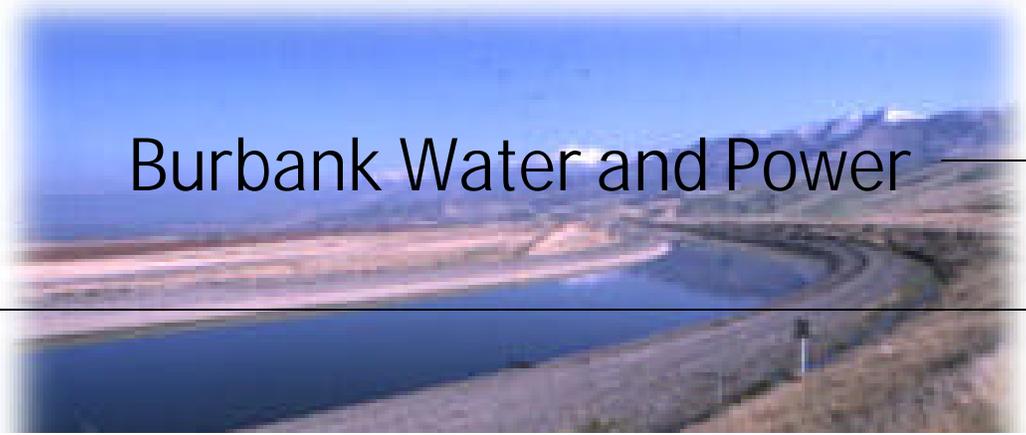


# Burbank Water and Power



Annual Financial Report  
2002-03

**CITY OF BURBANK  
WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

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## City of Burbank

**Stacey J. Murphy**  
*Mayor of Burbank*

**Marsha Ramos**  
*Vice Mayor*

**David P. Golonski**  
*Council Member*

**Jef Vander Borght**  
*Council Member*

**Todd Campbell**  
*Council Member*

**Mary J. Alvord**  
*City Manager*

## BWP Executive Management

**Ron Davis**  
*General Manager*

**Richard Corbi**  
*Chief Financial Officer*

**JoAnn Davis**  
*Administrative Officer*

**Joanne L. Fletcher**  
*Customer Service Manager*

**Fredric C. Fletcher**  
*Assistant General Mgr. - Power*

**John W. (Fred) Lantz**  
*Assistant General Mgr. - Water*

**Gregory L. Simay**  
*Assistant General Mgr. - Electric*

## BURBANK WATER AND POWER Board



Rear: Robert Olson, Vahe Hovanessian, Tom Jamentz, Lee Dunayer  
Front: Wendy James, William Barlak (Chair), Janice Slaby (Vice Chair)

## BURBANK WATER AND POWER Executive Management



Rear: Fred Lantz, Richard Corbi, Fred Fletcher, Greg Simay  
Front: Joanne Fletcher, Ron Davis, JoAnn Davis



## General Manager's Letter

As the General Manager of Burbank Water and Power (BWP), I am proud of the many accomplishments at BWP. While the utility industry in California has changed dramatically over the last few years, BWP remains committed to providing competitive and stable rates and reliable service to our customers.

Customers and community relations continue to be an important focus for BWP. BWP is committed to maintaining high customer service and reliability, while maintaining stable and competitive rates. BWP maintains very high reliability results for the past several years. Further, BWP continues to impact legislation at the state and federal levels to ensure that we respond to the challenges confronting BWP as a public power utility.

BWP continues to achieve major milestones regarding the availability and reliability of its local generation. The Olive 1 and 2 units were retrofitted with state-of-the-art emissions control technology. BWP is the developer and will operate the Magnolia Power Project, which is a 310 MW gas-fired generation facility. The City will be entitled to approximately 98 MW of capacity from the Magnolia Power Project upon its completion in May 2005.

In addition to the new Lake 1 Unit, the retrofit of Olive 1 and Olive 2, and participation in the Magnolia Power Project, BWP actively participates in the forward purchase markets for energy and natural gas in order to secure energy for its customers at known prices. We expect that future load growth in the City will be met through the acquisition of additional renewable energy to be optimized with existing capacity, such as the Magnolia Power Project.

Wholesale marketing continues to have a net positive impact on BWP's revenues. While wholesale revenues are not at the levels seen during the power crisis of 2000, wholesale revenues increased from \$46.5 million in Fiscal Year 2001-02 to \$85.6 million in Fiscal Year 2002-03. BWP adopted formal policies and procedures for the administration of its energy risk management activities. BWP's goal is to mitigate risks associated with serving its retail customers and with wholesale market activity.

BWP implemented a new financial reserve policy to help insure its future financial stability. BWP's financial reserve policy established reserves for operations, debt reduction and capital funding, and general plant replacement.

We continue to make capital improvements to the Water System to ensure reliability, public safety, water quality, business management, and system security. The City Council approved a multi-year water rate plan to address the use of BWP's stored groundwater credits. This rate plan reduces sudden one-time rate increases to BWP's customers.

During the last several years, BWP has been focused on taking the necessary actions to provide customers with competitive and stable rates. Whether it's retrofitting or constructing new local generation resources or changes in legislation affecting BWP, we intend to continue to be a highly reliable and competitive utility, ready to meet the future challenges in our industry.

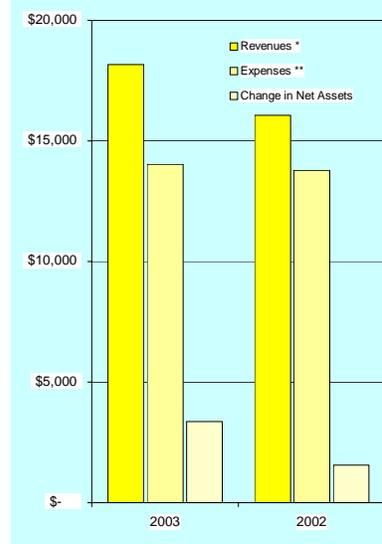
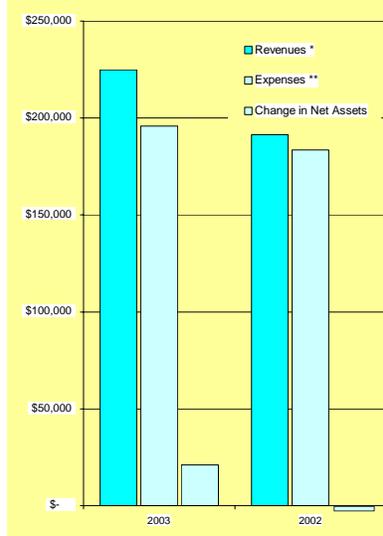
A handwritten signature in cursive script, appearing to read "Ronald E. Davis".

Ronald E. Davis  
GENERAL MANAGER

## Management's Comparative Highlights

Year Ended June 30, 2003 and 2002

	Electric		Water	
	2003	2002	2003	2002
<b>SERVICE</b>	kWh (Millions)		CCF (Thousands)	
<b>Sales</b>	<b>1,228</b>	<b>1,048</b>	<b>9,492</b>	<b>9,733</b>
Customers	51,439	51,655	26,240	26,609
<b>FINANCIAL</b>	Amounts in Thousands		Amounts in Thousands	
Revenues *	\$ 224,923	\$ 191,469	\$ 18,161	\$ 16,056
Expenses **	195,757	183,582	14,034	13,778
Transfers to City ***	8,189	8,389	753	715
Total Expenses and Transfers	203,946	191,971	14,787	14,493
Change in Net Assets	20,977	(502)	3,374	1,563
Cash and Cash Equivalents	37,693	37,635	10,445	8,089
Restricted Cash & Investments	12,492	10,038	1,119	1,120
Capital Assets, Net	175,892	151,389	34,628	34,022
Total Liabilities	147,469	137,230	16,997	17,484



\* Includes operating and non-operating revenues, capital contributions, and transfers-in.

\*\* Includes operating and non-operating expenses.

\*\*\* Represents payments in-lieu of taxes.



600 Anton Boulevard  
Suite 700  
Costa Mesa, CA 92626-7651

## Independent Auditors' Report

The Honorable City Council  
City of Burbank, California:

We have audited the accompanying basic financial statements of the Water and Electric Utility Enterprise Funds (Water and Electric Utility Funds), each an enterprise fund of the City of Burbank, California, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the City of Burbank's management. Our responsibility is to express opinions on these financial statements based on our audits. The prior year summarized comparative information has been derived from the Water and Electric Utility Funds' 2002 financial statements and, in our report dated November 22, 2002, we expressed an unqualified opinion.

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

As discussed in note 1, the financial statements present only the Water and Electric Utility Funds and do not purport to, and do not, present fairly the financial position of the City of Burbank, California, as of June 30, 2003, and the changes in its financial position and its cash flows, where applicable, for the year 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 and Electric Utility Funds of the City of Burbank, California, as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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



Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The General Manager's letter, management's comparative highlights, and historical summary schedules are presented for additional analysis and are not a required part of the basic financial statements. The General Manager's letter, management's comparative highlights and the historical summary schedules presented as supplementary information have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

KPMG LLP

Los Angeles, California  
October 31, 2003

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Management's Discussion and Analysis

June 30, 2003

The management of the Water and Electric Utility Enterprise Funds (Water & Electric Utility Funds) offers the following overview and analysis of the basic financial statements of the Water and Electric Utility Enterprise Funds for the fiscal year ended June 30, 2003 (the fiscal year). Management encourages readers to utilize information in the Management Discussion and Analysis (MD&A) in conjunction with the accompanying basic financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

**Overview of the Basic Financial Statements**

MD&A is intended to serve as an introduction to the Water and Electric Utility Funds' basic financial statements. These financial statements include only activities of the Electric and Water Utility Enterprise Funds for the last two years for comparative purposes. Because the Water and Electric Utility Funds generate revenues primarily from rates, the business-type activities model and the accrual basis of accounting are used to account for the electric and water utility operations.

Management elects to provide not only highlights to the basic financial statements, but also vital statistics and other relevant data associated with the Water and Electric Utility Funds. Included as part of the financial statements are three separate statements.

*The Statement of Net Assets* presents information on the Water and Electric Utility Funds' assets and liabilities, with the difference between the two reported as Net Assets.

*The Statement of Revenues, Expenses, and Changes in Fund Net Assets* presents information showing how the Water and Electric Utility Funds' net assets changed during the two most recent fiscal years. Financial results are recorded using the accrual basis of accounting. In this basis, all changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in a future fiscal period (e.g., billed but uncollected revenues and employee earned but unused vacation leave).

*The Statement of Cash Flows* reports cash receipts, cash payments, and net changes in cash from operations, non-capital financing, capital and related financing, and investing activities.

*The notes* to the basic financial statements provide additional information that is essential to fully understand the data provided in the financial statements.

***Electric Utility Fund***

During the year ended June 30, 2003, the following are the significant financial highlights:

- Net assets increased by \$20,977 or 22%, due primarily to higher net wholesale revenues and lower retail power supply expenses from savings gained by the expiration of long-term power contracts that were originated during the volatile electric market in prior years.
- Total assets grew by \$31,216 or 13% from prior fiscal year, largely attributed to the capitalization of the Lake One unit, Capon Switching Station, and the on-going Construction in Progress for the Olive 1 & 2 Emissions Retrofit.
- In July 2002, the Electric Utility Fund issued bonds in the amount of \$25,000. Bond proceeds were used to finance the emissions retrofitting of the existing Olive 1 & 2 steam generators.

