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 Water 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 Water 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 Water 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 Water 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 – WATER UTILITY

The management of Glendale *Water & Power* (a department of the City of Glendale), offers the readers of the City of Glendale Water Enterprise Fund (Water Utility) financial statements a narrative overview and analysis of the financial activities of the Water 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 Water Utility's retail operating revenues increased 4% while the volume of sales decreased 4% from the prior year. The retail revenue increase was attributable to the increase in the rates charged to our customers. The increase in operating revenues offset increases in the costs of water distribution maintenance and purchased water supplied by the Metropolitan Water District (MWD) resulting in net retail operating revenues of $4,041 on revenues of $36,068 less $32,027 in expenses. After adding net non-operating revenues of $1,713 and subtracting $4,160 in transfers to the City's general fund, total net assets increased by $1,594.

During fiscal year 2008, the Water Utility's retail operating revenues increased 5% while the volume of sales decreased 4% from the prior year. The retail revenue increase was attributable to the increase in the rates charged to our customers. The increase in operating revenues offset continued increases in the costs of labor, material, electricity for pumping water through the transmission and distribution system, purchased water supplied by MWD, and depreciation resulting in net retail operating revenues of $4,917 on revenues of $34,817 less $29,900 in expenses. After adding net non-operating revenues of $2,747 and subtracting $4,000 in transfers to the City's general fund, total net assets increased by $3,665.

The assets of the Water Utility exceeded its liabilities at the close of fiscal years 2009 and 2008 by $95,895 and $94,301, respectively. Of these amounts, $15,063 and $41,314, respectively, were unrestricted and may be used to meet the Water Utility's ongoing obligations to creditors and customers. These unrestricted net assets represented 47% and 138% 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 Water Utility financial statements. The Water Utility is a business-type activity of the City, and its activities are recorded in a separate enterprise fund. These financial statements include only the activities for the City of Glendale Water Utility and provide comparative information for the last two fiscal years. Information on city wide financial results is available in the City of Glendale's Comprehensive Annual Financial Report.

The City of Glendale Water Utility's financial statements comprise two components: 1) financial statements and 2) notes to the financial statements. In addition, this report also contains other supplementary information to provide our readers additional information about the Water Utility including sales statistics and other relevant data. Included as part of the financial statements are three separate statements which collectively provide an indication of the Water Utility's financial health.

The ***Statement of Net Assets*** presents information on assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial condition of the utility is improving or deteriorating.

The ***Statement of Revenues, Expenses and Changes in Net Assets*** presents information showing how the Water Utility's net assets changed during the most recent two fiscal years. Results of operations are recorded under the accrual basis of accounting whereby transactions are reported as underlying events occur, regardless of the timing of cash flows. Thus, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods, i.e. accounts payable and accounts receivable. The accrual basis of accounting is more fully described in the accompanying Notes to the Financial Statements.

The ***Statement of Cash Flows*** presents the flows of cash and cash equivalents during the last two fiscal years including certain restricted amounts.

The ***Notes to the Financial Statements*** provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 61 to 77 of this report.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Water Utility's financial position. In the case of the Water Utility, assets exceeded liabilities by $95,895 and $94,301 as of June 30, 2009 and 2008, respectively. A portion of the Utility's net assets (81% and 52% 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 Water Utility uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the capital assets themselves cannot be used to liquidate these long-term liabilities.

An additional portion of the Water Utility's net assets (4% and 4% 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 (16% and 44% as of June 30, 2009 and 2008, respectively) may be used to meet the Water Utility's ongoing obligations to creditors and customers.

Net Assets – Water Utility

The Water Utility's net assets as of June 30, 2009, 2008, 2007 are as follows:

	2009	2008	2007
Current and noncurrent assets	$ 33,270	$ 50,651	$ 8,853
Capital assets	121,546	101,418	85,481
Total assets	154,816	152,069	94,334
Current liabilities	7,135	5,917	2,954
Long-term debt	51,786	51,851	-
Other noncurrent liabilities	-	-	743
Total liabilities	58,921	57,768	3,697
Net Assets:			
Invested in capital assets, net of related debt	77,347	49,502	85,481
Restricted	3,485	3,485	-
Unrestricted	15,063	41,314	5,155
Total net assets	$ 95,895	$ 94,301	$ 90,636

Net assets increased by $1,594 (or 2%) and $3,665 (or 4%) during the fiscal years 2009 and 2008 respectively. These increases in net assets were primarily the result of increased revenues due to the increase in the rates charged to the customers in fiscal years 2009 and 2008.

