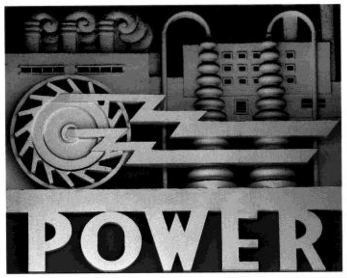
BURBANK WATER AND POWER





Fiscal Year 2011-2012
Audited Financial Statements

McGladrey

Independent Auditor's Report

The Honorable Members of the City Council
City of Burbank, CA

We have audited the accompanying statement of net assets of the Electric and Water Utility Enterprise Funds of the City of Burbank, California (the City) as of June 30, 2012, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the Electric and Water Utility Enterprise Funds financial statements for the year ended June 30, 2011 and, in our report dated December 22, 2011, we expressed an unqualified opinion on the respective financial statements.

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

As discussed in Note 1, the financial statements present only the Electric and Water Utility Enterprise Funds and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2012, the changes in its financial position and, where applicable, its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Electric and Water Utility Enterprise Funds of the City as of June 30, 2012, and the respective changes in financial position and cash flows for the year then ended, in conformity with U.S. GAAP.

U.S. GAAP requires that the Management Discussion and Analysis be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Electric and Water Utility Enterprise Funds financial statements. The introductory section and supplementary information section are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

McGladrey LLP

Los Angeles, CA
June 26, 2013

The management of the City of Burbank's (City) Electric and Water Utility Enterprise Funds (Management) offers the following financial highlights and overview of factors that had a material effect on the financial condition and results of operations for the fiscal year ended June 30, 2012 (the fiscal year). Management encourages readers to utilize the information in the Management Discussion and Analysis (MD&A) in conjunction with the accompanying basic financial statements and notes. 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 Electric and Water Utility Funds' basic financial statements and to provide an objective and easily understood analysis of the financial activities based on currently known facts, decisions and conditions. For comparative purposes, this analysis includes the financial statements of the Electric and Water Utility Enterprise Funds for the two most recent fiscal years.

Management has elected to provide highlights to the basic financial statements as well as vital statistics and other relevant information concerning the Electric and Water Utility Funds. Included as part of the financial statements are the following statements and notes:

The Statement of Net Assets presents information on the Electric and Water 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 Electric and Water Utility Funds' net assets changed during the two most recent fiscal years. Financial results are recorded using the accrual basis of accounting. Under this method, all changes in net assets are reported as soon as the underlying events occur, regardless of the timing of cash flows. Thus, revenues and expenses reported in this statement for some items may affect cash flows in future fiscal periods (examples include billed but uncollected revenues and employee earned but unused vacation leave).

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

The Notes to the Basic Financial Statements provide additional information that is essential for a full understanding of the data provided in these financial statements.

ELECTRIC UTILITY FUND

During the fiscal year ended June 30, 2012, the Electric Utility Fund's financial highlights are as follows:

- Net assets increased by $8,795, or 3.6%, due to favorable operating results. This increase was used to fund capital projects and reduce liabilities.

- In April 2012 the Electric Utility issued $9,810 of revenue bonds to refund the outstanding 2002 Revenue Bonds for economic benefits. Standard & Poor's Ratings Services (S&P's) reaffirmed the 'AA-' long-term credit rating for the Electric Utility's refunding bonds. The rating reflects the agency's view of the Electric Utility's consistently strong financial performance, conservative financial reserve and risk policies, effective power cost management, and a relatively strong and diverse economic base with above-average income.

- The Electric Utility Fund invested $32,140 in the acquisition and construction of capital assets. The sources of the funding were from cash reserves, the 2010 bond proceeds, and Department of Energy (DOE) grants. These pro-active capital investments are reflected in the system-wide reliability statistics. For the fiscal year, the system experienced approximately 25 minutes of service outage once every 4.4 years compared to the typical industry system of approximately 96 minutes of service outage once every 1.2 years.

Financial Analysis

Schedule of Revenues, Expenses, and Changes in Fund Net Assets ($ in thousands)

	2012	2011	Incr. (Decr.)
Retail sales (in MWh)	1,120,564	1,118,708	1,856
Operating revenues:			
Retail	$ 161,788	$ 160,059	$ 1,729
Wholesale	35,484	59,200	(23,716)
Miscellaneous/Other revenues	4,959	6,642	(1,683)
Total operating revenues	202,231	225,901	(23,670)
Operating expenses:			
Power supply and fuel – retail	88,825	95,476	(6,651)
Purchased power and fuel – wholesale	32,747	57,261	(24,514)
Transmission expense	15,384	15,015	369
Distribution expense	9,225	8,903	322
Other operating expenses	18,426	17,610	816
Depreciation	14,977	14,129	848
Total operating expenses	179,584	208,394	(28,810)
Operating income	22,647	17,507	5,140
Nonoperating income (expenses):			
Interest income	1,517	2,167	(650)
Intergovernmental	4,485	-	4,485
Payments in lieu of taxes to City	(10,498)	(10,336)	(162)
Gain (loss) on disposal of capital assets	(1,745)	542	(2,287)
Other income (expenses), net	(2,880)	1,371	(4,251)
Interest expense	(5,282)	(6,988)	1,706
Total nonoperating income (expenses)	(14,403)	(13,244)	(1,159)
Income before contributions	8,244	4,263	3,981
Contributions:			
Capital contributions	551	2,275	(1,724)
Change in net assets	8,795	6,538	2,257
Net assets, beginning of year	243,280	236,742	6,538
Net assets, end of year	**$ 252,075**	**$ 243,280**	**$ 8,795**

Retail (sales to residential and commercial customers) and wholesale revenues were the primary revenue sources for the Electric Utility. These revenues made up 97.5% of the Electric Utility's operating revenues. Retail energy sales increased moderately by 1,856 megawatt hours (MWh), or 0.17%. Retail revenues were higher by $1,729, or 1.1%, partially due to the rate increase that went into effect in January 2011.