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Management's Discussion and Analysis

June 30, 2003

**Financial Analysis**

**Schedule of Revenues, Expenses, and Changes in Fund Net Assets**

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Retail	\$ 126,418	128,108
Wholesale	85,680	46,501
Other	3,484	4,106
Total operating revenues	<u>215,582</u>	<u>178,715</u>
Operating expenses:		
Purchased power and fuel – wholesale	76,864	41,653
Purchased power and transmission – retail	83,242	104,041
Transmission and distribution expense	15,506	17,838
Other operating expense	10,005	11,733
Depreciation	6,608	5,697
Total operating expenses	<u>192,225</u>	<u>180,962</u>
Operating income (loss)	<u>23,357</u>	<u>(2,247)</u>
Nonoperating income (expense):		
Interest income	1,552	2,836
Intergovernmental	1,432	2,761
Other income (expense)	110	55
Interest expense	(3,532)	(2,620)
Total nonoperating income (expense)	<u>(438)</u>	<u>3,032</u>
Income before contributions and transfers	22,919	785
Contributions and transfers:		
Capital contributions	853	1,102
Transfers in from the City	5,394	6,000
Transfers out to the City	(8,189)	(8,389)
Change in net assets	<u>20,977</u>	<u>(502)</u>
Net assets, beginning of year	<u>96,899</u>	<u>97,401</u>
Net assets, end of year	<u>\$ 117,876</u>	<u>96,899</u>

Retail revenue (residential, commercial, and other sales) continues to be the primary revenue source for the electric utility making up to 58% of total revenue. The Electric Utility Fund's retail margin had substantial growth from 11% to 28% during the current fiscal year due to lower retail power supply expenses. Retail expenses were lower, primarily driven by the expiration of long-term power contracts that were originated during the volatile electric market in prior years.

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Management's Discussion and Analysis

June 30, 2003

Wholesale revenue had a significant growth of 84% due to the Electric Utility Fund's ability to utilize assets to increase sales in the wholesale market. Although wholesale power supply expenses, as a percentage of wholesale revenue, remained comparable to prior year, however, the wholesale margin in dollars was higher and continues to have a significant contribution to the Electric Utility Fund's revenues.

Interest income decreased by 45% due to lower investment rates when compared to the prior year.

Operating expenses, excluding power supply expenses, as a percentage of total revenues, were comparable to prior fiscal year.

The Electric Utility Fund received a transfer in of \$5,394 from the City of Burbank (the City) associated with the costs incurred for building the new distributing station. The project is for the SR134 ramp, which is expected to be completed in the next fiscal year. The project costs were paid by the Community Development Department (CDD).

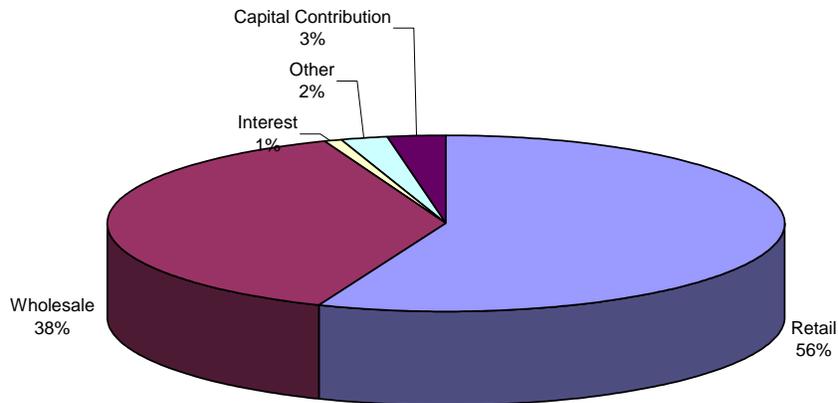
**CITY OF BURBANK  
WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Management's Discussion and Analysis

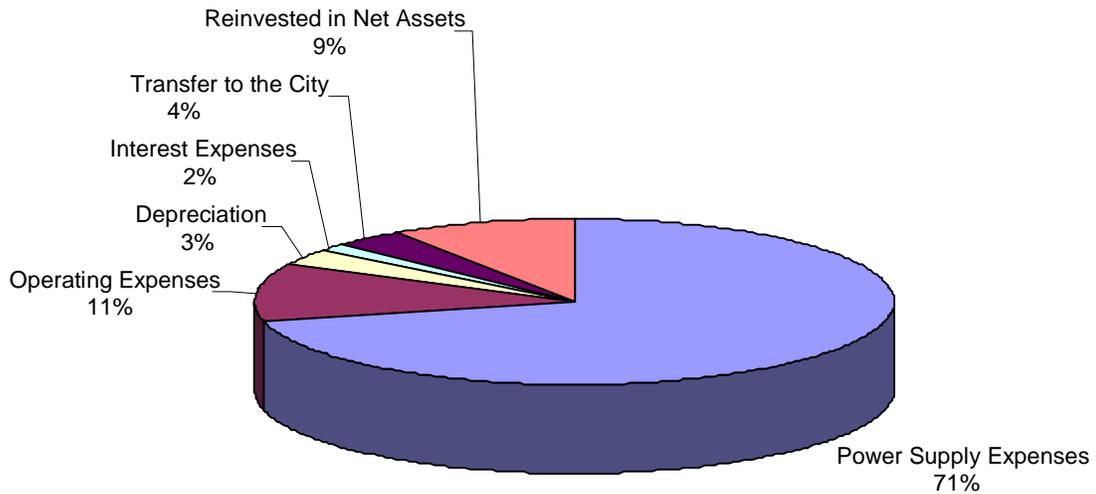
June 30, 2003

The transfer from the Electric Utility Fund to the City's General Fund of \$8,189 includes the in-lieu transfer and street lighting transfer. The in-lieu transfer and street lighting transfer are computed based on 5% and 1.25%, respectively, of current period retail revenue.

**Sources of Revenues**



**Uses of Revenues**



**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Management's Discussion and Analysis

June 30, 2003

The Electric Utility Fund's net assets at June 30 2003, are as follow:

<b>Schedule of Net Assets</b>			
	<b>2003</b>	<b>2002</b>	<b>Change</b>
<b>Assets:</b>			
Current assets	\$ 74,785	70,362	4,423
Noncurrent assets	14,668	12,378	2,290
Capital assets, net	175,892	151,389	24,503
Total assets	265,345	234,129	31,216
<b>Liabilities:</b>			
Current liabilities	33,234	41,925	(8,691)
Noncurrent liabilities	114,235	95,305	18,930
Total liabilities	147,469	137,230	10,239
<b>Equity (net assets):</b>			
Invested in capital assets, net of related debt	49,844	44,194	5,650
Restricted net assets	10,841	8,474	2,367
Unrestricted net assets	57,191	44,231	12,960
Total equity (net assets)	\$ 117,876	96,899	20,977

Changes in net assets may serve over time as a useful indicator of the Electric Utility Fund's financial position. In the case of the Electric Utility Fund, assets exceeded liabilities by \$117,876 at the close of the most recent fiscal year. This is an increase of \$20,977 from prior year due to:

Income before contributions and transfers	\$ 22,919
Capital contributions and transfers in	6,247
Transfer out to the city	(8,189)
Total increase to net assets	\$ 20,977

Of the net asset increase, \$5,650 or 27% is invested in capital assets, \$2,367 or 11% is used as restricted assets to meet debt service obligations, and \$12,960 or 62% is unrestricted cash. Restricted net assets represent assets which have legal constraints placed on their usage. These restraints are due to restrictions imposed by financing requirements or restrictions imposed by the law. The Electric Utility Fund's restricted net assets of \$10,841 represents cash set-aside in the parity reserve fund for the outstanding bonds.

Total assets grew by \$31,216 or 13% from prior fiscal year, primarily attributable to the increase in Net Utility Plant and Equipment, which is discussed in the Capital Assets section to follow.

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Management's Discussion and Analysis

June 30, 2003

Current liabilities decreased by \$8,691, primarily due to a decrease in purchased power reserves. The reserve was established to offset high forward purchased power contracts that were no longer an effective mitigation tool for the loss of power from the Bonneville Power Administration (BPA) and Intermountain Power Project (IPP) contracts. Noncurrent liabilities increased by \$18,930 primarily associated with the issuance of \$25,000 in 2002 Series A Bonds, however, this was offset by payment of \$6,460 for the 2001 Series A Bonds.

The unrestricted net assets of the Electric Utility Fund of \$57,191 represent funds that are available for future investment in capital assets or to minimize rate volatility. Changes in unrestricted net assets are primarily driven by revenues, expenses, and capital expenditures. The Electric Utility Fund's unrestricted net assets increased by \$12,960 or 29% from prior fiscal year.

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Management's Discussion and Analysis

June 30, 2003

**Capital Assets and Debt Administration**

	<b>Capital Assets</b>	
	<b>2003</b>	<b>2002</b>
Utility plant and equipment (P&E):		
Land:		
Beginning, July 1	\$ 2,738	2,740
Retirements	—	(2)
Ending, June 30 – land	2,738	2,738
Building and improvement:		
Beginning, July 1	183,379	175,647
Additions	61,827	7,732
Ending, June 30 – building and improvement	245,206	183,379
Machinery and equipment:		
Beginning, July 1	22,381	21,936
Additions	2,471	445
Retirements	(204)	—
Ending, June 30 – machinery and equipment	24,648	22,381
Construction work in progress (CIP):		
Construction work in progress:		
Beginning, July 1	70,561	12,821
Additions	19,291	78,176
Retirements	(52,475)	(20,436)
Ending, June 30 – construction work in progress	37,377	70,561
Total capital assets:		
Beginning, July 1	279,059	213,144
Additions	83,589	86,353
Retirements	(52,679)	(20,438)
Accumulated depreciation	(134,077)	(127,670)
Ending, June 30 – total capital assets, net	\$ 175,892	151,389

As of June 30, 2003, almost 66% of the Electric Utility Fund's total assets were invested in capital assets, which are divided into Utility Plant and Equipment (P&E) and Construction in Progress (CIP). During the most recent fiscal year, capital assets increased by \$83,589, offset by net decreases of \$52,679, and net depreciation of \$6,407.

The major additions in the Electric Utility Fund's capital assets were due to improvements to the Electric System for the Lake One unit for approximately \$38,899, Capon Switching Station for \$10,335, and \$19,291 for the Olive 1 & 2 Emissions Retrofit.

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Management's Discussion and Analysis

June 30, 2003

**Long-Term Debt**

	<b>Revenue Bonds Payable</b>	
	<b>2003</b>	<b>2002</b>
As of June 30:		
1998 Series A Bonds	\$ 45,160	45,160
2001 Series A Bonds	48,285	54,745
2002 Series A Bonds	25,000	—
Unamortized bond discount	(445)	(758)
	118,000	99,147
Less current portion of revenue bond	(6,605)	(6,460)
Long-term debt	\$ 111,395	92,687

On July 1, 2002, the Electric Utility Fund issued the 2002 bonds in the amount of \$25,000 with annual maturities from June 1, 2005 through June 1, 2022, with an interest rate of 4.65%. The majority of bond proceeds were used to finance the emissions retrofit of the existing Olive 1 and 2 steam generators.

**Outstanding Debt**

The Electric Utility Fund maintains an "A+" rating from Standard & Poor's and "A1" from Moody's Investors Service for its revenue bonds.

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Management's Discussion and Analysis

June 30, 2003

**Water Utility Fund**

During the year ended June 30, 2003, the following are the significant financial highlights:

- Net assets increased by \$3,374 or 13%, due primarily to higher potable water sales associated with an average of 4.8% water rate increase approved by the City Council during the annual fiscal year 2002-03 budget.
- Total assets grew by \$2,887 or 6% from prior fiscal year, due mainly to increases in cash balances as a result of positive operating results.
- Noncurrent liabilities decreased by \$802 or 7% due to principal repayment of outstanding debt.

