into a 20-year power purchase agreement with Tieton Hydropower, L.L.C. to purchase 33-1/3% of the output up to 7 megawatts of a small hydroelectric resource near the town of Tieton in Yakima County, Washington. The project has a maximum capacity of approximately 20 megawatts and includes a 115 kV transmission-line approximately 22-miles long connecting the generating station with PacificCorp's Tieton Substation. Acquiring this renewable energy is an important step in meeting GWP's Renewables Portfolio Standard which was approved by City Council on December 16, 2003. This calls for the addition of cost-effective renewable resources to meet 20% of GWP's retail electric energy needs by 2017.

The main focus for the Electric Utility distribution system continued to be system reliability improvements. The north Glendale area distribution system was upgraded to 12 kV in preparation for the replacement and upgrade of the Glorietta Substation from 4 kV to 12 kV. Glorietta substation will be replaced with a new 12kV gas-insulated substation. This will enable us to serve the north Glendale area from the two substations that can mutually support each other. Once the project is completed both the reliability and flexibility of power distribution in the area will improve. The feasibility study to optimize the Glorietta Substation and RFP process to select the contractor were completed for the new substation in fiscal year 2009.

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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Current assets:		
Pooled Cash and invested cash	\$ 80,880	\$ 94,752
Imprest cash	3	3
Cash with fiscal agent	4,704	6,427
Interest receivable	795	1,375
Restricted Investment	1,675	4,749
Accounts receivable, net	9,791	13,085
Unbilled Services	17,118	16,760
Due from other agencies	3	18
Due from other funds of the City	1,331	1,331
Deposits	10	10
Inventories	7,106	7,305
Prepaid items	904	324
	<hr/>	<hr/>
Total current assets	124,320	146,139
	<hr/>	<hr/>
Noncurrent assets:		
Designated & invested cash	69,083	59,508
Deferred charges	2,860	2,729
	<hr/>	<hr/>
Total noncurrent assets	71,943	62,237
	<hr/>	<hr/>
Capital assets:		
Land	6,084	6,084
Natural Gas Reserve	14,876	14,769
Buildings and improvements	56,810	56,523
Machinery and equipment	390,451	379,145
Building & improvements accumulated depreciation	(237,432)	(224,880)
Gas depletion	(1,852)	(1,522)
Construction in progress	60,781	47,423
	<hr/>	<hr/>
Total capital assets	289,718	277,542
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Total assets	<u>485,981</u>	<u>485,918</u>

CITY OF GLENDALE
ELECTRIC FUND

Statements of Net Assets (Continued)
June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	7,348	12,576
Contracts-retained amount due	599	639
Interest payable	1,886	1,815
Bonds payable, due in one year	1,840	1,772
Deposits	2,732	2,541
	<u>14,405</u>	<u>19,343</u>
Total current liabilities		
Noncurrent liabilities:		
Long term debt	121,641	123,462
	<u>121,641</u>	<u>123,462</u>
Total noncurrent liabilities		
	<u>136,046</u>	<u>142,805</u>
Total liabilities		
Net assets:		
Investment in capital assets, net of related debt	175,047	152,308
Restricted		
Debt service	4,639	4,639
SCAQMD emission controls	5,924	5,935
Unrestricted	164,325	180,231
	<u>349,935</u>	<u>343,113</u>
Total net assets	<u>\$ 349,935</u>	<u>\$ 343,113</u>