Miscellaneous/Other revenues were $1,683, or 25.3%, lower than the prior fiscal year. The Electric Utility received a lower prepaid gas restructuring payment compared to the prior fiscal year. This was offset by higher fiber optic revenue.

Wholesale margins were $2,737, or 41.1% higher than the prior fiscal year margin of $1,939. The higher margin was primarily attributed to monetizing the Electric Utility's transmission assets. Wholesale margins continue to contribute to the Electric Utility's financial performance by reducing its overall power supply expenses.

Retail power supply expenses were $6,651, or 7.0%, lower than the prior fiscal year. The expenses were lower due to lower energy prices, refunds from Intermountain Power Agency (IPA) and Southern California Public Power Authority (SCPPA) for the annual invoice reconciliations and bonds' refinancing savings, which were offset by additional renewable energy resources. Adding biomethane gas as a fuel source for local generation during the fiscal year has brought the Electric Utility closer to the Renewable Portfolio Standard (RPS) goal of 33% by 2020. Renewable energy made up 17.4% of the total energy supply in the fiscal year, compared to 8.4% in the prior fiscal year.

Other operating expenses were $816, or 4.6%, higher compared to the prior fiscal year. The higher expenses were attributed to the amortization costs related to the 2002 Revenue Bonds' refinancing, and uncollectible accounts and collection expenses.

Total nonoperating income (expenses) were $1,159, or 8.8%, higher compared to the prior fiscal year. Contributing factors include:

- The loss on the disposal of capital assets was $2,287, or 422.2%, higher primarily due to a one-time adjustment for the retirement of analog meters.

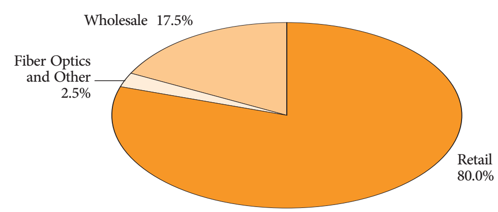
- Intergovernmental income of $4,485 received in reimbursements from the DOE for systems modernization expenditures, as part of a $20 million grant from the American Recovery and Reinvestment Act of 2009 (DOE Grant). The receipts were accounted for as Intergovernmental income and the systems modernization expenditures were accounted for as Other income/(expense), net.

- Interest expense was $1,706, or 24.4%, lower compared to the prior fiscal year. The lower interest expense was due to the refunding of the 2002 Revenue Bonds and capitalized interest.

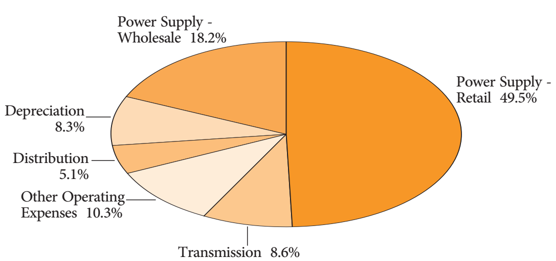
The Electric Utility transferred $10,498 to the City's General Fund in the form of an in-lieu tax of 5.0% and a street lighting transfer of 1.5% of certain electric retail revenues. Retail customers also contributed $10,697, or 7.0%, of certain electric retail revenues to the City's General Fund in the form of the Utility User Tax, which was recorded directly in the General Fund when received.

For the fiscal year, the Electric Utility set aside $4,417, or 2.85%, of certain retail revenues for Public Benefits programs. This amount is included in Customer Deposits.

Operating Revenues



Operating Expenses



The Electric Utility Fund's net assets at June 30, 2012 and June 30, 2011 are as follows:

Schedule of Net Assets ($ in thousands)

	2012	2011	Incr. (Decr.)
Assets			
Current assets	$ 100,111	$ 102,738	$ (2,627)
Noncurrent assets	10,662	14,363	(3,701)
Capital assets, net of retirement and accumulated depreciation	273,956	261,239	12,717
Total assets	**384,729**	**378,340**	**6,389**
Liabilities			
Current liabilities	30,778	25,051	5,727
Noncurrent liabilities	101,876	110,009	(8,133)
Total liabilities	**132,654**	**135,060**	**(2,406)**
Net assets			
Invested in capital assets, net of related debt	178,317	173,500	4,817
Restricted net assets	5,290	9,441	(4,151)
Unrestricted net assets	68,468	60,339	8,129
Total net assets	**$ 252,075**	**$ 243,280**	**$ 8,795**

Changes in total net assets may serve as useful indicators of the Electric Utility Fund's financial strength over time. Total net assets were increased by $8,795 reflecting the Electric Utility's favorable operating results. A significant portion of the Electric Utility's net assets was invested in capital assets, net of related debt of $178,317, or 70.7% (see Capital Assets). The restricted net assets of $5,290, or 2.1%, were debt reserve requirements related to the Electric Revenue Bonds. The unrestricted net assets of $68,468, or 27.2%, were funds available for future capital investments and maintenance activities.