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Management's Discussion and Analysis

June 30, 2003

**Financial Analysis**

**Schedule of Revenue, Expenses, and Changes in Fund Net Assets**

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Potable water sales	\$ 14,505	13,457
Reclaimed water sales	735	553
Miscellaneous	1,706	1,120
Total operating revenues	<u>16,946</u>	<u>15,130</u>
Operating expenses:		
Purchased water	5,629	5,458
Operations, maintenance, and administration	6,185	6,072
Depreciation	1,751	1,770
Total operating expenses	<u>13,565</u>	<u>13,300</u>
Operating income	3,381	1,830
Nonoperating income (expense):		
Interest income	357	537
Intergovernmental	92	(21)
Other income (expense)	7	3
Interest expense	(469)	(478)
Total nonoperating income (expenses)	<u>(13)</u>	<u>41</u>
Income before contributions and transfers	3,368	1,871
Contribution and transfers:		
Capital contribution	759	221
Transfer in from the City	—	186
Transfer out to the City	(753)	(715)
Change in net assets	3,374	1,563
Net assets, beginning balance	<u>26,957</u>	<u>25,394</u>
Net assets, ending balance	<u>\$ 30,331</u>	<u>26,957</u>

Potable water sales are the primary revenue source for the Water Utility Fund making up 86% of total revenue. Potable water sales grew by 8% from prior year primarily due to annual average rate increase of 4.8%. Miscellaneous revenues increased by 52%, which were attributed to payments such as working for others, water fire flow tests, and water meter hookup fees.

As a percentage of total water sales, purchased water expenses and operations and maintenance expenses were lower by 2.5% and 3.5%, respectively, compared to prior fiscal year.

Interest income decreased by 34% due to lower investment rates than prior year.

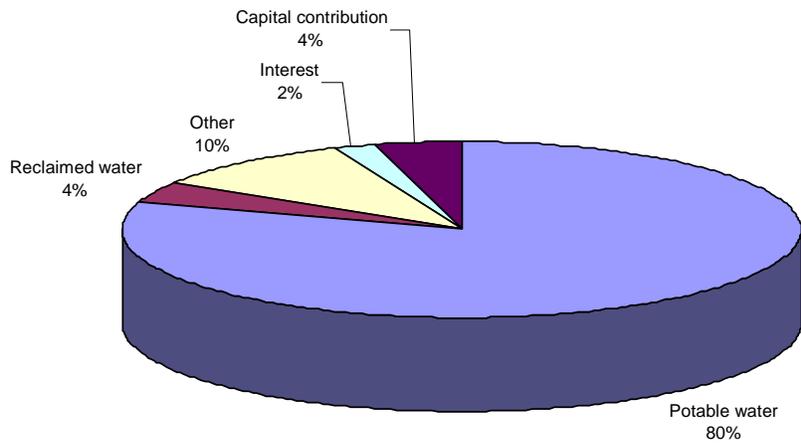
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Management's Discussion and Analysis

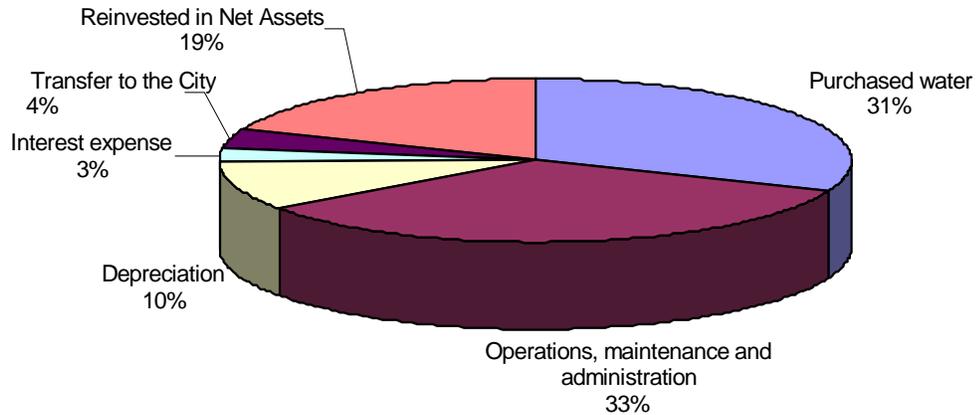
June 30, 2003

The transfer from the Water Utility Fund of \$753 to the City's General Fund includes the in-lieu transfer, which is based on 5% of water sales.

**Sources of Revenues**



**Uses of Revenues**



**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Management's Discussion and Analysis

June 30, 2003

The Water Utility Fund's net assets at June 30, 2003 are as follows:

<b>Schedule of Net Assets</b>			
	<b>2003</b>	<b>2002</b>	<b>Change</b>
<b>Assets:</b>			
Current assets	\$ 11,528	9,244	2,284
Noncurrent assets	1,172	1,175	(3)
Capital assets, net of depreciation	34,628	34,022	606
Total assets	47,328	44,441	2,887
<b>Liabilities:</b>			
Current liabilities	6,940	6,625	315
Noncurrent liabilities	10,057	10,859	(802)
Total liabilities	16,997	17,484	(487)
<b>Net assets:</b>			
Invested in capital assets, net of related debt	24,252	22,636	1,616
Restricted net assets	777	778	(1)
Unrestricted net assets	5,302	3,543	1,759
Total equity (net assets)	\$ 30,331	26,957	3,374

Changes in net assets is a useful indicator of the Water Utility Fund's financial position. The Water Utility Fund's assets exceeded liabilities by \$30,331 as of June 30, 2003. This is an increase of \$3,374 from prior year due to:

Income before contributions and transfers	\$ 3,368
Capital contributions	759
Transfer out to the city	(753)
Total increase of net assets	\$ 3,374

Of this increase, \$1,616 or 48%, is used to fund asset growth, and \$1,759 or 52%, is used to meet the Water Utility Fund's debt obligations.

Total liabilities decreased by \$487 or 3% from prior fiscal year due to principal repayment of outstanding debt.

The largest portion of the Water Utility Fund's net assets, \$24,252 or 80% are reflected as investment in capital assets less any outstanding debt related to acquire those assets.

Approximately \$777 or 3% of the net assets are restricted and must comply with financing requirements or other restrictions imposed by law.

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Management's Discussion and Analysis

June 30, 2003

The unrestricted net assets represent 17% or \$5,302 of funds that are available for future investment in the Water Utility Fund's capital assets or rate stability. Changes in unrestricted net assets are primarily driven by revenues, expenses, and capital expenditures. The Water Utility Fund's unrestricted net assets increased by \$1,759 from prior fiscal year.

**Capital Assets and Debt Administration**

	<b>Capital Assets</b>	
	<b>2003</b>	<b>2002</b>
Utility plant and equipment (P&E):		
Land:		
Beginning, July 1	\$ 309	309
Additions	—	—
Retirements	—	—
Ending, June 30 – land	309	309
Building and improvement:		
Beginning, July 1	52,519	50,705
Additions	1,779	2,541
Retirements	(8)	(727)
Ending, June 30 – building and improvement	54,290	52,519
Machinery and equipment:		
Beginning, July 1	4,346	4,282
Additions	194	98
Retirements	(68)	(34)
Ending, June 30 – machinery and equipment	4,472	4,346
Construction in progress (CIP):		
Construction work in progress:		
Beginning, July 1	1,671	1,138
Additions	860	6,309
Retirements	(445)	(5,776)
Ending, June 30 – construction work in progress	2,086	1,671
Total capital assets:		
Beginning, July 1	58,845	56,434
Additions	2,833	8,948
Retirements	(521)	(6,537)
Accumulated depreciation	(26,529)	(24,823)
Ending, June 30 – capital assets, net	\$ 34,628	34,022

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Management's Discussion and Analysis

June 30, 2003

At June 30, 2003, a significant portion, 73% or \$34,628 of the Water Utility Fund's total assets are invested in capital assets which are divided into Utility Plant and Equipment (P&E) and Construction in Progress (CIP). During the most recent fiscal year, capital assets increased by \$2,833, however, this was offset by capital asset retirements of \$521 and net depreciation of \$1,706.

Additions to the Water Utility Fund's capital assets were due to various Aid In Construction (AIC) projects, water system improvements, capital billable projects, and reclaimed water system improvements. Some major capitalized projects are as follows:

• Citywide meter/valve replacement	\$	176
• Citywide meters/hydrants		123
• Citywide broken valve replacements		163
• Reclaimed expansion – Phase C		102
• Install 350' +/- 12" Ductile Iron Pipe (DIP)		118
Total	\$	682

**Long-Term Debt**

	2003	2002
Revenue bonds payable	\$ 8,575	9,280
Unamortized discount	(88)	(93)
Revenue bonds payable, net	8,487	9,187
Loan payable	2,014	2,167
Deferred revenue	9	9
Less:		
Current portion of revenue bonds	(723)	(705)
Current portion of loans payable	(157)	(153)
Long-term debt	\$ 9,630	10,505

At the end of the current fiscal year, the Water Utility Fund had revenue bonds outstanding of \$8,487, including the 1998 Series A Water Bonds, which were issued to finance additions and improvements to the water system.

The Water Utility Fund maintains an "A+" rating from Standard & Poor's and "A1" from Moody's Investors Service for its revenue bonds.

**Rates**

The City Council approved the second year of a water rate increase in fiscal year 2003-04, which averages 4.8% annually for water replenishment. The rate increases will bring water rates back to fiscal year 1994-95 levels by fiscal year 2006-07.

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Management's Discussion and Analysis

June 30, 2003

**Requests for Information**

This financial report is designed to provide a general overview of the Water and Electric Utility Enterprise Funds. Questions concerning any information provided in this report or requests for additional financial information should be addressed to Richard A. Corbi, the Chief Financial Officer, Burbank Water and Power, 164 W. Magnolia Blvd., Burbank, CA 91503.

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Statement of Net Assets

June 30, 2003

(With comparative financial information for the year ended June 30, 2002)

(In thousands)

Assets	Water		Electric	
	2003	2002	2003	2002
Current assets:				
Cash and cash equivalents (note 2):				
General operating reserves	\$ 9,138	6,782	22,979	5,422
Bond funds	—	—	9,166	26,665
Debt reduction and capital funding reserves	1,307	1,307	5,548	5,548
Total cash and cash equivalents	10,445	8,089	37,693	37,635
Accounts receivable, net (note 3)	724	788	32,819	27,289
Inventories	295	255	2,639	2,455
Due from other governments	—	—	—	770
Deposits and prepaid expenses	—	—	1,388	1,791
Interest receivable	64	109	184	276
Due from City of Burbank	—	3	62	146
Total current assets	11,528	9,244	74,785	70,362
Noncurrent assets:				
Restricted nonpooled cash and cash equivalents (note 2)	87	95	350	336
Restricted nonpooled investments (note 2)	1,032	1,025	12,142	9,702
Rights to purchase power	—	—	1,162	877
Deferred bond issuance and acquisition costs	53	55	1,014	1,463
Total noncurrent assets	1,172	1,175	14,668	12,378
Capital assets (notes 4 and 13):				
Utility plant and equipment	59,071	57,174	272,592	208,498
Construction in progress	2,086	1,671	37,377	70,561
Total utility plant and equipment	61,157	58,845	309,969	279,059
Less accumulated depreciation	(26,529)	(24,823)	(134,077)	(127,670)
Total capital assets, net	34,628	34,022	175,892	151,389
Total assets	\$ 47,328	44,441	265,345	234,129

See accompanying notes to basic financial statements.

