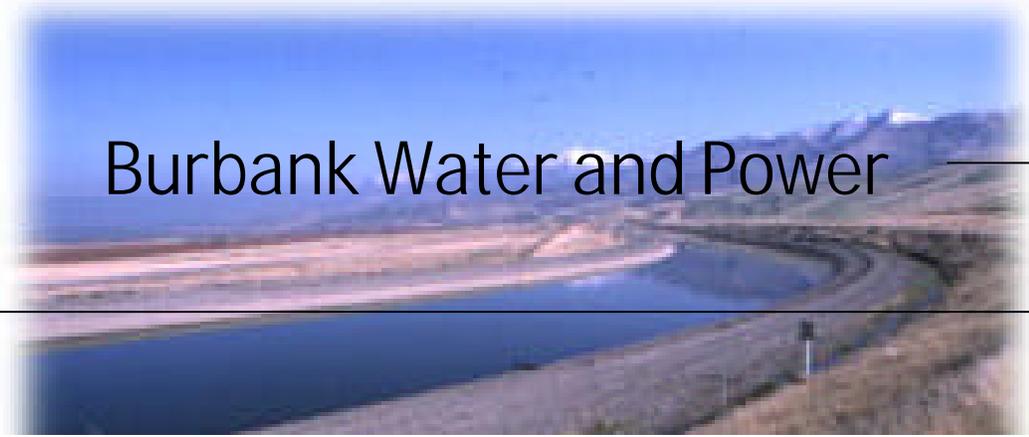


Burbank Water and Power



Annual Financial Report
Fiscal Year 2003-04

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City of Burbank

Marsha Ramos
Mayor of Burbank

Jef Vander Borcht
Vice Mayor

Todd Campbell
Council Member

David Golonski
Council Member

Stacey Murphy
Council Member

Mary Alvord
City Manager

BWP General Manager & Executive Staff

Ron Davis
General Manager

Richard Corbi
Chief Financial Officer

JoAnn Davis
Administrative Officer

Joanne L. Fletcher
Manager Customer Service

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 (Vice Chair),
Lee Dunayer
Front: Wendy James, William Barlak, Janice Slaby (Chair)

BURBANK WATER AND POWER General Manager & Executive Staff



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



General Manager's Letter

In our efforts to maintain reliable service, while focusing on providing competitive and stable rates, the utility continues to achieve operational and management successes. Burbank Water and Power (BWP) positioned itself for success by completing the installation of the new Customer Information System (CIS), continuing the construction of the Magnolia Power Project (MPP) and initiating the construction of the Pacoima Spreading facility for water replenishment.

The replacement of the CIS system was recently completed, replacing a Legacy system installed over thirty years ago. The implementation was so successful that it won the Award for Excellence for North American Municipal CIS Initiatives. The CIS is critical to BWP, since it provides billing services for water, power, sewer, refuse, street sweeping, and emergency medical services. For the utility, the new system allows for more enhanced customer service. For our customers, it allows them to take advantage of the internet to establish and disconnect service, make payments and manage their accounts.

The construction of the Magnolia Power Project, a combined cycle natural gas-fired generating plant on the BWP site, nears its completion. It is scheduled to be completed in May 2005. The MPP will provide the cities of Burbank, Pasadena, Glendale, Anaheim, Cerritos, and Colton with a peaking capacity of 310 megawatts of electricity. BWP will receive 98 megawatts for its customers. The state-of-the-art generator will allow BWP to lower its power costs and also be more environmental friendly when compared to existing units in the industry. The additional power will improve service reliability and allow Burbank to add more flexibility to its portfolio of local generation and purchased power.

The Water Fund is preparing for the future by beginning the construction of a raw water connection at the Pacoima spreading grounds, which will provide water for ground water replenishment. It is a strategic goal for BWP to have a water storage facility to stabilize its rates. Upon completion, the spreading facility will allow BWP to purchase and store water when conditions are advantageous rather than be forced to buy more expensive water from the Metropolitan Water District.

Utilizing our assets to meet future challenges is important, but conservation programs can also make a difference. Our Public Benefits program aims to reduce power by offering free shade trees that reduce the use of air conditioners. Customers are advised on the best location for the planting and the type of tree that will benefit them the most. The Energy Solutions Rebate program offers financial assistance for businesses involved in energy-efficient, solar photovoltaic and cool roof projects. Rebates are also available for residents installing approved energy solutions.

Addressing growing concerns about our environment, a new renewable policy was adopted this year. BWP will increase procurement of renewable energy until a target of 20% of our power supply portfolio is reached by 2017.

BWP continues to make serving and meeting the need of its customers the main priority. By constantly planning ahead, we will achieve the goals to provide competitive and stable rates as well as reliable service.

I believe that much has been achieved this year and look forward to the future challenges that BWP is preparing to meet.

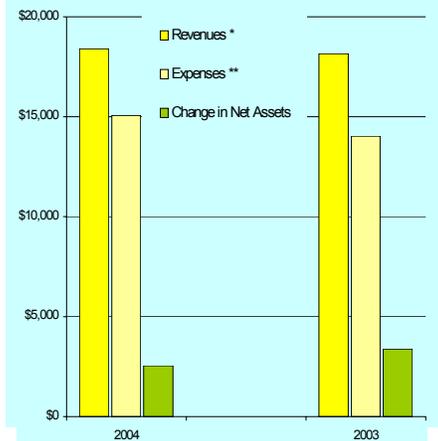
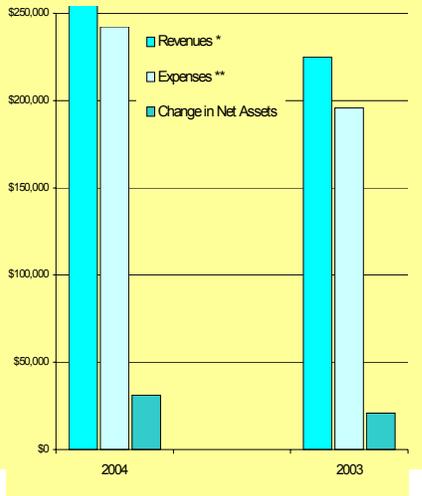
A handwritten signature in black ink, appearing to read "Ron Davis". The signature is written in a cursive style with a large initial "R".

Ronald E. Davis
GENERAL MANAGER

Management's Comparative Highlights

Year Ended June 30, 2004 and 2003

	Electric		Water	
	2004	2003	2004	2003
SERVICE	MWh (Thousands)		CCF (Thousands)	
Sales	1,092	1,036	9,989	9,492
Customers	51,360	51,439	26,315	26,240
FINANCIAL	Amounts in Thousands		Amounts in Thousands	
Revenues *	\$ 282,018	224,923	18,405	18,161
Expenses **	242,208	195,757	15,070	14,034
Transfers to City ***	8,502	8,189	799	753
Total Expenses and Transfers	250,710	203,946	15,869	14,787
Change in Net Assets	\$ 31,308	20,977	2,536	3,374
Cash and Cash Equivalents	\$ 47,263	38,043	10,090	10,532
Restricted Non-Pooled Investments	\$ 12,153	12,142	1,055	1,032
Capital Assets, Net	\$ 192,977	175,892	36,663	34,628
Total Liabilities	\$ 142,470	147,469	17,435	16,997



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

** Includes operating and non-operating expenses.

*** Represents payments in-lieu of taxes.



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

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 years ended June 30, 2004 and 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.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2004 and 2003, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Water and Electric Utility Funds of the City of Burbank, California, as of June 30, 2004 and 2003, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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. The management's discussion and analysis does not include 2002 financial information that accounting principles generally accepted in the United States of America requires to supplement, although not required to be a part of, the basic financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming 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 audits of the basic financial statements, and accordingly, we express no opinion on them.

KPMG LLP

November 12, 2004

CITY OF BURBANK
WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS
Management's Discussion and Analysis
June 30, 2004

The management of the Water and Electric Utility Enterprise Funds (Water and 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, 2004 (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

The MD&A is intended to serve as an introduction to the Water and Electric Utility Funds' basic financial statements. For comparative purposes, these financial statements include the activities of the Electric and Water Utility Enterprise Funds for the last two years.

Management has elected to provide not only highlights to the basic financial statements, but also vital statistics and other relevant data and information 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 may result in cash flows in a future fiscal period (e.g., billed but uncollected revenues or 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, 2004, the significant financial highlights are as follows:

- Net assets increased by \$31,308 or 27%, primarily due to higher operating revenues and lower retail power supply expenses. While wholesale margins were lower compared to the prior year, wholesale margins continue to contribute significantly to the Electric Utility's financial performance by reducing the utility's overall power supply expenses.
- Total assets grew by \$26,309 or 10% from the prior fiscal year. This was largely attributable to the Olive 1 & 2 Emissions Retrofit, upgrades to increase import capacity at Receiving Station E, and distribution improvements.