Changes Net Assets – Water Utility

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

	2009	2008	2007
Revenues:			
Retail sales, net	$ 36,068	$ 34,817	$ 33,277
Interest income	931	613	325
Other revenues and grants	1,354	1,393	1,585
Capital contributions	902	742	671
Total revenues	39,255	37,565	35,858
Expenses:			
Production	22,436	21,373	20,986
Transmission and distribution	4,034	3,139	3,188
Customer accounting and sales	2,464	2,461	2,253
Depreciation	3,093	2,927	2,804
Interest on Bonds	1,474	-	-
Total expenses	33,501	29,900	29,231
Transfers to the City's General Fund	4,160	4,000	4,109
Total expenses and transfers	37,661	33,900	33,340
Changes in net assets	1,594	3,665	2,518
Total net assets, beginning of year	94,301	90,636	88,118
Total net assets, end of year	$ 95,895	$ 94,301	$ 90,636

Revenues by Source – Water Utility

Year ended June 30, 2009

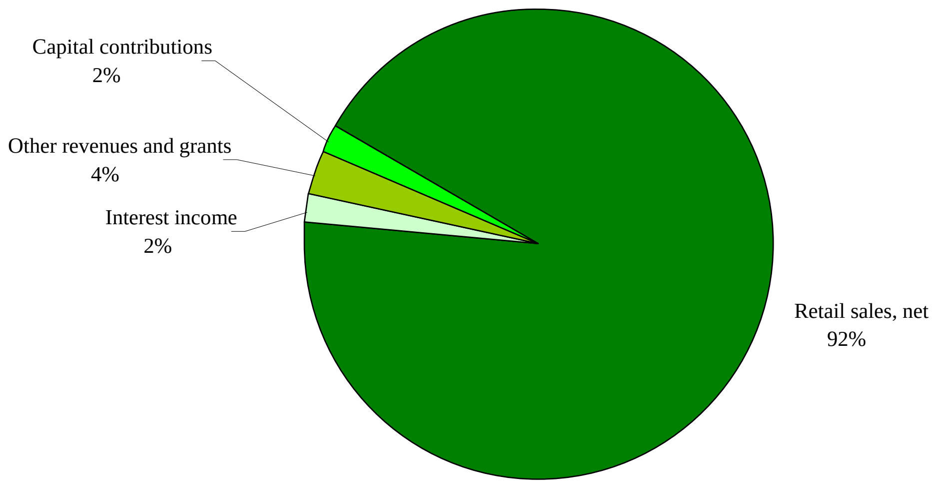
Retail sales (residential, commercial, industrial and other sales) continued to be the primary revenue source for the Water Utility, making up 92% of total revenue. Retail sales showed an increase of 4% from the prior year reflecting an average 8% rate increase offsetting a 4% decrease in retail sales volume.

Interest income increased 52% from the prior year. The increase was attributable to an increase of cash in the Water Utility's investment portfolio primarily due to a bond issuance of $50 million (Water Revenue Bonds, 2008 Series) on February 5, 2008.

Capital contributions increased 22% from the prior year. The increase reflects the increased level of construction projects funded by others, primarily retail customers.

Grants decreased 18% compared to the prior year, reflecting a decrease in grant funds received from EPA for water quality projects.

