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LETTER FROM THE DIRECTOR

BUILDING TODAY FOR A STRONGER TOMORROW



During the 2002-2003 fiscal year, Glendale *Water & Power* completed its Master Plan so that we could establish our road map for the future. During the 2003-2004 fiscal year, we began to implement and execute these plans so that we could begin to build today for a stronger tomorrow.

As GWP builds for tomorrow, it's essential to create an infrastructure that lasts far into the future. We are accomplishing this through systematic replacement and upgrades of both our electrical and water infrastructure.

GWP completed the installation of Unit 9, a clean, more efficient new electric generator unit at our local source of self-generated power, the Grayson Power Plant. On the water side, GWP determined that seismic activity over time had begun to compromise the structural integrity of the Chevy Chase 968 Reservoir. We initiated a project to replace the 14.5 million gallon unit over the course of the next three years.

These bricks and mortar projects were just the beginning of building for a stronger tomorrow. GWP built up programs in Customer Service, Mechanical Maintenance, Environmental Management and Security Services.


In order to support these improvements, GWP recognized that we must have a well coordinated financial plan. Therefore, we developed management tools with the help of a Cash Reserve Policy and a proposed Debt Management Policy. GWP also implemented Operational Risk Management so that we can maintain our financial strength and continue to improve our financial condition.

None of this would be possible without building strength among our people, who are the foundation and building blocks of our organization. In

addition to developing strength, GWP worked with employees to increase flexibility, agility and coordination, qualities that are reflected in GWP's Mission Statement:

Build a creative and versatile organization that evolves and responds as needs dictate and encourages calculated risk-taking to effectuate the vision.

Last, but not least, while we are carrying out our plans, we must continue to look into the future. Strategic planning will enable GWP to see "what's coming around the corner" for years from now and will help us make decisions that keep GWP a strong, vibrant organization for generations to come.



Ignacio Troncoso
Director of Glendale *Water & Power*



Water, a necessity for all living things, is as essential as the air we breathe.
Electricity, which provides comfort, convenience, safety, and solace,
is equally indispensable in our modern world.

BUILDING TODAY FOR A STRONGER TOMORROW

Water, a necessity for all living things, is as essential as the air we breathe.

Electricity, which provides comfort, convenience, safety, and solace, is equally indispensable in our modern world.

Glendale *Water & Power* (GWP) understands the necessity of the services we provide to our residents and businesses. We are committed to providing high-quality, reliable, cost effective service to our customers, in spite of changing times and an aging infrastructure.

Three years ago, GWP set out to create a new GWP that could continue to serve our community for another century. That vision was reflected in the 2001-2002 Annual Report *"THE NEW GWP – Looking to the Future."* The following year, we started to develop the complex plans that would turn that future vision into reality.

The 2002-2003 Annual Report outlined that complex course in *"ROAD MAP TO TOMORROW – Plan the Work, Work the Plan."*

This year, we move from envisioning and planning to building. We're beginning to execute the plans, a process that goes far beyond strengthening the infrastructure. In order to ensure for a stronger tomorrow, we're developing strength in every department, at every level and in every aspect of the business. The payoff is simple – not just a stronger GWP but a stronger, more flourishing community as well.



STRENGTH THROUGH IMPROVEMENTS

A modern infrastructure strengthens reliability and quality

Glendale *Water & Power* is committed to maintaining the high level of reliable, high-quality, cost-effective service that our customers have grown to expect for the last century and throughout this new century. In order to do so, strengthening our infrastructure with major system improvements is an imperative.

Water: Chevy Chase 968 Reservoir

GWP explored the possibility of rehabilitating this 82 year-old facility, but the weakened concrete made that option infeasible. Instead, GWP made the decision to replace the reservoir. The \$15 million project will ensure a steady stream of clean water to the 200,000 residents of Glendale for the next 100 years.

City Council approved the proposed budget and GWP began the engineering study for this major construction project.

Water: Chevy Chase Pipeline

GWP improved water pressure and reliability by completing the replacement of this major pipeline, which was more than 80 years old.

Power: Grayson Power Plant

GWP completed the installation of generating unit 9 at the local Grayson Power Plant. The new unit, which replaces units 6 and 7, is a cleaner, more efficient alternative. The project was completed on schedule and under budget.



Power: Higher Voltage System

GWP is in the process of converting all 4,000-volt distribution circuits to 12,000 volts throughout the city. In addition to increased system efficiency, the higher voltage system generates less heat, experiences lower wattage losses, and requires less maintenance.

During fiscal year 2003-2004, we completed the first round of targeted conversions.

Power: Utility Operations Center

GWP began planning the proposed new Utility Operations Center (UOC), the nerve center of the operation that will house the dispatch center, fleet services, parking garage, a superintendent's building, and a substation. The UOC will make better use of space, create a more pleasant working environment, and improve the efficiency of operations.

Architects have completed the design of the center, which will follow the principles of green building. GWP is seeking certification from LEED (Leadership in Energy and Environmental Design) for the high-performance, sustainable buildings.



STRENGTH THROUGH MAINTENANCE

While GWP works to upgrade and improve the water and power infrastructure, we must keep these upgrades and improvements strong through proper maintenance. In 2002, GWP implemented a systematic plan for maintaining the electrical services system. The plan calls for inspections and maintenance at one, five and ten year intervals. This preventive maintenance plan strengthens our customer service and reliability by minimizing unplanned outages.

The fleet services department, which manages 350 GWP vehicles, has been practicing preventive maintenance for more than ten years. As a result, the California Highway Patrol has never taken a single GWP vehicle out of service since this successful preventive maintenance program was implemented.

Fleet management has succeeded in reducing their operating and maintenance budget by \$350,000 a year from ten years ago, in spite of increases in gas prices and a 50-vehicle increase in fleet size.

GWP also applies the same rigorous standards of maintenance to its inventory of 100 pieces of construction equipment and a \$4.2 million inventory of equipment consisting of everything from utility poles and hydrants to clothing and rubber gloves.

Testing is also an important aspect of maintenance. Our product test facility, which tests everything from mechanical equipment to rubber gloves, keeps our employees safe from the hazards of electricity.



STRENGTH THROUGH SECURITY

Life as we know it changed after September 11, 2001. We realized that our facilities, which at one time seemed secure and inaccessible, were, in fact, vulnerable to intrusion.

To address the need for tightened security, GWP implemented the following security measures:

- 24 hours a day, seven days a week guard service at offices
- Access through company identification
- Ongoing patrol of power plants and outlying facilities
- On-call relationship with the Glendale Police Department

GWP is in the process of installing an advanced security system that will automatically notify park rangers and police of intrusion. We are also redesigning facilities at the UOC with 16 closed circuit TV systems.

While GWP works to upgrade and improve the water and power infrastructure, we must keep these upgrades and improvements strong through proper maintenance.



STRENGTH THROUGH NUMBERS

Financial health provides strength and agility

GWP has strong support from city governance in its commitment to an integrated approach for implementing best practices in financial management. The City Council formally adopted Cash Reserve Policies for both the electric and water utilities. These policies provide the foundation for identifying and meeting working capital and contingency needs, as well as for financing future capital needs for system expansion and improvement.

A Debt Management Policy, in the process of being finalized, will establish guidelines for evaluating and managing the debt portfolio as another financing source of our capital needs.

From the operational perspective, we've developed management systems so that the operating sections can evaluate their performance in managing budgets and project costs.

We've also developed standard operating procedures for contract administration and energy risk management activities. These procedures give us the ability to identify and minimize exposure to financial risk.

All of the planning and operating information is then coordinated through an ongoing, proactive strategic planning process that leads to the development of the long-term business plan for GWP.

To provide a comprehensive view of our finances, we've developed a multi-year financial projection model. This planning tool will help to determine the long-term, optimal financing structuring to support the strategic plan and to assess the impact on rates, which are analyzed and designed through cost-of-service study models. All of this ensures that we stay strong and competitive in the long run.



"We're developing financial strength by committing to disciplined financial practices and making business decisions based on timely and accurate analyses of information."

Ruwen Liu, Senior Executive Analyst

STRENGTH IN PEOPLE



“We can only build for the future through our employees. Without them, we have no strength.” – Ignacio R. Troncoso, Director

Building for tomorrow while efficiently managing today is a complicated proposition. Our managers must juggle time, financial resources and staff.

In 2003, we took a look at what our managers need in order to be effective in the ever-changing environment at GWP. A diverse group of GWP employees, ranging from employees coming up the ranks to seasoned veterans, completed a supervisory training pilot program in June 2004. The ten-class curriculum focused on leadership, communication and writing skills, as well as company policies and legal issues in the

workplace. In the future, GWP will offer an “advanced” version of this supervisory training program.

GWP also identified a need to train employees who are interested in moving up to supervisory positions. “The curriculum will be designed to help employees understand that they play a different role as supervisor and that they need a different skill set,” said Marina Cline, Human Resources Analyst.

Training is especially important because GWP faces the challenge of an aging work force with retirements looming over the next five years. “Our goal is to build strength from within,” said Peter Kavounas, Water Services Administrator.





STRENGTH THROUGH TECHNOLOGY

Technology Improves Water Quality

Because the health effects of Chromium 6 in water supplies were not well known, Glendale took a leadership role in the removal of this element from groundwater supplies. Since other communities in the San Fernando Valley, along with other areas of the United States, had Chromium 6 concerns, the City of Glendale began working with Congressman Adam Schiff to develop a comprehensive three-phase effort for developing the technology to remove Chromium 6 from drinking water supplies.

“GWP’s involvement in this project demonstrates our strength in responding to an emerging issue, our national leadership, and our commitment to reliable, quality service to our customers,” said Peter Kavounas, Water Services Administrator.

The phases include bench-scale, pilot-scale, and demonstration-scale testing. The final phase is the construction of a full-capacity system to treat the





water. We completed Phase I, which developed a number of promising treatment technologies, and we are in Phase II, in which we demonstrate two categories of treatment technologies on a pilot scale.

Technology improves water and electrical services administration.

GWP is in the process of upgrading the 20-year old SCADA (Supervisory Control and Data Acquisition) technology currently in use.

The SCADA network is an important tool for both water services and electrical services administration. On the water side, SCADA remotely monitors and controls tank levels, flows, pressures, voltages, currents, and alarms. On the electrical side, the network monitors the substations and alarms. The existing system can alert us to problems, but provides no information about the nature of the problems. The improved

technology will correct this situation by providing more detailed information, so that the dispatched technician can begin work immediately to resolve the problem. "This new technology will give us better information, and better information will help us control costs and strengthen customer service," said Ramon Abueg, Electrical Services Administrator.

Technology improves customer service

In 2004, GWP began to implement radio-controlled meter reading devices for use when access is impossible or difficult, such as in neighborhoods with a steep terrain. "This technology improves our operating efficiency and improves customer service by making sure that customers receive their bills on time," said Tami Vallier, Customer Services Operations Manager.

GWP is improving water quality, system strength, reliability, and customer service through improved technology.

STRENGTH THROUGH CUSTOMER SERVICE

“We need to get back to focusing on the customer by building confidence and building trust.” – Tami Vallier, Customer Services Operations Manager

In addition to providing reliable service at competitive prices, GWP is committed to delivering outstanding, customer-friendly service.

In order to provide strong service, customer service representatives received a combined total of 400 hours of training. At the same time, we worked to improve processes, such as access to information, so that employees could easily have pertinent information “at their fingertips” to serve our customers.

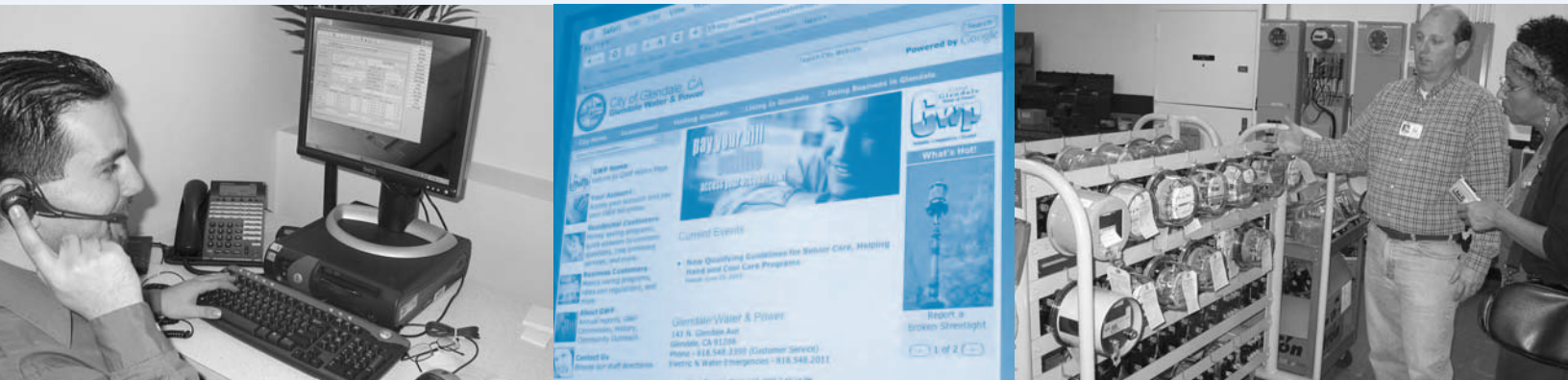
And to avoid the “I’ll transfer you to someone else who can help you” syndrome, GWP is cross-training employees to provide better service. We

started by training all representatives to handle payment arrangements so that customers no longer have to be transferred to the collections department.

We’re also working to improve convenience and accessibility for our customers. Customers now have many choices for paying their bills:

- U.S. mail
- Drop boxes and drive-through windows
- 24-hour access online with payment options of credit cards or electronic checks
- 24-hour access to an interactive voice mail system with the payment option of credit cards and plans to add an electronic check option

As a result of the improved convenience and service, we have very few uncollectible bills. Our goal is to improve the service level by reducing the amount of time it takes to answer calls.



STRENGTH THROUGH DIVERSITY



GWP's diverse portfolio of power sources strengthens our ability to meet the current and future power demands of the City of Glendale while controlling costs. And because we draw from a variety of power sources, not just a single source, our City is less vulnerable to disaster. The diversity of power resources, which includes an ever-growing collection of renewable resources, also underscores GWP's strong commitment to the environment.

In 2003-2004, GWP took the following steps to strengthen GWP's ability to provide adequate, cost-efficient, environmentally friendly power resources for the City of Glendale:

- Completed the installation of Generating Unit 9 at Grayson Power Plant, a cleaner, more cost efficient alternative to its predecessors.
- Prepared the maintenance and outage schedule for a major overhaul of the unit 5 turbine generator at Grayson Power Plant. The overhaul will reduce harmful emissions by nearly 50%.
- Continued to work in partnership with the Southern California Public Power Authority (SCPPA) and six other Southern California cities on the completion of the Magnolia Power Project in Burbank. This project, scheduled for completion in mid-2005, will provide 40 megawatts of clean, cost-efficient electricity for the City of Glendale.

- Began to take delivery of wind power in California.
- Signed a contract with Ameresco Chiquita Energy, LLC to provide 4.5 megawatts of renewable power generated from landfill gas.
- Began to explore the option of geothermal power from a California source.

In order to strengthen GWP's financial prowess, Power Management Administrator Ned Bassin, emphasized that we must continually ask, "Is this the right resource at the right time?" A key criterion in making that decision is the price of natural gas. As a result of steep price increases in 2003-2004, we evaluated the cost effectiveness of generating our own power versus utilizing resources from our portfolio or purchasing power on the "spot" from the outside market.

Long-term purchase contracts are one way to control the volatility of natural gas prices. GWP is also investigating the possibility of purchasing a gas reserve. This would protect GWP from increased prices due to shortages or increased demand.

STRENGTH THROUGH ENVIRONMENTAL COMPLIANCE



“We’re putting in place the programs and refining the programs so that tomorrow we’ll be a very skilled organization in managing our environmental efforts.”
– Robert Baker, Environmental Affairs Manager

Glendale Water and Power has always endeavored to be in compliance with environmental requirements. These efforts are now more coordinated, thanks due to the establishment of our Environmental Affairs Department. This department is developing an environmental management system with clear goals and objectives and a system for an audit.