CITY OF BURBANK
WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS
Management's Discussion and Analysis
June 30, 2004

Financial Analysis

Schedule of Revenues, Expenses, and Changes in Fund Net Assets		
	2004	2003
Operating revenues:		
Retail	\$ 136,789	126,418
Wholesale	131,044	85,680
Miscellaneous/ Other Revenues	3,342	3,484
Total operating revenues	<u>271,175</u>	<u>215,582</u>
Operating expenses:		
Power supply and fuel – retail	74,275	83,242
Purchased power and fuel – wholesale	125,462	76,864
Transmission and distribution expense	16,756	15,506
Other operating expenses	13,006	10,005
Depreciation	8,264	6,608
Total operating expenses	<u>237,763</u>	<u>192,225</u>
Operating income	<u>33,412</u>	<u>23,357</u>
Nonoperating income (expense):		
Interest income	815	1,552
Other income (expense), net	1,946	1,542
Interest expense	(4,445)	(3,532)
Total nonoperating expenses	<u>(1,684)</u>	<u>(438)</u>
Income before contributions and transfers	31,728	22,919
Contributions and transfers:		
Capital contributions	2,322	853
Transfers in from the City	5,760	5,394
Transfers out to the City	(8,502)	(8,189)
Change in net assets	31,308	20,977
Net assets, beginning of year	117,876	96,899
Net assets, end of year	<u>\$ 149,184</u>	<u>117,876</u>

Retail (residential, commercial, and industrial) and wholesale revenues were the primary revenue sources for the electric utility, making up to 50% and 48%, respectively of total operating revenues. The Electric Utility Fund's retail margin has grown from 34% to 46% during the current fiscal year due to lower retail power supply expenses and higher MWh sales. Retail expenses were lower, primarily driven by the expiration of long-term power contracts that originated during the volatile electric market in the prior years. Stronger MWh sales were attributed to weather and load growth.

Wholesale revenues grew by 53% from the prior year, mainly due to higher MWh sales and power prices. The latter was driven by higher natural gas prices. Wholesale margins decreased from 10% to 4% from the prior fiscal

CITY OF BURBANK
WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS
Management's Discussion and Analysis
June 30, 2004

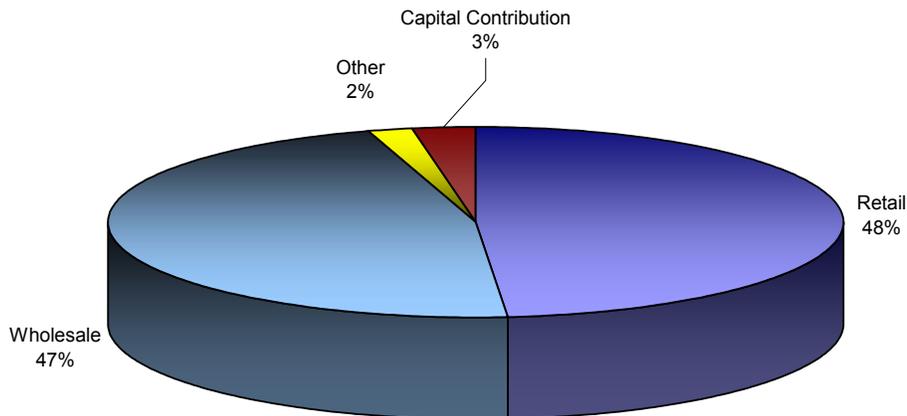
year as a result of more generation in the power market. The Electric Utility's strategy to utilize wholesale margins remains an effective tool to reduce its overall power supply expenses.

Other operating expenses increased by \$3,001 primarily related to Public Benefits that expensed 2.85% of revenues instead of reducing them.

The Electric Utility Fund received a capital contribution of approximately \$5.69 million from the Community Development Department (CDD) in 2004 for construction costs associated with the relocation of the Hollywood Way and Alameda substation. This relocation was due to the expansion of SR-134. As of June 30, 2004, the total capital contribution for the project was \$11,154.

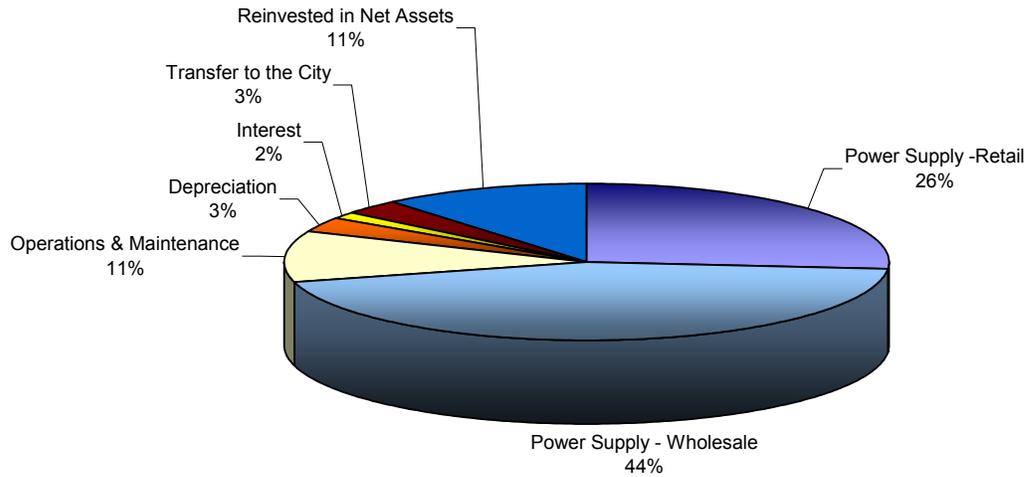
The transfer from the Electric Utility Fund to the City's General Fund of \$8,502 included the in-lieu and street lighting transfers. The in-lieu and street lighting transfers were computed based on 5% and 1.25%, respectively of current fiscal year retail revenues.

Sources of Revenues



CITY OF BURBANK
WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS
Management's Discussion and Analysis
June 30, 2004

Uses of Revenues



CITY OF BURBANK
WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS
Management's Discussion and Analysis
June 30, 2004

The Electric Utility Fund's net assets at June 30, 2004 and 2003 are as follow:

Schedule of Net Assets			
	2004	2003	Change
Assets			
Current assets	\$ 84,534	75,135	9,399
Non-current assets	14,143	14,318	(175)
Capital assets, net	192,977	175,892	17,085
Total assets	291,654	265,345	26,309
Liabilities			
Current liabilities	36,025	33,234	2,791
Non-current liabilities	106,445	114,235	(7,790)
Total liabilities	142,470	147,469	(4,999)
Net assets			
Invested in capital assets, net of related debt	74,231	49,844	24,387
Restricted net assets	10,889	10,841	48
Unrestricted net assets	64,064	57,191	6,873
Total net assets	\$ 149,184	117,876	31,308

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 \$149,184 at June 30, 2004. This was an increase of \$31,308 or 27% from the prior year, which is summarized below:

Income before contribution and transfers	\$ 31,728
Capital contribution and transfers in	8,082
Transfers out to the city	(8,502)
Total increase to net assets	\$ 31,308

Of the net assets increase, \$26,309 or 84% was invested in capital assets and cash reserves. Capital assets are discussed in the following section. The remaining portion of the net asset increase, \$4,999 or 16% was used to reduce the Electric Utility's bond liability.

A major portion of the Electric Utility net assets, \$74,231 or 50% reflected investment in capital assets, less any related outstanding debt used to acquire those assets. The restricted net assets of \$ 10,899 or 7% represented assets which have legal constraints place on their usage. These restraints are due to restrictions imposed by financing requirements. The unrestricted net assets of \$64,064 or 43% represented funds that are available for future investment in capital assets. Changes in unrestricted assets are primarily driven by revenues, expenses and capital expenditures.

CITY OF BURBANK
WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS
Management's Discussion and Analysis
June 30, 2004

Capital Assets and Debt Administration

The Electric Utility Fund's capital assets as of June 30, 2004 and 2003 are as follows:

Capital Assets		
	2004	2003
Utility Plant and Equipment (P&E)		
Land		
Beginning	\$ 2,738	2,738
Addition	898	0
Retirements	(4)	0
Ending, Land	3,632	2,738
Building & Improvement		
Beginning	245,206	183,379
Additions	26,487	61,827
Retirements	(40,008)	0
Ending, Building & Improvement	231,685	245,206
Machinery & Equipment		
Beginning	24,648	22,381
Additions	3,461	2,471
Retirements	(6,628)	(204)
Ending, Machinery & Equipment	21,481	24,648
Subtotal Utility P&E, Beginning	272,592	208,498
Additions	30,846	64,298
Retirements	(46,640)	(204)
Subtotal Utility P&E, Ending	256,798	272,592
Construction Work in Progress (CIP), Beginning	37,377	70,561
Additions	23,987	19,291
Retirements	(26,219)	(52,475)
Construction Work in Progress, Ending	35,145	37,377
Total capital assets (P&E and CIP)	291,943	309,969
Accumulated depreciation	(98,966)	(134,077)
Net capital assets	\$ 192,977	175,892

As of June 30, 2004, approximately 66% of the Electric Utility Fund's total assets were invested in capital assets, which were divided into Utility Plant and Equipment (P&E) and Construction in Progress (CIP). During this fiscal year, Utility Plant & Equipment increased by \$30,846 offset by asset retirements of \$46,640. The net decrease in the accumulated depreciation of \$35,111 was due to the decrease associated with the asset retirements, which was offset by current year depreciation.