2009 Revenues



Year ended June 30, 2008

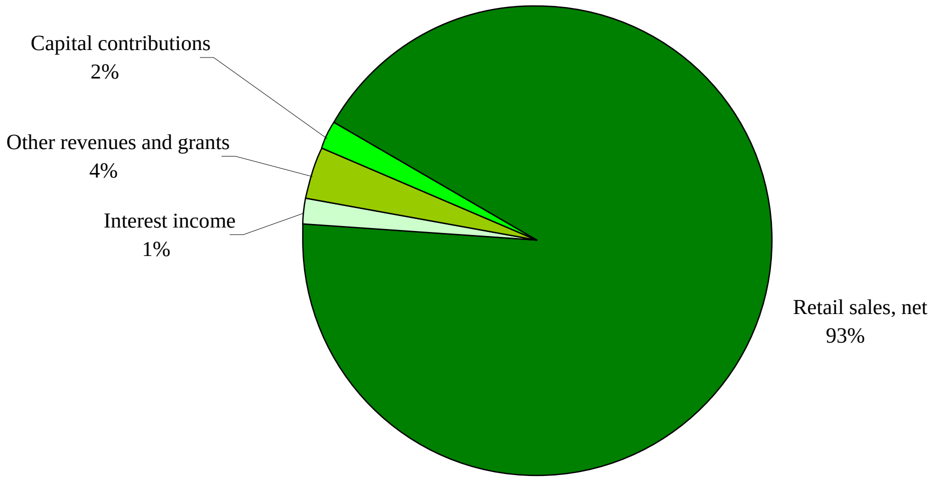
Retail sales (residential, commercial, industrial and other sales) continued to be the primary revenue source for the Water Utility, making up 93% of total revenue. Retail sales showed an increase of 5% from the prior year reflecting an average 7% rate increase offsetting a 4% decrease in retail sales volume.

Interest income increased 89% from the prior year. The increase was attributable to an increase of cash in the Water Utility's investment portfolio primarily due to a bond issuance of $50 million (Water Revenue Bonds, 2008 Series) on February 5, 2008.

Capital contributions increased 11% from the prior year. The increase reflects the increased level of construction projects funded by others, primarily retail customers.

Grants decreased 63% compared to the prior year, reflecting a decrease in grant funds received from EPA for water quality projects.

2008 Revenues



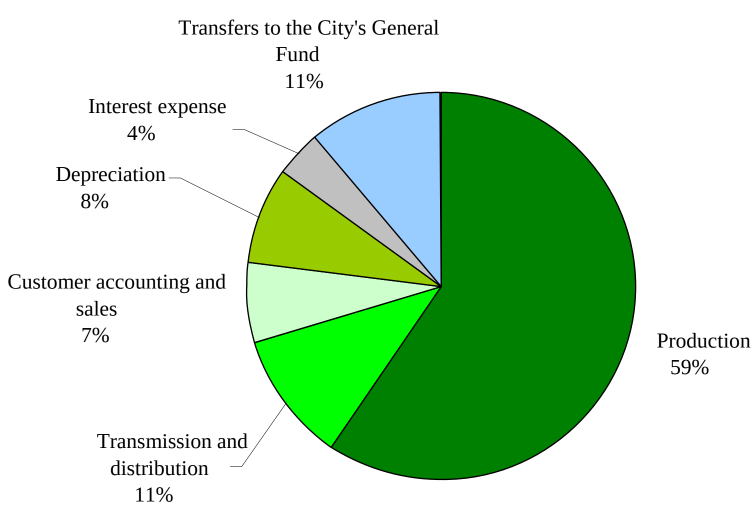
Expenses by Source – Water Utility

Year ended June 30, 2009

Total expenses for the Water Utility increased 12% from the prior year level. Production expenses increased 5% reflecting an increase in the cost of purchased water supplied by MWD. Transmission and distribution expenses increased 29% from the prior year level reflecting an increased focus of labor resources on water distribution maintenance. Customer accounting and sales expenses were on par with the prior year level. Depreciation expense increased 6% reflecting an increase in capital assets.

Transfers to the City's General Fund are based on a fixed amount that increased $160 (or 4%) from the prior year.