CITY OF GLENDALE
ELECTRIC FUND

Statements of Revenues, Expenses and Changes in Net Assets
 Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Electric domestic sales	\$ 66,900	\$ 64,315
Electric commercial sale	121,692	113,894
Electric street light sales	2	2
Wholesale sales	10,888	18,825
Sale to other utilities	7,695	7,461
Miscellaneous revenues	1,704	6,541
Total operating revenues	<u>208,881</u>	<u>211,038</u>
Operating expenses:		
Production	142,341	141,765
Transmission	18,461	19,336
Customer accounting and sales	7,346	6,452
Depreciation	17,137	16,431
Gas depletion	330	394
Total operating expenses	<u>185,615</u>	<u>184,378</u>
Operating income	<u>23,266</u>	<u>26,660</u>
Non operating revenues (expenses):		
Interest revenue	4,916	6,325
Grant revenue	277	-
Interest on Bonds	(4,815)	(3,127)
Total non operating revenues, net	<u>378</u>	<u>3,198</u>
Income before transfers	<u>23,644</u>	<u>29,858</u>
Contribution in aid	2,285	3,275
Transfer out:		
Transfer-General Fund	(19,107)	(18,375)
Change in net assets	6,822	14,758
Total net assets, July 1	343,113	328,355
Total net assets, June 30	<u>\$ 349,935</u>	<u>\$ 343,113</u>

CITY OF GLENDALE
ELECTRIC FUND

Statements of Cash Flows

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Cash from customers	\$ 211,830	\$ 205,263
Cash paid to employees	(40,547)	(42,397)
Cash paid to suppliers	(133,189)	(126,606)
Net cash provided by operating activities	<u>38,094</u>	<u>36,260</u>
Cash flows from noncapital financing activities:		
Operating transfers out	(19,107)	(18,375)
Operating grant received	277	-
Net cash used in noncapital financing activities	<u>(18,830)</u>	<u>(18,375)</u>
Cash flows from capital and related financing activities:		
Interest on long term debt	(4,800)	(2,327)
Bond principal and capital lease payments	(1,698)	60,039
Contribution in aid	2,285	3,275
Acquisition of property, plant, and equipment	(29,641)	(32,599)
Investment - gas/electric commodity	3,074	(2,774)
Net cash provided (used in) capital and related financing activities	<u>(30,780)</u>	<u>25,614</u>
Cash provided by investing activities - interest received	5,496	6,281
Net increase (decrease) in cash and cash equivalents	(6,020)	49,780
Cash and cash equivalents at beginning of year	<u>160,690</u>	<u>110,910</u>
Cash and cash equivalents at end of year	<u><u>154,670</u></u>	<u><u>160,690</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>23,266</u>	<u>26,660</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	17,137	16,430
Gas depletion	330	394
(Increase)Decrease Accounts receivable net	3,293	(3,887)
(Increase) Unbilled Services	(358)	(2,503)
Decrease Due from other agencies	14	616
Decrease Inventories	199	73
(Increase)Decrease prepaid expenses	(580)	30
(Increase) Deferred charges	(131)	(1,880)
(Decrease) Accrued salaries and withholding	-	(500)
(Decrease) Compensated absences	-	(3,045)
Increase(Decrease) Accounts payable	(5,227)	3,514
(Decrease) Deferred revenue	-	(304)
Increase(Decrease) Contracts - retention	(40)	72
Increase Deposits	191	590
Total adjustments	<u>14,828</u>	<u>9,600</u>
Net cash provided by operating activities	<u><u>\$ 38,094</u></u>	<u><u>\$ 36,260</u></u>
Noncash investing, capital, and financing activities:		
Amortization of premium, loss on refunding and arbitrage liability incurred	(56)	(94)
Increase in fair value of investments	425	18

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 Electric Enterprise Fund.

Funds

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 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 Fund pools its cash with the City. 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.

Capital Assets

Capital assets are defined by the City as assets with an initial, individual cost of \$5 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 estimated fair market value at the date of donation. 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 stated at cost, using the weighted average cost method or disposal value.

Compensated Absences

The Fund 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 an Internal Service Fund, which incurs the liability. The amount that has not matured is recorded as a long-term liability in the Internal Service Fund-Employee Benefits Fund of the City.

The Fund also provides sick leave conversion benefits through the Retiree Health Saving Plan (RHSP). Unused sick leave is converted to a dollar amount and deposited in the employee's RHSP account at retirement. The account is used to pay healthcare premiums for the retiree and beneficiaries. After the account is exhausted, the retirees can terminate coverage or elect to continue paying the healthcare premiums from personal funds.