CITY OF BURBANK
WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS
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Retirements in the Electric Utility Fund's capital assets were primarily for fully depreciated assets. These included the retirement of various improvements to power plants, transmission and distribution assets, in addition to the Magnolia 3, 4, and 5 generating units.

Additions to the Electric Utility Fund's capital assets included electric system improvements, Aid-In-Construction (AIC) projects, and capital projects. Some of the Electric Utility Funds major capital projects are as follows:

• Olive 1&2 Emissions Retrofit	\$	16,307
• Receiving Station - E Expansion		8,209
• Installation of underground ducts, cables and devices		1,367
• Upgrade to the 69 kV system		741
Total	\$	26,624

Long-Term Debt

The Electric Utility Fund's long-term debt as of June 30, 2004 and 2003 is as follows:

Long-Term Debt		
	2004	2003
As of June 30:		
1998 Series A Bonds	\$ 45,160	45,160
2001 Series A Bonds	41,680	48,285
2002 Series A Bonds	25,000	25,000
Unamortized bond discount	(410)	(445)
Revenue Bonds	111,430	118,000
Less:		
Current portion of Revenue Bond - 2001	(6,770)	(6,605)
Current portion of Revenue Bond - 2002	(990)	-
Total	\$ 103,670	111,395

As of June 30, 2004, the Electric Utility Fund had revenue bonds outstanding of \$103,670, of which \$6,770 and \$990 are due within a year for the 2001 and 2002 Series, respectively.

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, 2004

Water Utility Fund

During the year ended June 30, 2004, the Water Utility Fund's significant financial highlights are as follows:

- Net assets increased by \$2,536 or 8%, primarily due to higher water sales volume, which included an average 4.8% rate increase and capital contributions from various customer projects.
- Total assets grew by \$2,974 or 6% from the prior fiscal year, primarily attributable to the capitalization of various water projects and increases in cash balances.

Financial Analysis

Schedule of Revenue, Expenses, and Changes in Fund Net Assets		
	2004	2003
Operating revenues:		
Potable water sales	\$ 15,627	14,505
Reclaimed water sales	618	735
Miscellaneous/ Other Revenues	1,016	1,706
Total operating revenues	17,261	16,946
Operating expenses:		
Water supply expenses	6,678	5,629
Operations, maintenance, and administration	4,447	5,163
Other operating expenses	1,679	1,022
Depreciation	1,817	1,751
Total operating expenses	14,621	13,565
Operating income	2,640	3,381
Nonoperating income (expense):		
Interest income	95	357
Other income (expense), net	(10)	99
Interest expense	(439)	(469)
Total nonoperating expenses	(354)	(13)
Income before contributions and transfers	2,286	3,368
Contribution and transfers:		
Capital contribution	1,049	759
Transfer out to the City	(799)	(753)
Change in net assets	2,536	3,374
Net assets, beginning balance	30,331	26,957
Net assets, ending balance	\$ 32,867	30,331

Potable water sales were the primary revenue source for the Water Utility Fund making up 91% of total operating revenues. Potable water sales grew by 8% from prior year primarily due to an increase of water consumption and an average rate increase of 4.8%.

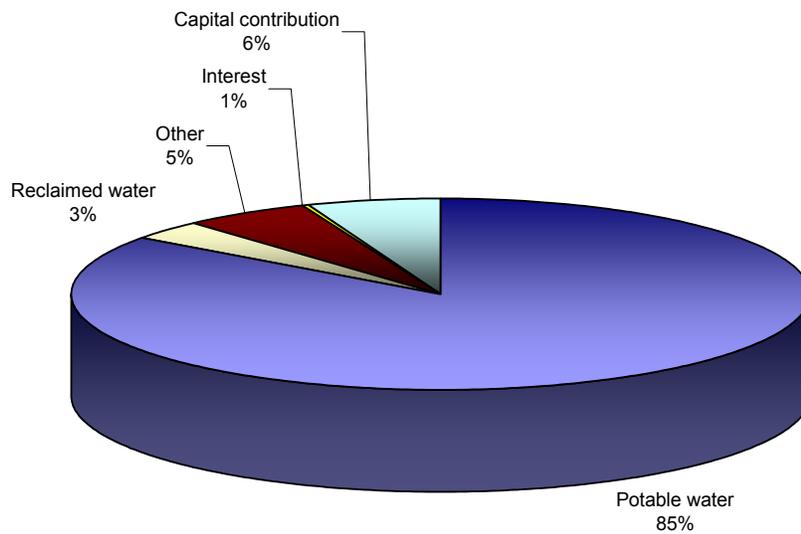
CITY OF BURBANK
WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS
Management's Discussion and Analysis
June 30, 2004

As a percentage of total water sales, water supply expenses were 4% higher compared to prior fiscal year. The modifications to the Liquid Phase units at the Burbank Operable Unit, which reduced its operating capacity, resulted in higher purchased water expenses.

Capital contributions from customer projects contributed 41% to the net assets increase during the fiscal year.

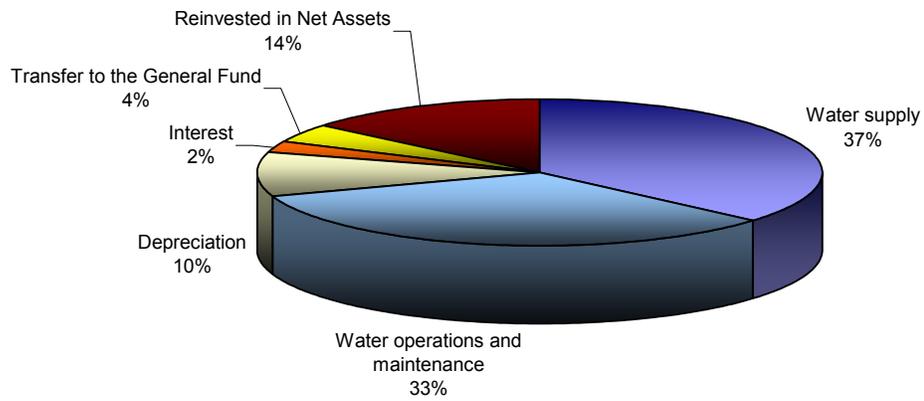
The in-lieu transfer from the Water Utility Fund of \$799 to the City's General Fund was based on 5% of water revenue.

Sources of Revenues



CITY OF BURBANK
WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS
Management's Discussion and Analysis
June 30, 2004

Uses of Revenues



CITY OF BURBANK
WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS
Management's Discussion and Analysis
June 30, 2004

The Water Utility Fund's net assets at June 30, 2004 and 2003 are as follows:

Schedule of Net Assets			
	2004	2003	Change
Assets			
Current assets	\$ 12,533	11,615	918
Non-current assets	1,106	1,085	21
Capital assets, net	36,663	34,628	2,035
Total assets	50,302	47,328	2,974
Liabilities			
Current liabilities	8,312	6,949	1,363
Non-current liabilities	9,123	10,048	(925)
Total liabilities	17,435	16,997	438
Net assets			
Invested in capital assets, net of related debt	27,013	24,252	2,761
Restricted net assets	794	777	17
Unrestricted net assets	5,060	5,302	(242)
Total net assets	\$ 32,867	30,331	2,536

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 \$32,867 as of June 30, 2004. This was an increase of \$2,536 from the prior year, which is summarized below.

Income before contribution and transfers	\$ 2,286
Capital contributions	1,049
Transfers out to the city	(799)
Total increase of net assets	\$ 2,536

Total assets increased by \$2,974 or 6%, which were primarily due to additions to the Water Utility Fund's Plant and Equipment during the year. Of this increase, \$438 or 15% was funded by current liabilities and \$2,536 or 85% was funded by the increase in net assets, as a result of positive operating results during the year. See the Capital Assets section for further information.

The largest portion of the Water Utility Fund's net assets, \$27,013 or 82%, was reflected as investment in capital assets less any outstanding debt related to acquire those assets.

Approximately \$794 or 2% of the net assets were restricted. Restricted assets represented assets with legal constraints place on their usage.

The unrestricted net assets represent 16% or \$5,060 of funds that were available for future investment in the Water Utility Fund's capital assets or for other purposes. Changes in unrestricted net assets are primarily driven by revenues, expenses, and capital expenditures.