Staying up to date with ever-changing regulations is a challenge. GWP is working with the Cities of Burbank, Pasadena, and Los

Angeles, along with the South Coast Air Quality Management District, to streamline processes and break down barriers. GWP is also establishing close working relationships with the regulatory agencies to facilitate compliance and facilitate the administration of GWP’s programs.

In addition to ensuring compliance with regulations, GWP is proactive in protecting the environment by:

- Preventing discharge of hazardous substances
- Increasing employee awareness of environmental issues
- Preventing oil spills
- Preventing storm water pollution



STRENGTH

THROUGH PUBLIC BENEFIT PROGRAMS

GWP has strengthened the community by providing \$5 million in public benefit funding through our 24 innovative programs for residents, businesses, the City, and schools.

We're building a stronger tomorrow by:

- Strengthening the reliability of our electrical service through energy efficiency programs that lighten the load during times when the demand and cost for energy are at their highest
- Improving our environment by reducing energy use and offering incentives for renewable energy, such as solar energy
- Protecting our natural resources by promoting water conservation and energy efficiency
- Strengthening businesses by providing free energy upgrades that reduce operating costs while improving the look and operation of the business
- Strengthening the spending power of residents through water and energy conservation and efficiency programs
- Improving the lives of low-income residents

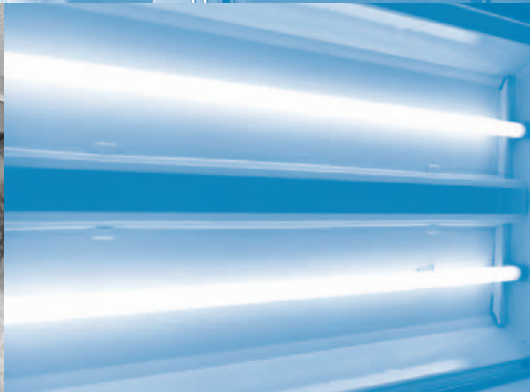


RESIDENTIAL PROGRAMS



- **Smart Home Energy & Water Saving Survey:** Our field representatives provide a free, in-home survey and make recommendations for saving water, energy and money. We also install free energy and water-saving devices, such as compact fluorescent lamps (CFL's), hot water heater blankets, faucet aerators and water-efficient shower heads.
- **Smart Home Energy & Water Saving Rebates:** We provide rebates for the purchase of water- and energy-efficient ENERGY STAR® rated appliances, such as refrigerators, clothes washers and dishwashers; energy saving improvements, such as attic insulation and whole house fans; and water-saving improvements, such as low-flush toilets.
- **Smart Home AC Tune-ups and Duct Testing:** GWP contractors measure a home's cooling system performance with an advanced CheckMe!® diagnostics tool. GWP offers instant savings on the cost for AC tune-ups and duct work repair.
- **Peak Hogs:** This innovative program made summer a lot cooler for Glendale tenants by motivating the owners of multi-family residential units to replace their energy-guzzling air conditioning units with energy-efficient ENERGY STAR models. As a result, landlords increase the value of their units and incur less maintenance costs, tenants save money on their electric bills, and GWP reduces its need to build new power plants.
- **Senior Care Program:** This program provides monthly electric bill discounts of \$10 per month to low-income seniors age 62 or older, or low-income customers age 55 or older on medical retirement or with permanent disabilities that prevent employment.
- **Guardian Program:** Residents with household members using life-saving medical equipment prescribed by a doctor or suffering from afflictions requiring special space conditioning are eligible for monthly discounts.
- **Tree Power:** GWP is beautifying Glendale, improving the air quality, and cooling houses by providing up to three free shade trees, along with stakes, ties, arbor guards, and professional planting instructions.
- **Smart Home Solar Solutions:** Residents interested in converting Glendale sunshine into energy are eligible for a rebate of up to \$4/watt.
- **LivingWise:** This program, aimed at Glendale sixth-grade science students, teaches children and families the importance of saving water and energy at home.
- **Habitat for Humanity:** This program provides up to \$15,000 per home to cover the incremental costs to establish new affordable housing units as CHEERS rated, ENERGY STAR homes. Generally, each home receives a grid-connected solar photovoltaic system, whole house fan, improved insulation, advanced windows, tightly sealed ducts, high-efficiency heating, reduced air infiltration, ceramic tile on the first floor, and ENERGY STAR appliances.
- **Torchiere Exchange:** This energy efficiency program allows residents to swap energy-guzzling, fire-hazardous halogen lamps for energy-efficient compact fluorescent light fixtures.
- **Cool Care:** This program helps low-income residents replace old, inefficient refrigerators with energy-efficient ENERGY STAR rated models.

SMALL AND LARGE BUSINESS PROGRAMS



SMALL BUSINESS

These energy- and water-saving programs, targeted to the more than 5,000 small businesses in the City of Glendale, help businesses save water, energy and money. In 2003-2004, more than 450 small businesses participated, resulting in average annual energy cost savings of \$449 per customer.

- **Smart Business Energy Saving Upgrade**

Program: This hassle-free program is designed to break down the barriers for small businesses to participate in energy-saving programs. "Most small businesses don't have the time, the knowledge, the staff, and the disposable income to implement energy-saving measures," said Craig Kuennen, GWP's Public Benefits Program Marketing Manager. To overcome these barriers, GWP manages the process from analysis to installation to follow-through, and provides up to \$1,000 worth of energy-saving upgrades to the business owner.

J. Edgar Anderson, a small business with an 80-year history in Glendale, is saving \$250 a month on its GWP bills as a result of the installation of energy-efficient lighting.

Owner Jim Anderson, who is pleased with the brighter, more natural-looking light, said, "It is an excellent program. In addition to saving money as a result of the energy-efficient lighting, my AC bills have gone down because the new lighting doesn't produce as much heat."

- **Smart Business AC Tune-ups and Duct Testing:**

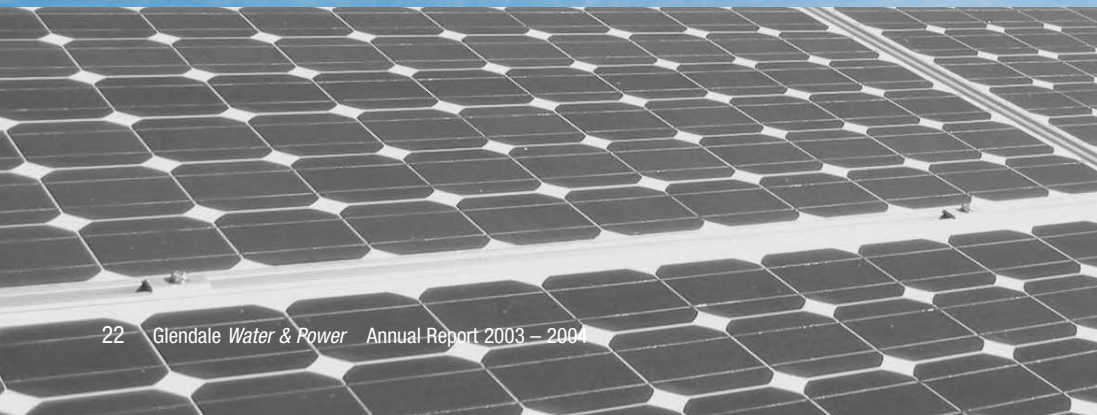
Provides the same benefits as the residential program.

- **Smart Business Lighting Rebates:** This program provides small businesses with rebates for upgrading to energy-efficient lighting.
- **Power Partnerships:** Non-profit businesses can apply for a grant to pursue renewable energy or energy efficiency. Habitat for Humanity and our LivingWise programs began as Power Partnerships and expanded into separate programs. In 2003-2004, we began work with a private elementary school in Glendale to provide a small array of photovoltaic cells for an educational program.

LARGE BUSINESS

- **eMeter Manager:** An automated meter with data analysis capabilities provides continuous energy use feedback every 15 minutes. A popular program among businesses participating in the time-of-use program, the eMeter helps businesses save money and energy through increased awareness of energy use.
- **Business Energy Solutions:** This program helps businesses save energy and money by paying up to 25% (up to \$100,000) of the cost for energy efficiency measures, such as upgrades to energy-efficient lighting and HVAC upgrades.

GOVERNMENT AND SCHOOL PROGRAMS



GOVERNMENT

- **Operation Stop Light:** In 2002, we helped the City of Glendale reduce energy use for traffic lights by nearly 70% by changing to LED lamps.
- **Operation City Lights:** In 2003, the program upgraded the lighting and air conditioning systems in 25 city buildings. Funding of \$3.5 million, which includes a state grant for \$600,000, will ensure the program's continuance.
- **eMeter Manager for City Buildings:** An automated meter with data analysis capabilities provides continuous energy use feedback every 15 minutes. The eMeter helps City buildings save money and energy through increased awareness of energy use.
- **City Solar Solutions:** Approval of a city solar project contributed to GWP's renewable power portfolio by converting sunshine into energy. One such project is the 400 KW solar array that will top a new parking structure at Glendale Community College. It is being

funded with \$2.2 million in Public Benefit Program Funding and \$600,000 from GWP general funds. The new solar system, scheduled for completion in 2007, will generate about 580,000 KWh of electricity each year.

SCHOOLS

- **Operation School House:** Since 1999, GWP has assisted public and private schools in Glendale by providing \$1.5 million for energy efficiency improvements that exceed California Title 24 requirements for energy efficiency.



Glendale *Water & Power*

FINANCIAL STATEMENTS



2003 - 2004 Annual Report



INDEPENDENT AUDITORS' REPORT

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

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, 2004, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Electric Enterprise Fund is intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities of the City of Glendale that is attributable to the transactions of the Electric Enterprise Fund. It does not purport to, and does not present fairly the financial position of the City as of June 30, 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Enterprise Fund of the City as of June 30, 2004, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2004, (except for Note 7, as to which the date is March 13, 2005) on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on those pages referenced in the table of contents are not a required part of the financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Vauxmik, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 10, 2004
(except for Note 7 as to
which the date is March 13, 2005)

ELECTRIC UTILITY

As management of Glendale *Water & Power* (a department of the City of Glendale), we offer the readers of the City of Glendale Electric Enterprise Fund (Electric Utility) financial statements, a fund of the City, this narrative overview and analysis of the financial activities of the Electric Enterprise for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

Fiscal year 2004 was a year of mixed results for the Electric Utility. The retail sector showed excellent financial results from both a marked load growth and effective cost containment amid the increases in the energy costs and market volatility. The net retail operating revenue before transfers to the City was \$12,990 on revenues of \$136,664 less \$123,674 in expenses. The wholesale sector saw fewer opportunities that met the Electric Utility's risk-adjusted return thresholds, resulting in lower net revenue of \$3,755 on revenues of \$15,054 less \$11,299 in expenses. Total net assets increased by \$6,403 after adding net non-operating revenue of \$5,608 and less \$15,950 in Transfers to the City.

The assets of the Electric Utility exceeded its liabilities at the close of the most recent fiscal year by \$356,293. Of this amount, \$208,006 was unrestricted and may be used to meet the Fund's ongoing obligations to creditors and customers. At the end of the fiscal year, this unrestricted net assets represented 154% of annual operating expenses for 2004.

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 city-wide financial results is available in the City of Glendale's Comprehensive Annual Financial Report.

The City of Glendale Electric Utility's financial statements comprise two components:

1) financial statements and 2) notes to the financial statements. In addition, this report also

contains other supplementary information to provide the reader additional information about the Electric Utility, including sales statistics and other relevant data. Included as part of the financial statements are three separate statements that collectively provide an indication of the Electric Utility's financial health.

The **Balance Sheets** present 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 **Statements of Revenues, Expenses and Changes in Net Assets** present 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 **Statements of Cash Flows** present 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 42 to 57 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 \$356,293 at the close of the most recent fiscal year. A portion of the Utility's net assets (38.2%) 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 (3.3%) 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 (58.4%) may be used to meet the Electric Utility's ongoing obligations to creditors and customers.

Net Assets – Electric Utility

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

	2004	2003
Current and other assets	237,493	246,829
Capital assets	203,390	184,558
Total assets	440,883	431,386
Long-term debt	67,614	68,434
Other liabilities	16,976	18,654
Total liabilities	84,590	87,088
Net assets:		
Invested in capital assets, net of related debt	136,340	115,918
Restricted	11,947	4,814
Unrestricted	208,006	223,568
Total net assets	356,293	344,299

The Electric Utility's net assets increased by \$6,403 during the current fiscal year. The increase is primarily a result of increased retail revenues from increased consumption.

Changes in Net Assets – Electric Utility

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

	2004	2003
Revenues		
Retail sales, net	136,664	131,376
Fuel Adjustment Charge (FAC) adjustment	-	19,603
Wholesale sales	15,054	27,653
Interest income	1,916	8,294
Other revenues and grants	5,606	7,668
Capital contributions	1,803	1,054
Total revenues	161,043	195,648
Expenses		
Production	103,897	105,380
Transmission and distribution	14,317	14,862
Customer accounting and sales	5,469	4,979
Depreciation	11,290	11,453
Interest expense	3,716	2,438
Total expenses	138,689	139,111
Transfers to the City's general fund	15,950	14,288
Total expenses and transfers	154,639	153,399
Changes in net assets	6,403	42,249
Total net assets, beginning of year as restated	349,889	302,050
Total net assets, end of year	356,293	344,299

Revenues by Source – Electric Utility

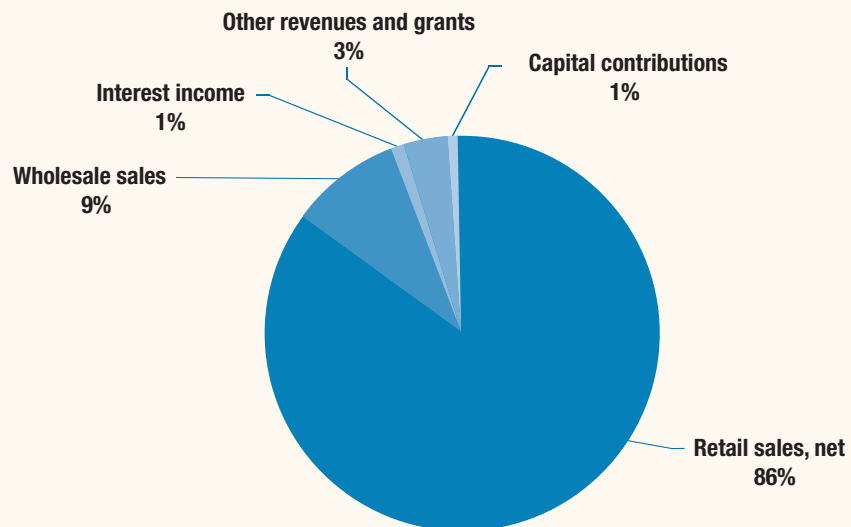
Retail sales (residential, commercial, industrial and other sales) continue to be the primary revenue source for the Electric Utility, making up 85% of total revenue. Retail sales showed an increase of 4% from the prior year due to a 5.7% load growth due to the increase in average consumption, offset by a decrease in accrued unbilled revenues.

In July 2003, the City Council adopted the Electric Cash Reserve Policy and established a rate stabilization fund accordingly. The Fuel Adjustment Charge (FAC) Adjustment used in prior years to recognize the over-collection or under-collection is replaced in fiscal year 2003-2004 by the utilization of the rate stabilization fund, a balance sheet account.

Wholesale sales decreased 46% below the prior year levels. The decrease from the prior year is primarily the result of the 64% decrease in the volume of excess power sales, although the prices received for excess power increased as a result of market conditions.

Investment income decreased by \$6,378, or 77% below the prior year level. The decrease is related to market conditions that continue to be poor, resulting in lower earnings for the Electric Utility's investment portfolio.