Total assets were higher by $6,389, or 1.7%, compared to the prior fiscal year. Current assets decreased by $2,627, or 2.6%, due to a defeasance of the 2002 Revenue Bonds, offset by favorable operating results, higher accounts receivable and deposits. Noncurrent assets decreased by $3,701, or 25.8%, due to a reduction of the existing debt reserve requirements triggered by the 2002 Revenue Bonds Refunding. During the fiscal year, advance refunding of the 2010 and 2012 Series A Bonds was undertaken to reduce annual debt service payments averaging $437 and $284 over the next 13 and 10 years, respectively, resulting in savings of $5,678 and $2,843, respectively. Capital assets, net of accumulated depreciation, increased by $12,717, or 4.9%.

Total liabilities were lower by $2,406, or 1.8%, compared to the prior fiscal year. Current liabilities increased by $5,727, or 22.9%, due to deferred grant revenue from the DOE. The DOE has reimbursed the Electric Utility at an accelerated rate of 50% instead of the contractual rate of 31.9%, up to $20 million. Noncurrent liabilities decreased by $8,133, or 7.4%, due to the refunding of the 2002 Revenue Bonds, principal bond payments, and lower customer deposits for capital contributions. Some favorable operating income was also used to offset total liabilities.

Capital Assets

As of June 30, 2012, the largest portion of the Electric Utility Fund's total assets, $273,956, or 71.2%, was invested in capital assets. The Electric Utility Fund invested $32,140 in the acquisition and construction of capital assets. The primary funding of these investments, $28,607, were from cash reserves and the 2010 bond proceeds. The DOE grant funded the remaining investments (see Intergovernmental revenues and Other Income (expenses)). The majority of these investments were for the replacement and upgrades of the transmission and distribution systems, general plant and other facilities. These investments have resulted in improved efficiencies and reliability of the Electric Utility.

During the fiscal year, the Electric Utility continued to modernize and move the electric grid toward an intelligent infrastructure, i.e. the installation of advanced meters, and the development and implementation of the Meter Data Management System to facilitate information collection and management, and to provide customers with detailed data and the ability to manage electricity and water consumption. In addition, the Electric Utility implemented an Integrated Automated Dispatch System to automatically dispatch energy resources based on energy demand, and to optimize system reliability. The Customer Information System, Customer Smart Choice, electric vehicle charging programs, automated devices to monitor the miles of electric wires, and equipment and software programs, were some of the other systems modernization programs being implemented to allow for more operating efficiencies. Currently, customers can view energy saving tips and manage their energy use by year, month, week, day, and even hour through a secured website.

The Electric Utility invested in the upgrade of 4 kilovolts (kV) to 12kV electrical distribution lines. The benefits of the conversion from 4kV lines to 12kV lines are to increase capacity, improve reliability, reduce distribution losses, and allow for the eventual retirement of several older 4kV substations and replace with just one new 12kV substation.

Facility upgrade projects were another focus of the Electric Utility. The former Burbank Substation site was transformed into usable open space by repurposing the steel structure as a super trellis, concrete ruins as sculptures, boulders as water fountains (powered by renewable solar energy from the photovoltaic system), and the storm water landing as a phyto-extraction for water filtration. The Service Center and Warehouse project was completed, resulting in a warehouse that has an efficient layout increasing overall productivity and efficiency, a photovoltaic system that also serves as a canopy for passenger vehicle parking, and a street improvement built to demonstrate and encourage energy and water efficiency.

The Electric Utility also operates the Optical Network Enterprise Burbank (ONE Burbank), which is a fiber optic based infrastructure that includes both dark fiber and carrier-class, high-speed managed services, to local Burbank businesses. ONE Burbank generated $2.4 million in revenue for this fiscal year compared to $1.7 million the prior fiscal year.

Major capital investments for the fiscal year were as follows:

($ in thousands)	
Systems Modernization Programs (Meter Data Management System, AMI Meters, Integrated Automated Dispatch System)	$ 18,506
4kV to 12kV conversions	3,488
Service Center/Warehouse	2,900
Facilities Upgrades	2,461
Overhead & Underground Electric Substructure	2,268
Misc. Equipment Replacement at Major Stations	1,245
Fiber Infrastructure Link and Relocation	944
All Other	328
Total	**$ 32,140**

For the fiscal year, the Electric Utility's system experienced approximately 25 minutes of service outage once every 4.4 years compared to the typical industry system of 96 minutes of service outage once every 1.2 years. The system-wide reliability statistics reflect the Electric Utility's commitment to maintain and operate a highly reliable electric distribution system.

Debt Administration

In April 2012 the Electric Utility refunded $9,810 of the 2002 Revenue Bond Series for economic benefits. In the 2012 Revenue Bonds issuance, S&P's reaffirmed the 'AA-' credit rating for the Electric Utility. The rating reflects S&P's view of the Electric Utility's consistently strong financial performance, conservative financial reserve and risk policies, effective power cost management, and a relatively strong and diverse economic base with above-average income.

As of June 30, 2012, the Electric Utility had $96,010 in outstanding revenue bonds, of which $3,460 will be due within a year. The Electric Utility repaid $9,865 toward outstanding bonds during the fiscal year.