CITY OF BURBANK
WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS
Management's Discussion and Analysis
June 30, 2004

Capital Assets and Debt Administration

The Water Utility Fund's capital assets as of June 30, 2004 and 2003 are as follows:

Capital Assets		
	2004	2003
Utility Plant and Equipment (P&E)		
Land		
Beginning	\$ 309	309
Additions	0	0
Retirements	0	0
Ending, Land	309	309
Building & Improvement		
Beginning	54,290	52,519
Additions	1,724	1,779
Retirements	(1,128)	(8)
Ending, Building & Improvement	54,886	54,290
Machinery & Equipment		
Beginning	4,472	4,346
Additions	707	193
Retirements	(463)	(67)
Machinery & Equipment, Ending	4,716	4,472
Subtotal Utility P&E, Beginning	59,071	57,174
Additions	2,431	1,972
Retirements	(1,591)	(75)
Subtotal Utility P&E, Ending	59,911	59,071
Construction in Progress (CIP), Beginning	2,086	1,671
Additions	3,478	860
Retirements	(2,049)	(445)
Construction Work in Progress, Ending	3,515	2,086
Total capital assets (P&E and CIP)	63,426	61,157
Accumulated depreciation	(26,763)	(26,529)
Net capital assets	\$ 36,663	34,628

As of June 30, 2004, a significant portion, 73% or \$36,663, of the Water Utility Fund's total assets were invested in capital assets. These assets were divided into Utility Plant and Equipment (P&E) and Construction in Progress (CIP). During the most recent fiscal year, Utility Plant & Equipment increased by \$2,431, offset by asset retirements of \$1,591. The net increase in accumulated depreciation of \$231 was due to the current year depreciation expense, which was offset by a decrease associated with asset retirements.

CITY OF BURBANK
WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS
Management's Discussion and Analysis
June 30, 2004

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

• Domestic water mains	\$	695
• Reclaimed water mains		277
• Meter replacements		187
• Chromium 6 study and testing		99
• Booster pump stations and control		83
Total	\$	1,341

Long-Term Debt

The Water Utility Fund's long-term debt as of June 30, 2004 and 2003 is as follows:

Long-Term Debt			
		2004	2003
Revenue bonds payable	\$	7,850	8,575
Unamortized discount		(86)	(88)
Revenue bonds payable, net		7,764	8,487
Loan payable		1,857	2,014
Less:			
Current portion of revenue bond		(750)	(723)
Current portion of loans payable		(161)	(157)
Total	\$	8,710	9,621

At the end of the current fiscal year, the Water Utility Fund had revenue bonds outstanding of \$7,764, of which \$750 are due within a year. These bonds 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 third year of a water rate increase for fiscal year 2004-05, averaging 4.8% annually for water replenishment.

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, 2004 and 2003

(In Thousands)

Assets	Water		Electric	
	2004	2003	2004	2003
Current assets:				
Cash and cash equivalents (note 2):				
General operating	\$ 4,218	7,543	32,707	23,329
Capital and debt reduction	2,807	1,307	7,473	5,548
General plant	-	-	200	-
Fleet replacement	-	-	300	-
Bond construction	-	-	6,583	9,166
Water replenishment	650	250	-	-
WCAC	1,315	1,432	-	-
Distribution main	1,100	-	-	-
Total cash and cash equivalents	<u>10,090</u>	<u>10,532</u>	<u>47,263</u>	<u>38,043</u>
Accounts receivables, net (note 3)	1,874	724	30,862	32,819
Inventories (note 4)	322	295	3,881	2,639
Deposits and prepaid expenses	189	-	2,239	1,388
Interest receivable	41	64	218	184
Due from City of Burbank	17	-	71	62
Total current assets	<u>12,533</u>	<u>11,615</u>	<u>84,534</u>	<u>75,135</u>
Noncurrent assets:				
Restricted nonpooled investments (note 2)	1,055	1,032	12,153	12,142
Rights to purchase power	-	-	1,170	1,162
Deferred bond issuance and acquisition costs	51	53	820	1,014
Total noncurrent assets	<u>1,106</u>	<u>1,085</u>	<u>14,143</u>	<u>14,318</u>
Capital assets (notes 5 and 13):				
Utility plant and equipment	59,911	59,071	256,798	272,592
Construction in progress	3,515	2,086	35,145	37,377
Total utility plant and equipment	<u>63,426</u>	<u>61,157</u>	<u>291,943</u>	<u>309,969</u>
Less accumulated depreciation	<u>(26,763)</u>	<u>(26,529)</u>	<u>(98,966)</u>	<u>(134,077)</u>
Total capital assets, net	<u>36,663</u>	<u>34,628</u>	<u>192,977</u>	<u>175,892</u>
Total assets	<u>\$ 50,302</u>	<u>47,328</u>	<u>291,654</u>	<u>265,345</u>

See accompanying notes to basic financial statements.

CITY OF BURBANK
WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Statement of Net Assets

June 30, 2004 and 2003

(In Thousands)

Liabilities	Water		Electric	
	2004	2003	2004	2003
Current liabilities:				
Accounts payable and accrued expenses	\$ 3,131	2,186	19,547	18,085
Current portion of loan payable (note 8)	161	157	-	-
Current portion of compensated absences (note 8)	15	7	191	159
Accrued payroll	153	148	821	745
Bond interest payable	29	32	178	178
Due to the City of Burbank	37	151	364	1,427
Customer deposits (note 9)	4,036	3,545	7,164	6,035
Current portion of revenue bonds payable, net (note 8)	750	723	7,760	6,605
 Total current liabilities	 8,312	 6,949	 36,025	 33,234
Noncurrent liabilities:				
Revenue bonds payable, net (note 8)	7,014	7,764	103,670	111,395
Loan payable (note 8)	1,696	1,857	-	-
Compensated absences (note 8)	413	427	2,775	2,840
 Total noncurrent liabilities	 9,123	 10,048	 106,445	 114,235
 Total liabilities	 17,435	 16,997	 142,470	 147,469
 Net Assets				
Net assets:				
Invested in capital assets, net of related debt	27,013	24,252	74,231	49,844
Restricted for debt service	794	777	10,889	10,841
Unrestricted	5,060	5,302	64,064	57,191
 Total net assets	 \$ 32,867	 30,331	 149,184	 117,876

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, 2004 and 2003

(In thousands)

	<u>Water</u>		<u>Electric</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Operating revenues:				
Sale of power - retail	\$ -	-	136,789	126,418
Sale of power and fuel - wholesale (note 12)	-	-	131,044	85,680
Sale of water	16,245	15,240	-	-
Other revenues	1,016	1,706	3,342	3,484
Total operating revenues	<u>17,261</u>	<u>16,946</u>	<u>271,175</u>	<u>215,582</u>
Operating expenses:				
Power supply and fuel expenses - retail (note 11)	-	-	74,275	83,242
Purchased power and fuel expenses - wholesale (note 12)	-	-	125,462	76,864
Water supply expenses (note 1)	6,678	5,629	-	-
Water maintenance and operation expenses	4,447	5,163	-	-
Transmission expenses	-	-	9,210	8,342
Distribution expenses	-	-	7,546	7,164
Other operating expenses (note 1)	1,679	1,022	13,006	10,005
Depreciation	1,817	1,751	8,264	6,608
Total operating expenses	<u>14,621</u>	<u>13,565</u>	<u>237,763</u>	<u>192,225</u>
Operating income	<u>2,640</u>	<u>3,381</u>	<u>33,412</u>	<u>23,357</u>
Nonoperating income (expenses):				
Interest income	95	357	815	1,552
Interest expense	(439)	(469)	(4,445)	(3,532)
Other income (expenses), net	(10)	99	1,946	1,542
Total nonoperating income (expenses)	<u>(354)</u>	<u>(13)</u>	<u>(1,684)</u>	<u>(438)</u>
Income before contributions and transfers	2,286	3,368	31,728	22,919
Capital contributions	1,049	759	2,322	853
Transfers in from the City (note 14)	-	-	5,760	5,394
Transfers out of the City:				
Payments in lieu of taxes (note 10)	(799)	(753)	(8,502)	(8,189)
Change in net assets	<u>2,536</u>	<u>3,374</u>	<u>31,308</u>	<u>20,977</u>
Net assets, July 1	<u>30,331</u>	<u>26,957</u>	<u>117,876</u>	<u>96,899</u>
Net assets, June 30	<u>\$ 32,867</u>	<u>30,331</u>	<u>149,184</u>	<u>117,876</u>

See accompanying notes to basic financial statements

CITY OF BURBANK
WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Statements of Cash Flows
For the years ended June 30, 2004 and 2003

(In Thousands)