2009 Expenses

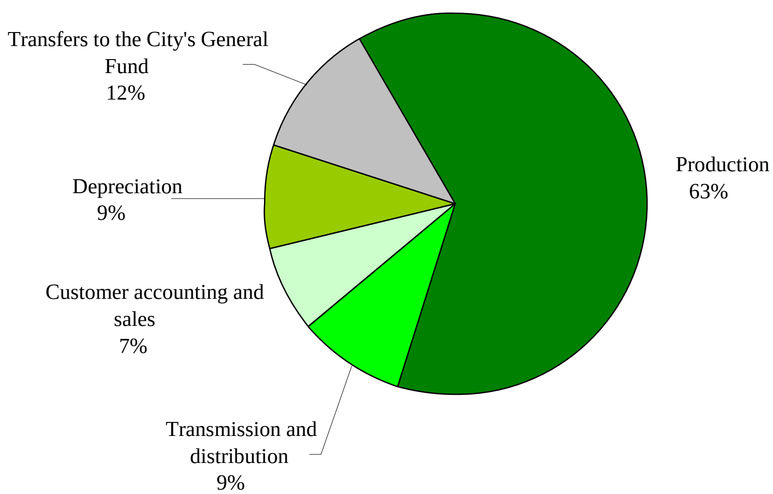


Year ended June 30, 2008

Total expenses for the Water Utility increased 2% from the prior year level. Production expenses increased 2% reflecting an increase in the cost of purchased water supplied by MWD, electricity for pumping water through the transmission and distribution system, and labor. Transmission and distribution expenses were on par with the prior year level. Customer accounting and sales expenses increased 9% reflecting continued increases in the cost of labor. Depreciation expense increased 4% reflecting an increase in capital assets.

Transfers to the City's General Fund are based on a fixed amount that decreased $109 or 3% from the prior year.

2008 Expenses



Capital Assets and Debt Administration

Capital Assets

The Water Utility's investment in capital assets as of June 30, 2009 and 2008 was $121,546 and $101,418, respectively (net of accumulated depreciation). This included investments in production, transmission, and distribution related facilities, as well as general items such as office equipment, furniture, etc. Capital assets showed a 20% and 19% increase as of June 30, 2009 and 2008, respectively, over the prior years as the implementation of long-term infrastructure improvement programs continued.

The Water Utility's capital assets as of June 30, 2009, 2008, 2007 are as follows:

	2009	2008	2007
Production	$ 31,247	$ 29,086	$ 27,302
Transmission and distribution	130,619	110,333	94,443
General	13,441	13,112	12,603
Less: accumulated depreciation	(53,761)	(51,113)	(48,867)
Total	$ 121,546	$ 101,418	$ 85,481

Long-Term Debt

As of June 30, 2009 and 2008, the Water Utility had outstanding long-term debt of $51,786 and $51,851, respectively. In February of 2008, the Water Utility issued $50 million of revenue bonds. The bonds were issued to pay for capital improvements to the water system. The debt is secured by the Water Utility's revenues (Water Revenue Bonds).

The Water Utility's outstanding debt as of June 30 is as follows:

	2009	2008	2007
Water Revenue Bonds	$ 50,000	$ 50,000	$ -
Less: current portion	(65)	(65)	-
Unamortized bond premium	1,851	1,916	-
Total long-term debt	$ 51,786	$ 51,851	$ -

During fiscal year 2009, the Water Utility maintained an "AA" credit rating from Standard & Poor's, an "AA-" credit rating from Fitch, Inc. and an Aa3 credit rating from Moody's Investors Service for its revenue bonds. Additional information on the Water Utility's long-term debt can be found in Note 3 on pages 70 to 71 of this report.

Economic Factors and Rates

Although inflationary trends in the Glendale region continue to remain relatively stable, the Water Utility's cost escalation is not strictly attributable to inflation. The main drivers of cost increase relates to the drought conditions the region has been experiencing for several years, purchased power cost, and the need for capital investment in the water distribution system.

In fiscal year 2009, Glendale remained in Phase I – voluntary 10% conservation, which was enacted by City Council in July 2007 to respond to diminishing supply circumstances of the prior two years.

The regional supply of water was threatened last year by court rulings related to endangered species protection. The condition has been exacerbated by less-than-normal rainfall throughout the state and has resulted in additional costs to purchase water, much more costly than the groundwater supply.

Glendale relies on the Metropolitan Water District (MWD) for supplies of water that exceed its local resources. Approximately 65% to 70% of the water demand in Glendale is met by water purchased from MWD. In April 2009, MWD implemented Level 2 of their Water Shortage Allocation Plan, reflecting a 10% regional shortage of supplies. According to the plan, each member agency is required to reduce the amount purchased from MWD based, among other factors, on the dependence on imported water to meet demands. Agencies that do not reduce their demands will be subject to significant financial penalties.