Environmental and Economic Factors

The Electric Utility is working to acquire more eligible renewable resources to meet the City's RPS goal of 33% by 2020. For the fiscal year, renewable energy resources made up 17.4% of the Electric Utility's total energy supply, compared to 8.4% for the prior fiscal year. During the fiscal year, renewable energy came from Iberdrola Wind in Wyoming, Pebble Springs Wind in Oregon, Tieton Hydropower in Washington, Milford Wind in Utah, Ameresco Chiquita Landfill in California, and Burbank Water and Power's Landfill Microturbines and Valley Pumping Station. In addition to these resources, the Electric Utility began using biomethane gas to displace some of the fossil fuel required to operate local generations. Biomethane gas is regarded as carbon-neutral, a clean and easily controlled source of renewable energy from the biological breakdown of organic matter that does not add to greenhouse gas because carbon dioxide is returned to the atmosphere at approximately the same rate it is taken up during photosynthesis in the growth of organic matter.

In April 2012 the Electric Utility entered into a five year energy exchange program with Morgan Stanley Capital Group Inc. (Morgan Stanley). The Electric Utility received renewable energy from June to October and delivered energy to Morgan Stanley throughout the year.

With the current renewable projects and others forthcoming, the City expects to meet the RPS goal by 2020. The renewable energy portfolio is projected to be at approximately 26% of the total energy supply by the end of next fiscal year.

The Electric Utility's renewable projects for the fiscal year are as follows:

Projects	Source of Energy	County, State	In-service Date	Capacity MW	Burbank's Capacity MW	Energy Received in MWh FY 11-12	% Total Energy Supply
Iberdrola Wind	Wind	Uinta County, Wyoming	Jul 2006	144.000	0.000	12,159	0.9470%
Pebble Springs Wind	Wind	Gilliam County, Oregon	Feb 2009	98.700	0.000	31,991	2.4916%
Tieton Hydropower	Hydro	Yakima County, Washington	Mar 2009	13.600	0.000	28,480	2.2182%
Milford Wind	Wind	Beaver and Milford Counties, Utah	Nov 2009	200.000	0.000	20,567	1.6019%
Ameresco Chiquita Landfill	Landfill Gas	Los Angeles County, California	Nov 2010	8.000	0.000	6,625	0.5160%
Solar Demo	Solar	Los Angeles County, California	1998	0.500	0.000	4	0.0003%
Landfill Microturbines	Landfill Gas	Los Angeles County, California	2001/2005	0.550	0.000	1,841	0.1434%
Micro Hydro	Hydro	Los Angeles County, California	2002	0.450	0.000	596	0.0464%
Customer Solar	Solar	Los Angeles County, California	Ongoing	1.500	0.000	2,818	0.2195%
Biomethane Gas						108,238	8.4301%
Morgan Stanley Exchange						10,400	0.8100%
Total						**223,719**	**17.4244%**

The Cap-and-Trade Program, adopted by the California Air Resources Board (CARB), went into effect on January 1, 2012, and emission obligations commenced on January 1, 2013 to comply with Assembly Bill 32 (AB 32), the Global Warming Solutions Act of 2006. Under AB 32, CARB is mandated to implement regulations that reduce greenhouse gas (GHG) emissions by capping them at 1990 levels. The regulation sets an upper limit on statewide GHG emissions beginning in 2013, and reduces GHG emissions by two percent in 2014 and by three percent annually thereafter until 2020. Initially, electric utilities are given emission allowances to cover all or part of their obligations. Electric utilities can buy or sell the allowances to comply with the emission regulation. Quarterly allowance auctions were held on November 14, 2012, February 19, 2013, and May 16, 2013, and the reserve sale was scheduled for June 27, 2013.

WATER UTILITY FUND

During the fiscal year ended June 30, 2012, the Water Utility Fund's financial highlights are as follows:

- Water sales were higher by 159,862 hundred cubic feet (CCF), or 2.1%, compared to the prior fiscal year primarily due to lifting the three day per week watering restriction and lower than average rainfall in the winter months.

- Net assets increased by $3,279, or 6.0%, due to favorable operating results. This increase was used to fund capital projects and reduce liabilities.

- The Water Utility Fund invested $10,597 in the acquisition and construction of capital assets. The Water Utility is committed to and focused on serving its customers with safe drinking water at competitive rates, promoting sustainability, and drought proofing a portion of the water supply by investing in the Recycled Water System. The water production facilities and systems were very reliable with only 3.6% of unaccounted for water, including losses, compared to the national average of approximately 7.2%

Financial Analysis

Schedule of Revenues, Expenses, and Changes in Fund Net Assets ($ in thousands)

	2012	2011	Incr. (Decr.)
Potable water (in CCF)	7,743,839	7,583,977	159,862
Recycled water (in CCF)	808,165	763,087	45,078
Operating revenues:			
Potable water sales	$ 23,868	$ 21,048	$ 2,820
Recycled water sales	1,866	1,608	258
Miscellaneous/Other revenues	995	625	370
Total operating revenues	26,729	23,281	3,448
Operating expenses:			
Water supply expenses	10,780	10,046	734
Operations, maintenance and administration	7,114	6,340	774
Other operating expenses	1,616	2,328	(712)
Depreciation	3,041	2,608	433
Total operating expenses	22,551	21,322	1,229
Operating income	4,178	1,959	2,219
Nonoperating income (expenses):			
Interest income	248	317	(69)
Payments in lieu of taxes to City	(1,153)	(1,018)	(135)
Gain (loss) on disposal of capital assets	(168)	1	(169)
Other income (expenses), net	595	326	269
Interest expense	(1,575)	(1,131)	(444)
Total nonoperating income (expenses)	(2,053)	(1,505)	(548)
Income before contributions	2,125	454	1,671
Contributions:			
Capital contributions	1,154	1,845	(691)
Change in net assets	3,279	2,299	980
Net assets, beginning of year	54,752	52,453	2,299
Net assets, end of year	**$ 58,031**	**$ 54,752**	**$ 3,279**

Potable water sales were the primary source of revenue for the Water Utility Fund. Potable water revenue made up 89.3% of the total Water Utility operating revenues. Sales volume of potable water increased by 159,862 CCF, or 2.1%, due to the lifting of watering restrictions in June 2011 and lower than average rainfall in the winter months. Potable water revenue was higher by $2,820, or 13.4%, compared to the prior fiscal year as a result of higher sales volume and a 4.9% rate increase that went into effect on July 1, 2011.