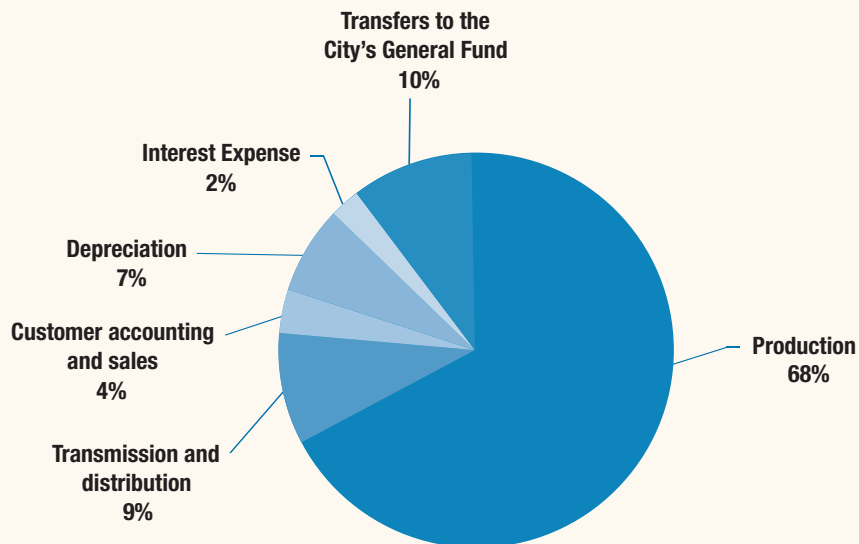
Capital contributions increased 71% from prior year levels. The increased amount over the prior year reflects an increased level of construction projects funded by others, primarily by retail customers.



Expenses by Source – Electric Utility

Total expenses for the Electric Utility remained flat despite the increase in energy costs resulting from significant upward movement in energy markets during the fiscal year. Production and transmission and distribution expenses were on par with prior year levels, the result of an effective energy risk management program and the intense focus on cost containment in operating expenses. Customer accounting and sales expenses increased by 9.8% after returning to the full staffing level. Depreciation expense remained flat. Interest expense increased by \$1,278, resulting from the additional interest payment on the newly issued 2003 Electric Revenue Bond.

Transfers to the City's general fund are based on a formula representing a certain percentage of total retail revenues. Transfers to various City's funds increased by \$1,662, reflecting increases in both the percentage and total retail revenues.



Capital Assets and Debt Administration

Capital Assets

As of June 30, 2004, the Electric Utility's investment in capital assets totals \$203,389 (net of accumulated depreciation). This includes investments in production, transmission, and distribution-related facilities, as well as in general items such as office equipment, furniture, etc. This fiscal year showed a 10% increase in capital assets over the prior year. The department activated and closed to depreciable capital assets a significant portion of distribution, transmission and general assets that had previously been accounted for as construction in progress. The most significant project completed during the fiscal year was the new 49-MW generation unit at Grayson Power Plant at approximately \$35,000.

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

	2004	2003
Production	101,421	89,729
Transmission and distribution	247,473	235,604
General	47,300	45,565
Less: accumulated depreciation	(192,804)	(186,341)
Total	203,390	184,557

Long-Term Debt

As of June 30, 2004, the Electric Utility had long-term debt outstanding of \$67,614. The debt is backed by the revenue of the utility (revenue bonds).

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

	2004	2003
Electric revenue bonds	67,845	68,640
Less: current portion	(820)	(820)
Unamortized bond premium	589	613
Total long-term debt	67,614	68,433

The Electric Utility maintains an “A+” credit rating from Standard & Poor’s and Fitch, Inc. for its revenue bonds and an A1 by Moody’s Investors Service. Additional information on the Electric Utility’s long-term debt can be found in Note 3 on pages 48 and 49 of this report.

Economic Factors and Rates

Although inflationary trends in the Glendale region remained relatively low, history has shown that certain costs, such as energy costs, can greatly exceed inflation. To hedge against the historically high energy prices, the Electric Utility has implemented a risk management program that resulted in stabilizing the rate amid significant market volatility. There was no rate increase during the last two fiscal years.

In addition, the Electric Cash Reserve Policy adopted by City Council in July 2003 provides the foundation for mitigating rate impact. The policy identifies and plans for meeting working capital and contingency needs during emergencies and disasters, as well as expected future capital needs for system expansion and long-term cost reduction initiatives.

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 Director of Glendale *Water & Power* – 141 North Glendale Avenue, Level 4, Glendale, California 91206.

ELECTRIC FUND – STATEMENTS OF NET ASSETS

Year ended June 30, 2004

ASSETS	2004
Current assets	
Cash and invested cash	\$ 49,324,737
Cash with fiscal agents	808,339
Imprest cash	3,200
Investment – gas/electric commodity	3,882,979
Interest receivable	1,336,042
Due from other agencies	1,253,716
Due from other funds	1,331,140
Deposits	17,000
Accounts receivable, net	13,372,894
Unbilled receivable	9,440,426
Inventories	3,301,646
Prepaid items	967,741
Total current assets	85,039,860
Noncurrent assets	
Designated cash and invested cash	151,300,000
Deferred charges	1,153,277
Capital assets	
Production plant	101,420,523
Transmission & distribution plant	247,472,481
General plant	47,300,347
Less allowance for accumulated depreciation	(192,803,810)
Total capital assets	203,389,541
Total noncurrent assets	355,842,818
Total assets	440,882,678

LIABILITIES AND NET ASSETS

2004

Current liabilities

Accounts payable	8,784,349
Contracts – retained amount due	1,402,491
Accrued wages and withholdings	1,008,384
Bonds accrued interest	1,525,877
Deposits	1,802,125
Bonds payable, due in one year	819,647
Total current liabilities	15,342,873

Noncurrent liabilities

Claims payable	25,000
Compensated absences	1,608,013
Bonds payable	67,613,899
Total noncurrent liabilities	69,246,912

Total liabilities 84,589,785

Net assets

Invested in capital assets, net of related debt	136,339,541
Restricted	
Debt Service Reserve	1,603,339
Reserved for Elec-SCAQMD	10,343,844
Unrestricted	208,006,169
Total net assets	356,292,893

**ELECTRIC FUND – STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS**

Year ended June 30, 2004

	2004
Operating revenues:	
Residential	\$ 49,466,888
Commercial and industrial	87,197,333
Wholesale sales to other utilities	15,053,921
Total operating revenues	151,718,142
Operating expenses:	
Production	103,897,157
Transmission and distribution	14,316,793
Customer accounting and sales	5,468,788
Depreciation	11,290,210
Total operating expenses	134,972,948
Operating income	16,745,194
Non operating revenues:	
Interest revenue	1,916,219
Grant revenue	1,253,716
Other revenue	4,351,832
Interest expense	(3,716,436)
Contribution in aid	1,802,923
Total non operating revenues, net	5,608,254
Change in net assets before transfers	22,353,448
Transfers (out) - General Fund	(13,935,000)
Transfers (out) - capital projects fund	(15,000)
Transfers (out) - special revenue fund	(2,000,000)
Total transfers	(15,950,000)
Change in net assets	6,403,448
Total net assets, beginning of year	349,889,445
Total net assets, end of year	\$ 356,292,893

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ELECTRIC FUND – STATEMENTS OF CASH FLOWS

Year ended June 30, 2004

	2004
Cash flows from operating activities:	
Cash from customers	\$ 149,197,438
Cash paid to employees	(27,416,849)
Cash paid to suppliers	(97,334,606)
Net cash provided by operating activities	24,445,983
Cash flows from noncapital financing activities:	
Transfers (out) to general fund	(15,950,000)
Operating grant received	1,253,716
Miscellaneous revenue	4,351,832
Net cash (used in) noncapital financing activities	(10,344,452)
Cash flows from capital and related financing activities:	
Interest on long-term debt	(3,716,436)
Proceeds from sale of revenue bonds	—
Principal paid on long-term debt	(882,242)
Cost of issuance of bonds	54,557
Contribution in aid	1,802,923
Acquisition of property, plant, and equipment	(30,122,144)
Investment - gas/electric commodity	(552,300)
Net cash (used in) capital and related financing activities	(33,415,642)
Cash provided by investing activities - interest received	1,664,463
Net increase (decrease) in cash and invested cash	(17,649,648)
Cash and invested cash at beginning of year	219,085,924
Cash and invested cash at end of year	201,436,276

2004

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 16,745,194
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	11,290,210
(Increase) decrease in accounts receivable, net	(4,572,792)
(Increase) decrease in unbilled receivable	3,322,802
(Increase) decrease in inventories	210,662
(Increase) in prepaid expenses	336,161
(Increase) deposits	(17,000)
(Increase) decrease in due from other agency	(1,253,716)
Increase in contracts – retained amount due	488,075
Increase (decrease) in customers' deposits	365,902
Increase in accrued sal & withholding	84,689
Increase in comp absence payable	293,691
Increase in accounts payable	(2,872,895)
Increase in claims payable	25,000
Net cash provided by operating activities	24,445,983

Notes to Financial Statements – Electric Enterprise Fund

1. Summary of Significant Accounting Policies

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

Funds and Account Groups

The basic accounting and reporting entity of the City is a “fund.” A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts for recording cash and other resources together with all related liabilities, obligations, reserves and equities that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Basis of Presentation

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

Capital Assets

The capital assets of the Fund are capitalized at historical cost. Donated assets representing utility service assets, which are donated to the City by independent contractors, are recorded at actual installation cost to the donor. Depreciation for both purchased and contributed assets are computed using a straight-line method, based upon average estimated useful life of an asset.

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

Production plant	20 to 50 years
Transmission & distribution plant	20 to 50 years
General plant	10 to 50 years

Inventories

Inventories, consisting primarily of construction and maintenance materials and tools for the production and distribution system of the Electric utility are carried at weighted average cost.

Compensated Absences

The Electric Fund has a fully funded liability for earned but unused accumulated vacation and overtime. As of June 30, 2004, Electric Fund had \$1,608,013 of the Electric employees' earned unused accumulated vacation and overtime.

Post-Employment Benefit

All City Employees that are eligible for retirement with accumulated sick leave are entitled to convert their sick leave hours valued at the rate stated in their respective MOU or Ordinance, into a Retiree Health Savings Plan (RHSP). This RHSP account is controlled by the retiree and money deposited into the account is non-taxable. Money withdrawn from this account, when used for eligible medical expenses as specified in IRS Publication 502 are non-taxable to the retiree. As of June 30, 2004, \$5,061,393 had been set aside in the Internal Service Fund-Employee Benefits Fund of the City related to such benefits.

Unbilled Receivables

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

Deposits

The Fund requires all new or existing utility customers that have not or failed to establish their credit worthiness with the Fund to place a deposit. The deposits are refunded after these customers establish their credit worthiness to the Fund.

Contracts – Retained Amount Due

The Fund records 10% of each progress payment on construction contracts. These retained amounts are not released until final inspection is completed and sufficient time has elapsed for sub-contractors to file claims against the contractor.

Transfers

The City's charter provides for certain percentages of operating revenues in the Electric Fund to be transferred to the City's General Fund and have been reflected in the financial statements as transfers out.

Net Assets

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

The City first applied restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Revenue Recognition

The Electric Utility uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Electric Utility customers are billed either monthly or bi-monthly. Unbilled electric service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$9,440,426 at June 30, 2004.

An allowance for doubtful accounts is maintained for utility and miscellaneous accounts receivable. The balance in this account is adjusted at fiscal year-end to approximate the amount anticipated to be uncollectible. As of June 30, 2004, the balance in this account was \$220,000.

Budgets and Budgetary Accounting

The Electric Utility presents and the City Council adopts an annual budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Electric Utility's budget in June each year via a resolution.

Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform with the current year's presentation.

2. Cash and Invested Cash

Cash resources of the individual funds are combined to form a pool of cash and investments, which is managed by the City Treasurer under a formal investment policy that is reviewed by the Investment Committee and adopted annually by the City Council. Therefore, individual investments cannot be identified with any single fund. The Fund's interest in this pool is entirely insured or collateralized as of June 30, 2004. Income from the investment of pooled cash is allocated to the Fund on a monthly basis, based upon the month-end cash balance of the fund as a percent of the month-end total pooled cash balance. Of this total, \$200,624,737 pertains to the Electric Fund for fiscal year 2004. Invested cash is stated at the fair value. An increase (decrease) in the fair value of investments is recognized as an increase (decrease) to Interest Income Revenue. The City normally holds the investment to term; therefore, no realized gain/loss is recorded.

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

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

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

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

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

Notes to Financial Statements – Electric Enterprise Fund

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

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

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

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

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

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

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

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

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

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

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

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

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

Cash with Fiscal Agent

The City has monies held by trustees or fiscal agents pledged to the payment or security of certain bonds. These are subject to the same risk category as the invested cash. The California Government Code provides that these funds, in the absence of specific statutory provisions governing the issuance of bonds or certificates, may be invested in accordance with the ordinances, resolutions or indentures specifying the types of investments its trustees or fiscal agents may make. These ordinances are generally more restrictive than the City's general investment policy.

3. Long-Term Debt

The Electric utility's long-term debt as of June 30, 2004 consists of the following:

	Remaining Interest Rates	Original Issue	Outstanding June 30, 2004
Electric Revenue Bonds, 2000 Series	5.75% - 6%	\$37,000,000	\$37,000,000
Electric Revenue Bonds, 2003 Series	3.25% - 6%	\$31,640,000	\$30,845,000

Electric Revenue Bonds, 2000 Series

The Electric utility of GWP issued revenue bonds in February 2000 to finance the costs of acquisition and construction of certain capital improvements. The terms of the 2000 Electric Revenue Bonds' (2000 Bonds) indenture requires the trustee to establish and maintain a reserve account equal to the reserved requirement. The reserve requirement of this bond issue is satisfied by a bond insurance policy with MBIA Insurance Corporation. This policy insured the bondholders up to \$1.46 million, which is 50% of the maximum debt service. The bonds mature in regularly increasing amounts ranging from \$690,000 to \$2,755,000 annually from 2006 to 2030. The 2000 Bonds maturing on or prior to February 1, 2010 are not subject to call and redemption prior to maturity. The 2000 bonds maturing on and after February 1, 2011 are subject to call and redemption prior to maturity, at a redemption price ranging from 101% to 100%.

Electric Revenue Bonds, 2003 Series

The Electric utility of GWP issued \$31,640,000 in revenue bonds in February 2003 to finance the costs of acquisition, construction and installation of a nominally rated 49 MW gas-fired simple cycle combustion turbine for the Electric System of the City. The terms of the 2003 Electric Revenue Bonds' (2003 Bonds) indenture require the trustee to establish and maintain a reserve equal to the Reserve Fund Requirement. The reserve requirement of the bond issue is satisfied by a cash reserve fund with a minimum funding requirement of \$1,070,000. As of June 30, 2004, the City's cash reserve balance with the bond's fiscal agent was \$808,339. The bonds mature in regularly increasing amounts ranging from \$795,000 to \$1,865,000 annually from 2004 to 2032. The 2003 Bonds maturing on or prior to February 1, 2013 are not subject to redemption prior to maturity. The 2003 bonds maturing on and after February 1, 2014 are subject to redemption prior to maturity, at the option of the City, as a whole or in part, on February 1, 2013, or on any date thereafter, at a redemption price equal to 100% of the principal amount of the 2003 Bonds to be redeemed, together with accrued interest to the redemption date.

	Amount outstanding at June 30, 2003	Issuance	Redemption	Amount outstanding at June 30, 2004	Due within one year
Electric Revenue Bonds, 2000 Series	\$ 37,000,000	-	-	37,000,000	-
Electric Revenue Bonds, 2003 Series	31,640,000	-	795,000	30,845,000	795,000
	68,640,000	-	795,000	67,845,000	795,000
Bond premium	613,195	-	24,647	588,548	24,647
Total bonds payable	\$ 69,253,195	-	819,647	68,433,548	819,647

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

Fiscal year	Revenue Bonds		
	Interest	Principal	Total
2005	3,628,125	795,000	4,423,125
2006	3,580,425	1,485,000	5,065,425
2007	3,493,050	1,520,000	5,013,050
2008	3,403,662	1,560,000	4,963,662
2009	3,333,838	1,600,000	4,933,838
2010-2014	15,449,226	8,850,000	24,299,226
2015-2019	13,049,500	10,910,000	23,959,500
2020-2024	9,841,605	14,240,000	24,081,605
2025-2029	5,444,715	18,800,000	24,244,715
2030-2032	707,050	8,085,000	8,792,050
	61,931,196	67,845,000	129,776,196

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

Rate Covenants

The City has covenanted in the Indenture of Trust that Net Income of the Electric System for each fiscal year will be at least equal to 1.10 times the amount necessary to pay principal and interest as the same become due on all Bonds and Parity Obligations for such fiscal year. At June 30, 2004, the City's actual debt service ratio for the Electric Fund was 7.9**.