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Statement of Net Assets

June 30, 2003

(With comparative financial information for the year ended June 30, 2002)

(In thousands)

<b>Liabilities</b>	<b>Water</b>		<b>Electric</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
<b>Current liabilities:</b>				
Accounts payable and accrued expenses	\$ 2,186	2,435	18,085	20,483
Current portion of loan payable (note 7)	157	153	—	—
Current portion of compensated absences (note 7)	7	8	159	151
Accrued payroll	148	151	745	704
Bond interest payable	32	34	178	178
Due to the City of Burbank	151	139	1,427	941
Customer deposits	3,536	3,000	2,494	4,450
Purchased power loss reserve (note 12)	—	—	—	6,132
Current portion of revenue bonds payable, net (notes 7 and 14)	723	705	6,605	6,460
Deferred revenue (note 8)	—	—	3,541	2,426
Total current liabilities	6,940	6,625	33,234	41,925
<b>Noncurrent liabilities:</b>				
Revenue bonds payable, net (note 7)	7,764	8,482	111,395	92,687
Loan payable (note 7)	1,857	2,014	—	—
Compensated absences (note 7)	427	354	2,840	2,618
Deferred revenue (note 8)	9	9	—	—
Total noncurrent liabilities	10,057	10,859	114,235	95,305
Total liabilities	\$ 16,997	17,484	147,469	137,230
<b>Net Assets</b>				
<b>Net assets:</b>				
Invested in capital assets, net of related debt	\$ 24,252	22,636	49,844	44,194
Restricted for debt service	777	778	10,841	8,474
Unrestricted	5,302	3,543	57,191	44,231
Total net assets	\$ 30,331	26,957	117,876	96,899

See accompanying notes to basic financial statements.

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Statement of Revenues, Expenses, and Changes in Fund Net Assets

For the year ended June 30, 2003

(With comparative financial information for the year ended June 30, 2002)

(In thousands)

	Water		Electric	
	2003	2002	2003	2002
Operating revenues:				
Sale of power and fuel – wholesale and transmission (note 11)	\$ —	—	85,680	46,501
Sale of power-retail	—	—	126,418	128,108
Sale of water	15,240	14,010	—	—
Miscellaneous	1,706	1,120	3,484	4,106
Total operating revenues	<u>16,946</u>	<u>15,130</u>	<u>215,582</u>	<u>178,715</u>
Operating expenses:				
Purchased power and fuel – wholesale (notes 11 and 12)	—	—	76,864	41,653
Purchased power – retail (note 10)	—	—	83,242	104,041
Purchased water	5,629	5,458	—	—
Water maintenance and operation expenses	5,163	4,337	—	—
Transmission expenses	—	—	8,342	10,344
Distribution expenses	—	—	7,164	7,494
Total power supply/ purchase water expenses	<u>10,792</u>	<u>9,795</u>	<u>175,612</u>	<u>163,532</u>
Other operating expenses	1,022	1,735	10,005	11,733
Depreciation	1,751	1,770	6,608	5,697
Total operating expenses	<u>13,565</u>	<u>13,300</u>	<u>192,225</u>	<u>180,962</u>
Operating income (loss)	<u>3,381</u>	<u>1,830</u>	<u>23,357</u>	<u>(2,247)</u>
Nonoperating income (expenses):				
Interest income	357	537	1,552	2,836
Intergovernmental	92	(21)	1,432	2,761
Interest expense	(469)	(478)	(3,532)	(2,620)
Other income, net	7	3	110	55
Total nonoperating income (expenses)	<u>(13)</u>	<u>41</u>	<u>(438)</u>	<u>3,032</u>
Income before contributions and transfers	3,368	1,871	22,919	785
Capital contributions	759	221	853	1,102
Transfers in from the City	—	186	5,394	6,000
Transfers out of the City:				
Payments in lieu of taxes (note 9)	(753)	(715)	(8,189)	(7,903)
Other	—	—	—	(486)
Change in net assets	<u>3,374</u>	<u>1,563</u>	<u>20,977</u>	<u>(502)</u>
Net assets, July 1	<u>26,957</u>	<u>25,394</u>	<u>96,899</u>	<u>97,401</u>
Net assets, June 30	<u>\$ 30,331</u>	<u>26,957</u>	<u>117,876</u>	<u>96,899</u>

See accompanying notes to basic financial statements

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Statement of Cash Flows

For the year ended June 30, 2003

(With comparative financial information for the year ended June 30, 2002)

(In thousands)

	Water		Electric	
	2003	2002	2003	2002
Cash flows from operating activities:				
Cash received from customers	\$ 16,903	15,571	209,905	186,290
Cash paid to suppliers	(7,878)	(6,290)	(176,359)	(173,632)
Cash paid to employees	(3,497)	(3,184)	(16,174)	(16,666)
Net cash provided by (used in) operating activities	<u>5,528</u>	<u>6,097</u>	<u>17,372</u>	<u>(4,008)</u>
Cash flow from noncapital financing activities:				
Intergovernmental revenue	92	(21)	1,432	2,761
Payments in lieu of taxes	(753)	(715)	(8,190)	(7,903)
Transfers in	—	186	5,394	6,000
Transfers out	—	—	—	(486)
Net cash provided by (used in) noncapital financing activities	<u>(661)</u>	<u>(550)</u>	<u>(1,364)</u>	<u>372</u>
Cash flows from capital and related activities:				
Proceeds from the sale of capital assets	5	3	111	55
Proceeds from issuance of debt	—	—	22,560	53,597
Principal payments – bond	(705)	(1,823)	(6,460)	(9,242)
Interest expense	(471)	(498)	(3,532)	(2,649)
Capital contributions	759	221	853	1,102
Acquisition and construction of capital assets	(2,357)	(2,674)	(31,111)	(67,162)
Payments on loans	(152)	(149)	—	—
Net cash used in capital and related activities	<u>(2,921)</u>	<u>(4,920)</u>	<u>(17,579)</u>	<u>(24,299)</u>
Cash flows from investing activities:				
Interest received	402	491	1,643	3,274
Sales of restricted investment	—	923	—	—
Net cash provided by investing activities	<u>402</u>	<u>1,414</u>	<u>1,643</u>	<u>3,274</u>
Net increase (decrease) in cash and cash equivalents	2,348	2,041	72	(24,661)
Cash and cash equivalents, beginning of year	8,184	6,143	37,971	62,632
Cash and cash equivalents, end of year	<u>\$ 10,532</u>	<u>8,184</u>	<u>38,043</u>	<u>37,971</u>
Current cash and cash equivalents	\$ 10,445	8,089	37,693	37,635
Restricted cash and cash equivalents	87	95	350	336
	<u>\$ 10,532</u>	<u>8,184</u>	<u>38,043</u>	<u>37,971</u>

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Statement of Cash Flows

For the year ended June 30, 2003

(With comparative financial information for the year ended June 30, 2002)

(In thousands)

	<u>Water</u>		<u>Electric</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:				
Operating income (loss)	\$ 3,381	1,830	23,357	(2,247)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	1,751	1,770	6,608	5,697
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	64	441	(5,530)	7,575
(Increase) decrease in due from City of Burbank	3	(6)	84	(6)
(Increase) decrease in inventories	(40)	26	(184)	(68)
Decrease in due from other governments	—	—	770	—
Decrease in deposits and prepaid expenses	—	—	404	37
Decrease in deferred bond issuance costs	—	—	449	38
Decrease in deferred bond discount	—	—	313	—
Increase (decrease) in right to purchase power	5	5	(285)	(1,526)
Increase (decrease) in accounts payable and accrued expenses	(254)	243	(2,355)	(4,787)
Increase (decrease) in accrued payroll	(2)	150	43	(268)
Decrease in accrued forward purchase agreement	—	—	(6,132)	(6,132)
Increase in compensated absences	72	53	230	159
Increase (decrease) in due to City of Burbank	12	—	486	(361)
Increase (decrease) in deferred revenue	—	—	1,115	(1,829)
Increase (decrease) in customer deposits	536	1,585	(2,001)	(290)
Total adjustments	<u>2,147</u>	<u>4,267</u>	<u>(5,985)</u>	<u>(1,761)</u>
Net cash provided by (used in) operating activities	<u>\$ 5,528</u>	<u>6,097</u>	<u>17,372</u>	<u>(4,008)</u>

See accompanying notes to basic financial statements

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Notes to Basic Financial Statements

June 30, 2003

(In thousands)

**(1) Summary of Significant Accounting Policies**

**(a) Significant Accounting Policies**

The following is a summary of significant accounting policies of the City of Burbank, California (the City) as they pertain to the City's Water and Electric Utility Enterprise Funds (Water and Electric Utility Funds).

**(b) Accounting Changes**

Effective July 1, 2001, the Water and Electric Utility Funds adopted three new accounting statements issued by the Governmental Accounting Standards Board (GASB):

Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments*;

Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Omnibus*;

Statement No. 38, *Certain Financial Statement Disclosures*.

Statement No. 34 (as amended by Statement No. 37) had no monetary impact on the financial statements but required changes in the financial reporting model used by the Water and Electric Utility Funds. These changes were the presentation of a direct statement of cash flows, the classification of the Water and Electric Utility Funds' net assets, and additional footnote disclosures. Statement No. 34 also required as supplementary information Management's Discussion and Analysis, which includes an analytical overview of the Water and Electric Utility Funds' financial activities.

The reporting model includes basic financial statements prepared using full accrual accounting for the Water and Electric Utility Funds' activities. This approach includes not just current assets and liabilities, but also capital and other long-term assets as well as long-term liabilities. Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter.

The basic financial statements include the following:

Statement of Net Assets – The statement of net assets is designed to display the financial position of the reporting entity. The net assets of the Water and Electric Utility Funds are broken down into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Net assets invested in capital assets, net of related debt, consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Notes to Basic Financial Statements

June 30, 2003

(In thousands)

Restricted net assets represents net asset whose use is restricted through external constraints imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Statement of Revenues, Expenses, and Changes in Fund Net Assets – The statement of revenues, expenses, and changes in fund net assets reports revenues by major source and distinguishes between operating and non-operating revenues and expenses.

Statement No. 38 required certain disclosures to be made in the notes to the basic financial statements concurrent with the implementation of Statement No. 34. This statement established and modified disclosure requirements related to the summary of significant accounting policies, actions taken to address violations of significant finance-related legal and contractual provisions, debt and lease obligations, short-term debt, disaggregation of receivable and payable balances, and interfund balances and transfers.

**(c) Basis of Presentation**

The Water and Electric Utility Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the City Council is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the City Council has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital expenditures, public policy, management control, accountability, and other purposes.

**(d) Reporting Entity**

The Water and Electric Utility Funds' operations were established by the City in 1913. The Burbank Water and Power Department supervises the generation, purchase, transmission, distribution, and sale of electric energy and water. The activities of Burbank Water and Power are overseen by the City Council and the assistance of a seven-member board.

The Water and Electric Utility Enterprise Funds are used to account for the construction, operation, and maintenance of the City-owned water and electric utility. The City considers the Water and Electric Utility Funds to be Enterprise Funds (a proprietary fund type) as defined under accounting principles generally accepted in the United States of America; accordingly, the accrual basis of accounting is followed by the Water and Electric Utility Funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. Estimated earned but unbilled revenues which result from cycle utility billing practices are assumed. As an integral part of the City's overall operations, the Water and Electric Utility Funds' operations are also included in the City's Comprehensive Annual Financial Report.

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Notes to Basic Financial Statements

June 30, 2003

(In thousands)

In accordance with GASB Statement No. 20; for proprietary fund accounting, the City applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

*(e) Self-Insurance Program*

The Water and Electric Utility Funds are part of the City's self-insurance programs, which provide for general liability and workers' compensation claims. These activities are accounted for in the City's Self-Insurance Internal Service Fund, a Proprietary Fund type. Fund revenues are primarily premium charges to other funds and are planned to match estimated payments, including both reported and incurred but not reported claims, operating expenses, and reinsurance premiums. The fund expenses the estimated liability for claims in cases where such amounts are reasonably determinable and where the liability is likely.

For workers' compensation, the City is self-insured for individual claims up to \$1,000. Losses in excess of this amount are covered through a commercial insurance policy, up to statutory limits, for individual claims. See note 6, Self-Insurance Program, for additional information on the City's self-insurance programs.