Recycled water revenue made up 7.0% of the total Water Utility operating revenues. Recycled water sales volume increased by 45,078, or 5.9%. The increase was due to more customers converting their water usage to recycled water and more operating hours at the Magnolia Power Plant compared to the prior fiscal year. Recycled water revenue increased by $258, or 16.0%, as a result of higher sales volume and a 4.9% rate increase that went into effect on July 1, 2011.

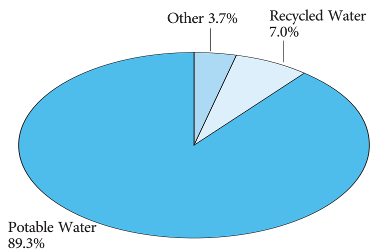
Water supply expenses were higher by $734, or 7.3%, compared to the prior fiscal year primarily due to higher purchased water volume and rates. The Metropolitan Water District (MWD) increased the treated water rate by 6.7% on January 1, 2012.

The Burbank Operable Unit (BOU) ran at 67.0% of operating capacity for the fiscal year compared to the prior fiscal year's capacity of 72.4%. BOU operating capacity was lower due to maintenance for the recoating of the interior surfaces and carbon change out. The BOU supplied approximately 52.8% of the City's potable water supply. The average cost of groundwater produced at the BOU was $272 per acre foot (AF), compared to the average cost of MWD's treated water of $794/AF, and replenishment water of $435/AF. The Water Utility purchased 6,356 AF of replenishment water from MWD for future BOU production and to drought proof a portion of the City's water supply.

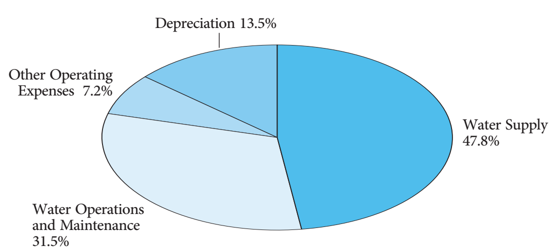
Capital contributions were $691, or 37.5%, lower than the prior fiscal year, which included a one-time capital contribution from the City of Los Angeles for the Recycled Water System Expansion Program.

The Water Utility transferred 5.0% of certain water revenues, or $1,153, to the City's General Fund in the form of an in-lieu tax.

Operating Revenues



Operating Expenses



The Water Utility Fund's net assets as of June 30, 2012 and June 30, 2011 are as follows:

Schedule of Net Assets ($ in thousands)

	2012	2011	Incr. (Decr.)
Assets			
Current assets	$ 22,106	$ 29,448	$ (7,342)
Noncurrent assets	695	490	205
Capital assets, net of retirement and accumulated depreciation	78,937	71,381	7,556
Total assets	**101,738**	**101,319**	**419**
Liabilities			
Current liabilities	6,198	8,787	(2,589)
Noncurrent liabilities	37,509	37,780	(271)
Total liabilities	**43,707**	**46,567**	**(2,860)**
Net assets			
Invested in capital assets, net of related debt	50,127	49,013	1,114
Restricted net assets	153	153	-
Unrestricted net assets	7,751	5,586	2,165
Total net assets	**$ 58,031**	**$ 54,752**	**$ 3,279**

Changes in total net assets may serve as useful indicators of the Water Utility Fund's financial strength over time. Total net assets were increased by $3,279 reflecting the Water Utility's favorable operating results. A significant portion of the Water Utility's net assets was invested in capital assets, net of related debt of $50,127, or 86.4% (see Capital Assets). The unrestricted net assets of $7,751, or 13.4%, were funds available for future investments in capital assets and maintenance activities.

Total assets were moderately higher than the prior fiscal year by $419. Current assets decreased by $7,342, or 24.9%, due to the 2010 Bond Proceeds drawdown for capital investments and a lower Water Cost Adjustment Charges (WCAC) balance. Noncurrent assets increased by $205, or 41.8%, due to amortization adjustments of bond issuance costs. Capital assets, net of accumulated depreciation, increased by $7,556, or 10.6%.

Total liabilities were lower than the prior fiscal year by $2,860, or 6.1%. Current liabilities decreased by $2,589, or 29.5%, due to lower accounts payable and accrued expenses. Noncurrent liabilities decreased by $271 primarily due to principal payments of outstanding debt. Some favorable operating income was also used to offset total liabilities.

Capital Assets

As of June 30, 2012, the majority of the Water Utility Fund's total assets, $78,937, or 77.6%, was invested in capital assets. Capital improvement programs are designed to upgrade, replace and expand the water system infrastructure, ensure reliability, and provide safe drinking water and accurately measured services at competitive rates.