For additional details on the Compensated Absences, please refer to the City of Glendale Comprehensive Annual Report.

Post-Employment Benefit

All City Employees, including employees of the Fund, who retired prior to July 2001, and have accumulated unused sick leave upon their retirement may convert the accumulated unused sick leave to the number of months that the City will contribute all or partial of these retirees' monthly medical insurance premiums. The conversion calculations are based on the respective bargaining units' MOU or Benefit Ordinance.

The City also has a Retiree Healthcare Plan which is a single-employer defined benefit healthcare plan administered by the City. The plan provides healthcare benefits to eligible retirees and their dependents. Benefit provisions are established by and may be amended by the City. The City does not have a separate audited GAAP-basis postemployment benefit plan report for this defined benefit plan.

For additional details on the Post-Employment Benefit, please refer to the City of Glendale Comprehensive Annual Report.

Unbilled Services

The Fund records utility services delivered to customers but not billed. As of June 30, 2009 and 2008, the Electric Fund's unbilled services were \$17,118 and \$16,760, 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 applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

Revenue Recognition

Revenues are recognized when the electric services have been provided. Electric Utility customers are billed either monthly or bi-monthly.

An allowance for doubtful account 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.

Implementation of new accounting principles

During fiscal year 2008-09, the City adopted the provisions of Governmental Accounting Standards Board (GASB) 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 requires governments to disclose information about their pollution obligations associated with clean up efforts in the notes to the financial statements. As of June 30, 2009, no pollution remediation obligation has been identified by the City.

Pronouncements Issued but Not yet Adopted

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.

2. Cash and Investments

Cash resources of the Fund are combined with other City funds 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, \$149,966 and \$154,263 pertains to the Electric Fund for fiscal year 2009 and 2008, 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:

	<u>2009</u>	<u>2008</u>
Investments	\$ 519,116	\$ 555,786
Cash with fiscal agents	23,873	27,673
	<u>542,989</u>	<u>583,459</u>
Cash held in financial institutions & imprest cash	16,235	163
Total	<u>\$ 559,224</u>	<u>\$ 583,622</u>

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

	<u>2009</u>	<u>2008</u>
Cash and investments	\$ 429,712	\$ 460,404
Imprest cash	23	59
Cash with fiscal agents	23,873	27,673
Restricted investment	1,675	4,749
Designated cash and investments	103,941	90,737
Total	<u>\$ 559,224</u>	<u>\$ 583,622</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	20%
Time Deposits	1 year	10%

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

Investments Authorized by Debt Agreements

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

Disclosure Relating to Interest Rate Risk

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

		Remaining Maturity (in Months)				
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months	
Commercial Paper	\$ 4,990	4,990	-	-	-	
Federal Agency Term Notes	5,016	-	5,016	-	-	
U.S. Government Agency Callable Bonds	240,502	9123	62,191	169,188	-	
Corporate Notes	22,836	-	9,257	13,579	-	
Corporate Callable Notes	5,057	5057	-	-	-	
Negotiable Certificates of Deposit	23,004	23,004	-	-	-	
Banker's Acceptances	17,780	17,780	-	-	-	
State Investment Pool	134,984	134,984	-	-	-	
Money Market	64,947	64,947	-	-	-	
Held by Fiscal Agents						
Federal Agency Term Notes	5,008	5,008	-	-	-	
Guaranteed Investment Contracts	11,088	-	-	-	11,088	
Money Market Funds	7,777	7,777	-	-	-	
	\$	<u>542,989</u>	<u>272,670</u>	<u>76,464</u>	<u>182,767</u>	<u>11,088</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 rated government securities, AAA or AA rated corporate securities, and A1,P1 rated commercial paper, negotiable certificates of deposits and banker's acceptance securities. The City's Investment Policy requires the City to sell any security with a credit rating below A.