** (Calculated using net income, add depreciation, add transfer, add interest expense, minus contributions in aid divided by FY 2003-04 debt service requirement)

4. Pension Plan

Full-time employees of GWP participate with other City employees in the Public Employees Retirement System (PERS) of the State of California, which is an agent multiple-employer public employee retirement system. GWP's contributions represent a pro rata share of the City's contribution, including the employees' contribution that is paid by GWP, which is based on PERS's actuarial determination as of July 1 of the current fiscal year. PERS does not provide data to participating organizations in such a manner so as to facilitate separate disclosure for GWP's share of the actuarial computed pension benefit obligation, the plan's net assets available for benefit obligation and the plan's net assets available for benefits. Approximately 22% of full-time City workers are employed by GWP.

Plan Description

The City contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California.

All full-time employees are required to participate in CalPERS, and related benefits vest after five years of service. Upon five years of service, employees who retire at age 50 or older are entitled to receive an annual retirement benefit. The benefit is payable monthly for life. The benefit is calculated as follows: years of credited service multiplied by their highest twelve consecutive months of salary multiplied by a percentage factor. This factor is age-based – public safety employees use the 3% at age 50 factor while all others use the 2% at age 55 factor. The system also provides death and disability benefits. CalPERS issues a publicly available financial report that includes financial statements and required supplemental information of participating public entities within the state of California. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office – 400 P Street, Sacramento, CA 95814.

Funding Policy

CalPERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments. According to the plan, City employees are required to contribute 7% of annual salary for general members and 9% of annual salary for public safety members. The City is also required to contribute at an actuarially determined rate; the current public safety rate and the current general employee rates are 5.812% and 0% respectively of annual covered payroll, as the City's retirement is fully funded. The contribution requirements of plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. The City's rate for safety members that CALPERS charges have dramatically increased in fiscal year 2004-05 from 5.812% to 24.99%; the rate for general employees remained at zero percent.

Annual Pension Cost

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

valuation performed at June 30, 2002. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.25% a year compounded annually (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 4.27% to 11.59%, (c) no additional projected salary increases attributable to seniority/merit and (d) no post-retirement benefit increases. The actuarial value of the City's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period depending on the size of investment gains and/or losses. CalPERS uses the entry-age-normal-actuarial-cost method, which is a projected-benefit-cost method. That is, it takes into account those benefits that are expected to be earned in the future as well as those already accrued. According to this cost method, the normal cost for an employee is the level amount which would fund the projected benefit if it were paid annually from date of employment until retirement. In addition, the employer's total normal cost is expressed as a level percentage of payroll. CalPERS also uses the level-percentage-of-payroll method to amortize any unfunded actuarial liabilities. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization.

Three-Year Trend Information

Fiscal year ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/02	\$ 8,291,590	100%	0
6/30/03	\$ 9,457,653	100%	0
6/30/04	\$ 11,054,452	100%	0

REQUIRED SUPPLEMENTARY INFORMATION - Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets <a>	Actuarial Liability <AAL> – Entry Age 	(Unfunded AAL) / Overfunded AAL <a-b>	Funded Ratio <a/b>	Covered Payroll <c>	(Unfunded AAL) / Overfunded AAL as a Percentage of Covered Payroll <(a-b)/c>
06/30/2000	794,954,969	639,884,600	155,070,369	124.2%	95,697,086	162.0%
06/30/2001	815,521,178	687,539,962	127,981,216	118.6%	101,369,092	126.3%
06/30/2002	766,978,940	732,667,128	34,311,812	104.7%	109,853,251	31.2%

5. Self-Insurance Program

The City is self-insured for Workers' Compensation claims up to \$2,000,000 per occurrence and general public liability up to \$2,000,000 per occurrence. Additional coverage in excess of these limits has been purchased from third-party insurance companies. Workers' Compensation and general public liability insurance protection is provided through internal service funds maintained by the City. The City is also self-insured for unemployment insurance and general auto liability through separate Internal Service Funds. The Internal Service Funds charge the Electric Fund for its estimated share of the liability. At June 30, 2004, such liability has been fully funded to the City.

A claims payable liability has been established in these funds on case basis estimates of reported claims and an estimate for claims incurred but not reported. Management believes that provisions for claims at June 30, 2004 are adequate to cover the net cost of claims incurred to date. However, such liabilities are, by necessity, based upon estimates and there can be no assurance that the ultimate cost will not exceed such estimates.

6. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets are reported as unrestricted when there are no limitations imposed on their use.

Excess capital surcharge revenue designated to retrofit the City's Grayson Power Plant as mandated by Air Quality Management for fiscal year 2004 was \$10,343,844.

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

7. Capital Assets

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

	Balance at July 1, 2003	Additions	Retirements	Reclassification	Balance at June 30, 2004
Production plant	\$ 89,728,680	14,381,426	667,582	(2,022,001)	101,420,523
Transmission and distribution plant	235,604,451	13,450,906	3,600,438	2,017,562	247,472,481
General plant	45,565,170	2,315,328	181,296	(398,855)	47,300,347
Total electric fund	370,898,301	30,147,660	4,449,316	(403,294)	396,193,351
Less allowance for accumulated depreciation	186,340,695	11,290,210	4,449,316	(377,779)	192,803,810
Net book value of electric fund	184,557,606	18,857,450	-	(25,515)	203,389,541

8. Jointly Governed Organizations

The City has entered into seven "Take or Pay" contracts, which require payments to be made whether or not projects are completed or operable, or whether output from such projects is suspended, interrupted or terminated. Such payments represent the City's share of current and long-term obligations. Payment for these obligations is expected to be made from operating revenues received during the year that payment is due. These contracts provide for current and future electric generating capacity and transmission of energy for City residents. Through these contracts, the City purchased approximately 43% of its total energy requirements during fiscal year 2003-04. This energy will displace some of the energy that was to have been supplied by the local generating plant. The City is obligated to pay the amortized cost of indebtedness regardless of the ability of the contracting agency to provide electricity. The original indebtedness will be amortized by adding the financing costs to purchase energy over the life of the contract. All of these agreements contain "step-up" provisions obligating the City to pay a share of the obligations of any defaulting participant.

The Intermountain Power agency, a subdivision of the State of Utah, was formed in January 1974 to finance the construction of a 1,685 megawatt coal-fueled generating plant consisting of two generating units located near Delta, Utah. The City through contract is obligated for 29 megawatts or 1.704% of the generation. In addition, the City entered into an "Excess Power Sales Agreement" with the ICPA, agent for the Utah Municipal Purchasers and the Cooperative Purchasers, which entitles the City to an additional share of 7 megawatts or 0.501% beginning March 24, 2004. The City's total obligation from Intermountain Power Project (IPP) is 36 megawatts.

The City joined the Southern California Public Power Authority (SCPPA) on November 1, 1980. This authority, consisting of the California cities of Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Los Angeles, Pasadena, Riverside, Vernon, and the Imperial Irrigation District, was formed for the purpose of financing future power resources. The City has entered into six projects with SCPPA. The first of the SCPPA projects is a 3,810 megawatt nuclear fuel generation plant in Arizona (Palo Verde). The Palo Verde nuclear project consists of three (3) units, each having an electric output of approximately 1,270 megawatts. SCPPA has purchased approximately 225 megawatts of capacity and associated energy (approximately 5.910% of total Palo Verde output), of which the City receives 9.9 megawatts or 4.400% of SCPPA's entitlement. As of June 30, 2004, Glendale's share is 4.400% (PV).

As required by the Participation Agreement, the co-owners of the Palo Verde Nuclear Generating Station (PVNGS) have created external accounts for the decommissioning of PVNGS at the end of its life. The market value of the Authority's accounts for decommissioning was approximately \$128,100,000 at June 30, 2004. Based on the most recent (2002) estimate of decommissioning costs, SCPPA estimates that its share of the amount required for decommissioning of PVNGS is now fully funded. No assurance can be given, however, that such amount will be sufficient to fund SCPPA's share of decommissioning costs. SCPPA anticipates receiving a new estimate of decommissioning costs every three years.

A second project financed through SCPPA is the Southern Transmission System that transmits power from the coal-fired IPP to Southern California. The 500 kV DC line is rated at 1,920 megawatts. The City's share of the line is 2.2740% or approximately 44 megawatts. As of June 30, 2004, Glendale's share is 2.2740% (IPP).

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

A fourth project financed through SCPPA consists of a 202-mile 500 kV AC transmission line from a termination in southern Nevada, to a termination in the vicinity of Adelanto, California and the development of the Marketplace Substation at the southern Nevada line termination approximately 17 miles southwest of Boulder City, Nevada. The initial transfer capability of the Mead-Adelanto Project is estimated at 1,200 megawatts. SCPPA members in the project are entitled to 815 megawatts. The City is obligated for 90 megawatts or 11.0430% of the SCPPA entitlement. As of June 30, 2004, Glendale's share is 11.0430% (MA).

A fifth project financed through SCPPA consists of a 256-mile long 500 kV AC transmission line from the Westwing Substation in the vicinity of Phoenix, Arizona to the Marketplace Substation approximately 17 miles southwest of Boulder City, Nevada with an interconnection to the Mead Substation in southern Nevada. The project consists of three separate components: the Westwing-Mead Component, the Mead Substation Component, and the Mead-Marketplace Component. The City's participation shares in the components range from 11.7647% to 22.7273%. The Mead-Phoenix Project in conjunction with the Mead-Adelanto Project provides an alternative path for the City's purchases from the Palo Verde Nuclear Generating Station, San Juan Generating Station and Hoover Power Plant. These transmission lines also provide access to the southwest U.S. where economical coal energy is readily available. As of June 30, 2004, Glendale's share is 14.5193% (MP).

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

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

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

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

Project	Final Maturity Date	Glendale's Share
Intermountain Power Project (IPA)	2027	2.2740%
Palo Verde Project (PV)	2030	4.4000%
Southern Transmission System (STS)	2027	2.2740%
San Juan Project (SJ)	2030	9.8047%
Mead-Phoenix Project (MP)	2030	14.5193%
Mead-Adelanto Project (MA)	2030	11.0430%
Magnolia Power Project (MPP)	2036	16.5289%

A summary of the City's "Take or Pay" contracts and related projects and its contingent liability at June 30, 2004 is as follows (in thousands):

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

In addition to debt service, the City's entitlement requires the payment for fuel costs, operating and maintenance (O&M), administrative and general (A&G), and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for fiscal year 2003-04 and budgets for fiscal year 2004-05 are as follows (in thousands):

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

9. Contingent Liabilities and Commitments

Litigation

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

Power Purchase Agreements

The City's electric operation is committed to purchase all available landfill gas generated by Scholl Canyon LFG Limited Partnership at a price based on various natural gas indices. The term of this commitment is for a period of twenty years from July 1994 to July 2014. The landfill gas purchase for fiscal year 2003-04 was approximately 1,011,460 MMBtu and the average purchase price was \$8.72 per MMBtu.

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

The agreement extends for twenty years and operates in either a sale or exchange mode. Under the sale mode the City is entitled to 10 megawatts annually, plus an additional 10 megawatts during the summer peaking period. The City is required to purchase 73,000 megawatt hours of energy annually under this agreement. In the exchange mode, BPA (under periods of adverse hydro conditions) may elect to receive energy from the City during off-peak hours in lieu of the City's monthly charges for this agreement. The second agreement is a twenty-five year power sale and exchange agreement with Portland General Electric Company (PGE). The sale portion calls for the City to receive 20 megawatts of capacity and associated energy over the Pacific Northwest Intertie at its discretion. In exchange, the City may call up to 30 megawatts during the summer months (June through September) and PGE may call for the same amount in winter months (November through February). Energy cannot exceed 1,800 megawatts per week.

In August 2003, the City entered into a 25-year contract, cancelable after 20 years, with PPM Energy, Inc. for the purchase of 9 megawatts of capacity from wind-powered resources. On September 1, 2003, the City began taking delivery of the energy under the contract, which totals 26,280 megawatt hours annually at \$53.50 per megawatt hour with no cost escalation through the contract term.

In March 2004, the City entered into a 20-year Power Sales Agreement with the Southern California Public Power Authority for up to a 4.5-MW share of Chiquita Landfill Gas to Energy Project. The price of energy is fixed at \$54/MWh with no cost escalation during the term. The anticipated commercial operation of the project will be in January 2006.

Construction Commitments

As of June 30, 2004, the City's electric operation had major commitments of approximately \$20 million with respect to Gas Insulated Switchgear (GIS) Project. The source of funding for the project is from the unrestricted net assets of the Electric Fund. The project is expected to be completed in May 2006.

10. Derivative Products

The City has entered into the following agreements, which represent derivative products:

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

b. The City has purchased and sold options (calls and puts) in natural gas futures contracts at appropriate strike prices in upcoming months. These transactions allow the City to stabilize the ultimate purchase price of natural gas for the City's power plant. They, and other transactions, also give the City the ability to manage its overall exposure to fluctuations in the purchase price of natural gas. The options are carried at the lower of cost or market in the accompanying financial statements. At June 30, 2004, carrying value and market value of the options are \$429,800 and \$709,450 respectively.

11. Subsequent Event

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

12. Restatement of Prior Year Fund Balance/Net Assets

Energy Sales Revenue Accrual

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



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Water Enterprise Fund of the City of Glendale, California (the City), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Water Enterprise Fund is intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities of the City of Glendale that is attributable to the transactions of the Water Enterprise Fund. It does not purport to, and does not present fairly the financial position of the City as of June 30, 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Enterprise Fund of the City as of June 30, 2004, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2004, (except for Note 7, as to which the date is March 13, 2005) on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on those pages referenced in the table of contents are not a required part of the financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Vavunik, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 10, 2004
(except for Note 7 as to
which the date is March 13, 2005)

WATER UTILITY

As management of Glendale *Water & Power* (a department of the City of Glendale), we offer the readers of the City of Glendale Water Enterprise Fund (Water Utility) financial statements, a fund of the City, this narrative overview and analysis of the financial activities of the Water Enterprise for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

Fiscal year 2004 saw increased water sales resulting from warmer weather than in the prior year. Total water consumption grew by 3% resulting in a 4% increase in total operating revenue. Operating expenses increased by 8% primarily due to the increased cost of water supplied by MWD, and the increased cost of electricity for pumping water through the transmission and distribution system. Net operating revenue was \$6,356. Total net assets increased by \$5,020 after adding net non-operating revenue of \$1,896 and less \$3,232 in Transfers to the City's General Fund.

The assets of the Water Utility exceeded its liabilities at the close of the most recent fiscal year by \$82,034. Of this amount, \$12,018 was unrestricted and may be used to meet the Fund's ongoing obligations to creditors and customers. At the end of the fiscal year, the unrestricted net assets represented 48% of annual operating expenses for 2004.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Glendale Water Utility financial statements. The Water Utility is a business-type activity of the City, and its activities are recorded in a separate enterprise fund. These financial statements include only the activities for the City of Glendale Water Utility and provide comparative information for the last two fiscal years. Information on city-wide financial results is available in the City of Glendale's Comprehensive Annual Financial Report.

The City of Glendale Water Utility's financial statements comprise two components: 1) financial statements and 2) notes to the financial statements. In addition, this report also contains other supplementary information to provide the reader additional information about the Water Utility,

including sales statistics and other relevant data. Included as part of the financial statements are three separate statements that collectively provide an indication of the Water Utility's financial health.