For the fiscal year, $10,597 was spent on the acquisition and construction of capital improvement projects. The three major areas of spending were for the expansion of the Recycled Water System, Reservoir No. 1 Reconstruction Project, and transmission mains upgrade and repair.

The Water Utility completed two major recycled water pipeline projects this fiscal year as part of the Recycled Water System Expansion Program. Upon completion of this program, the Recycled Water System will have six major pipeline extensions totaling over 106,000 feet in length and an upgraded pump station. The Recycled Water System has shifted some outdoor irrigation to recycled water for users such as golf courses, parks, businesses, and schools. This shift reduced the amount of potable water purchased from MWD, and will contribute to the sustaining of the water resources and drought proofing a portion of the City's water supply.

The Reservoir No. 1 Reconstruction Project is the construction of two reservoirs with a total storage capacity of 9.6 million gallons. These reservoirs replace the original reservoir that does not conform to current design standards and California Department of Public Health criteria. The original reservoir's stability was unknown due to incomplete records of its design and construction and required significant maintenance. The new reservoirs will have no annual inspection fee or monthly monitoring costs since they are not subject to the jurisdiction of the Department of Water Resources, Division of Safety of Dams. Completion of the reservoirs is projected for the fall of 2013.

Major capital investments for the fiscal year were as follows:

($ in thousands)		
Recycled Water Extension	$	4,223
Reservoir 1 Reconstruction		2,158
Transmission Water Mains		1,427
Meter Replacements		598
Steel Tanks Seismic Retrofit		380
Water Tanks and Reservoir Repair		237
Recycled Water – System		206
All Other		1,368
Total	**$**	**10,597**

Debt Administration

As of June 30, 2012, the Water Utility Fund had $35,850 in outstanding revenue bonds, of which $490 will be due within a year. The Water Utility repaid $480 toward outstanding revenue bonds during the fiscal year. In addition to the revenue bonds, the Water Utility has an outstanding State Water Resources Control Loan of $440 issued in 1994, of which $199 is due within a year. This loan was issued for improvements to the Reclaimed Water Distribution System (now known as the Recycled Water System).

The Water Utility was also approved for up to $10.3 million in loans from the State Water Resources Control Board (SWRCB) for multiple recycled water projects last fiscal year. The projects include a pumping station and three pipeline extensions to the Valhalla Cemetery, Studio District and Northern Burbank. These loans have 20-year repayment terms with an annual interest rate of 2.6%. The Water Utility received $521 from the approved loans as of June 30, 2012 for the pumping station, of which $24 is due within a year.

The Water Utility revenue bonds were rated ‘AAA’, the highest quality rating, by S&P and Fitch Ratings. This rating reflects the rating agencies' view of the Water Utility's strong financial position, limited external capital needs, adequate water supply, and a relatively strong local economy.

Environmental, Supply and Economic Factors

The SWRCB increased water allocation on the State Water Project (SWP) due to reservoir levels and snow pack measurements to 65% on May 23, 2012, compared to 60% announced on April 16, 2012 and 50% announced on February 22, 2012. Water allocation from SWP varies according to factors including reservoir storage, weather projections, and projected runoff into streams, reservoirs and aquifers.

MWD has been putting water into storage due to last year's heavy precipitation.

Pumping restrictions on the Sacramento-San Joaquin River Delta (Delta) continue due to state judicial intervention. Solutions are needed to improve the Delta's declining ecosystem and water delivery system. An $11 billion state bond measure to improve the Delta's water delivery system is rescheduled for the November 2014 Election.

Water supplies are available for all typical or normal demands. Although the short term water conditions have improved, conservation and efficient water use continue to be necessary to maintain an adequate water reserve level in preparation of any future water crises. The City lifted its restrictions to limit landscape irrigation to no more than three days per week for no more than 15 minutes per day per irrigation as a part of Stage II of the Sustainable Water Use Ordinance on June 28, 2011.

The California Department of Public Health (CDPH) is developing a new guideline and standard for chromium VI for water after the California Office of Environmental Health Hazard Assessment (OEHHA) released its final Public Health Goal (PHG) for chromium VI to be 0.02 parts per billion (ppb) on July 27, 2011. The PHG is not an enforceable state standard but a guideline for the CDPH to use in developing the maximum contaminant limits (MCL). The development of the MCL will take into consideration the protection of public health and feasibility factors such as reliable detection limits, removal levels possible with existing validated technology, and a reasonable cost and/or economic impact on communities. The current regulatory MCL for total chromium are 100 ppb and 50 ppb for Federal and State respectively. Currently, the City's drinking water does not exceed 5 ppb. If the Water Utility is required to provide water with chromium VI levels below 5 ppb, there could be a significant financial impact if the City cannot find an economically feasible chromium VI solution to apply to the local groundwater supply. If a solution is not found, this will increase the City's reliance on more expensive imported water from MWD. The City is working on a feasibility study to understand the possible impact of the CDPH's MCL with the United States Environmental Protection Agency and Lockheed-Martin Corporation under the March 25, 1992 Consent Decree, where Lockheed Martin Corporation agreed to clean-up and remove groundwater contaminants.

Requests for Information

This financial report is designed to provide a general overview of the Electric and Water Utility Enterprise Funds. Questions concerning any information provided in this report, or requests for additional financial information, should be addressed to Bob Liu, Chief Financial Officer, Burbank Water and Power, 164 W. Magnolia Blvd., Burbank, CA 91502.