*(f) Statements of Cash Flows*

For the purposes of the statements of cash flows, the Water and Electric Utility Funds include all pooled cash and investments and restricted investments with an original maturity of three months or less as cash equivalents. The Water and Electric Utility Funds consider the pooled cash and investments to be a demand deposit account whereby monies may be withdrawn or deposited at any time without prior notice or penalty.

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Notes to Basic Financial Statements

June 30, 2003

(In thousands)

**(g) Capital Assets**

Capital assets are recorded at cost or, in the case of gifts or contributed assets at fair market value at the date of donation. When items are sold or retired, related gains or losses are included in non-operating income (expense). Maintenance and repairs are charged to expense as incurred. Improvements to plant and equipment are capitalized. Depreciation is computed on the straight-line method over the estimated useful lives of the assets as follows:

	<b>Estimated useful life</b>
Buildings and improvements	20 years
Machinery and equipment (except vehicles)	20 years
Generation equipment	20 to 40 years
Transmission and distribution equipment	20 to 40 years
Vehicles	5 to 10 years
Office equipment	3 to 5 years

**(h) Inventories**

Inventories consist of materials and supplies held for future consumption and are priced at average cost using the first-in, first-out method.

**(i) Compensated Absences**

The costs of employees' vested vacation and sick pay benefits are accrued as they are earned by the employees.

**(j) Estimates**

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**(k) Revenue Recognition**

Revenues are recorded in the period in which they are earned. The Water and Electric Utility Funds accrue estimated unbilled revenue for energy sold but not billed at the end of the fiscal period. All residential and commercial accounts are billed monthly. Operating revenues consist of retail and wholesale sales of electric and water, charges for electric and water related work performed for customers, such as service connection fees, and relocation fees.

Unbilled electric service charges are included in accounts receivable at year-end. Unbilled accounts receivable totaled \$7,600 and \$8,909 at June 30, 2003 and 2002, respectively.

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Notes to Basic Financial Statements

June 30, 2003

(In thousands)

**(l) Operating Expenses**

Purchased power includes all open market purchases of energy and fuel, firm contracts for the purchase of energy and fuel, energy productions costs, and the costs of entitlements for energy and transmission as discussed in note 10.

Other operating expenses include all costs associated with the distribution of water and power, administration, operating and maintaining the local facilities, customer service, and public benefits programs.

**(m) Debt Issuance Costs**

Debt issuance costs are deferred and amortized over the lives of the related bond issues on a basis which approximates the effective interest method.

**(n) Bond Refunding Costs**

Bond refunding costs are deferred and amortized over the lives of the related bond issues on a basis which approximates the effective interest method. Bond refunding costs are recorded as a reduction of the long-term debt obligation on the accompanying basic financial statements.

**(o) Prior Year Information**

The basic financial statements and required supplementary information include partial or summarized prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Water and Electric Utility's basic financial statements as of and for the year ended June 30, 2002, from which such partial and summarized information was derived.

**(2) Cash and Investments**

**(a) Classification of Custodial Risk**

Investments are categorized to provide a description of the level of risk assumed by the Funds.

Category 1 investments are insured or registered, or securities are held by the Water and Electric Utility Funds or its agent in the Water and Electric Utility Funds' name.

Category 2 investments are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Water and Electric Utility Funds' names.

Category 3 investments are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agency, but not in the Water and Electric Utility Funds' names.

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Notes to Basic Financial Statements

June 30, 2003

(In thousands)

The Water and Electric Utility Funds' investments pooled with the City Treasurer held in guaranteed investment contracts or mutual funds are not subject to categorization because they are not evidenced by securities that exist in physical or book entry form.

Cash of the Water and Electric Utility Funds is maintained on deposit with the City Treasurer. The amounts are invested in pooled funds and specific investment securities for the purpose of increasing income through investment activities. Investment income is allocated to the Water and Electric Utility Funds based upon a proportionate share of total pooled investment earnings.

The following is a summary of the Water and Electric Utility Funds' cash, cash equivalents, and investments with fiscal agents as of June 30, 2003 and June 30, 2002:

	<b>Water</b>		<b>Electric</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Pooled cash and cash equivalents	\$ 10,445	8,089	37,693	37,635
Restricted nonpooled cash and cash equivalents	87	95	350	336
Restricted nonpooled investments	1,032	1,025	12,142	9,702
Total	\$ 11,564	9,209	50,185	47,673

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Notes to Basic Financial Statements

June 30, 2003

(In thousands)

Cash and investments are categorized as follows:

Water Utility Fund June 30, 2003	Category			Not required to be categorized	Fair value
	1	2	3		
<u>Pooled investments:</u>					
U.S. government agencies	\$ 3,147	—	—	—	3,147
Commercial paper	1,606	—	—	—	1,606
State Pool (LAIF)	—	—	—	5,692	5,692
Total investments controlled by City	4,753	—	—	5,692	10,445
<u>With fiscal agents:</u>					
Corporate Trust Investment Fund	—	—	—	87	87
Guaranteed Investment Contracts	—	—	—	1,032	1,032
Total invested by fiscal agents	—	—	—	1,119	1,119
Total investments	\$ 4,753	—	—	6,811	11,564

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Notes to Basic Financial Statements

June 30, 2003

(In thousands)

<b>Water Utility Fund</b> <b>June 30, 2002</b>	<b>Category</b>			<b>Not required to be categorized</b>	<b>Fair value</b>
	<b>1</b>	<b>2</b>	<b>3</b>		
<u>Pooled investments:</u>					
U.S. government agencies	\$ 4,150	—	—	—	4,150
Commercial paper	2,224	—	—	—	2,224
State Pool (LAIF)	—	—	—	1,715	1,715
Total investments controlled by City	6,374	—	—	1,715	8,089
<u>With fiscal agents:</u>					
Corporate Trust Investment Fund	—	—	—	95	95
Guaranteed Investment Contracts	—	—	—	1,025	1,025
Total invested by fiscal agents	—	—	—	1,120	1,120
Total investments	\$ 6,374	—	—	2,835	9,209

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Notes to Basic Financial Statements

June 30, 2003

(In thousands)

<b>Electric Utility Fund June 30, 2003</b>	<b>Category</b>			<b>Not required to be categorized</b>	<b>Fair value</b>
	<b>1</b>	<b>2</b>	<b>3</b>		
<u>Pooled investments:</u>					
U.S. government agencies	\$ 8,596	—	—	—	8,596
Commercial paper	4,387	—	—	—	4,387
State Pool (LAIF)	—	—	—	24,710	24,710
Total investments controlled by City	<u>12,983</u>	<u>—</u>	<u>—</u>	<u>24,710</u>	<u>37,693</u>
<u>With fiscal agents:</u>					
Corporate Trust Investment Fund	—	—	—	350	350
Guaranteed Investment Contracts	—	—	—	12,142	12,142
Total invested by fiscal agents	<u>—</u>	<u>—</u>	<u>—</u>	<u>12,492</u>	<u>12,492</u>
Total investments	<u>\$ 12,983</u>	<u>—</u>	<u>—</u>	<u>37,202</u>	<u>50,185</u>

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

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June 30, 2003

(In thousands)

Electric Utility Fund June 30, 2002	Category			Not required to be categorized	Fair value
	1	2	3		
<u>Pooled investments:</u>					
U.S. government agencies	\$ 6,441	—	—	—	6,441
Commercial paper	3,453	—	—	—	3,453
State Pool (LAIF)	—	—	—	27,741	27,741
Total investments controlled by City	9,894	—	—	27,741	37,635
<u>With fiscal agents:</u>					
Corporate Trust Investment Fund	—	—	—	336	336
Guaranteed Investment Contracts	—	—	—	9,702	9,702
Total invested by fiscal agents	—	—	—	10,038	10,038
Total investments	\$ 9,894	—	—	37,779	47,673

Available cash balances consist primarily of deposits in State Treasurers Local Agency Investment Fund, federal agency investments, and commercial paper. All the City's investments are authorized by state statute. In accordance with GASB 31, investments are stated at fair value, except for interest earnings investment contracts which are stated at cost. Fair value information is based on quoted market prices. Realized and unrealized gains and losses are reported as interest income in the accompanying Statement of Revenues, Expenses, and Changes in Fund net assets.

Cash and investments restricted for a specific purpose by either bond resolution, funding agency, or an outside third party are classified as restricted assets. Restricted cash and investments are held with fiscal agents except for the aid to construction cash, which is held in the City's investment pool.

Further information concerning the City's investment pool can be found in the City's Comprehensive Annual Financial Report.

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Notes to Basic Financial Statements

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(In thousands)

**(3) Accounts Receivable**

	Water		Electric	
	2003	2002	2003	2002
Accounts receivable	\$ 781	852	34,385	28,823
Allowance	(57)	(64)	(1,566)	(1,534)
Total	<u>\$ 724</u>	<u>788</u>	<u>32,819</u>	<u>27,289</u>

Allowances for uncollectible accounts (excluding allowances of \$1,500 for California Independent System Operator (Cal ISO) receivables) increased by \$32 to \$66 from 2002 to 2003 in the Electric Utility Enterprise Fund; and decreased by \$7 to \$57 from 2002 to 2003 in the Water Utility Enterprise Fund.

***California Independent System Operator (Cal ISO) Receivables***

Until recently, the Electric Utility Fund has experienced increased power supply expenses due to increased prices in the short-term market and other factors. These increases, until recently, have been offset by the increase in wholesale sales. During the period from October 2000 to February 2001, the Electric Utility Fund sold energy to the CAL ISO as a result of a Federal Order from the United States Department of Energy requiring utilities sell to the CAL ISO. The amount owed to the Electric Utility Fund by the CAL ISO and the CAL PX is approximately \$6 million without interest, which BWP expects ultimately to collect. However, because of the ultimate uncertainty of payment, the Electric Utility Fund has established an allowance of \$1,500. (See also note 15 Contingencies).

**(4) Capital Assets**

Capital assets include the following at June 30, 2003 and 2002:

Water	Balance as of July 1, 2001	Additions	Deletions	Balance as of June 30, 2002	Additions	Deletions	Balance as of June 30, 2003
Capital assets not being depreciated:							
Land	\$ 309	—	—	309	—	—	309
Construction in progress	1,138	6,309	(5,776)	1,671	860	(445)	2,086
Total capital assets not being depreciated	<u>1,447</u>	<u>6,309</u>	<u>(5,776)</u>	<u>1,980</u>	<u>860</u>	<u>(445)</u>	<u>2,395</u>
Capital assets being depreciated:							
Buildings and improvements	50,705	2,541	(727)	52,519	1,779	(8)	54,290
Machinery and equipment	4,282	98	(34)	4,346	194	(68)	4,472
Accumulated depreciation	(23,124)	(1,770)	71	(24,823)	(1,751)	45	(26,529)
Total capital assets being depreciated, net	<u>31,863</u>	<u>869</u>	<u>(690)</u>	<u>32,042</u>	<u>222</u>	<u>(31)</u>	<u>32,233</u>
Total net capital assets	<u>\$ 33,310</u>	<u>7,178</u>	<u>(6,466)</u>	<u>34,022</u>	<u>1,082</u>	<u>(476)</u>	<u>34,628</u>

**CITY OF BURBANK**  
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(In thousands)

<u>Electric</u>	<u>Balance as of July 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance as of June 30, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance as of June 30, 2003</u>
Capital assets not being depreciated:							
Land	\$ 2,740	—	(2)	2,738	—	—	2,738
Construction in progress	12,821	78,176	(20,436)	70,561	19,291	(52,475)	37,377
Total capital assets not being depreciated	<u>15,561</u>	<u>78,176</u>	<u>(20,438)</u>	<u>73,299</u>	<u>19,291</u>	<u>(52,475)</u>	<u>40,115</u>
Capital assets being depreciated:							
Buildings and improvements	175,647	7,732	—	183,379	61,827	—	245,206
Machinery and equipment	21,936	445	—	22,381	2,471	(204)	24,648
Accumulated depreciation	(121,973)	(5,697)	—	(127,670)	(6,608)	201	(134,077)
Total capital assets being depreciated, net	<u>75,610</u>	<u>2,480</u>	<u>—</u>	<u>78,090</u>	<u>57,690</u>	<u>(3)</u>	<u>135,777</u>
Total net capital assets	<u>\$ 91,171</u>	<u>80,656</u>	<u>(20,438)</u>	<u>151,389</u>	<u>76,981</u>	<u>(52,478)</u>	<u>175,892</u>

**(5) Defined Benefit Pension Plan and Post-Retirement Health Care Benefits**

Full-time Water and Electric Utility Fund employees participate with other City employees in the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the state of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, California 95814.