The **Balance Sheets** present 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 **Statements of Revenues, Expenses and Changes in Net Assets** present 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 **Statements of Cash Flows** present 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 72 to 81 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 \$82,034 at the close of the most recent fiscal year. A portion of the Utility's net assets (85.4%) reflects its investment in capital assets, such as production, transmission, and distribution facilities, less any related outstanding debt used to acquire those assets. The Water Utility uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the capital assets themselves cannot be used to liquidate these long-term liabilities.

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

The Unrestricted portion of the Utility's net assets (14.6%) may be used to meet the Water Utility's ongoing obligations to creditors and customers.

Net Assets – Water Utility

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

	2004	2003
Current and other assets	15,077	13,492
Capital assets	70,016	66,405
Total assets	85,094	79,897
Long-term debt	-	-
Other liabilities	3,060	2,883
Total liabilities	3,060	2,883
Net assets:		
Invested in capital assets, net of related debt	70,016	66,405
Restricted	-	-
Unrestricted	12,018	10,609
Total net assets	82,034	77,014

The Water Utility's net assets increased by \$5,020 during the current fiscal year. The increase is primarily a result of increased retail revenues from increased consumption.

Changes in Net Assets – Water Utility

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

	2004	2003
Revenues		
Retail sales, net	30,928	30,846
Adjustable rate adjustment	449	787
Interest income	111	320
Other revenues and grants	1,498	1,206
Capital contributions	287	200
Total revenues	33,273	33,359
Expenses		
Production	17,689	16,618
Transmission and distribution	2,700	1,977
Customer accounting and sales	2,041	1,831
Depreciation	2,590	2,738
Interest expense	-	-
Total expenses	25,021	23,164
Transfers to the City's general fund	3,232	3,082
Total expenses and transfers	28,253	26,246
Changes in net assets	5,020	7,113
Total net assets, beginning of year	77,014	69,901
Total net assets, end of year	82,034	77,014

Revenues by Source – Water Utility

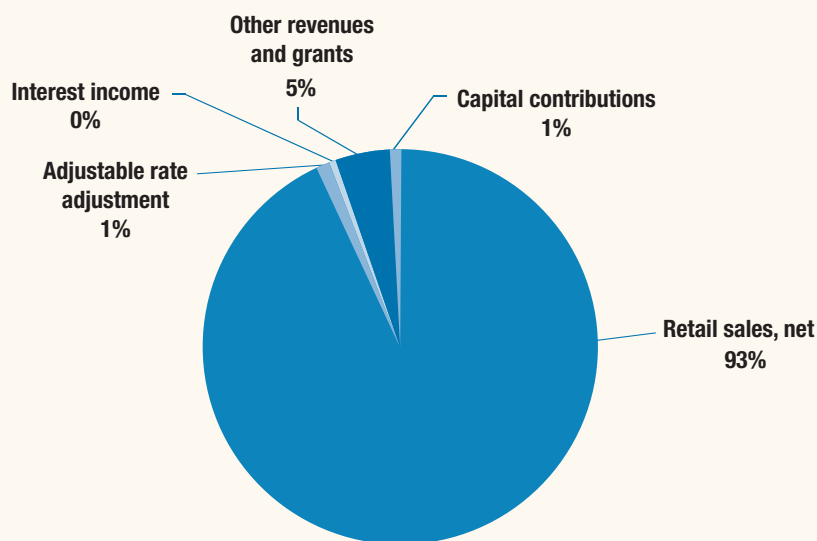
Retail sales (residential, commercial, industrial and other sales) continue to be the primary revenue source for the Water Utility, making up 93% of total revenue. Retail sales showed an increase of 4% from the prior year due to a 3.1% consumption growth as a result of warmer weather than in the prior year, offset by a decrease in accrued unbilled revenues.

The Adjustable Rate Adjustment recognizes the deficit between the adjustable water rate charged to customers and the costs of MWD water supply and electricity for pumping.

Investment income decreased by \$209, or 65% below the prior year level. The decrease is related to market conditions that continue to be poor, resulting in lower earnings for the Water Utility's investment portfolio.

Capital contributions increased 43% from prior year levels. The increased amount over the prior year reflects an increased level of construction projects funded by others, primarily by retail customers.

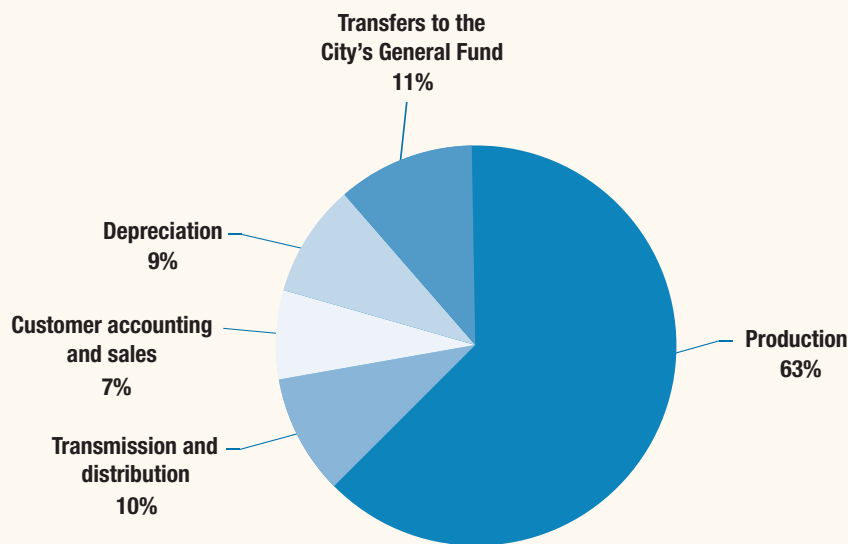
Other revenues and grants increased by \$292, or 24% over the prior year level primarily due to the increased grant funding from EPA for water quality projects.



Expenses by Source – Water Utility

Total expenses for the Water Utility increased by 8.0%. Increase in consumption resulted in a corresponding increase in operating expenses. Production expenses comprising primarily of MWD water supply cost increased by 6.4%. Transmission and distribution expenses increased by 36.6% as a result of transporting more water through the system and increased electricity cost for pumping. Customer accounting and sales expenses increased by 11.5% after returning to the full staffing level. Depreciation expense decreased slightly as old assets were retired while increased capital expenses recorded as construction in progress did not require depreciation until future periods.

Transfers to the City’s General Fund are based on a formula representing a certain percentage of total retail revenues. Transfers to the City’s General Fund increased by \$150, reflecting an increase in both the percentage and total retail revenues.



Capital Assets and Debt Administration

Capital Assets

The Water Utility's investment in capital assets as of June 30, 2004 totals to \$70,016 (net of accumulated depreciation). This includes investments in production, transmission, and distribution related facilities, as well as general items such as office equipment, furniture, etc. This fiscal year showed a 5.4% increase in capital assets over the prior year as the implementation of long-term infrastructure improvement programs began.

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

	2004	2003
Production	22,513	23,324
Transmission and distribution	79,507	74,660
General	11,336	9,544
Less: Accumulated depreciation	(43,340)	(41,124)
Total	70,016	66,404

Long-Term Debt

As of June 30, 2004, the Water Utility had no long-term debt outstanding.

Economic Factors and Rates

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

Recognizing the need for long-term financial planning for the Water Utility, City Council adopted the Water Cash Reserve Policy in December 2003 to provide the foundation for strengthening the financial health of the Water Utility. The policy identifies and plans for meeting working

capital and contingency needs during emergencies and disasters, as well as expected future capital needs for system improvement.

There was no rate increase during the last two fiscal years.

Requests for Information

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

WATER FUND – STATEMENTS OF NET ASSETS

Year ended June 30, 2004

ASSETS	2004
Current assets	
Cash and invested cash	\$ 3,321,634
Imprest cash	1,000
Interest receivable	63,960
Accounts receivable, net	2,267,676
Unbilled receivable	2,235,385
Inventories	287,555
Total current assets	8,177,211
Noncurrent assets	
Designated cash and invested cash	6,900,000
Capital assets	
Production plant	22,513,260
Transmission & distribution plant	79,507,342
General plant	11,336,044
Less allowance for accumulated depreciation	(43,340,356)
Total capital assets	70,016,290
Total noncurrent assets	76,916,290
Total assets	85,093,501
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable	1,774,710
Contracts – retained amount due	237,130
Accrued wages and withholdings	135,380
Deposits	510,423
Total current liabilities	2,657,643
Noncurrent liabilities	
Compensated absences	402,003
Total liabilities	3,059,646
Net assets	
Invested in capital assets	70,016,291
Unrestricted	12,017,564
Total net assets	82,033,855

WATER FUND – STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year ended June 30, 2004

	2004
Operating revenues:	
Metered sales	\$ 29,469,632
Others	1,907,391
Total operating revenues	31,377,023
Operating expenses:	
Production	17,688,757
Transmission and distribution	2,700,185
Customer accounting and sales	2,041,492
Depreciation	2,590,462
Total operating expenses	25,020,896
Operating income	6,356,127
Non operating revenues:	
Interest revenue	110,966
Grant revenue	392,930
Other revenue	1,105,021
Contribution in aid	286,807
Total non operating revenues, net	1,895,724
Change in net assets before transfers	8,251,851
Transfers (out) – general fund	(3,231,833)
Change in net assets	5,020,018
Total net assets, beginning of year	77,013,837
Total net assets, end of year	\$ 82,033,855

WATER FUND – STATEMENTS OF CASH FLOWS

Year ended June 30, 2004

	2004
Cash flows from operating activities:	
Cash from customers	\$ 30,971,256
Cash paid to employees	(2,721,301)
Cash paid to suppliers	(19,500,750)
Net cash provided by operating activities	8,749,205
Cash flows from noncapital financing activities:	
Transfers (out) to general fund	(3,231,833)
Operating grant revenue	392,930
Miscellaneous revenue	1,105,021
Net cash (used in) noncapital financing activities	(1,733,882)
Cash flows from capital and related financing activities:	
Contribution in aid	286,807
Acquisition of property, plant, and equipment	(6,202,152)
Net cash (used in) capital and related financing activities	(5,915,345)
Cash provided by investing activities - interest received	92,560
Net increase (decrease) in cash and invested cash	1,192,538
Cash and cash equivalents at beginning of year	9,030,096
Cash and invested cash at end of year	10,222,634

2004

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 6,356,127
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	2,590,462
(Increase) decrease in accounts receivable, net	(694,448)
(Increase) decrease in unbilled receivable	288,679
Decrease in inventories	31,643
Decrease in prepaid expenses	—
Increase (decrease) in contracts – retained amount due	139,418
Increase in customers' deposits	(95,948)
Increase (decrease) in accrued sal & withholding	22,739
Increase in comp absence payable	71,622
Increase (decrease) in accounts payable	38,911
Net cash provided by operating activities	8,749,205

Notes to Financial Statements – Water Enterprise Fund

1. Summary of Significant Accounting Policies

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

Funds and Account Groups

The basic accounting and reporting entity of the City is a “fund.” A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts for recording cash and other resources together with all related liabilities, obligations, reserves and equities that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Basis of Presentation

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

Capital Assets

The capital assets of the Fund are capitalized at historical cost. Donated assets representing utility service assets, which are donated to the City by independent contractors, are recorded at actual installation cost to the donor. Depreciation for both purchased and contributed assets are computed using a straight-line method, based upon average estimated useful life of an asset.

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

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

Inventories

Inventories, consisting primarily of construction and maintenance materials and tools for the production and distribution system of the Water utility, are carried at weighted average cost.

Compensated Absences

The Water Fund has a fully funded liability for earned but unused accumulated vacation and overtime. As of June 30, 2004, the Water Fund had \$402,003 of the Water employees' earned unused accumulated vacation and overtime.

Post-Employment Benefit

All City Employees that are eligible for retirement with accumulated sick leave are entitled to convert their sick leave hours valued at the rate stated in their respective MOU or Ordinance, into a Retiree Health Savings Plan (RHSP). This RHSP account is controlled by the retiree and money deposited into the account is non-taxable. Money withdrawn from this account, when used for eligible medical expenses as specified in IRS Publication 502 are non-taxable to the retiree. As of June 30, 2004, \$5,061,393 had been set aside in the Internal Service Fund-Employee Benefits Fund of the City related to such benefits.

Unbilled Receivables

The Fund record utility services delivered to customers but not billed. As of June 30, 2004, the Water Fund's unbilled receivables were \$2,235,385.

Deposits

The Fund requires all new or existing utility customers that have not or failed to establish their credit worthiness with the Fund to place a deposit. The deposits are refunded after these customers establish their credit worthiness to the Fund.

Contracts – Retained Amount Due

The Fund records 10% of each progress payment on construction contracts. These retained amounts are not released until final inspection is completed and sufficient time has elapsed for sub-contractors to file claims against the contractor.

Transfers

The City's charter provides for certain percentages of operating revenues in the Water Fund to be transferred to the City's General Fund and have been reflected in the financial statements as transfers out.

Net Assets

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

Revenue Recognition

The Water Utility uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Water Utility customers are billed either monthly or bi-monthly. Unbilled water service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$2,235,385 at June 30, 2004.

An allowance for doubtful accounts is maintained for utility and miscellaneous accounts receivable. The balance in this account is adjusted at fiscal year-end to approximate the amount anticipated to be uncollectible. As of June 30, 2004, the balance in this account was \$25,000.

Budgets and Budgetary Accounting

The Water Utility presents and the City Council adopts an annual budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Water Utility's budget in June each year via a resolution.

2. Cash and Invested Cash

Cash resources of the individual funds are combined to form a pool of cash and investments, which is managed by the City Treasurer under a formal investment policy that is reviewed by the Investment Committee and adopted annually by the City Council. Therefore, individual investments cannot be identified with any single fund. The Fund's interest in this pool is entirely insured or collateralized as of June 30, 2004. Income from the investment of pooled cash is allocated to the Fund on a monthly basis, based upon the month-end cash balance of the fund as a percent of the month-end total pooled cash balance. Of this total, \$10,221,634 pertains to the Water Fund for fiscal year 2004. Invested cash is stated at the fair value. An increase (decrease) in the fair value of investments is recognized as an increase (decrease) to Interest Income Revenue. The City normally holds the investment to term; therefore, no realized gain/loss is recorded.

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

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

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

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

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

Notes to Financial Statements – Water Enterprise Fund

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Pension Plan

Full-time employees of GWP participate with other City employees in the Public Employees Retirement System (PERS) of the State of California, which is an agent multiple-employer public employee retirement system. GWP's contributions represent a pro rata share of the City's contribution, including the employees' contribution that is paid by GWP, which is based on PERS's actuarial determination as of July 1 of the current fiscal year. PERS does not provide data to participating organizations in such a manner so as to facilitate separate disclosure for GWP's share of the actuarial computed pension benefit obligation, the plan's net assets available for benefit obligation and the plan's net assets available for benefits. Approximately 22% of full-time City workers are employed by GWP.

Plan Description

The City contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California.

All full-time employees are required to participate in CalPERS, and related benefits vest after five years of service. Upon five years of service, employees who retire at age 50 or older are entitled to receive an annual retirement benefit. The benefit is payable monthly for life. The benefit is calculated as follows: years of credited service multiplied by their highest twelve consecutive months of salary multiplied by a percentage factor. This factor is age-based – public safety employees use the 3% at age 50 factor while all others use the 2% at age 55 factor. The system also provides death and disability benefits. CalPERS issues a publicly available financial report that includes financial statements and required supplemental information of participating public entities within the state of California. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office – 400 P Street, Sacramento, CA 95814.

Funding Policy

CalPERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments. According to the plan, City employees are required to contribute 7% of annual salary for general members and 9% of annual salary for public safety members. The City is also required to contribute at an actuarially determined rate; the current public safety rate and the current general employee rates are 5.812% and 0% respectively of annual covered payroll, as the City's retirement is fully funded. The contribution requirements of plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. The City's rate for safety members that CALPERS charges have dramatically increased in fiscal year 2004-05 from 5.812% to 24.99%; the rate for general employees remained at zero percent.