With comparative financial information for the year ended June 30, 2011 • In thousands

Assets	Electric 2012	Electric 2011	Water 2012	Water 2011
Current assets:				
Cash and investments (formerly Cash and cash equivalents) (note 2):				
General operating	$ 33,906	$ 27,727	$ 3,402	$ 2,362
Restricted bond proceeds for capital improvements	5,228	21,373	8,738	17,139
Capital and debt reduction	10,000	10,000	2,220	2,220
General plant	800	800	-	-
Fleet replacement	2,210	2,210	-	-
WCAC	-	-	1,110	1,894
Distribution mains	-	-	1,100	1,100
Total cash and investments	52,144	62,110	16,570	24,715
Accounts receivable, net (note 3)	15,072	12,871	3,344	2,626
Inventories (note 4)	5,398	6,212	1,734	1,586
Deposits and prepaid expenses (note 5)	27,357	21,403	431	460
Interest receivable	137	142	27	61
Due from City of Burbank	3	-	-	-
Total current assets	**100,111**	**102,738**	**22,106**	**29,448**
Noncurrent assets:				
Restricted nonpooled investments (note 2)	5,290	9,441	153	153
Advances receivable	462	1,018	73	153
Prepaid OPEB asset (note 15)	3,657	3,708	-	-
Deferred bond issuance and acquisition costs	1,253	196	469	184
Total noncurrent assets	**10,662**	**14,363**	**695**	**490**
Capital assets (note 6):				
Land	2,734	2,734	309	309
Rights to purchase power	1,335	1,335	-	-
Utility plant and equipment	431,410	384,314	117,595	99,426
Construction in progress	19,481	43,811	7,677	15,520
Total utility plant and equipment	454,960	432,194	125,581	115,255
Less accumulated depreciation	(181,004)	(170,955)	(46,644)	(43,874)
Total capital assets, net	**273,956**	**261,239**	**78,937**	**71,381**
Total assets	**$ 384,729**	**$ 378,340**	**$ 101,738**	**$ 101,319**

Liabilities	Electric 2012	Electric 2011	Water 2012	Water 2011
Current liabilities:				
Accounts payable and accrued expenses (note 7)	$ 11,596	$ 10,830	$ 3,889	$ 6,962
Bond interest payable	345	795	176	90
Interfund payable	435	445	55	51
Due to the City of Burbank	1	-	-	-
Customer deposits (note 9)	9,076	9,229	1,337	973
Current portion of revenue bonds payable, net (note 8)	3,460	3,535	490	480
Current portion of loan payable (note 8)	-	-	223	194
Current portion of compensated absences (note 8)	367	217	28	37
Unearned revenue (note 13)	5,498	-	-	-
Total current liabilities	**30,778**	**25,051**	**6,198**	**8,787**
Noncurrent liabilities:				
Revenue bonds payable, net (note 8)	97,407	105,577	36,097	36,668
Loan payable (note 8)	-	-	738	440
Compensated absences (note 8)	4,469	4,432	674	672
Total noncurrent liabilities	**101,876**	**110,009**	**37,509**	**37,780**
Total liabilities	**132,654**	**135,060**	**43,707**	**46,567**

Net Assets	Electric 2012	Electric 2011	Water 2012	Water 2011
Net assets:				
Invested in capital assets, net of related debt	178,317	173,500	50,127	49,013
Restricted	5,290	9,441	153	153
Unrestricted	68,468	60,339	7,751	5,586
Total net assets	**$ 252,075**	**$ 243,280**	**$ 58,031**	**$ 54,752**

See accompanying notes to basic financial statements

With comparative financial information for the year ended June 30, 2011 • In thousands

	Electric		Water	
	2012	**2011**	**2012**	**2011**
Operating revenues:				
Sale of power-retail	$ 161,788	$ 160,059	-	-
Sale of power and fuel-wholesale (note 12)	35,484	59,200	-	-
Sale of water	-	-	$ 25,734	$ 22,656
Other revenues	4,959	6,642	995	625
Total operating revenues	202,231	225,901	26,729	23,281
Operating expenses:				
Power supply expenses-retail (note 11)	88,825	95,476	-	-
Purchased power and fuel expenses-wholesale (note 12)	32,747	57,261	-	-
Water supply expenses (note 1)	-	-	10,780	10,046
Water maintenance and operation expenses	-	-	7,114	6,340
Transmission expenses	15,384	15,015	-	-
Distribution expenses	9,225	8,903	-	-
Other operating expenses (note 1)	18,426	17,610	1,616	2,328
Depreciation	14,977	14,129	3,041	2,608
Total operating expenses	179,584	208,394	22,551	21,322
Operating income	22,647	17,507	4,178	1,959
Nonoperating income (expenses):				
Interest income	1,517	2,167	248	317
Payments in lieu of taxes to City (note 10)	(10,498)	(10,336)	(1,153)	(1,018)
Intergovernmental	4,485	-	-	-
Interest expense	(5,282)	(6,988)	(1,575)	(1,131)
Gain (loss) on disposal of capital assets (note 14)	(1,745)	542	(168)	1
Other income (expenses), net	(2,880)	1,371	595	326
Total nonoperating income (expenses)	(14,403)	(13,244)	(2,053)	(1,505)
Income before contributions	8,244	4,263	2,125	454
Capital contributions	551	2,275	1,154	1,845
Change in net assets	8,795	6,538	3,279	2,299
Net assets, July 1	**243,280**	**236,742**	**54,752**	**52,453**
Net assets, June 30	**$ 252,075**	**$ 243,280**	**$ 58,031**	**$ 54,752**