		Rating as of Year End				
		AAA	AA	Aa2	A1,P1	Unrated
Commercial Paper	\$ 4,990	-	-	-	4,990	-
Federal Agency Term Notes	5,016	5,016	-	-	-	-
U.S. Government Agency Callable Bonds	240,502	240,502	-	-	-	-
Corporate Notes	22,836	-	14,882	-	7,954	-
Corporate Callable Notes	5,057	-	5,057	-	-	-
Negotiable Certificates of Dep	23,004	-	-	-	23,004	-
Banker's Acceptances	17,780	-	-	-	17,780	-
State Investment Pool	134,984	-	-	-	-	134,984
Money Market	64,947	64,947	-	-	-	-
Held by Fiscal Agents						
Federal Agency Term Notes	5,008	5,008	-	-	-	-
Guaranteed Investment Contracts	11,088	-	-	11,088	-	-
Money Market Funds	7,777	7,777	-	-	-	-
	\$	<u>323,250</u>	<u>19,939</u>	<u>11,088</u>	<u>53,728</u>	<u>134,984</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
FFCB	Federal Agency Callable Bonds	\$ 5,000
FHLB	Federal Agency Term Notes	5,016
FHLB	Federal Agency Callable Bonds	30,828
	Total	35,844
FHLMC	Federal Agency Callable Bonds	106,598
FNMA	Federal Agency Callable Bonds	\$ 97,147

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. As of June 30, 2009, in accordance with the City's investment policy, none of the City's investments were held with a counterparty. All of the City's investments were held with an independent third party custodian bank. The City uses Bank of America as a third party custody and safekeeping service for its investment securities. All City investments held in custody and safe-keeping by Bank of America are held in the name of the City and segregated from securities owned by the bank. This is the lowest level of custodial credit risk exposure.

At June 30, 2009, the carrying amount of the City's deposits was \$16,235 and the corresponding bank balance was \$25,517. The difference of \$9,282 was principally due to outstanding warrants, wires and deposits in transit. Of the Bank balance, \$250 was insured by the FDIC depository insurance and \$25,267 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, 2009 and 2008 consists of the following:

	<u>Remaining Interest Rates</u>	<u>Original Issue</u>	<u>Outstanding June 30, 2009</u>	<u>Outstanding June 30, 2008</u>
Electric Revenue Bonds, 2003 Series	3.25%-6.00%	\$31,640	\$26,870	\$27,665
Electric Revenue Bonds, 2006 Refunding Series	4.00%-5.00%	\$38,830	\$36,135	\$37,145
Electric Revenue Bonds, 2008 Series	4.00%-5.00%	\$60,000	\$60,000	\$60,000

Electric Revenue Bonds, 2003 Series

The Electric utility of Glendale Water & Power issued \$31,640 in revenue bonds in February 2003 to finance the costs of acquisition, construction and installation of a nominally rated 49 megawatts 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.

The bonds mature in regularly increasing amounts ranging from \$795 to \$1,865 annually from 2010 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 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, 2009 for \$1,863 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, 2009, \$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.

The bonds mature in regularly increasing amounts ranging from \$1,060 to \$2,570 annually from 2010 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 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 \$2,241.

The bonds mature in regularly increasing amounts ranging from \$1,880 to \$4,195 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, 2009	Amount outstanding at		Retirements	Amount outstanding at	
	June 30, 2008	Additions		June 30, 2009	Due within one year
Electric Revenue Bonds, 2003 Series	\$ 27,665	-	795	26,870	795
Electric Revenue Bonds, 2006 Refunding Series	37,145	-	1,010	36,135	1,060
Electric Revenue Bonds, 2008 Series	60,000	-	-	60,000	-
Accrued interest	116	-	5	111	5
Bond Premium	2,327	-	118	2,209	131
Deferred Amount on Refunding	(2,018)	-	(155)	(1,863)	(151)
Arbitrage rebate	-	19	-	19	-
Total bonds payable	125,235	19	1,773	123,481	1,840