Participants are required to contribute 7% of their annual covered salary. The Funds makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate. For Water and Electric Utility Fund employees the rate is zero. The contribution requirements of plan members and the City are established and may be amended by PERS.

Expenses allocated to the Water and Electric Utility Funds by the City for 2003 and 2002 were as follows:

	<u>2003</u>	<u>2002</u>
Electric Utility Fund	\$ 1,149	1,106
Water Utility Fund	242	227
	<u>\$ 1,391</u>	<u>1,333</u>

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(In thousands)

PERS does not provide data to participating organizations in such a manner as to facilitate separate disclosure for the Water and Electric Utility Funds of the actuarially computed pension benefit obligation and the plans' net assets available for benefits.

In addition to providing pension benefits, the City provides certain health care benefits for retired employees. All full-time employees who retire from the City on or after attaining the age of 50 with at least 5 years of service are eligible. Expenditures for these benefits are paid by the City and are not significant to the Funds. Additional information regarding the City's participation in PERS and the post-retirement health care benefits can be found in the City's Comprehensive Annual Financial Report.

**(6) Self-Insurance Program**

The funds in the City's self-insurance program are there as part of the City's policy to self-insure certain levels of risk within separate lines of coverage to maximize cost savings. The self-insured retention on individual general liability cases is \$1,000. The City then purchases a separate policy for coverage up to \$10,000 through the California Association of Municipalities Excess Liability (CAMEL) program. An additional excess policy is purchased for a total of \$20,000 coverage. A separate policy is purchased to cover all individual workers' compensation costs over \$2,000 per claim. This is also done to maximize cost savings to the City's insurance program. The City charges the Water and Power funds a premium for workers' compensation and unemployment insurance based upon a percentage of payroll cost. Such percentages are based upon employee classification and claims experience. Additional information regarding the City's self-insurance program can be found in the City's Comprehensive Annual Financial Report.

**(7) Loan and Revenue Bonds Payable**

*(a) Loan Payable*

	<b>Water</b>	
	<b>2003</b>	<b>2002</b>
This State Water Resources Control Loan was issued for the purpose of construction improvements to the Reclaimed Water Distribution System. Funds are disbursed on either a reimbursement basis, or at such time, as they are due and payable by the City. The interest rate is 2.7%, with the principal to be repaid no later than April 2014, 20 years from the loan date.	\$ 2,014	2,167
Less current portion	(157)	(153)
Long-term portion of loan payable	\$ 1,857	2,014

**CITY OF BURBANK**  
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(In thousands)

A schedule of aggregate maturities, including interest, on the loan payable subsequent to June 30, 2003 is as follows:

	<b>Principal</b>	<b>Water Interest</b>	<b>Total</b>
2004	\$ 157	54	211
2005	161	50	211
2006	165	46	211
2007	170	41	211
2008	174	37	211
2009 - 2013	945	110	1,055
2014 - 2019	242	7	249
	\$ 2,014	345	2,359

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(In thousands)

**(b) Revenue Bonds Payable**

All the revenue bonds issued by the Water and Electric Utility Funds are secured by a pledge of a lien upon the net revenues of the Electric or Water Utility Funds, depending on the purpose of the debt, as well as all amounts on deposit in the funds and accounts established under the indenture, including the reserve account. Net reserves include all revenues received by the Water and Electric Utility Funds, less amounts required for payment of operating expenses.

	<b>Water</b>		<b>Electric</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
1998 Series A Bonds:				
\$45,160 Public Service Department Electric Revenue Bonds, 1998 Series A, and \$10,585 Public Service Department Water Revenue Bonds, 1998 Series A were issued to partially advance refund the 1992 Series A Public Service Department Water and Electric Revenue Bonds and to provide funds for additions and improvements, payable in installments ranging from \$750 to \$3,700. Interest rates range from 2.90% to 4.75%. Payments are made semiannually on June 1 and December 1, with the final payment to be made on June 1, 2023.	\$	8,575	9,280	45,160
Less:				
Current portion	(723)	(705)	—	—
Original issue (discount)/premium	(88)	(93)	(475)	(494)
Long-term portion of 1998 Series A Bonds	7,764	8,482	44,685	44,666

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(In thousands)

	<b>Water</b>		<b>Electric</b>		
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	
2001 Series Bonds:					
\$54,745 Burbank Water and Power Electric Revenue Bonds, Series of 2001, were issued to fund the acquisition and installation of a 47 MW gas-fired turbine, other electric improvements and refund outstanding senior lien revenue bonds. Payments are in installments ranging from \$5,360 to \$6,770. Interest rates range from 2.25% to 4.00%. Payments are made semiannually on June 1 and December 1, with the final payment to be made on June 1, 2011.	\$	—	—	48,285	54,745
Less:					
Current portion		—	—	(6,605)	(6,460)
Original issue (discount)/premium		—	—	(235)	(264)
Long-term portion of 2001 Series Bonds		—	—	41,445	48,021

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(In thousands)

	Water		Electric		
	2003	2002	2003	2002	
2002 Series Bonds:					
\$25,000 Burbank Water and Power Electric Revenue Bonds, Series of 2002, were issued for retrofitting Olive 1 and Olive 2 steam generators to meet new air quality emission limits, other electric improvements and refund certain electric revenue bonds. Payments are in installments ranging from \$990 to \$2,000. Interest rates range from 3.00% to 5.375%. Payments are made semiannually on June 1 and December 1, with the final payment to be made on June 1, 2022.	\$	—	—	25,000	—
Less:					
Current portion		—	—	—	—
Original issue discount/premium		—	—	265	—
Long-term portion of 2002 Series Bonds		—	—	25,265	—
Total long-term revenue bonds payable	\$	<u>7,764</u>	<u>8,482</u>	<u>111,395</u>	<u>92,687</u>

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A schedule of aggregate maturities on bonds payable subsequent to June 30, 2003 is as follows:

	Water		Electric		Total
	Principal	Interest	Principal	Interest	
2004	\$ 723	387	6,605	4,818	12,533
2005	750	353	7,760	4,652	13,515
2006	770	323	7,980	4,437	13,510
2007	805	293	8,230	4,184	13,512
2008	840	262	8,505	3,908	13,515
2009 - 2013	3,810	706	34,285	14,754	53,555
2014 - 2018	385	174	20,765	9,107	30,431
2019 - 2023	492	245	24,315	3,453	28,505
Total	\$ <u>8,575</u>	<u>2,743</u>	<u>118,445</u>	<u>49,313</u>	<u>179,076</u>

The following is a summary of changes in the Water Utility Fund's long-term liabilities as of June 30, 2003:

<u>June 30, 2003</u>	<u>July 1, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2003</u>	<u>Due within one year</u>
Loan payable	\$ 2,167	—	(153)	2,014	157
Revenue bond payable:					
1998 Series A Bonds	9,280	—	(705)	8,575	723
Compensated absences	362	80	(8)	434	7
Deferred revenue	9	—	—	9	—
	<u>11,818</u>	<u>80</u>	<u>(866)</u>	<u>11,032</u>	<u>887</u>
Less current portion	(866)			(896)	
Less unamortized bond premium (discounts)	(93)			(88)	
Total	\$ <u>10,859</u>			\$ <u>10,048</u>	

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(In thousands)

<u>June 30, 2002</u>	<u>July 1, 2001</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2002</u>	<u>Due within one year</u>
Loan payable	\$ 2,316	—	(149)	2,167	153
Revenue bonds payable:					
1993 Series A Bonds	1,142	—	(1,142)	—	—
1998 Series A Bonds	9,970	—	(690)	9,280	705
Compensated absences	302	60	—	362	8
Deferred revenue	9	—	—	9	—
	<u>13,739</u>	<u>60</u>	<u>(1,981)</u>	<u>11,818</u>	<u>866</u>
Less current portion	(1,105)			(866)	
Less unamortized bond premium (discounts)	<u>(102)</u>			<u>(93)</u>	
Total	<u>\$ 12,532</u>			<u>10,859</u>	

The following is a summary of changes in the Electric Utility Fund's long-term liabilities as of June 30, 2003:

<u>June 30, 2003</u>	<u>July 1, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2003</u>	<u>Due within one year</u>
Revenue bond payable:					
1998 Series A Bonds	\$ 45,160	—	—	45,160	—
2001 Series A Bonds	54,745	—	(6,460)	48,285	6,605
2002 Series A Bonds	—	25,000	—	25,000	—
Compensated absences	<u>2,769</u>	<u>381</u>	<u>(151)</u>	<u>2,999</u>	<u>159</u>
	<u>102,674</u>	<u>25,381</u>	<u>(6,611)</u>	<u>121,444</u>	<u>6,764</u>
Less current portion	(6,611)			(6,764)	
Less unamortized bond premium (discounts)	<u>(758)</u>			<u>(445)</u>	
Total	<u>\$ 95,305</u>			<u>114,235</u>	

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(In thousands)

<u>June 30, 2002</u>	<u>July 1, 2001</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2002</u>	<u>Due within one year</u>
Revenue bond payable:					
1993 Series A Bonds	\$ 9,243	—	(9,243)	—	—
1998 Series A Bonds	45,160	—	—	45,160	—
2001 Series A Bonds	—	54,745	—	54,745	6,460
Compensated absences	2,475	294	—	2,769	151
Deferred revenue	575	—	(575)	—	—
Purchase power loss reserve	6,132	—	(6,132)	—	—
	<u>63,585</u>	<u>55,039</u>	<u>(15,950)</u>	<u>102,674</u>	<u>6,611</u>
Less current portion	(2,149)			(6,611)	
Less unamortized bond premium (discounts)	<u>(570)</u>			<u>(758)</u>	
Total	<u>\$ 60,866</u>			<u>95,305</u>	

**(8) Deferred Revenue**

	<u>Water</u>		<u>Electric</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Pursuant to the 1998 Electric and Water Bond Indenture, amounts were established to fund any potential arbitrage rebate that may occur.	\$ 9	9	—	—
AB 1890 requires the electric utility to expend 2.85% of revenues for Public Benefit (PB) purposes. The entire unspent portion of the Public Benefits obligation for the City and the Utility has been recorded as an Electric Fund liability.	<u>—</u>	<u>—</u>	<u>3,541</u>	<u>2,426</u>
	<u>\$ 9</u>	<u>9</u>	<u>3,541</u>	<u>2,426</u>

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(In thousands)

**(9) Related Party Transactions**

The City allocates certain administrative and overhead costs and in lieu of property taxes to the Water and Electric Utility Funds. These charges are reflected in the accompanying statements of revenues, expenses, and changes in fund net assets for the years ended June 30, 2003 and 2002 as follows:

	Total		Water		Electric	
	2003	2002	2003	2002	2003	2002
Administrative and overhead costs	\$ 3,213	3,118	569	848	2,644	2,270
In-lieu of property taxes	8,942	8,618	753	715	8,189	7,903
Total	\$ 12,155	11,736	1,322	1,563	10,833	10,173

**(10) Take or Pay Contracts**

The City of Burbank, through its Water and Electric Utility Funds, has entered into “Take or Pay” contracts to provide for the electric generating and transmission requirements for Burbank electric utility customers. The City is obligated to pay its share of the amortized cost of indebtedness regardless of the ability of the contracting agency to provide electricity or the City’s need for the electricity. However, in the opinion of management, the City does not have a financial responsibility for purposes of GASB Statement No. 14 because the Southern California Public Power Authority (SCPPA) and the Intermountain Power Agency (IPA) do not depend on revenue from the City to continue in existence. Obligation for this indebtedness is through participation in two joint power agencies, SCPPA and IPA.