	Water		Electric	
	2004	2003	2004	2003
Cash flows from operating activities:				
Cash received from customers	\$ 16,111	16,990	273,132	210,255
Cash paid to suppliers	(8,167)	(7,878)	(211,809)	(176,359)
Cash paid to employees	(3,545)	(3,497)	(17,983)	(16,174)
Net cash provided by operating activities	<u>4,399</u>	<u>5,615</u>	<u>43,340</u>	<u>17,722</u>
Cash flow from noncapital financing activities:				
Intergovernmental revenue	-	92	1,877	1,432
Other expense	(10)	-	-	-
Transfers in	-	-	5,760	5,394
Transfers out	(799)	(753)	(8,502)	(8,189)
Net cash used in noncapital financing activities	<u>(809)</u>	<u>(661)</u>	<u>(865)</u>	<u>(1,364)</u>
Cash flows from capital and related activities:				
Proceeds from sale of capital assets	-	5	69	111
Proceeds from issuance of debt	-	-	-	22,560
Principal payments - bond	(725)	(705)	(6,605)	(6,460)
Interest expense	(442)	(471)	(4,445)	(3,532)
Capital contributions	1,049	759	2,322	853
Acquisition and construction of capital assets	(3,875)	(2,444)	(25,366)	(31,461)
Payments on loans	(157)	(152)	-	-
Net cash used in capital and related activities	<u>(4,150)</u>	<u>(3,008)</u>	<u>(34,025)</u>	<u>(17,929)</u>
Cash flows from investing activities:				
Interest received	118	402	781	1,643
Sales of restricted investment	-	-	(11)	-
Net cash provided by investing activities	<u>118</u>	<u>402</u>	<u>770</u>	<u>1,643</u>
Net increase (decrease) in cash and cash equivalents	(442)	2,348	9,220	72
Cash and cash equivalents, beginning of year	<u>10,532</u>	<u>8,184</u>	<u>38,043</u>	<u>37,971</u>
Cash and cash equivalents, end of year	<u>\$ 10,090</u>	<u>10,532</u>	<u>47,263</u>	<u>38,043</u>

See accompanying notes to basic financial statements.

CITY OF BURBANK
WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Statements of Cash Flows
For the years ended June 30, 2004 and 2003

(In Thousands)

	Water		Electric	
	2004	2003	2004	2003
Cash flows from operating activities:				
Operating income	\$ 2,640	3,381	33,412	23,357
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	1,817	1,751	8,264	6,608
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(1,150)	64	1,957	(5,530)
(Increase) decrease in due from City of Burbank	(17)	3	(9)	84
(Increase) decrease in inventories	(27)	(40)	(1,242)	(184)
(Increase) decrease in due from other governments	-	-	-	770
(Increase) decrease in deposits and prepaid expenses	(189)	-	(850)	404
(Increase) decrease in deferred bond issuance cost	4	5	194	449
(Increase) decrease in deferred bond discount	-	-	35	313
Increase (decrease) in right to purchase power	-	-	8	(285)
Increase (decrease) in accounts payable and accrued expenses	944	(254)	1,462	(2,355)
Increase (decrease) in accrued payroll	5	(2)	76	43
Increase (decrease) in accrued forward purchase agreement	-	-	-	(6,132)
Increase (decrease) in compensated absences	(6)	72	(33)	230
Increase (decrease) in due to City of Burbank	(114)	12	(1,063)	486
Increase (decrease) in deferred revenue	(9)	-	(3,541)	1,115
Increase (decrease) in customer deposits	501	623	4,670	(1,651)
Total adjustments	1,759	2,234	9,928	(5,635)
Net cash provided by operating activities	\$ 4,399	5,615	43,340	17,722

See accompanying notes to basic financial statements.

CITY OF BURBANK
WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Notes to Basic Financial Statements

June 30, 2004

(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 Methods

Effective July 2, 2001, the 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*.

GASB Statement No. 34 (as amended by GASB Statement No. 37) has no monetary impact on the financial statements but requires 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 Utilities Funds' net assets, and additional footnote disclosures. GASB 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 financial statements prepared using full accrual accounting for the Water and Electric Utility Fund's 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, 2004

(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.

GASB Statement No. 38 requires certain disclosures to be made in the notes to the basic financial statements concurrent with the implementation of GASB 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. Burbank Water and Power manages 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 Burbank Water and Power 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, 2004

(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 coverage 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 expensed 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 \$2,000. Losses in excess of this amount are covered by a separate insurance policy. See note 7, 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, 2004

(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:

	Estimated useful life
Buildings and improvements	20 years
Machinery and equipment (except vehicles)	20 years
Production plant	30 years
Boiler plant	20 years
Transmission structures	40 years
Transmission equipment	20 years
Poles, towers, & fixtures	20 years
Distribution stations	30 years
Transformers	20 years
Electric meters	20 years
Water meters	15 to 20 years
Water services	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.

CITY OF BURBANK
WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS

Notes to Basic Financial Statements

June 30, 2004

(In thousands)

(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.

Earned but unbilled electric and water service charges are included in accounts receivable at year-end. Electric unbilled accounts receivable totaled \$5,700 and \$7,623 at June 30, 2004 and 2003, respectively. Water unbilled accounts receivable totaled \$783 and \$753 at June 30, 2004 and 2003, respectively.

(l) Operating Expenses

Purchased power includes all open market purchases of energy and fuel, firm contracts for the purchase of energy and fuel, energy production costs, and the costs of entitlements for energy and transmission as discussed in note 11.

Water supply expenses include purchased water, electricity used to pump water, and chemicals used in water treatment.

Other operating expenses include all costs associated with the Water and Electric Utility administration, customer service, telecom services, public benefits programs, and transfers to the City for cost allocation.

(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) Reclassification of Prior Years Balances

Certain reclassifications have been made to the fiscal year 2003 financial statement amounts to conform to the fiscal year 2004 presentation. Such reclassifications had no effect on previously reported change in net assets.

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

Notes to Basic Financial Statements

June 30, 2004

(In thousands)

(2) Cash and Investments

The following is a summary of the Funds' cash and cash equivalents, and investments with fiscal agents as of June 30, 2004 and June 30, 2003:

	Water		Electric	
	2004	2003	2004	2003
Pooled cash and cash equivalents	\$ 10,090	10,532	47,263	38,043
Restricted investments	1,055	1,032	12,153	12,142
Total	\$ 11,145	11,564	59,416	50,185

(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.

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.

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

Notes to Basic Financial Statements

June 30, 2004

(In thousands)

Cash and investments are categorized as follows:

WATER UTILITY FUND	Category			Not required to be categorized	Fair Value
	1	2	3		
June 30, 2004					
<u>Pooled Investments</u>					
U.S. Government Agencies	\$ 5,607	-	-	-	5,607
Medium Term Notes	788	-	-	-	788
State Pool (LAIF)	-	-	-	3,695	3,695
Total investments controlled by City	6,395	-	-	3,695	10,090
<u>With Fiscal Agents</u>					
Guaranteed Investment Contracts	-	-	-	1,055	1,055
Total invested by fiscal agents	-	-	-	1,055	1,055
Total investments	\$ 6,395	-	-	4,750	11,145

WATER UTILITY FUND	Category			Not required to be categorized	Fair Value
	1	2	3		
June 30, 2003					
<u>Pooled Investments</u>					
U.S. Government Agencies	\$ 3,147	-	-	87	3,234
Medium Term Notes	1,606	-	-	-	1,606
State Pool (LAIF)	-	-	-	5,692	5,692
Total investments controlled by City	4,753	-	-	5,779	10,532
<u>With Fiscal Agents</u>					
Guaranteed Investment Contracts	-	-	-	1,032	1,032
Total invested by fiscal agents	-	-	-	1,032	1,032
Total investments	\$ 4,753	-	-	6,811	11,564

ELECTRIC UTILITY FUND	Category			Not required to be categorized	Fair Value
	1	2	3		
June 30, 2004					
<u>Pooled Investments</u>					
U.S. Government Agencies	\$ 22,605	-	-	-	22,605
Medium Term Notes	3,177	-	-	-	3,177
State Pool (LAIF)	-	-	-	21,481	21,481
Total investments controlled by City	25,782	-	-	21,481	47,263
<u>With Fiscal Agents</u>					
Guaranteed Investment Contracts	-	-	-	12,153	12,153
Total invested by fiscal agents	-	-	-	12,153	12,153
Total investments	\$ 25,782	-	-	33,634	59,416

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

Notes to Basic Financial Statements

June 30, 2004

(In thousands)

ELECTRIC UTILITY FUND June 30, 2003	Category			Not required to be categorized	Fair Value
	1	2	3		
<u>Pooled Investments</u>					
U.S. Government Agencies	\$ 8,596	-	-	350	8,946
Medium Term Notes	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>25,060</u>	<u>38,043</u>
<u>With Fiscal Agents</u>					
Guaranteed Investment Contracts	-	-	-	12,142	12,142
Total invested by fiscal agents	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,142</u>	<u>12,142</u>
Total investments	<u>\$ 12,983</u>	<u>-</u>	<u>-</u>	<u>37,202</u>	<u>50,185</u>

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 Statement No. 31, the 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

June 30, 2004

(In thousands)

(3) Accounts Receivable

		Water		Electric	
		2004	2003	2004	2003
Accounts receivable	\$	1,935	781	32,438	34,385
Allowance		(61)	(57)	(1,576)	(1,566)
Total	\$	1,874	724	30,862	32,819

Allowances for uncollectible accounts (excluding California Independent System Operator (CAL ISO) receivables) increased by \$10 to \$76 from 2003 to 2004 in the Electric Utility Enterprise Fund; and increased by \$4 to \$61 from 2003 to 2004 in the Water Utility Enterprise Fund.