In June 2009, Council adopted modifications to the City's Conservation Ordinance to ensure compliance with best management practices, and to create provisions for mandatory conservation that limit the days of the week during which outdoor irrigation is allowed. The revised ordinance went into effect on July 31, 2009 and will remain in effect through fiscal year 2010.

Decreased water sales due to conservation are expected to impact the water utility's revenue. Additionally, MWD increased its rates by 14% in January 2009 and will raise its rate again by 21% in September 2009. In addition to the costs to purchase water, a large part of the total operating expense is comprised of electricity for pumping water through the transmission and distribution system. Electric rates increased an average of 7% from July of 2008, which resulted in higher operating costs for the Water Utility. The loss of revenue due to conservation, the increasing costs of purchased water, high electricity cost for pumping water, and long-term capital improvement and water quality improvement programs will place additional financial pressure on the Water Utility.

Glendale City Council has already approved water base rate increases for January 2009 and January 2010. This will help alleviate the pressure of the dynamics of the operational challenges.

Requests for Information

This financial report is designed to provide a general overview of the Water Utility's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the General Manager of Glendale *Water & Power* – 141 North Glendale Avenue, Level 4, Glendale, California 91206.

CITY OF GLENDALE
WATER FUND
Statements of Net Assets
June 30, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Pooled Cash and invested cash	$ 14,350	$ 30,967
Imprest cash	1	1
Cash with fiscal agent	3,485	5,442
Interest receivable	128	332
Accounts receivable, net	2,311	2,087
Unbilled Services	3,370	3,339
Due from other agencies	300	78
Total current assets	23,945	42,246
Noncurrent assets:		
Designated & invested cash	8,671	7,729
Deferred charges	654	676
Total noncurrent assets	9,325	8,405
Capital assets:		
Land	1,034	1,034
Buildings and improvements	87,581	84,156
Machinery and equipment	47,233	44,620
Building & improvements accumulated depreciation	(53,762)	(51,113)
Construction in progress	39,460	22,721
Total capital assets	121,546	101,418
Total assets	154,816	152,069

CITY OF GLENDALE
WATER FUND
Statements of Net Assets (Continued)
June 30, 2009 and 2008

	2009	**2008**
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	5,416	3,714
Contracts-retained amount due	137	890
Interest payable	770	689
Bonds payable, due in one year	65	65
Deposits	747	559
Total current liabilities	7,135	5,917
Noncurrent liabilities:		
Long term debt	51,786	51,851
Total noncurrent liabilities	51,786	51,851
Total liabilities	58,921	57,768
Net assets:		
Investment in capital assets, net of related debt	77,347	49,502
Restricted		
Debt service	3,485	3,485
Unrestricted	15,063	41,314
Total net assets	$ 95,895	$ 94,301

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

CITY OF GLENDALE
WATER FUND
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2009 and 2008

	2009	2008
Operating revenues		
Water metered sales	$ 33,876	$ 31,842
Water metered sales - recycled	1,441	1,294
Water private fire	382	335
Water other sales	311	319
Water-capital	58	1,027
Miscellaneous revenues	1,174	1,173
Total operating revenues	37,242	35,990
Operating expenses:		
Production	22,436	21,373
Transmission	4,034	3,139
Customer accounting and sales	2,464	2,461
Depreciation	3,093	2,927
Total operating expenses	32,027	29,900
Operating income	5,215	6,090
Non operating revenues (expenses):		
Interest revenue	931	613
Grant revenue	180	220
Interest on Bonds	(1,474)	-
Total non operating revenues, net	(363)	833
Income before transfers	4,852	6,923
Contribution in aid	902	742
Transfer-General Fund	(4,160)	(4,000)
Change in net assets	1,594	3,665
Total Net assets, July 1	94,301	90,636
Total net assets, June 30	$ 95,895	$ 94,301