These contracts constitute an obligation of the Electric Utility Fund to make debt service payments from its operating revenues. The Electric Utility Fund’s share of debt service is not recorded as an obligation on the accompanying basic financial statements; however, it is included as a component of its power supply expenses.

**(a) Southern California Public Power Authority (SCPPA)**

SCPPA membership consists of twelve Southern California cities and one public district of the state of California, which serves the electric power needs of their Southern California electricity customers. SCPPA, a public entity organized under the laws of the state of California, was formed by a joint powers agreement dated November 1, 1980, pursuant to the joint exercise of powers act of the state of California. SCPPA was created for the purpose of planning, financing, developing, acquiring, constructing, operating, and maintaining projects for the generation and transmission of electric energy for sale to its participants. The joint power agreement has a term of 50 years.

**Hoover Upgrading Project (HU)**

On March 1, 1986, the Authority and six participants entered into an agreement pursuant to which each participant assigned its entitlement to capacity and associated firm energy to the Authority in return for the Authority’s agreement to make advance payments to the United States Bureau of

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(In thousands)

Reclamation (USBR) on behalf of such participants. The Authority has an 18.68% interest in the contingent capacity of the Hoover uprating project. All 17 “uprated” generators of the HU have commenced commercial operations. The City has a 16% (15MW) ownership interest in this project.

**Southern Transmission System Project (STS)**

Pursuant to an agreement dated as of May 1, 1983 with the IPA, the Authority made payments-in-aid of construction to IPA to defray all costs of acquisition and construction of the Southern Transmission System project (STS), which provides for the transmission of energy from the Intermountain Generating Station in Utah to Southern California. STS commenced commercial operations in July 1986. The Department of Water and Power of the City of Los Angeles (LADWP), a member of the Authority, serves as project manager and operating agent of the Intermountain Power Project (IPP). The STS delivers over 13.2 million MWh to the SCPPA members annually and is currently rated at 1,920 megawatts. The City’s ownership share of this project is 4.5%.

**Mead-Phoenix (MP)**

The Authority entered into an agreement dated as of December 17, 1991 to acquire an interest in the Mead-Phoenix Project, a transmission line extending between the Westwing substation in Arizona and the Marketplace substation in Nevada. The agreement provides the Authority with an 18.31% interest in the Westwing-Mead project, a 17.76% interest in the Mead substation project component and a 22.41% interest in the Mead-Marketplace component. The project is a 256 mile, 500 kV AC transmission line with a rating of 1,300 megawatts. The City’s ownership share of Mead-Phoenix is 15.4%.

**Mead-Adelanto (MA)**

The Authority also entered into an agreement dated as of December 17, 1991 to acquire a 67.92% interest in the Mead-Adelanto Project, a transmission line extending between the Adelanto substation in Southern California and the marketplace substation in Nevada. Funding for these projects was provided by a transfer of funds from the multiple projects fund and commercial operations commenced in April 1996. LADWP serves as the operations manager of Mead-Adelanto. The project is a 202 mile, 500 kV AC transmission line with a rating of 1,200 megawatts. The City’s ownership share of Mead-Adelanto is 11.5%.

**Palo Verde (PV)**

Pursuant to an assignment agreement dated as of August 14, 1981 with the Salt River project, the Authority purchased a 5.91% interest in the Palo Verde Nuclear Generating Station, a 3,810 megawatt nuclear-fueled generating station near Phoenix, Arizona and a 6.55% share of the right to use certain portions of the Arizona nuclear power project valley transmission system (collectively, the Palo Verde Project). Units 1, 2, and 3 of the Palo Verde Project began commercial operations in January 1986, September 1986, and January 1988, respectively. The City’s ownership share of this project is 4.4% (9.7 MW).

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(In thousands)

**Magnolia Power Project (MPP)**

In 1999, the City of Burbank began exploring ways to replace its aging power plants. The City decided that it would be more economical to build a large plant, and include other SCPPA participants to buy the power that would be produced by the larger plant. MPP is a SCPPA generation project and is comprised of five members, which are the cities of Anaheim, Burbank, Colton, Glendale, and Pasadena (the Project A Participants). The City of Cerritos (the Project B Participant), who became a member of the Authority in July 2001, is also a participant in the MPP.

In March 2003, the California Energy Commission gave the approval for construction of the MPP. MPP is a natural gas-fired generator and is designed to generate 242 megawatts to meet base load capacity but will be able to generate more than 300 megawatts during peak demand periods. MPP is the first plant to be owned by the Authority. The City of Burbank will manage the construction and operation of the Project. To finance the Project, the Authority, in April 2003, issued \$299,975 of Magnolia Power Project A Revenue Bonds and \$14,105 of Magnolia Power Project B Lease Revenue Bonds (City of Cerritos, California). The City's ownership share of Magnolia Power Project is 30.992%.

**Multiple Project Fund (MPF)**

During fiscal year 1990, the Authority issued Multiple Project Revenue Bonds for net proceeds of approximately \$600,000 to provide funds to finance costs of construction and acquisition of ownership interests or capacity rights in one or more then unspecified projects for the generation or transmission of electric energy. Certain of these funds were used to finance the Authority's interest in Mead-Phoenix and Mead-Adelanto. Currently, SCPPA's investment earnings are sufficient for debt service without any payment obligations from the City.

**(b) Intermountain Power Agency (IPA)**

In 1980, the City of Burbank, along with the cities of Los Angeles, Anaheim, Glendale, Pasadena, and Riverside, entered into a power sales contract with IPA, which obligates each California purchaser to purchase, on a "take-or-pay" basis, a percentage share of capacity and energy generated by the IPP. The City, along with Los Angeles, Glendale, and Pasadena, also entered into an Excess Power Sales Agreement, also on a "take or pay" contract, with Utah municipal and cooperative IPP purchasers, which is surplus to such Utah purchasers' needs, and will be made available to the City, Los Angeles, Glendale, and Pasadena. The project was completed on May 1, 1987 and is currently generating power. The City's participation interest in the power generated by IPP is 3.371% (69MW).

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Notes to Basic Financial Statements

June 30, 2003

(In thousands)

A summary of the City of Burbank's "take or pay" contracts and related projects and its contingent liability at June 30, 2003 is as follows:

	<u>Bonds and notes outstanding</u>	<u>City of Burbank portion*</u>	<u>City of Burbank share of bonds</u>	<u>City of Burbank obligation relating to total debt service</u>
Southern California Public Power Authority:				
Hoover uprating	\$ 23,780	16.000%	\$ 3,805	5,271
Southern Transmission system	998,075	4.500	44,913	65,282
Mead-Adelanto	229,175	11.500	26,355	41,624
Mead-Phoenix	71,915	15.400	11,075	17,489
Palo Verde	761,455	4.400	33,504	50,811
Magnolia Power Project	314,080	30.992	97,339	208,349
Intermountain Power Project	3,804,341	3.371	128,244	188,988
Total	<u>\$ 6,202,821</u>	<u>5.566</u>	<u>\$ 345,235</u>	<u>577,814</u>

\* Burbank share % and amounts estimated based on weighted average.

The City has the following required debt service payments of principal and interest per the agreements discussed above:

	<u>2003/04</u>		<u>2004/05</u>		<u>2005/06</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
SCPPA:						
Hoover Uprating	\$ 190	165	197	158	204	151
IPP STS	1,337	1,710	1,284	1,682	1,416	1,658
Mead-Adelanto	—	1,407	—	1,407	—	1,407
Mead-Phoenix	—	599	—	599	—	599
Palo Verde	2,164	1,355	2,279	1,251	—	1,251
Magnolia Power Project	—	4,701	—	4,701	—	4,701
Intermountain Power	17,313	5,325	4,277	5,279	4,563	5,120
Total	<u>\$ 21,004</u>	<u>15,262</u>	<u>8,037</u>	<u>15,077</u>	<u>6,183</u>	<u>14,887</u>

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Notes to Basic Financial Statements

June 30, 2003

(In thousands)

	<u>2006/07</u>		<u>2007/08</u>		<u>2008/13</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
SCPPA:						
Hoover Upgrading	\$ 210	143	219	134	1,234	525
IPP STS	1,540	1,633	1,393	1,560	8,352	6,526
Mead-Adelanto	1,166	1,353	1,219	1,295	7,205	5,311
Mead-Phoenix	468	577	489	554	3,286	2,251
Palo Verde	—	1,251	—	1,251	4,757	6,155
Magnolia Power Project	1,158	4,679	1,401	4,650	7,627	22,482
Intermountain Power	4,564	4,923	4,950	4,705	29,520	19,299
Total	\$ <u>9,106</u>	<u>14,559</u>	<u>9,671</u>	<u>14,149</u>	<u>61,981</u>	<u>62,549</u>

	<u>2013/18</u>		<u>2018/23</u>		<u>2023/28</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
SCPPA:						
Hoover Upgrading	\$ 1,551	190	—	—	—	—
IPP STS	11,437	4,305	15,025	1,295	3,129	—
Mead-Adelanto	9,706	2,734	7,059	355	—	—
Mead-Phoenix	4,005	1,093	2,827	142	—	—
Palo Verde	24,304	4,793	—	—	—	—
Magnolia Power Project	9,448	20,472	12,118	17,664	15,468	14,152
Intermountain Power	29,181	12,188	33,167	3,892	709	13
Total	\$ <u>89,632</u>	<u>45,775</u>	<u>70,196</u>	<u>23,348</u>	<u>19,306</u>	<u>14,165</u>

	<u>2028/33</u>		<u>2033/38</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
SCPPA:				
Hoover Upgrading	\$ —	—	—	—
IPP STS	—	—	—	—
Mead-Adelanto	—	—	—	—
Mead-Phoenix	—	—	—	—
Palo Verde	—	—	—	—
Magnolia Power Project	19,740	9,665	30,379	3,143
Intermountain Power	—	—	—	—
Total	\$ <u>19,740</u>	<u>9,665</u>	<u>30,379</u>	<u>3,143</u>

In addition to debt service, the Electric Utility Fund is required to pay for operating and maintenance expenses (O&M) associated with the generation and transmission facilities discussed above. The fiscal year 2002-03 actual and the fiscal year 2003-04 budget for operating and maintenance expenses for these projects is as follows:

	<u>HU</u>	<u>STS</u>	<u>MA</u>	<u>MP</u>	<u>PV</u>	<u>MPP</u>	<u>IPA</u>	<u>Total</u>
Fiscal year:								
2002-03	\$ 207	376	134	180	2,288	N/A	13,675	16,860
2003-04	292	782	180	182	2,751	N/A	13,276	17,463

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Notes to Basic Financial Statements

June 30, 2003

(In thousands)

**(11) Wholesale Energy Trading Operations**

The Electric Utility Fund has been involved in the wholesale market for many years. Since 2000, the Electric Utility Fund's strategy has been to develop wholesale net margins through its wholesale trading operations in order to reduce its power supply expenses. Fiscal year 2002-03 and 2001-02, wholesale revenues were \$85,680 and \$46,501, while wholesale expenses were \$76,864 and \$41,653, respectively. As a result of reduced electric demand due to mild weather and conservation efforts coupled with a Federal Energy Regulatory Commission (FERC) order effectively created spot power price caps, wholesale revenues in fiscal year 2001-02 were reduced.