California Independent System Operator (CAL ISO) Receivable

During the period from October 2000 to February 2001 the Electric Utility Fund sold energy to the CAL ISO in order to assist the CAL ISO in maintaining reliability in the region and in response to a Federal Order from the United States Department of Energy requiring utilities to sell to the CAL ISO. The amount owed to the Electric Utility Fund by the CAL ISO and the CAL PX is approximately \$6,000 without interest, which BWP expects ultimately to collect. However, because of pending litigation before the Federal Energy Regulatory Commission and the Court of Appeals, there is a possibility that the Electric Fund could be required to pay refunds. However, if the Electric Utility Fund is required to pay any refunds, the amount owed by the CAL ISO and CAL PX will be offset by the refund amount. The Electric Utility Fund has established an allowance of \$1,500 (see also note 15, Contingencies).

(4) Inventory

The Electric Utility Fund's inventories as of June 30, 2004, increased primarily as a result of the purchasing and storing natural gas to hedge its fuel expenses. On June 30, 2004, the natural gas inventory was 225,500 MMBtu for a total balance of \$1,124.

	2004	2003
Materials and supplies inventory	\$ 2,757	2,639
Natural gas inventory	1,124	-
Total Inventories	\$ 3,881	2,639

CITY OF BURBANK
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(In thousands)

(5) Capital Assets

Capital assets include the following at June 30, 2004 and 2003:

Water	Balance as of			Balance as of			Balance as of
	July 1, 2002	Additions	Deletions	June 30, 2003	Additions	Deletions	June 30, 2004
Capital assets not being depreciated:							
Land	\$ 309	-	-	309	-	-	309
Construction in progress	1,671	860	(445)	2,086	3,478	(2,049)	3,515
Total capital assets not being depreciated	1,980	860	(445)	2,395	3,478	(2,049)	3,824
Capital assets being depreciated:							
Buildings and improvements	52,519	1,779	(8)	54,290	1,724	(1,128)	54,886
Machinery and equipment	4,345	194	(67)	4,472	707	(463)	4,716
Accumulated depreciation	(24,823)	(1,751)	45	(26,529)	(1,817)	1,583	(26,763)
Total capital assets being depreciated, net	32,041	222	(30)	32,233	614	(8)	32,839
Total net capital assets	\$ 34,021	1,082	(475)	34,628	4,092	(2,057)	36,663
Electric	Balance as of			Balance as of			Balance as of
	July 1, 2002	Additions	Deletions	June 30, 2003	Additions	Deletions	June 30, 2004
Capital assets not being depreciated:							
Land	\$ 2,738	-	-	2,738	898	(4)	3,632
Construction in progress	70,561	19,291	(52,475)	37,377	23,987	(26,219)	35,145
Total capital assets not being depreciated	73,299	19,291	(52,475)	40,115	24,885	(26,223)	38,777
Capital assets being depreciated:							
Buildings and improvements	183,379	61,827	-	245,206	26,487	(40,008)	231,685
Machinery and equipment	22,381	2,471	(204)	24,648	3,461	(6,628)	21,481
Accumulated depreciation	(127,670)	(6,608)	201	(134,077)	(8,264)	43,375	(98,966)
Total capital assets being depreciated, net	78,090	57,690	(3)	135,777	21,684	(3,261)	154,200
Total net capital assets	\$ 151,389	76,981	(52,478)	175,892	46,569	(29,484)	192,977

(6) 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.

The Funds make the contributions required of City employees on their behalf to their respective accounts. 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.

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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.

Fiscal year ending	Annual Pension Cost (APC)		Percentage of APC contributed
	Electric	Water	
6/30/2002	\$1,106	227	100%
6/30/2003	1,149	242	100%
6/30/2004	1,248	241	100%

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 five years of service are eligible. Expenditures for these benefits are paid by the City. The City also set up a Retiree Medical Trust in April 2003 to provide retirees with additional post-retirement medical benefits. The Retiree Medical Trust is funded by plan member contributions. 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.

(7) Self-Insurance Program

The Electric and Water Funds are in the City's self-insurance program 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 our insurance program. The City charges the Water and Electric Utility Funds a premium for workers' compensation and unemployment insurance based upon a percentage of payroll cost. Additional information regarding the City's self-insurance program can be found in the City's Comprehensive Annual Financial Report.

Fiscal year ending	Insurance premiums	
	Electric	Water
6/30/2003	\$791	197
6/30/2004	946	221

**CITY OF BURBANK
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(In thousands)

(8) Loan and Revenue Bonds Payable

(a) Loan Payable

	Water	
	2004	2003
This State Water Resources Control Loan was issued for the purpose of construction improvement 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.		
Less current portion	\$ 1,857 <u>(161)</u>	2,014 <u>(157)</u>
Long-term intergovernmental loan payment	\$ <u>1,696</u>	<u>1,857</u>

A schedule of aggregate maturities, including interest, on the intergovernmental loan payable subsequent to June 30, 2004 is as follows:

	Water		
	Principal	Interest	Total
2005	\$ 161	50	211
2006	165	46	211
2007	170	41	211
2008	174	37	211
2009	179	32	211
2010 – 2014	<u>1,008</u>	<u>85</u>	<u>1,093</u>
	\$ <u>1,857</u>	<u>291</u>	<u>2,148</u>

(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.

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	Water		Electric	
	2004	2003	2004	2003
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.	\$ 7,850	8,575	45,160	45,160
Less:				
Current portion	(750)	(723)	—	—
Original issue discount/premium	(86)	(88)	(456)	(475)
Long-term 1998 Series A Bonds	7,014	7,764	44,704	44,685

	Water		Electric	
	2004	2003	2004	2003
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.	\$ —	—	41,680	48,285
Less:				
Current portion	—	—	(6,770)	(6,605)
Original issue discount/premium	—	—	(205)	(235)
Long-term Bonds Series of 2001	—	—	34,705	41,445

**CITY OF BURBANK
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Notes to Basic Financial Statements

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(In thousands)

	Water		Electric	
	2004	2003	2004	2003
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		—	—	(990)
Original issue discount/premium		—	—	251
		—	—	24,261
Long-term Bonds Series of 2002		—	—	25,265
Total long-term revenue bonds payable	\$	7,014	7,764	103,670
				111,395

A schedule of aggregate maturities on bonds payable subsequent to June 30, 2004 is as follows:

		Water		Electric		Total
		Principal	Interest	Principal	Interest	
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		875	228	8,805	3,607	13,515
2010 – 2014		3,005	520	29,240	13,356	46,121
2015 – 2019		405	156	21,790	8,084	30,435
2020 – 2024		400	48	19,530	2,267	22,245
Total	\$	7,850	2,183	111,840	44,495	166,368

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WATER AND ELECTRIC UTILITY ENTERPRISE FUNDS**

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June 30, 2004

(In thousands)

The following is a summary of changes in the Water Utility Fund's long-term liabilities as of June 30, 2004:

<u>June 30, 2004</u>	<u>July 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2004</u>	<u>Due within 1 Year</u>
Intergovernmental Loan Payable	\$ 2,014	-	(157)	1,857	161
Revenue Bond Payable:					
1998 Series A Bonds	8,575	-	(725)	7,850	750
Compensated Absences	434	1	(7)	428	15
	<u>\$ 11,023</u>	<u>1</u>	<u>(889)</u>	<u>10,135</u>	<u>926</u>
Less current portion	(887)			(926)	
Less unamortized bond premium (discounts)	<u>(88)</u>			<u>(86)</u>	
Total	<u>\$ 10,048</u>			<u>9,123</u>	

<u>June 30, 2003</u>	<u>July 1, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2003</u>	<u>Due within 1 Year</u>
Intergovernmental 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
	<u>\$ 11,809</u>	<u>80</u>	<u>(866)</u>	<u>11,023</u>	<u>887</u>
Less current portion	(866)			(887)	
Less unamortized bond premium (discounts)	<u>(93)</u>			<u>(88)</u>	
Total	<u>\$ 10,859</u>			<u>10,048</u>	

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(In thousands)