Annual Pension Cost

Contributions to CalPERS totaling \$11,054,452 were made during the fiscal year ended June 30, 2004 in accordance with actuarially determined contribution requirements through an actuarial valuation performed at June 30, 2002. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.25% a year compounded annually (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 4.27% to 11.59%, (c) no additional projected salary increases attributable to seniority/merit and (d) no post-retirement benefit increases. The actuarial value of the City's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period depending on the size of investment gains and/or losses. CalPERS uses the entry-age-normal-actuarial-cost method, which is a projected-benefit-cost method. That is, it takes into account those benefits that are expected to be earned in the future as well as those already accrued. According to this cost method, the normal cost for an employee is the level amount which would fund the projected benefit if it were paid annually from date of employment until retirement. In addition, the employer's total normal cost is expressed as a level percentage of payroll. CalPERS

also uses the level-percentage-of-payroll method to amortize any unfunded actuarial liabilities. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20 year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization.

Three-Year Trend Information

Fiscal year ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/02	\$ 8,291,590	100%	0
6/30/03	\$ 9,457,653	100%	0
6/30/04	\$ 11,054,452	100%	0

REQUIRED SUPPLEMENTARY INFORMATION - Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets <a>	Actuarial Accrued Liability <AAL> – Entry Age 	(Unfunded AAL) / Overfunded AAL <a-b>	Funded Ratio <a/b>	Covered Payroll <c>	(Unfunded AAL)/ Overfunded AAL as a Percentage of Covered Payroll <(a-b)/c>
06/30/2000	794,954,969	639,884,600	155,070,369	124.2%	95,697,086	162.0%
06/30/2001	815,521,178	687,539,962	127,981,216	118.6%	101,369,092	126.3%
06/30/2002	766,978,940	732,667,128	34,311,812	104.7%	109,853,251	31.2%

4. Self-Insurance Program

The City is self-insured for Workers' Compensation claims up to \$2,000,000 per occurrence and general public liability up to \$2,000,000 per occurrence. Additional coverage in excess of these limits has been purchased from third-party insurance companies. Workers' Compensation and general public liability insurance protection is provided through internal service funds maintained by the City. The City is also self-insured for unemployment insurance and general auto liability through separate Internal Service Funds. The Internal Service Funds charge the Water Fund for its estimated share of the liability. At June 30, 2004, such liability has been fully funded to the City.

Notes to Financial Statements – Water Enterprise Fund

A claims payable liability has been established in these funds on case basis estimates of reported claims and an estimate for claims incurred but not reported. Management believes that provisions for claims at June 30, 2004 are adequate to cover the net cost of claims incurred to date. However, such liabilities are, by necessity, based upon estimates and there can be no assurance that the ultimate cost will not exceed such estimates.

5. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets are reported as unrestricted when there are no limitations imposed on their use.

In December of 2003, GWP management received approval from the City Council to implement a cash reserve policy for the Water Fund to ensure a long term sustainable financial health of the water operation. The policy calls for annual review of the reserves to determine if the recommended levels are sufficient. The annual review of the Cash Reserve Policy for fiscal year ending June 30, 2004, established a target of \$13,300,000 of designated cash in the following categories: \$5,900,000 for contingency reserve; \$2,400,000 for rate stabilization reserve; and \$5,000,000 for capital reserve. As of June 30, 2004, \$6,900,000 is designated with the goal of meeting the remaining \$6,400,000 with future available cash.

6. Capital Assets

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

	Balance at July 1, 2003	Additions	Retirements	Reclassification	Balance at June 30, 2004
Production plant	\$ 23,323,995	1,243,093	356,817	(1,697,011)	22,513,260
Transmission and distribution plant	74,660,475	4,593,371	10,887	264,383	79,507,342
General plant	9,544,111	326,428	53,057	1,518,562	11,336,044
Total water fund	107,528,581	6,162,892	420,761	85,934	113,356,646
Less allowance for accumulated depreciation	41,123,987	2,590,456	420,761	46,674	43,340,356
Net book value of water fund	66,404,594	3,572,436	-	39,260	70,016,290

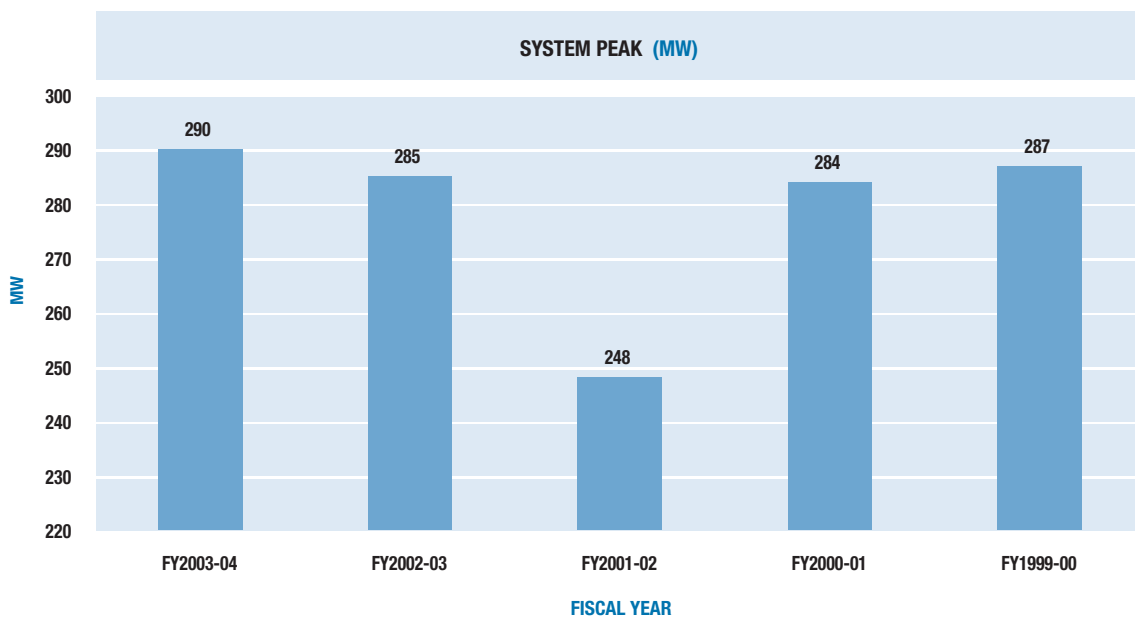
7. Contingent Liabilities

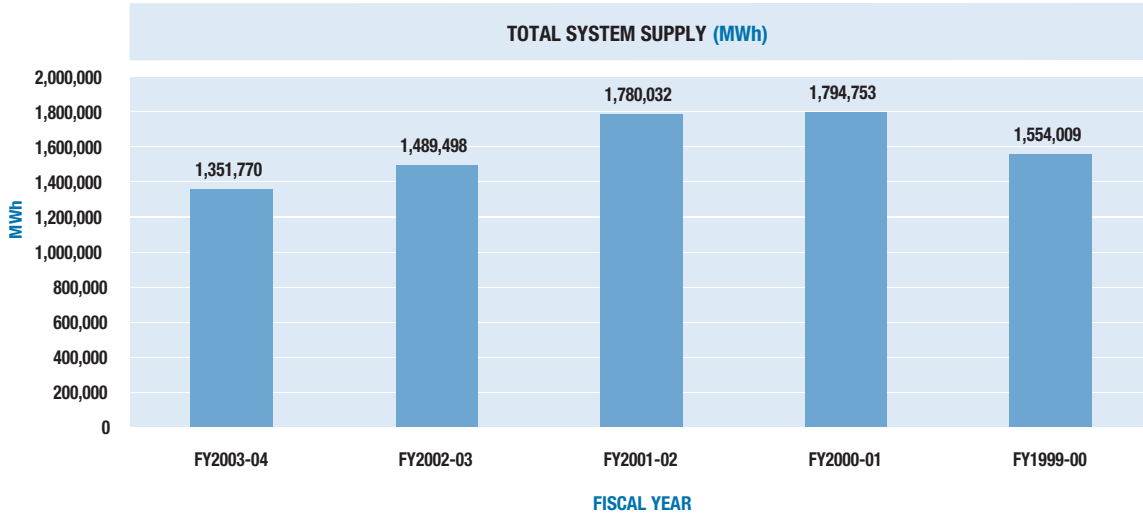
Litigation

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

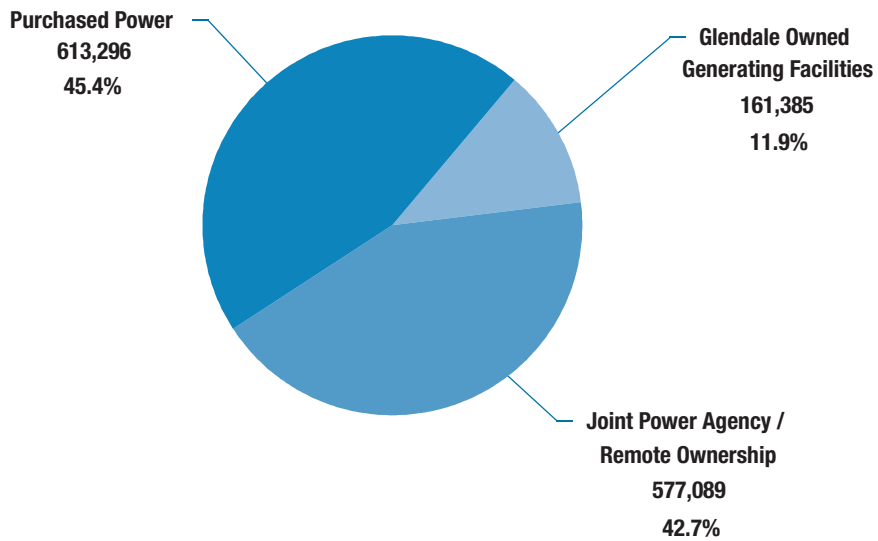
GLENDALE WATER AND POWER – ELECTRIC OPERATING STATISTICS

POWER SUPPLY (MWh)	FY2003-04	FY2002-03	FY2001-02	FY2000-01	FY1999-00
Owned generation					
Glendale-owned generating facilities					
Natural gas units (Grayson)	161,385	166,950	277,327	406,827	234,009
Joint power agency / remote ownership					
PP (IPA)	304,599	281,836	284,880	296,043	295,000
PVNGS (SCPPA)	72,528	77,916	77,814	78,149	81,000
San Juan Unit 3 (SCPPA)	137,140	142,575	137,801	159,558	151,000
Hoover	62,822	64,167	73,572	72,920	78,000
Total owned generation	738,474	733,444	851,394	1,013,497	839,009
Purchased power					
BPA contract	14,670	14,536	19,723	70,857	105,000
Portland General Electric contract	118,487	139,935	103,868	155,847	142,000
Market purchases	480,139	601,583	805,047	554,552	468,000
Total purchased power	613,296	756,054	928,638	781,256	715,000
Total system supply	1,351,770	1,489,498	1,780,032	1,794,753	1,554,009
System peak (MW)	290	285	248	284	287



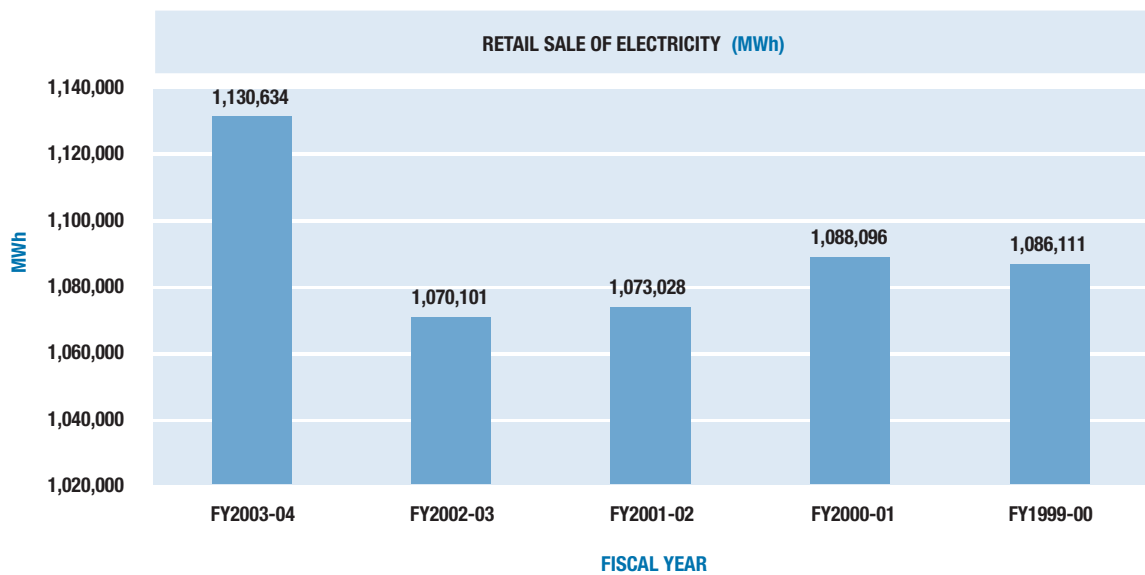


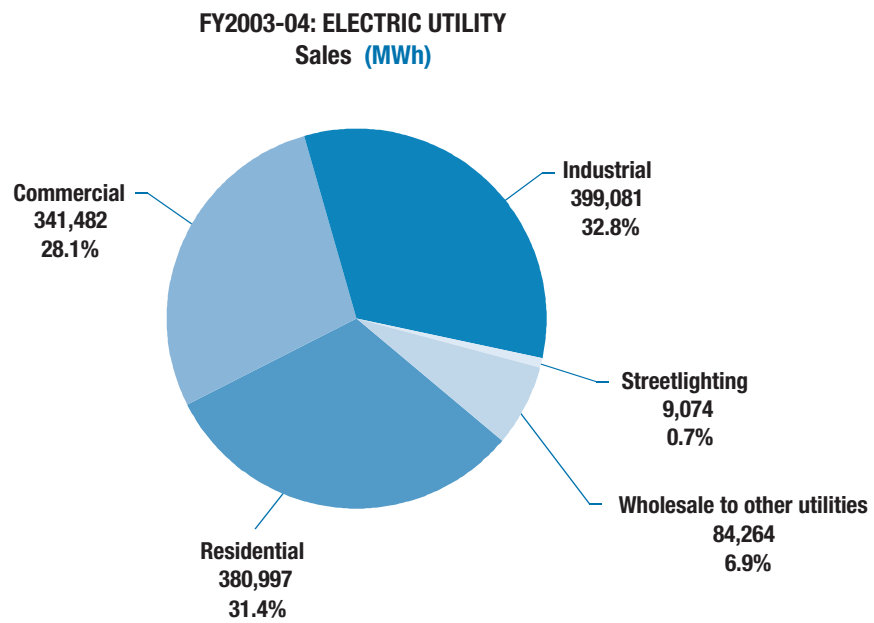
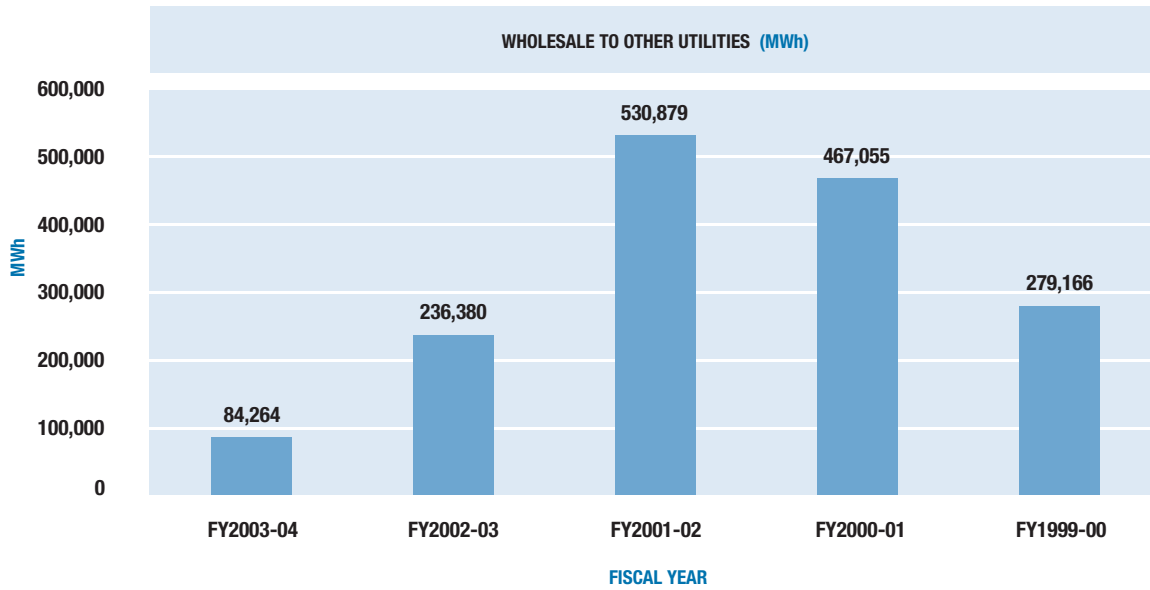
FY2003-04: ELECTRIC UTILITY Total System Supply (MWh)