**(12) Bonneville Power Administration (BPA) and Intermountain Power Project (IPP) Power Supply Losses**

On March 23, 2001, due to severe drought conditions resulting in inadequate snow runoff and rain to keep hydroelectric plants running, leaving little capacity to meet California's summer energy demands, the Electric Utility Fund received notice from BPA that effective June 30, 2001, BPA would convert its long-term contract from sale to exchange mode. Under the exchange mode, the Electric Utility Fund loses 22 MW of summer capacity and 11 MW of winter capacity. In addition to the loss of BPA energy, Utah utilities that are participants in IPP withdrew a portion of power they sell under the IPP Excess Power Sales Agreement. To replace this loss of power, the Electric Utility Fund entered into forward purchase agreements for 274,225 MWhrs through December 31, 2002. Subsequent to these agreements, in June 2001 the Federal Energy Regulatory Commission (FERC) order effectively created price caps. As a result, the forward purchase agreements are no longer an effective mitigation tool for the loss of power. The agreements were designed to mitigate the Electric Utility Fund's future price risk due to regional price differences. Due to the FERC order, the regional price difference was reduced nearly to zero. The difference between the forward purchase agreement price and the estimated current market price was \$17,787 and this estimated loss was recorded in the financial statements during the year ended June 30, 2001. In fiscal year 2001-02, the Electric Utility Fund's Rate Stabilization Fund (RSF) was drawn down by \$13.5 million to mitigate short-term power supply expenses.

**(13) North South DC Intertie**

The City is a participant in an agreement with the City of Los Angeles, Southern California Edison, the City of Glendale, and the City of Pasadena for an unrestricted 3.846% interest in the North South DC Intertie. As of June 30, 2003, the Electric Enterprise Fund has recorded its share of the Intertie of approximately \$14,634 within its plant and equipment assets, less accumulated depreciation approximating \$7,130 for a net asset value of \$7,504. Such asset is being depreciated using the straight line method over a useful life of 40 years.

The City's voting right in the project is directly in proportion to its percentage interest.

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Notes to Basic Financial Statements

June 30, 2003

(In thousands)

**(14) Burbank Operable Unit**

Pursuant to a consent decree of March 25, 1992, Lockheed Martin Corporation (Lockheed) constructed a groundwater treatment system, now known as the Burbank Operable Unit (BOU), on property within and owned by the City, to mitigate the damage of certain toxic and hazardous substances contaminating groundwater in parts of the San Fernando Groundwater Basin.

A second consent decree, dated May 28, 1997, provides that Lockheed is responsible for the cost of operation and maintenance of the BOU, through at least December 11, 2018. On December 12, 2000, the commencement date, the City became responsible for the oversight of the BOU.

The BOU represents an ongoing obligation of Lockheed to mitigate damages to the aforementioned basin groundwater. In the fiscal year 2018-19, the United States Environmental Protection Agency (EPA) will determine the disposition of the BOU. Based on the EPA's decision, the City will make appropriate adjustments, if necessary, to its financial statements.

**(15) Contingencies**

***Recovery of Alleged Overcharges for the Sale of Power***

The City was compelled by federal order to sell power to the Cal ISO when prices were high. The City believes that under the Federal Power Act it is exempt from FERC jurisdiction, however, the Electric Utility Fund's management has participated in the proceedings to investigate the energy crisis in California and the entire western United States. The Electric Utility Fund's management believes that the ultimate outcome of the refund matter will not have a material impact on the financial condition of the utility. However, because of the ultimate uncertainty of payment, the Electric Utility Fund has established an allowance of \$1,500 against these receivables. (See also Note 3 Accounts Receivables.)

***Litigation***

The City is presently involved in certain matters of litigation that have arisen in the normal course of conducting its water and electric operations. City management believes, based upon consultation with the City attorney, that these cases, in the aggregate, are not expected to result in a material adverse financial impact to the City over and above the amounts recorded as claims liability. Additionally, City management believes that the claims liability recorded within the self-insurance internal service fund is sufficient to cover any potential losses, should an unfavorable outcome result.

**SUPPLEMENTARY INFORMATION –  
HISTORICAL SUMMARY SCHEDULES**

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Historical Net Revenues and Debt Service Coverage

Electric System

	Year ending June 30				
	2003	2002	2001	2000	1999
Operating revenue:					
Retail	\$ 126,418	128,108	110,874	106,811	100,782
Wholesale	85,680	46,501	203,526	2,511	
Other	3,484	4,106	3,648	952	5,460
Total operating revenue	215,582	178,715	318,048	110,274	106,242
Total operating expenses	192,225	180,962	307,441	102,698	105,570
Operating income/(loss)	23,357	(2,247)	10,607	7,576	672
Other nonoperating income/(exp.)	(7,776)	(3,769)	(3,799)	657	2,497
Add back depreciation (a)	6,608	5,697	5,643	5,548	5,081
Add back in lieu (b)	6,553	6,323	5,581	5,544	5,246
Add back interest expense (c)	3,532	2,620	2,541	2,806	3,034
Less capital contributions (d)	(853)	(1,102)	(513)	—	—
Electric net revenues (e)	31,421	7,522	20,060	22,131	16,530
Add transfers in/(out) (monetary)	—	5,514	192	—	—
Adjusted net revenues (f)	31,421	13,036	20,252	22,131	16,530
Parity debt service – includes in lieu transfer (g)	10,085	2,620	10,469	10,604	10,729
Debt service (h)	3,532	2,620	4,888	5,060	5,483
Adjusted rate covenant revenue requirement (i) = 1.2 x (h)	4,238	3,144	5,866	6,072	6,580
Coverage based on electric net revenues (e)/(g) 1.0x min	3.12x	2.87x	1.92x	2.09x	1.54x
Coverage based on adjusted net revenues (f)/(i)	7.41x	4.15x	3.45x	3.64x	2.51x
Excess revenues (f)-(g)	\$ 21,336	10,416	9,783	11,527	5,801
(a) Noncash expense					
(b) Paid after debt service (excludes street lighting)					
(c) Interest expense is part of debt service					
(d) Capital contributions are not part of revenues available for debt service					

See accompanying independent auditors' report.

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Annual Electric Supply  
Year ended June 30, 2003

<b>Resource</b>	<b>MWh</b>	<b>Percentage</b>
IPP	543,000	44.3%
Firm Contracts (1)	419,000	34.1%
On-Site Generation	76,000	6.2%
Hoover	24,000	1.9%
PVNGS	79,000	6.4%
Non-Firm Contracts	87,000	7.1%
Total	1,228,000	100.0%

(1) Bonneville Power Administration, Portland General Electric, and other term purchases

See accompanying independent auditors' report.

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Customers, Sales, Electric Revenues, and Demand

(Dollars in thousands)

	<b>Year ending June 30</b>				
	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
Number of customers:					
Residential	44,460	44,726	44,502	44,730	44,704
Commercial	6,396	6,333	6,252	6,251	6,221
Industrial	253	246	233	237	240
Other	330	350	347	494	524
Total	<u>51,439</u>	<u>51,655</u>	<u>51,334</u>	<u>51,712</u>	<u>51,689</u>
Kilowatt-hour sales (millions)					
Residential	242	238	255	247	249
Commercial	235	238	241	241	240
Industrial	522	532	527	531	503
Other	37	40	42	36	35
Total	<u>1,036</u>	<u>1,048</u>	<u>1,065</u>	<u>1,055</u>	<u>1,027</u>
Electric revenues (\$000s):					
Retail	\$ 126,418	128,108	110,874	106,811	100,782
Wholesale	85,680	46,501	203,526	2,511	
Other	3,484	4,106	3,648	8,082	10,077
Total	<u>\$ 215,582</u>	<u>178,715</u>	<u>318,048</u>	<u>117,404</u>	<u>110,859</u>
Peak Demand (MW)	264	246	271	270	284

See accompanying independent auditors' report.

**CITY OF BURBANK  
WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Average Billing Price – Electric

(Cents per Kilowatt-Hour)

	<b>Year ending June 30</b>				
	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
Residential	\$ 12.8	12.5	10.6	10.6	10.2
Commercial	13.3	12.3	10.9	10.8	10.6
Industrial	12.3	11.7	10.2	10.3	9.9
Average electric rate	12.7	12.2	10.5	10.5	10.2

See accompanying independent auditors' report.

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Historical Net Revenues and Debt Service Coverage

Water System

	Year ending June 30				
	2003	2002	2001	2000	1999
Operating revenue:					
Retail	\$ 15,240	14,010	15,022	13,763	11,480
Other	1,706	1,120	1,015	195	3,061
Total operating revenue	16,946	15,130	16,037	13,958	14,541
Total operating expenses	13,565	13,300	13,645	12,366	13,426
Total operating income	3,381	1,830	2,392	1,592	1,115
Other nonoperating income	(7)	(454)	(596)	112	286
Add back depreciation (a)	1,751	1,770	1,665	1,520	1,323
Add back in lieu (b)	753	715	756	714	635
Add back interest expense (c)	469	478	600	621	711
Less capital contributions (d)	(759)	(221)	(123)		
Water net revenues (e)	5,588	4,118	4,694	4,559	4,070
Add transfers in/(out) (monetary)	—	186	—	—	—
Adjusted net revenues (f)	5,588	4,304	4,694	4,559	4,070
Parity debt service – includes in lieu transfer (g)	2,082	2,346	2,104	2,118	2,593
Debt service (h)	1,329	1,631	1,348	1,404	1,958
Adjusted rate covenant revenue requirement (i) = 1.2 x (h)	1,594	1,957	1,618	1,685	2,350
Coverage based on electric net revenues (e)/(g) 1.0x min	2.69x	1.76x	2.23x	2.15x	1.57x
Coverage based on adjusted net revenues (f)/(i)	3.51x	2.20x	2.90x	2.71x	1.73x
Excess revenues (f)-(g)	\$ 3,506	1,958	2,590	2,441	1,477
(a) Noncash expense					
(b) Paid after debt service					
(c) Interest expense is part of debt service					
(d) Capital contributions are not part of revenues available for debt service					

See accompanying independent auditors' report.

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Customers, Water Sales, Water Revenues

	<b>Year ending June 30</b>				
	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
Number of customers:					
Residential	21,947	22,419	22,373	22,373	22,379
Commercial	3,120	3,049	3,028	3,035	3,022
Industrial	155	145	144	145	151
Other	1,018	996	902	883	909
Total	<u>26,240</u>	<u>26,609</u>	<u>26,447</u>	<u>26,436</u>	<u>26,461</u>
CCF sales per year (x1,000):					
Residential	6,943	7,064	6,835	6,949	6,380
Commercial	1,718	1,770	1,828	1,884	1,786
Industrial	337	355	366	363	359
Other	494	544	528	591	545
Total	<u>9,492</u>	<u>9,733</u>	<u>9,557</u>	<u>9,787</u>	<u>9,070</u>
Revenues from sale of water:					
Retail	\$ 15,240	14,010	15,022	13,763	11,480
Other	1,706	1,120	1,015	195	3,061
Total	<u>\$ 16,946</u>	<u>15,130</u>	<u>16,037</u>	<u>13,958</u>	<u>14,541</u>
Maximum day (million gallons)	33.332	31.318	32.784	34.343	32.087

See accompanying independent auditors' report.

**CITY OF BURBANK**  
**WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

Average Billing Price – Electric

(Cents per CCF)

	<b>Year ending June 30</b>				
	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
Residential	\$ 155.30	148.11	148.17	152.87	138.62
Commercial	147.15	127.66	134.18	138.55	123.07
Industrial	140.40	131.80	133.76	145.88	122.01
Average water rate	153.19	135.86	138.70	149.66	134.66

See accompanying independent auditors' report.