June 30, 2008	Amount outstanding at			Amount outstanding at		Due within one year
	June 30, 2007	Additions	Retirements	June 30, 2008		
Electric Revenue Bonds, 2003 Series	\$ 28,460	-	795	27,665	795	
Electric Revenue Bonds, 2006 Refunding Series	38,105	-	960	37,145	1,010	
Electric Revenue Bonds, 2008 Series	-	60,000	-	60,000	-	
Accrued interest	121	-	5	116	5	
Bond Premium	687	1,706	65	2,327	118	
Deferred Amount on Refunding	(2,178)	-	(159)	(2,018)	(155)	
Total bonds payable	\$ 65,195	61,706	1,666	125,235	1,772	

The annual debt service requirements to amortize long-term bonded debt at June 30, 2009 are as follows:

Fiscal year	Revenue Bonds		
	Interest	Principal	Total
2010	\$ 5,658	1,855	7,513
2011	5,575	1,905	7,480
2012	5,488	1,965	7,453
2013	5,398	2,020	7,418
2014	5,305	2,095	7,400
2015-2019	24,973	15,755	40,728
2020-2024	20,444	25,660	46,104
2025-2029	14,177	31,800	45,977
2030-2034	6,697	24,195	30,892
2035-2038	1,934	15,755	17,689
	\$ 95,649	123,005	218,654

There are a number of limitations and restrictions contained in the bond indenture.

4. Pension Plan

Full-time employees of the Fund 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. The Fund's contributions represent a pro rata share of the City's contribution, including the employees' contribution that is paid by the Fund, 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 the Fund'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 the Fund.

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, 2008 was 24.252%. The City's contribution rate for general members starting on July 1, 2008 was 11.681%. 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 \$23,889 were made during the fiscal year ending June 30, 2009 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. See Note 10, Subsequent Event for further discussion on Cal PERS results subsequent to June 30, 2008.

Three Year Trend Information

Fiscal year ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2007:			
Misc.	\$ 9,754	100%	0
Safety	10,385	100%	0
Total	<u>\$ 20,139</u>		
6/30/2008:			
Misc.	\$ 10,691	100%	0
Safety	11,213	100%	0
Total	<u>\$ 21,904</u>		
6/30/2009:			
Misc.	\$ 12,004	100%	0
Safety	11,885	100%	0
Total	<u>\$ 23,889</u>		

Schedule of Pension Funding Progress (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability <AAL> – Entry Age	(Over-funded AAL) / Under-funded AAL	Funded Ratio	Covered Payroll	(Overfunded AAL)/ Underrfunded AAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	{(B-A)/C}
6/30/2006:						
Misc.	\$ 557,702	591,838	34,136	94.2%	92,375	37.0%
Safety	356,253	414,999	58,746	85.8%	41,808	140.5%
Total	<u>\$ 913,955</u>	<u>1,006,837</u>	<u>92,882</u>	<u>90.8%</u>	<u>134,183</u>	<u>69.2%</u>
6/30/2007:						
Misc.	\$ 603,040	634,332	31,292	95.1%	95,082	32.9%
Safety	386,561	447,885	61,324	86.3%	44,131	139.0%
Total	<u>\$ 989,601</u>	<u>1,082,217</u>	<u>92,616</u>	<u>91.4%</u>	<u>139,213</u>	<u>66.5%</u>
6/30/2008:						
Misc.	\$ 641,356	678,218	36,862	94.6%	101,970	36.1%
Safety	413,321	485,398	72,077	85.2%	46,911	153.6%
Total	<u>\$ 1,054,677</u>	<u>1,163,616</u>	<u>108,939</u>	<u>90.6%</u>	<u>148,881</u>	<u>73.2%</u>

5. Self-Insurance Program

The City is self-insured for Workers’ Compensation claims up to \$2,000 per occurrence and general public liability up to \$2,000 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. There were no significant settlements or reductions in insurance coverage from settlements for the past three years.