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

CITY OF GLENDALE

WATER FUND

Statements of Cash Flows

Years ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash from customers	$ 36,766	$ 36,123
Cash paid to employees	(4,373)	(4,971)
Cash paid to suppliers	(23,402)	(21,212)
Net cash provided by operating activities	8,991	9,940
Cash flows from noncapital financing activities:		
Operating transfers out	(4,160)	(4,000)
Operating grant received	180	220
Net cash used in noncapital financing activities	(3,980)	(3,780)
Cash flows from capital and related financing activities:		
Interest on long term debt	(1,459)	688
Bond principal and capital lease payments	-	51,916
Contribution in aid	902	742
Acquisition of property, plant, and equipment	(23,220)	(18,863)
Net cash provided (used in) capital and related financing activities	(23,777)	34,483
Cash provided by investing activities - interest received	1,135	323
Net increase (decrease) in cash and cash equivalents	(17,631)	40,966
Cash and cash equivalents at beginning of year	44,138	3,173
Cash and cash equivalents at end of year	26,507	44,139
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	5,215	6,091
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,093	2,927
(Increase)Decrease Accounts receivable net	(224)	368
(Increase) Unbilled services	(30)	(213)
(Increase) Due from other agencies	(222)	(22)
(Increase)Decrease Deferred charges	23	(676)
(Decrease) Accrued salaries and withholding	-	(26)
(Decrease) Compensated absences	-	(800)
Increase Accounts payable	1,702	1,547
Increase(Decrease) Contracts - retention	(753)	744
Increase Deposits	187	-
Total adjustments	3,776	3,849
Net cash provided by operating activities	$ 8,991	$ 9,940
Noncash investing, capital, and financing activities:		
Amortization of premium, loss on refunding and arbitrage liability incurred	(65)	(22)
Increase in fair value of investments	35	915

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

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies of the City of Glendale (the City) as they pertain to the Water Enterprise Fund.

Funds

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 Water Enterprise Fund (the Fund) is used to account for the construction, operation and maintenance of the City-owned water utility. The Fund is considered to be an enterprise fund, proprietary fund type, as defined under accounting principles generally accepted in the United States of America. The measurement focus is upon financial position, changes in financial position and cash flows. Accordingly, the accrual basis of accounting is followed by the Fund. In accordance with Government Accounting Standards Board (GASB) statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting, the Fund has elected to apply all applicable pronouncements of the Financial Accounting Standards Board (FASB) including those issued on or before November 30, 1989, except for those pronouncements which conflict with or contradict GASB pronouncements. The Fund is included in the City's Comprehensive Annual Financial Report (CAFR), and therefore, these financial statements do not purport to represent the financial position and changes in financial position of the City.

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	25 to 75
Machinery and equipment	5 to 50

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 Water Fund's unbilled services were $3,370 and $3,339, 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 Water Fund to be transferred to the City's General Fund and have been reflected in the financial statements as transfers out.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The City first 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 water services have been provided. Water 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, $23,022 and $38,697 pertains to the Water 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:

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

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

	2009	2008
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	$ 559,224	$ 583,622

Information Relating to the City of Glendale Investment Pool:

Authorized Investments

Under provisions of the City's investment policy, and in accordance with California Government Code Section 53601, the City Treasurer may invest or deposit in the following types of investments:

	Maximum Maturity	Maximum % of Portfolio
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	-	-	-
	$	542,989	272,670	76,464	182,767	11,088

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	-	-	-	-
	$	542,989	323,250	19,939	11,088	53,728	134,984

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 Water Utility's long-term debt as of June 30, 2009 and 2008 consists of the following:

	Remaining Interest Rates	Original Issue	Outstanding June 30, 2009	Outstanding June 30, 2008
Water Revenue Bonds, 2008 Series	2.95%-5.00%	$50,000	$50,000	$50,000

Water Revenue Bonds, 2008 Series

The Water Utility of Glendale Water & Power issued $50,000 in revenue bonds in February 2008 to finance the costs of acquisition and construction of certain improvements to the Water System of the City.

The terms of the 2008 Water 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. The reserve requirement of the bond issue is satisfied by a cash reserve fund with a minimum funding requirement of $3,485.