The following is a summary of changes in the Electric Utility Fund's long-term liabilities as of June 30, 2004:

<u>June 30, 2004</u>		<u>July 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2004</u>	<u>Due within 1 Year</u>
Revenue Bond Payable:	\$					
1998 Series A Bonds		45,160	-	-	45,160	-
2001 Series A Bonds		48,285	-	(6,605)	41,680	6,770
2002 Series A Bonds		25,000	-	-	25,000	990
Compensated Absences		2,999	126	(159)	2,966	191
	\$	<u>121,444</u>	<u>-</u>	<u>(6,764)</u>	<u>114,806</u>	<u>7,951</u>
Less current portion		(6,764)			(7,951)	
Less unamortized bond premium (discounts)		<u>(445)</u>			<u>(410)</u>	
Total	\$	<u>114,235</u>			<u>106,445</u>	

<u>June 30, 2003</u>		<u>July 1, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2003</u>	<u>Due within 1 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		2,769	381	(151)	2,999	159
	\$	<u>127,674</u>	<u>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>120,305</u>			<u>114,235</u>	

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

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June 30, 2004

(In thousands)

(9) Customer Deposits

AB 1890 requires the Electric Utility to spend 2.85% of its electric revenues for Public Benefits (PB) purposes. The entire unspent portion of the PB obligation for the City and the Electric Utility has been recorded as the Electric Utility Fund's liability. The amount of the PB obligation is part of customer deposits, but reported as the Public Benefits liability. The unspent portion of the PB obligation for June 30, 2004 and June 30, 2003 is \$4,999 and \$3,541, respectively.

(10) Related Party Transactions

The City allocates certain administrative and overhead costs and in-lieu of property taxes to the Water and Electric Utility Funds. Administrative and overhead costs are covered in the other operating expenses category. These charges are reflected in the accompanying statements of revenues, expenses and changes in fund net assets for the years ended June 30, 2004 and 2003 as follows:

	Water		Electric	
	2004	2003	2004	2003
Administrative and overhead costs	\$ 734	569	2,739	2,644
In-lieu of property taxes	799	753	8,502	8,189
Total	\$ 1,533	1,322	11,241	10,833

(11) Power Supply and Fuel Expenses - Retail

(A) Retail Energy Supply

BWP receives electricity through firm contracts, local generation and market purchases. The majority of electricity is delivered through firm contracts, which includes "take or pay" and term purchases. Local generation and market purchases supplement firm contracts to meet Burbank's retail load requirements.

(B) Take or Pay Contracts

The City of Burbank, through its Water and Electric Utility Enterprise Funds, has entered into "Take or Pay" contracts to meet the electric needs of its customers. The City is obligated to pay its share of the 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

**CITY OF BURBANK
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(In thousands)

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 eleven Southern California cities and one public irrigation district of the state of California, which serves the electric power needs of its 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 Uprating 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 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%.

**CITY OF BURBANK
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June 30, 2004

(In thousands)

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).

Magnolia Power Project (MPP)

In 1999, the City of Burbank began exploring ways to replace its aging local on-site generation. The City decided that it would be more economical to build a plant larger than its electric demands, and included 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 six members, which are the cities of Anaheim, Burbank, Colton, Glendale and Pasadena (the "Project A Participants"), and the City of Cerritos (the "Project B Participant"), which became a member of the Authority in July 2001.

In March 2003, the California Energy Commission gave the approval for construction of the MPP. MPP is a natural gas-fired generation plant and is designed to generate 242 megawatts to meet base load capacity, with a peaking capacity of 315 megawatts. MPP is the first plant to be owned by the Authority. The City of Burbank manages 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% (97.6 MW). Construction began in April 2003, and is expected to be completed in May 2005.

Multiple Project Fund (MPF)

During the 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.

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(In thousands)

(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).

A summary of the City of Burbank “take or pay” contracts and related projects and its contingent liability at June 30, 2004 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	\$ 22,590	16.000%	\$ 3,614	4,915
Southern Transmission system	968,355	4.500	43,577	62,235
Mead-Adelanto	229,170	11.500	26,355	38,151
Mead-Phoenix	71,905	15.400	11,073	16,063
Palo Verde	712,265	4.400	31,340	47,313
Magnolia Power Project	314,080	30.992	97,341	203,648
Intermountain Power Project	<u>3,665,601</u>	<u>3.371</u>	<u>123,566</u>	<u>174,456</u>
Total	<u>\$ 5,983,966</u>	<u>5.629%</u>	<u>\$ 336,866</u>	<u>546,781</u>

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

**CITY OF BURBANK
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(In thousands)

The City has the following required debt service payments of principal and interest for the next five fiscal years per the agreements discussed above:

	2004/05		2005/06		2006/07	
	Principal	Interest	Principal	Interest	Principal	Interest
SCPPA:						
Hoover Uprating	\$ 197	158	204	151	210	143
IPP STS	1,284	1,682	1,416	1,658	1,540	1,633
Mead-Adelanto	-	1,182	-	1,182	1,248	1,151
Mead-Phoenix	-	509	-	509	501	496
Palo Verde	2,279	1,256	-	1,256	-	1,256
Magnolia Power Project	-	4,701	-	4,701	1,158	4,679
Intermountain Power	17,160	5,056	4,563	4,867	4,564	4,666
Total	\$ 20,920	14,544	6,183	14,324	9,221	14,024

	2007/08		2008/09		2009/14	
	Principal	Interest	Principal	Interest	Principal	Interest
SCPPA:						
Hoover Uprating	\$ 219	134	228	125	1,287	469
IPP STS	1,393	1,560	1,420	1,481	9,091	6,081
Mead-Adelanto	1,282	1,119	1,311	1,086	7,699	4,225
Mead-Phoenix	516	484	527	470	3,631	1,780
Palo Verde	-	1,256	1,268	1,242	4,761	6,144
Magnolia Power Project	1,401	4,650	1,429	4,617	7,914	22,152
Intermountain Power	4,950	4,448	4,657	4,245	30,660	16,792
Total	\$ 9,761	13,651	10,840	13,266	65,043	57,643

	2014/19		2019/24		2024/29	
	Principal	Interest	Principal	Interest	Principal	Interest
SCPPA:						
Hoover Uprating	\$ 1,269	121	-	-	-	-
IPP STS	11,790	3,764	15,643	800	-	-
Mead-Adelanto	10,134	1,759	4,681	93	-	-
Mead-Phoenix	4,027	704	1,871	37	-	-
Palo Verde	23,032	3,564	-	-	-	-
Magnolia Power Project	9,921	19,963	12,730	17,026	16,240	13,340
Intermountain Power	31,932	9,260	25,080	1,556	-	-
Total	\$ 92,105	39,135	60,005	19,512	16,240	13,340

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

Notes to Basic Financial Statements

June 30, 2004

(In thousands)

	<u>2029/34</u>		<u>2034/39</u>	
	Principal	Interest	Principal	Interest
SCPPA:				
Hoover Uprating	\$ -	-	-	-
IPP STS	-	-	-	-
Mead-Adelanto	-	-	-	-
Mead-Phoenix	-	-	-	-
Palo Verde	-	-	-	-
Magnolia Power Project	20,727	8,629	25,821	1,852
Intermountain Power	-	-	-	-
Total	<u>\$ 20,727</u>	<u>8,629</u>	<u>25,821</u>	<u>1,852</u>

(12) Purchased Power and Fuel Expenses - Wholesale

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 to reduce its power supply expenses.

	<u>2004</u>	<u>2003</u>
Wholesale Revenues	\$ 131,044	85,680
Wholesale Costs	<u>125,462</u>	<u>76,864</u>
Wholesale Margin	<u>\$ 5,582</u>	<u>8,816</u>

(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, 2004, the Electric Utility Fund has recorded its share of the Intertie of approximately \$14,634 within its plant and equipment assets, less accumulated depreciation approximating \$7,496 for a net asset value of \$7,138. 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.

(14) Transfers in from the City

Transfers in from the City represent the construction costs associated with the relocation of the Hollywood Way and Alameda substation due to the expansion of SR-134. Upon completion, the cost of this project will be recorded as part of the Utility Plant and Equipment. As of June 30, 2004, the total cost for this project, which was paid through bond proceeds and impact fees by the Burbank Redevelopment Agency – West Olive Project Area, was \$11,154.

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

Notes to Basic Financial Statements

June 30, 2004

(In thousands)

(15) Contingencies

Recovery of Alleged Overcharges for the Sale of Power

The City sold energy and ancillary services to the CAL ISO during the period from October 2000 to February 2001 in order to assist the CAL ISO in maintaining reliability in the region, and in response to a federal order by the Department of Energy requiring generators in the region to sell power to the CAL ISO. As a result of the Federal Energy Regulatory Commission's (FERC) orders, the City may be ordered to pay refunds under its prior agreement with Sempra Energy Trading. However, the City will appeal any such order. The City believes that it is not liable for such refunds. In addition, the City believes that under the Federal Power Act, it is exempt from FERC jurisdiction. The Electric Utility Fund's management participated in the FERC proceedings to ensure that it would be able to collect the entire \$6,000 outstanding to the City. 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, if the Electric Utility Fund is required to pay any refunds, the amount owed by the CAL ISO and CAL PX will be offset by the refund amount. 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 Receivable).