A claims payable liability has been established in the Internal Service Funds based on estimates of incurred but not reported and litigated claims. Management believes that provisions for claims at June 30, 2009 are adequate to cover the 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. A reconciliation of the changes in the aggregate liabilities for claims for the current fiscal and the prior fiscal year are as follows:

Fiscal Year	Beginning Balance	Claims and Changes	Claim Payments	Ending Balance
2007-08	\$29,837	\$38,052	\$36,583	\$31,306
2008-09	\$31,306	\$33,329	\$28,511	\$36,124

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 2009 and 2008 was \$5,924 and \$5,935, 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, 2009, established a target of \$66,400 of designated cash in the following categories: \$40,400 for contingency reserve; \$10,000 for rate stabilization reserve; and \$16,000 for Reserve for Gas Reserve Project. As of June 30, 2009 and 2008, \$69,083 and \$59,508 was designated, respectively, and reported in unrestricted net assets on the Statements of Net Assets.

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, 2009, the balance for Natural Gas Reserve Project, including drilling program capitalization was \$14,876.

GWP has designated \$14.7 million for future additional gas field acquisitions and drilling programs to achieve the estimated peak daily volume of 2,000 MMBtu per day. Costs of the drilling program that result in producing wells are capitalized as a component of Natural Gas Reserve. Costs of the drilling program that resulted in non-producing wells are expensed.

A summary of the changes in Electric Fund 2008 - 2009 Capital Assets is as follows:

	Balance at July 1, 2008	Increases	Decreases (Reclass & Retirements)	Balance at June 30, 2009
Capital assets not being depreciated/depleted:				
Land	\$ 6,084	-	-	6,084
Construction in progress	47,423	13,358		60,781
Drilling in progress	-			-
Total assets not being depreciated/depleted	53,507	13,358	-	66,865
Depreciable capital assets:				
Building and improvements	56,523	278	(9)	56,810
Machinery and equipment	379,145	15,899	4,593	390,451
Total other capital assets at cost	435,668	16,177	4,584	447,261
Depletable capital assets:				
Natural Gas Reserve	14,769	107	-	14,876
Less accumulated depreciation:				
Building and improvements	27,091	16,462	14,923	28,630
Machinery and equipment	197,789	674	(10,339)	208,802
Total accumulated depreciation	224,880	17,136	4,584	237,432
Less allowance for gas depletion				
Natural Gas Reserve	1,522	330	-	1,852
Total assets being depreciated	224,035	(1,182)	-	222,853
Electric Fund capital assets, net	\$ 277,542	12,176	-	289,718

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	6,084	-	-	6,084
Construction in progress	47,924	-	501	47,423
Drilling in progress	845	-	845	-
Total assets not being depreciated/depleted	54,853	-	1,346	53,507
Depreciable capital assets:				
Building and improvements	56,522	1	-	56,523
Machinery and equipment	355,453	33,874	10,182	379,145
Total other capital assets at cost	411,975	33,875	10,182	435,668
Depletable capital assets:				
Natural Gas Reserve	14,686	83	-	14,769
Less accumulated depreciation:				
Building and improvements	39,421	15,780	28,110	27,091
Machinery and equipment	179,197	651	(17,941)	197,789
Total accumulated depreciation	218,618	16,431	10,169	224,880
Less allowance for gas depletion				
Natural Gas Reserve	1,128	394	-	1,522
Total assets being depreciated	206,915	17,133	13	224,035
Electric Fund capital assets, net	261,768	17,133	1,359	277,542

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 2008-2009. 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 megawatts to 1,800 megawatts.

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 seven 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, 2009, 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, 2009, 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, 2009, 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, 2009, 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, 2009, 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, 2009, Glendale's share is 16.5289% (MPP).

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 delivery of natural gas started in July 2008.