GLENDALE WATER AND POWER – ELECTRIC OPERATING STATISTICS

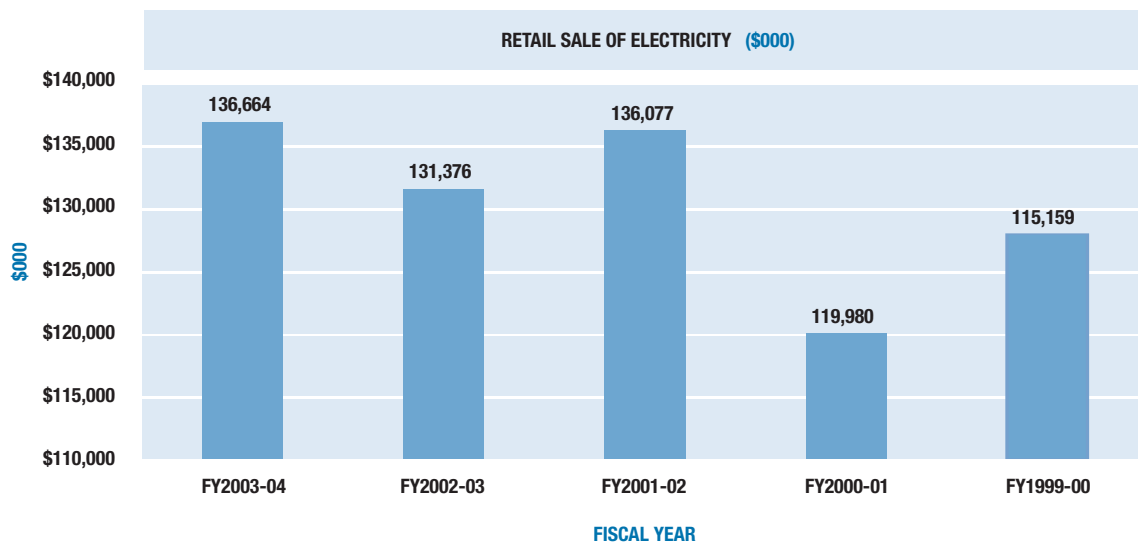
ELECTRIC USE	FY2003-04	FY2002-03	FY2001-02	FY2000-01	FY1999-00
Average number of meters					
Residential	70,662	70,612	70,344	70,525	70,411
Commercial	12,329	12,296	12,265	12,172	12,376
Industrial	223	221	218	287	287
Streetlights	18	18	18	16	16
Total meters - all classes	83,232	83,147	82,845	83,000	83,090
Megawatt-hour sales					
Residential	380,997	344,078	353,509	358,473	357,819
Commercial	341,482	328,806	318,596	323,070	322,481
Industrial	399,081	388,208	391,834	397,336	396,611
Streetlighting	9,074	9,009	9,089	9,217	9,200
Sub-total	1,130,634	1,070,101	1,073,028	1,088,096	1,086,111
Wholesale to other utilities	84,264	236,380	530,879	467,055	279,166
Total sales - all classes	1,214,898	1,306,481	1,603,907	1,555,151	1,365,277

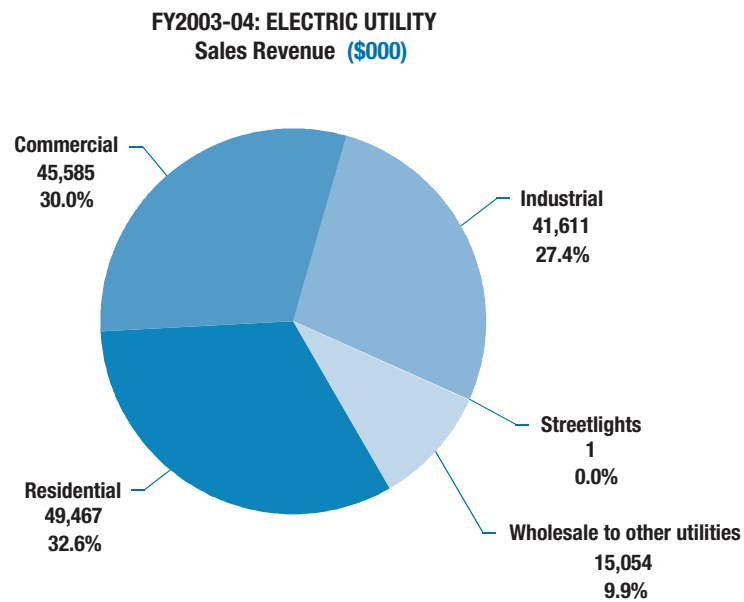
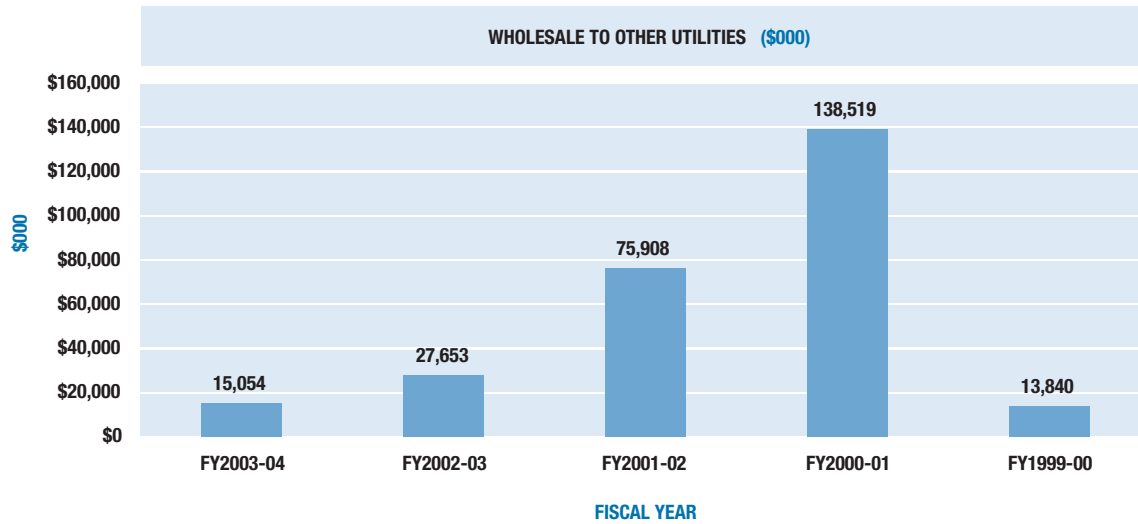




GLENDALE WATER AND POWER – ELECTRIC OPERATING STATISTICS

REVENUES (\$000)	FY2003-04	FY2002-03	FY2001-02	FY2000-01	FY1999-00
Retail sale of electricity					
Residential	\$ 49,467	\$ 46,480	\$ 47,177	\$ 44,990	\$ 41,385
Commercial	45,585	44,317	46,494	38,145	38,029
Industrial	41,611	40,569	42,389	35,211	34,568
Streetlighting	1	10	17	1,633	1,177
Total retail sales	\$ 136,664	\$ 131,376	\$ 136,077	\$ 119,980	\$ 115,159
Wholesale to other utilities	15,054	27,653	75,908	138,519	13,840
Billed revenue from the sale of electricity	151,718	159,029	211,985	258,499	128,998
Total revenue from the sale of electricity	151,718	159,029	211,985	258,499	128,998
Provision for rate stabilization	-	19,603	(19,543)	1,095	(5,448)
Total gross revenues	\$ 151,718	\$ 178,632	\$ 192,442	\$ 259,594	\$ 123,550





GLENDALE WATER AND POWER – ELECTRIC OPERATING STATISTICS

ELECTRIC UTILITY - Class Trends (overview)	Residential	Commercial	Industrial	Streetlighting	Sub-Total	Wholesale	All Classes
Revenue from the sale of electricity (\$000)							
Year ended June 30, 2004	49,467	45,585	41,611	1	136,664	15,054	151,718
Year ended June 30, 2003	46,480	44,318	40,568	10	131,376	27,653	159,029
Increase (decrease)	2,987	1,266	1,043	(9)	5,288	(12,599)	(7,311)
Percent increase (-)	6.4%	2.9%	2.6%	-87.2%	4.0%	-45.6%	-4.6%
Megawatt-hours sold							
Year ended June 30, 2004	380,997	341,482	399,081	9,074	1,130,634	84,264	1,214,898
Year ended June 30, 2003	344,078	328,806	388,208	9,009	1,070,101	236,380	1,306,481
Increase (decrease)	36,919	12,676	10,872	65	60,533	(152,116)	(91,583)
Percent increase (-)	10.7%	3.9%	2.8%	0.7%	5.7%	-64.4%	-7.0%
Average number of meters							
Year ended June 30, 2004	70,662	12,329	223	18	83,232	N/A	83,250
Year ended June 30, 2003	70,612	12,296	221	18	83,147	N/A	83,165
Increase (decrease)	50	33	2	-	85	N/A	85
Percent increase (-)	0.1%	0.3%	0.9%	0.0%	0.1%	N/A	0.1%

ELECTRIC UTILITY - Class Trends (unit cost)	Residential	Commercial	Industrial	Streetlighting	Sub-Total	Wholesale	All Classes
Average billing price per kWh							
Year ended June 30, 2004	\$ 0.1298	\$ 0.1335	\$ 0.1043	\$ 0.0001	\$ 0.1209	\$ 0.1787	\$ 0.1249
Year ended June 30, 2003	0.1351	0.1348	0.1045	0.0012	0.1228	0.1170	0.1217
Increase (decrease)	\$ (0.0052)	\$ (0.0013)	\$ (0.0002)	\$ (0.0010)	\$ (0.0019)	\$ 0.0617	\$ 0.0032
Percent increase (-)	-3.9%	-1.0%	-0.2%	-87.3%	-1.5%	52.7%	2.6%

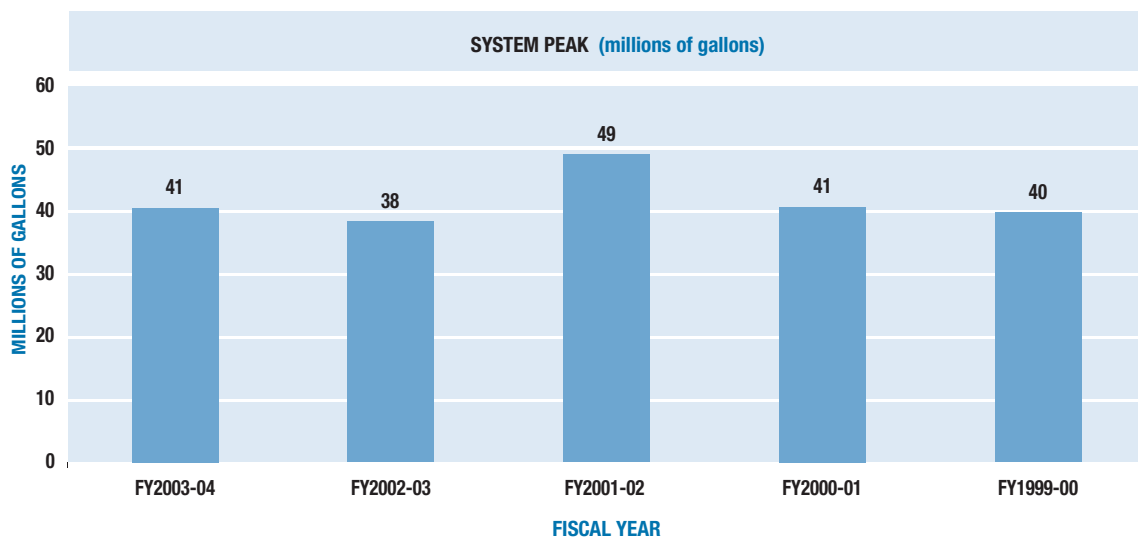
ELECTRIC UTILITY - Class Trends (usage by meter)	Residential	Commercial	Industrial	Streetlighting	Sub-Total	Wholesale	All Classes
Average annual use by meter, kWh							
Year ended June 30, 2004	5,392	27,697	1,789,599	504,105	13,584	N/A	14,593
Year ended June 30, 2003	4,873	26,741	1,756,598	500,496	12,870	N/A	15,710
Increase (decrease)	519	957	33,001	3,609	714	N/A	(1,116)
Percent increase (-)	10.7%	3.6%	1.9%	0.7%	5.5%	N/A	-7.1%

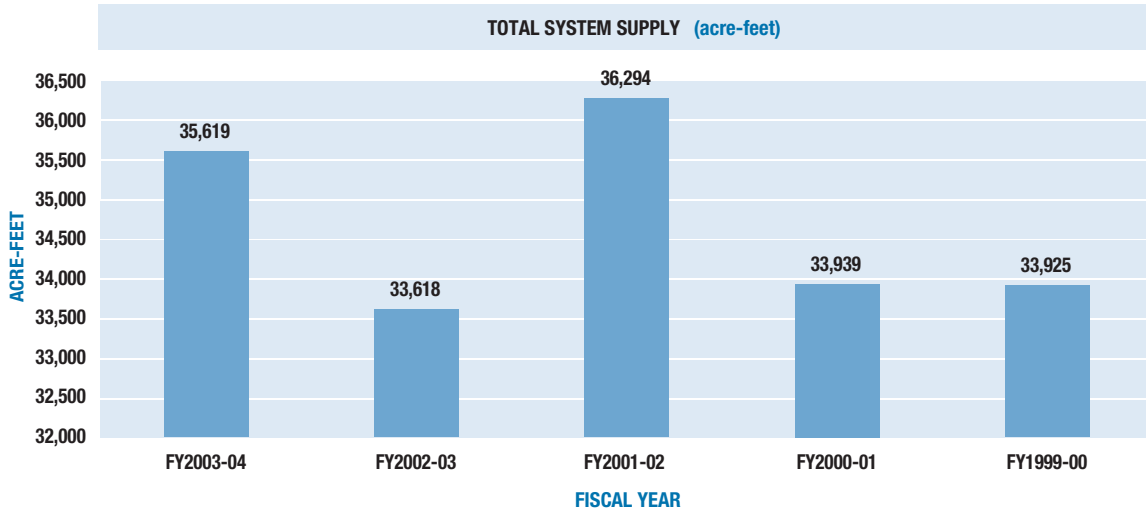
ELECTRIC UTILITY FACTS	FY2003-04	FY2002-03	FY2001-02	FY2000-01	FY1999-00
Operating margin	11.0%	23.5%	13.6%	12.9%	9.3%
Capitalization	84.5%	83.9%	90.1%	89.0%	89.1%
Debt service coverage ratio	7.9	28.5	27.9	35.0	N/A

TRANSMISSION AND DISTRIBUTION	FY2003-04	FY2002-03	FY2001-02	FY2000-01	FY1999-00
Circuit miles					
Overhead lines (miles)	286	287	263	221	208
Underground lines (miles)	255	240	280	323	317
Total circuit miles	541	527	543	544	525
Transformer capacity, kVA					
230kV to 69kV	324,000	324,000	324,000	216,000	216,000
69kV to 35kV	550,000	550,000	550,000	550,000	550,000
69kV to 12kV	150,000	150,000	150,000	150,000	150,000
35kV to 12kV	120,000	105,000	105,000	105,000	75,000
35kV to 4kV	138,000	142,000	142,000	142,000	162,500
13.8kV to 35kV	187,000	202,000	202,000	202,000	202,000
13.8kV to 69kV	96,500	81,000	81,000	81,000	81,000
12 kV to customer	437,000	431,000	424,000	421,000	414,000
4 kV to customer	315,000	313,000	309,000	304,000	300,000