The bonds mature in regularly increasing amounts ranging from $1,175 to $3,060 annually from 2013 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 June 30, 2008	Additions	Retirements	Amount outstanding at June 30, 2009	Due within one year
Water Revenue Bonds, 2008 Series	$ 50,000	-	-	50,000	-
Bond Premium	1,916		65	1,851	65
Total bonds payable	$ 51,916	-	65	51,851	65

June 30, 2008	Amount outstanding at June 30, 2007	Additions	Retirements	Amount outstanding at June 30, 2008	Due within one year
Water Revenue Bonds, 2008 Series	$ -	50,000	-	50,000	-
Bond Premium	-	1,937	22	1,916	65
Total bonds payable	$ -	51,937	22	51,916	65

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

	Revenue Bonds		
Fiscal year	Interest	Principal	Total
2010	$ 2,310	-	2,310
2011	2,310	-	2,310
2012	2,310	-	2,310
2013	2,310	1,175	3,485
2014	2,263	1,210	3,473
2015-2019	10,644	6,645	17,289
2020-2024	9,107	7,935	17,042
2025-2029	7,181	9,660	16,841
2030-2034	4,656	11,880	16,536
2035-2038	1,467	11,495	12,962
	$ 44,558	50,000	94,558

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 9, 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	$ 20,139		
6/30/2008:			
Misc.	$ 10,691	100%	0
Safety	11,213	100%	0
Total	$ 21,904		
6/30/2009:			
Misc.	$ 12,004	100%	0
Safety	11,885	100%	0
Total	$ 23,889		

Schedule of Pension Funding Progress (Unaudited)

Actuarial Valuation Date		Actuarial Value of Assets (A)	Actuarial Accrued Liability <AAL> – Entry Age (B)	(Over-funded AAL) / Under-funded AAL (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	(Overfunded AAL)/ Underrfunded AAL as a Percentage of Covered Payroll {(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	$	913,955	1,006,837	92,882	90.8%	134,183	69.2%
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	$	989,601	1,082,217	92,616	91.4%	139,213	66.5%
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	$	1,054,677	1,163,616	108,939	90.6%	148,881	73.2%

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 Water 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.

In December of 2003, GWP management received approval from the City Council to implement a cash reserve policy for the Water Fund to ensure a long term sustainable financial health of the water operation. The policy calls for annual review of the reserves to determine if the recommended levels are sufficient. The annual review of the Cash Reserve Policy for the fiscal year ending June 30, 2009, established a target of $7,500 of designated cash in the following categories: $6,500 for contingency reserve; and $1,000 for rate stabilization reserve. As of June 30, 2009 and 2008, $8,189 and $7,729 was designated, respectively, and reported in unrestricted net assets on the Statements of Net Assets.

7. Capital Assets

A summary of the changes in Water 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	1,034	-	-	1,034
Construction in progress	22,721	16,739	-	39,460
Total assets not being depreciated/depleted	23,755	16,739	-	40,494
Depreciable capital assets:				
Building and improvements	84,156	3,425	-	87,581
Machinery and equipment	44,620	3,058	446	47,232
Total other capital assets at cost	128,776	6,483	446	134,813
Less accumulated depreciation:				
Building and improvements	28,079	2,887	1,478	29,488
Machinery and equipment	23,034	207	(1,032)	24,273
Total accumulated depreciation	51,113	3,094	446	53,761
Total assets being depreciated	77,663	3,389	-	81,052
Water Fund capital assets, net	101,418	20,128	-	121,546

A summary of the changes in Water 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	1,034	-	-	1,034
Construction in progress	12,732	9,986	(3)	22,721
Total assets not being depreciated/depleted	13,766	9,986	(3)	23,755
Depreciable capital assets:				
Building and improvements	79,171	4,984	-	84,156
Machinery and equipment	41,411	3,892	683	44,620
Total other capital assets at cost	120,582	8,877	683	128,776
Less accumulated depreciation:				
Building and improvements	28,130	2,749	2,800	28,079
Machinery and equipment	20,738	177	(2,119)	23,034
Total accumulated depreciation	48,867	2,926	680	51,113
Total assets being depreciated	71,715	5,950	3	77,662
Water Fund capital assets, net	85,481	15,937	-	101,418

8. Contingent Liabilities

Litigation

The City is a defendant in several general damage and personal injury lawsuits and claims. These claims arise primarily from injuries sustained by the claimants while on property owned or maintained by the City. While litigation is by nature uncertain, management believes, based on consultation with the City Attorney, that these cases in the aggregate are not expected to result in a material adverse impact on the City. Additionally, City management believes that sufficient reserves are available to the City to cover any potential losses should an unfavorable outcome materialize.

9. Subsequent Event

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 Water 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 Water 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 Water 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