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 City's internal self-insurance fund is sufficient to cover any potential losses, should an unfavorable outcome result.

**SUPPLEMENTARY INFORMATION –
HISTORICAL SUMMARY SCHEDULES**

HISTORICAL NET REVENUES AND DEBT SERVICE COVERAGE
ELECTRIC SYSTEM
Fiscal Years Ending June 30

	2004	2003	2002	2001	2000
Operating revenue:					
Retail	\$136,789	126,418	128,108	110,874	106,811
Wholesale	131,044	85,680	46,501	203,526	2,511
Other	3,342	3,484	4,106	3,648	952
Total Operating Revenue	271,175	215,582	178,715	318,048	110,274
Total operating expenses	237,763	192,225	180,962	307,441	102,698
Operating income/(loss)	33,412	23,357	(2,247)	10,607	7,576
Other non-operating income/(exp) (a)	(7,864)	(7,776)	(3,769)	(3,799)	657
Add Back Depreciation (b)	8,264	6,608	5,697	5,643	5,548
Add Back In Lieu (c)	6,789	6,553	6,323	5,581	5,544
Add Back Interest Expense (d)	4,445	3,532	2,620	2,541	2,806
Less Capital Contributions (e)	(2,322)	(853)	(1,102)	(513)	-
ELECTRIC NET REVENUES (f)	42,724	31,421	7,522	20,060	22,131
Add: Transfers In/(Out) (monetary)	-	-	5,514	192	-
ADJUSTED NET REVENUES (g)	42,724	31,421	13,036	20,252	22,131
Parity Debt Service (h)	17,839	10,085	2,620	10,469	10,604
Debt Service (i)	11,050	3,532	2,620	4,888	5,060
Adjusted Rate Covenant Revenue Requirement (j) = 1.2 x (i)	13,260	4,238	3,144	5,866	6,072
Coverage Based on Electric Net Revenues (f)/(h) (1.0x min)	2.39x	3.12x	2.87x	1.92x	2.09x
Coverage Based on Adjusted Net Revenues (g)/(j)	3.22x	7.41x	4.15x	3.45x	3.64x
Excess Revenues (g)-(h)	\$24,885	21,336	10,416	9,783	11,527

Comments

- (a) Includes interest income & expense, other income & expenses, capital contributions, and payments in-lieu of taxes
(b) Non-cash expense
(c) Paid after debt service (excludes street lighting)
(d) Interest expense is part of debt service
(e) Capital contributions are not part of revenues available for debt service
(h) Includes debt service and in-lieu transfer

See accompanying independent auditors' report

ANNUAL ELECTRIC SUPPLY FISCAL YEAR ENDED JUNE 30, 2004		
Resource	MWh	Percentage
IPP	596,000	47.6%
Hoover	23,000	1.8%
Palo Verde Nuclear	71,000	5.7%
Firm Contracts (1)	347,000	27.7%
Non-Firm Contracts	101,000	8.0%
On-Site Generation	115,000	9.2%
TOTAL	1,253,000	100.0%

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

See accompanying independent auditors' report

CUSTOMERS, SALES, ELECTRIC REVENUES AND DEMAND					
Fiscal Years Ended June 30; \$ in Thousands					
	2004	2003	2002	2001	2000
Number of Customers:					
Residential	44,683	44,460	44,726	44,502	44,730
Commercial	6,278	6,396	6,333	6,252	6,251
Industrial	165	253	246	233	237
Other	234	330	350	347	494
Total	51,360	51,439	51,655	51,334	51,712
Kilowatt-hour Sales (millions)					
Residential	271	242	238	255	247
Commercial	246	235	238	241	241
Industrial	528	522	532	527	531
Other	47	37	40	42	36
Total	1,092	1,036	1,048	1,065	1,055
Electric Revenues (\$000's):					
Retail	\$136,789	126,418	128,108	110,874	106,811
Wholesale	131,044	85,680	46,501	203,526	2,511
Other	3,342	3,484	4,106	3,648	8,082
Total	\$271,175	215,582	178,715	318,048	117,404
Peak Demand (MW)	269	264	246	271	270

See accompanying independent auditors' report

AVERAGE BILLING PRICE – ELECTRIC					
(Cents per Kilowatt-Hour)					
	Fiscal Years Ended June 30				
	2004	2003	2002	2001	2000
Residential	12.9	12.8	12.5	10.6	10.6
Commercial	13.4	13.3	12.3	10.9	10.8
Industrial	12.4	12.3	11.7	10.2	10.3
Average Electric Rate	12.9	12.7	12.2	10.5	10.5

See accompanying independent auditors' report

HISTORICAL NET REVENUES AND DEBT SERVICE COVERAGE
WATER SYSTEM
Fiscal Years Ending June 30

	2004	2003	2002	2001	2000
Operating revenue:					
Retail	\$16,245	15,240	14,010	15,022	13,763
Other	1,016	1,706	1,120	1,015	195
Total Operating Revenue	17,261	16,946	15,130	16,037	13,958
Total operating expenses	14,621	13,565	13,300	13,645	12,366
Operating income/(loss)	2,640	3,381	1,830	2,392	1,592
Other non-operating income/(exp) (a)	(104)	(7)	(454)	(596)	112
Add Back Depreciation (b)	1,817	1,751	1,770	1,665	1,520
Add Back In Lieu (c)	799	753	715	756	714
Add Back Interest Expense (d)	439	469	478	600	621
Less Capital Contributions (e)	(1,049)	(759)	(221)	(123)	
WATER NET REVENUES (f)	4,542	5,588	4,118	4,694	4,559
Add: Transfers In/(Out) (monetary)	-	-	186	-	-
ADJUSTED NET REVENUES (g)	4,542	5,588	4,304	4,694	4,559
Parity Debt Service (h)	2,123	2,082	2,346	2,104	2,118
Debt Service (i)	1,325	1,329	1,631	1,348	1,404
Adjusted Rate Covenant Revenue Requirement (j) = 1.2 x (i)	1,590	1,594	1,957	1,618	1,685
Coverage Based on Water Net Revenues (f)/(h) (1.0x min)	2.13x	2.69x	1.76x	2.23x	2.15x
Coverage Based on Adjusted Net Revenues (g)/(j)	2.85x	3.51x	2.20x	2.90x	2.71x
Excess Revenues (g)-(h)	\$2,419	3,506	1,958	2,590	2,441

Comments

- (a) Includes interest income & expense, other income & expenses, capital contributions, and payments in-lieu of taxes
- (b) Non-cash expense
- (c) Paid after debt service
- (d) Interest expense is part of debt service
- (e) Capital contributions are not part of revenues available for debt service
- (h) Includes debt service and in-lieu transfer

See accompanying independent auditors' report

ANNUAL WATER SUPPLY FISCAL YEAR ENDED JUNE 30, 2004		
Resource	A.F.	Percentage
Metropolitan Water District	14,547	61.9%
Local Production – BOU	8,949	38.1%
TOTAL	23,496	100.0%

See accompanying independent auditors' report

CUSTOMERS, WATER SALES, WATER REVENUES					
Fiscal Years Ended June 30					
	2004	2003	2002	2001	2000
Number of Customers:					
Residential	22,111	21,947	22,419	22,373	22,373
Commercial	3,036	3,120	3,049	3,028	3,035
Industrial	122	155	145	144	145
Other	1,046	1,018	996	902	883
Total	26,315	26,240	26,609	26,447	26,436
CCF Sales Per Year (x1,000):					
Residential	7,254	6,943	7,064	6,835	6,949
Commercial	1,800	1,718	1,770	1,828	1,884
Industrial	354	337	355	366	363
Other	581	494	544	528	591
Total	9,989	9,492	9,733	9,557	9,787
Revenues from Sale of Water					
Retail	\$16,245	15,240	14,010	15,022	13,763
Other	1,016	1,706	1,120	1,015	195
Total	\$17,261	16,946	15,130	16,037	13,958
Maximum Day (Million gallons)	34.2	33.3	31.3	32.8	34.3

See accompanying independent auditors' report

AVERAGE BILLING PRICE – WATER					
(\$ per CCF)					
	Fiscal Years Ended June 30				
	2004	2003	2002	2001	2000
Residential	1.60	1.55	1.48	1.48	1.53
Commercial	1.49	1.47	1.28	1.34	1.39
Industrial	1.50	1.40	1.32	1.34	1.46
Average Water Rate	1.54	1.53	1.36	1.39	1.50

See accompanying independent auditors' report