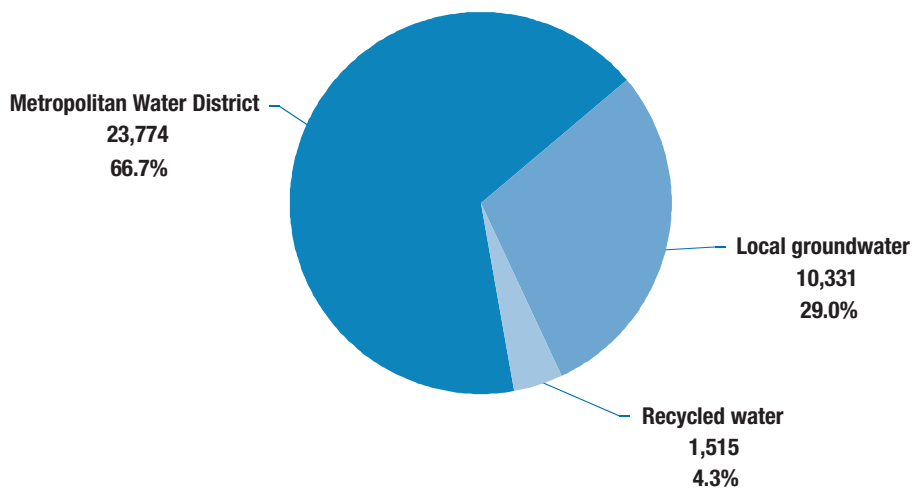
GLENDALE WATER AND POWER – WATER OPERATING STATISTICS

WATER SUPPLY (acre-feet)	FY2003-04	FY2002-03	FY2001-02	FY2000-01	FY1999-00
Metropolitan Water District	23,774	21,924	26,132	29,033	28,954
Percent of total production	66.7%	65.2%	72.0%	85.5%	85.3%
Local groundwater	10,331	10,316	8,736	3,242	3,188
Percent of total production	29.0%	30.7%	24.1%	9.6%	9.4%
Recycled water	1,515	1,378	1,426	1,664	1,783
Percent of total production	4.3%	4.1%	3.9%	4.9%	5.3%
Total production	35,619	33,618	36,294	33,939	33,925
Capacity (gallons per minute)					
From Metropolitan Water District	14,740	13,600	16,200	18,000	17,810
From water system wells, average	1,350	960	1,310	1,300	1,520
Treatment plant capacity	4,322	4,490	2,000	-	-
Peak day distribution (millions of gallons)	41	38	49	41	40





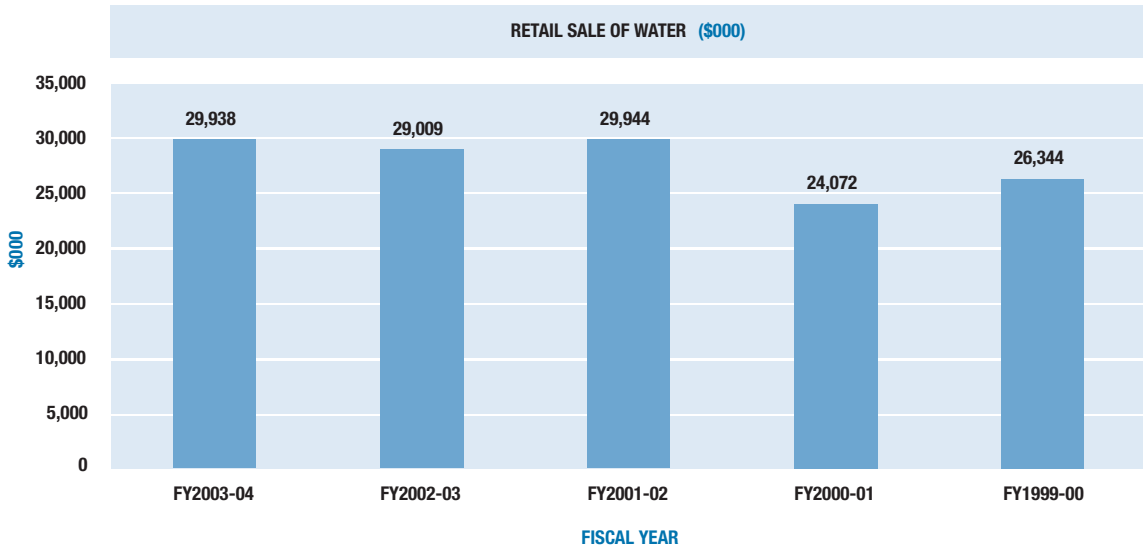
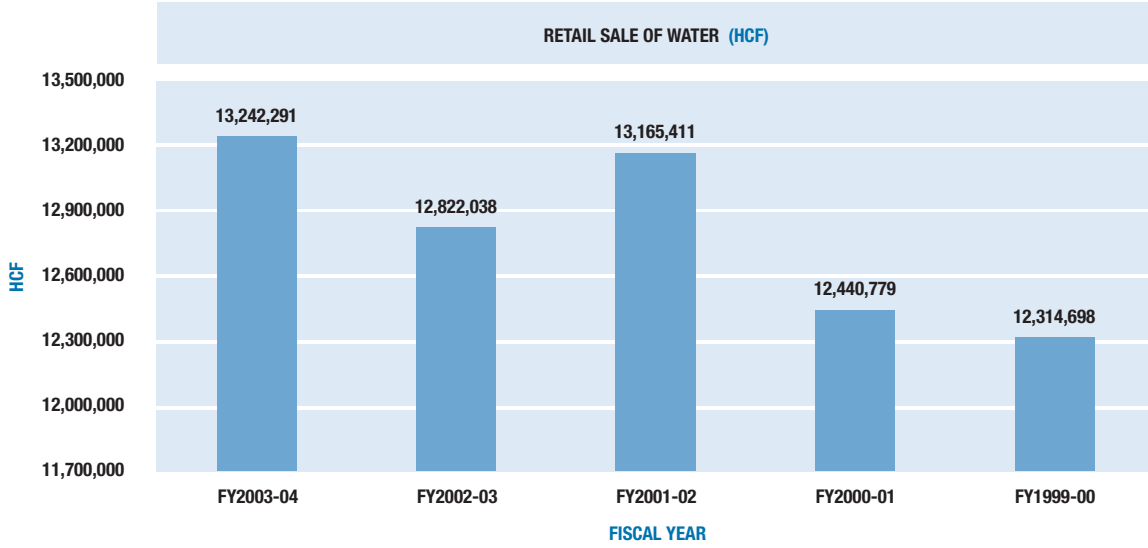
FY2003-04: WATER UTILITY
Total System Supply (acre-feet)



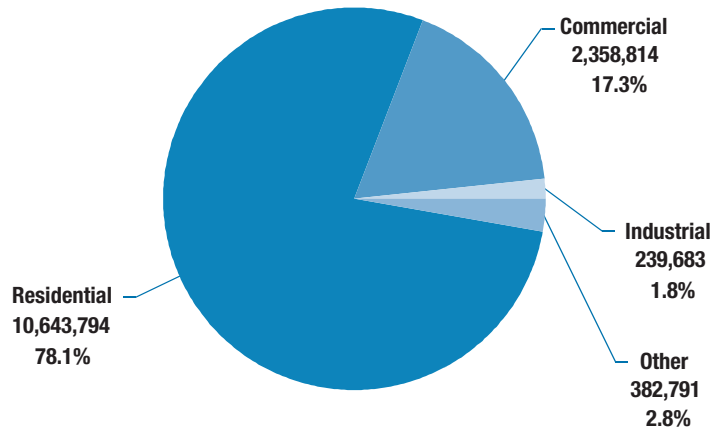
GLENDALE WATER AND POWER – WATER OPERATING STATISTICS

WATER USE	FY2003-04	FY2002-03	FY2001-02	FY2000-01	FY1999-00
Average number of meters					
Residential	28,888	28,768	28,420	28,733	19,842
Commercial	3,522	3,475	3,363	3,265	4,498
Industrial	154	154	220	355	397
Other	449	457	475	298	1,720
Total meters - all classes	33,013	32,854	32,478	32,651	32,450
Units of water sold (hundred cubic feet)					
Retail					
Residential	10,643,794	10,313,106	10,518,032	9,979,234	9,878,100
Commercial	2,358,814	2,439,884	2,414,695	2,261,960	2,239,036
Industrial	239,683	69,048	232,684	199,585	197,562
Total	13,242,291	12,822,038	13,165,411	12,440,779	12,314,698
Other	382,791	391,813	304,926	864,867	856,102
Total sales - all classes	13,625,082	13,213,851	13,470,337	13,305,646	13,170,800

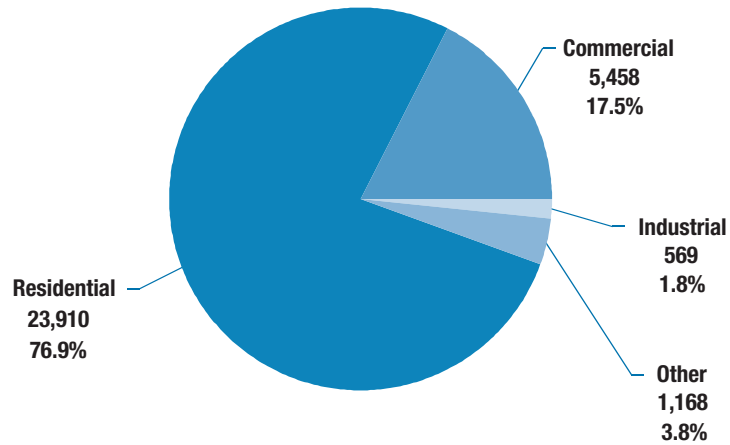
REVENUES (\$000)	FY2003-04	FY2002-03	FY2001-02	FY2000-01	FY1999-00
Retail sale of water					
Residential	\$ 23,910	\$ 23,189	\$ 23,510	\$ 19,413	\$ 21,132
Commercial	5,458	5,654	5,885	4,400	4,790
Industrial	569	166	550	259	423
Total retail sales	29,938	29,009	29,944	24,072	26,344
Other	1,168	889	553	1,812	1,831
Billed revenue from the sale of water	\$ 31,106	\$ 29,898	\$ 29,944	\$ 24,072	\$ 26,344
Other adjustments	(178)	948	-	-	-
Provision for rate stabilization	449	787	(2,030)	1,873	(57)
Total gross revenues	\$ 31,377	\$ 31,633	\$ 27,915	\$ 25,946	\$ 26,287



FY2003-04: WATER UTILITY
Retail Sale of Water (HCF)



FY2003-04: WATER UTILITY
Retail Sale of Water (\$000)



WATER UTILITY - Class Trends (overview)	Residential	Commercial	Industrial	Other			Subtotal	Other	Total
				Recycled	Fireline	Outside		Contracts	
Revenue from the sale of water (\$000)									
Year ended June 30, 2004	23,910	5,458	569	636	23	21	30,618	488	31,106
Year ended June 30, 2003	23,189	5,654	166	644	24	21	29,698	200	29,898
Increase (decrease)	722	(196)	403	(8)	(2)	0	920	288	1,208
Percent increase (-)	3.1%	-3.5%	243.1%	-1.2%	-6.4%	0.6%	3.1%	144.1%	4.0%
Units of water sold (hundred cubic feet)									
Year ended June 30, 2004	10,643,794	2,358,814	239,683	375,891	74	6,826	13,625,082	N/A	13,625,082
Year ended June 30, 2003	10,313,106	2,439,884	69,048	383,859	1,165	6,789	13,213,851	N/A	13,213,851
Increase (decrease)	330,688	(81,070)	170,635	(7,968)	(1,091)	37	411,231	N/A	411,231
Percent increase (-)	3.2%	-3.3%	247.1%	-2.1%	-93.6%	0.5%	3.1%	N/A	3.1%
Average number of meters									
Year ended June 30, 2004	28,888	3,522	154	55	349	55	33,023	2	33,025
Year ended June 30, 2003	28,768	3,475	154	56	355	46	32,854	1	32,855
Increase (decrease)	120	47	-	(1)	(6)	9	169	1	170
Percent increase (-)	0.4%	1.4%	0.0%	-1.8%	-1.7%	19.6%	0.5%	100.0%	0.5%

WATER UTILITY - Class Trends (unit cost)	Residential	Commercial	Industrial	Other			Subtotal	Other	Total
				Recycled	Fireline	Outside		Contracts	
Average billing price (per hundred cubic feet)									
Year ended June 30, 2004	2.2464	2.3141	2.3750	1.6919	308.2770	3.1221	2.2472	N/A	2.2472
Year ended June 30, 2003	2.2485	2.3173	2.4030	1.6772	20.9287	3.1203	2.2475	N/A	2.2475
Increase (decrease)	(0.0021)	(0.0033)	(0.0280)	0.0147	287.3484	0.0018	(0.0003)	N/A	(0.0003)
Percent increase (-)	-0.1%	-0.1%	-1.2%	0.9%	1373.0%	0.1%	0.0%	N/A	0.0%

WATER UTILITY - Class Trends (usage by meter)	Residential	Commercial	Industrial	Other			Subtotal	Other	Total
				Recycled	Fireline	Outside		Contracts	
Average annual use by meter (hundred cubic feet)									
Year ended June 30, 2004	368	670	1,556	6,834	0	124	413	N/A	413
Year ended June 30, 2003	358	702	448	6,855	3	148	402	N/A	402
Increase (decrease)	10	(32)	1,108	(20)	(3)	(23)	10	N/A	10
Percent increase (-)	2.8%	-4.6%	247.1%	-0.3%	-93.5%	-15.9%	2.6%	N/A	2.6%

GLENDALE WATER AND POWER – WATER OPERATING STATISTICS

WATER UTILITY FACTS	FY2003-04	FY2002-03	FY2001-02	FY2000-01	FY1999-00	
Glendale population served	202,700	200,000	200,000	200,000	200,000	
Average daily sales per capita, (gallons)	138	147	143	136	135	
Water distribution system						
Pumping plants	28	28	28	28	28	stations
Total water storage capacity (30 reservoirs and tanks)	185	185	185	185	185	million gallons
Chlorination facilities	13	13	13	13	13	
Mains	378	378	378	378	378	miles
Gate valves	6,645	6,531	6,531	6,531	6,531	
Meters	37,427	32,854	32,478	32,531	32,450	
Firelines	853	853	853	853	853	
Fire hydrants	2,915	2,851	2,843	2,843	2,843	
Pressure zones	7	7	7	7	7	zones
Wells						
San Fernando basin	8	8	8	8	8	
Verdugo basin	5	5	5	5	5	plus pickup facility
Water treatment plants						
Verdugo Park Water Treatment Plant	2	2	2	2	2	MGD
Glendale Water Treatment Plant	7	7	7	7	7	MGD
Recycled water distribution system						
Pumping plants	6	6	6	6	6	stations
Total water storage capacity (5 reservoirs)	1.1	1.1	1.1	1.1	1.1	million gallons
Mains	20	20	20	20	20	miles
Operating margin	20.3%	26.8%	15.1%	5.9%	13.9%	

Glendale *Water & Power*

City Council

Rafi Manoukian – Mayor, Councilmember

Dave Weaver – Councilmember

Ara Najarian – Councilmember

Bob Yousefian – Councilmember

Frank Quintero – Councilmember

James E. Starbird – City Manager

Ignacio R. Troncoso – Director of *Glendale Water & Power*

Robert J. Franz – Director of Finance and Administrative Services

Water & Power Commission

Albert E. Gosselin Jr.

Ruben P. Rubi

Anthony S. Dellinger

Greg Gregorian

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Glendale *Water & Power*



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