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	1.9002%
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%
Natural Gas Prepaid Project (NGPP)	2038	23.0000%

A summary of the City's "Take or Pay" contracts and related projects and its contingent liability at June 30, 2009 is as follows:

	IPP	SJ	PV	STS	MA	MP	MPP	NGPP	Total
2010	\$ 4,938	1,845	540	1,752	2,535	1,180	3,648	7,145	23,583
2011	6,196	1,845	542	1,769	2,527	1,176	3,649	7,100	24,804
2012	5,569	1,845	545	2,143	2,525	1,176	3,648	6,941	24,392
2013	4,393	1,845	547	1,936	2,529	1,177	3,651	6,770	22,848
2014	4,632	3,171	551	1,942	2,506	985	3,651	6,549	23,987
2015-2019	22,813	7,009	1,670	9,808	12,004	4,817	15,900	32,463	106,484
2020-2024	14,019	1,177	-	8,430	2,384	954	14,814	35,619	77,397
2025-2029	-	-	-	2,460	-	-	15,839	40,416	58,715
2030-2034	-	-	-	-	-	-	16,385	45,629	62,014
2035-2039	-	-	-	-	-	-	14,300	52,727	67,027
Total	\$ 62,560	18,737	4,395	30,240	27,010	11,465	95,485	241,359	491,251

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 2008-09 and budgets for fiscal year 2009-10 are as follows:

<u>Fiscal Year</u>	<u>IPP</u>	<u>SJ</u>	<u>PV</u>	<u>STS</u>	<u>MA</u>	<u>MP</u>	<u>MPP</u>	<u>NGPP</u>	<u>Total</u>
2009	\$ 5,940	5,596	2,283	610	199	583	5,110	31	20,352
2010	7,959	7,608	2,437	398	217	171	4,479	31	23,300

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 megawatts to 2,079 megawatts.

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 megawatts 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 2008-09 was approximately 1,174,632 MMBtu and the average purchase price was \$11.92 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 20-year agreement with BPA expired in April 2008. The second agreement is a 25-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 3 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 November 2007, City Council approved a purchase power agreement with the SCPPA for the purchase of 20 megawatts of renewable energy from Pebble Springs Wind Generation Facility for a term of 18-year. The project began commercial operation in January 2009.

In May 2009, the City entered into a 20-year power purchase agreement with Tieton Hydropower, L.L.C. to purchase 33-1/3% of the output up to 7 megawatts of a small hydroelectric resource near the town of Tieton in Yakima County, Washington. The Project has a maximum capacity of approximately 20 megawatts. The Project includes a 115 kV transmission line, approximately 22-miles long, connecting the generating station with PacificCorp's Tieton Substation. Delivery of energy from the project to the City started in May 2009.

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 Tieton Hydropower Project Power Sales and Acquisition Contract with the Southern California Public Power Authority

In September 2009, the City approved moving forward with SCPPA's purchase of substantially all of the Tieton assets and securing the 33-1/3% of the purchased project. The Cost of the project is approximately \$46 million will be financed with tax-exempt bonds.

CalPERS Employer Contribution Rates

The turmoil in the financial markets over the past 14 months has been unprecedented. CalPERS has publicly disclosed that as of June 30, 2008 the fair value of the Retirement System's total portfolio was approximately \$238 billion. As of July 31, 2009, CalPERS has estimated the fair value to be \$190 billion (unaudited), which represents a decrease of \$48 billion, or 20%, from when the market turmoil commenced (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 has somewhat stabilized after July 31, 2009, but this cutoff date was chosen because it is the most recently closed period in CalPERS management's quarterly investment reporting process and a reasonable cut off period for disclosure of subsequent events to the fiscal year 2008-09 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 may 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 2007-08 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.

Based on CalPERS Annual Valuation Report as of June 30, 2008, which was issued in October 2009, the required employer contributions for the next two fiscal years are as follows:

	Miscellaneous Plan		Safety Plan	
	Employer Rates	Covered Payroll (unaudited)	Employer Rates	Covered Payroll (unaudited)
FY2009-10	11.519%	\$104,653	24.000%	\$48,575
FY2010-11	11.672%	112,235	25.067%	51,636

McGladrey & Pullen

Certified Public Accountants

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, CA

We have audited the accompanying financial statements of the Electric Enterprise Fund of the City of Glendale, California (the City), as of and for the year ended June 30, 2009, and have issued our report thereon dated November 24, 2009. 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 City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Electric Enterprise Fund's financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 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, CA
November 24, 2009