See accompanying notes to basic financial statements

With comparative financial information for the year ended June 30, 2011 • In thousands

	Electric		Water	
	2012	2011	2012	2011
Cash flows from operating activities:				
Cash received from customers	$ 195,071	$ 225,757	$ 25,016	$ 22,832
Cash paid to suppliers	(138,771)	(170,053)	(16,247)	(13,770)
Cash paid to employees	(18,739)	(27,034)	(4,959)	(4,003)
Net cash provided by (used in) operating activities	37,561	28,670	3,810	5,059
Cash flow from noncapital financing activities				
Intergovernmental revenue	4,485	9,052	-	-
Transfers to City	(10,498)	(10,336)	(1,153)	(1,018)
Net cash provided by (used in) noncapital financing activities	(6,013)	(1,284)	(1,153)	(1,018)
Cash flows from capital and related activities:				
Proceeds from sale of capital assets	-	542	-	-
Proceeds from issuance of debt	9,810	-	521	36,740
Principal payments - bond	(19,675)	(3,805)	(480)	(410)
Interest payments	(5,733)	(6,988)	(1,488)	(1,050)
Capital contributions	551	2,275	1,154	1,845
Acquisition and construction of capital assets	(32,140)	(34,603)	(10,597)	(17,203)
Payments on loans	-	-	(194)	(9,237)
Net cash used in capital & related activities	(47,187)	(42,579)	(11,084)	10,685
Cash flows from investing activities:				
Interest received	1,522	2,207	282	280
Sale/(purchase) of restricted investment	4,151	1,861	-	535
Net cash provided by investing activities	5,673	4,068	282	815
Net increase (decrease) in cash and investments (formerly Cash and cash equivalents)	(9,966)	(11,125)	(8,145)	15,541
Cash and investments, beginning of year	62,110	73,235	24,715	9,174
Cash and investments, end of year	$ 52,144	$ 62,110	$ 16,570	$ 24,715

	Electric		Water	
	2012	2011	2012	2011
Cash flows from operating activities:				
Operating income (loss)	$ 22,647	$ 17,507	$ 4,178	$ 1,959
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	14,977	14,129	3,041	2,608
Other nonoperating revenue and expenses net of sales proceeds of capital assets	(1,745)	-	-	-
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(2,201)	(144)	(718)	(449)
Increase (decrease) in due to/from the City of Burbank	(3)	(463)	-	(48)
(Increase) decrease in inventories	814	(1,417)	(148)	312
(Increase) decrease in deposits and prepaid expenses	(6,164)	(2,615)	29	(460)
(Increase) decrease in prepaid other post employment benefits	261	-	-	-
(Increase) decrease in advances receivable	556	575	80	87
Increase (decrease) in interfund payable	(444)	445	(51)	51
(Increase) decrease in deferred bond discount	563	(120)	(366)	(2,161)
Increase (decrease) in accounts payable and accrued expenses	(498)	3,533	(2,958)	3,450
Increase (decrease) in accrued payroll	-	(12)	-	(1)
Increase (decrease) in compensated absences	187	(407)	(7)	(53)
Increase (decrease) in deferred revenue	5,498	-	-	-
Increase (decrease) in customer deposits	1,547	(3,712)	303	(563)
Other proceeds	1,566	1,371	427	327
Total adjustments	14,914	11,163	(368)	3,100
Net cash provided by (used by) operating activities	**$ 37,561**	**$ 28,670**	**$ 3,810**	**$ 5,059**
Noncash investing, capital, and financing activities:				
Increase (decrease) in fair market value of investments	**$ (69)**	**$ 53**	**$ (99)**	**$ (249)**

See accompanying notes to basic financial statements

NOTE 1: Summary of Significant Accounting Policies

(A) ACCOUNTING METHODS

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

The basic financial statements include the following:

Statement of Net Assets – The statement of net assets is designed to display the financial position of the reporting entity. The net assets of the Electric and Water Utility Funds are separated 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, consist 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.
- Restricted net assets represent net assets whose use is restricted through external constraints imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of entities with jurisdiction, or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets consist 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 nonoperating revenues and expenses.

Statement of Cash Flows – For the purposes of the statement of cash flows, the Electric and Water Utility Funds include their portion of the City's pooled cash and investments and restricted investments with an original maturity of three months or less as cash equivalents. The Electric and Water 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.

(B) BASIS OF PRESENTATION

The Electric and Water 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 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.

(C) REPORTING ENTITY

The Electric and Water Utility Funds' operations were established by the City in 1913. Burbank Water and Power (BWP) manages the generation, purchase, transmission, distribution, and sale of water and electric energy. The activities of BWP are overseen by the City Council.

The Electric and Water Utility Enterprise Funds are used to account for the operation, maintenance, and construction of the City-owned electric and water utility. The City considers the Electric and Water Utility Funds to be Enterprise Funds (a proprietary fund type) as defined under accounting principles generally accepted in the United States of America. As an integral part of the City's overall operations, the Electric and Water Utility Funds' operations are also included in the City's Comprehensive Annual Financial Report.

The Electric Utility Fund follows the regulatory accounting criteria set forth per the GASB Codification, where the effects of the ratemaking process are recorded in the financial statements. As a result, certain grant revenues and expenses have been recorded in the Electric Utility Enterprise Fund so as it will not impact future electric rates to customers.

In accordance with the Government Accounting Standards Board (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 (CAP).

(D) SELF-INSURANCE

The Electric and Water Utility Funds are part of the City's self-insurance programs, which provide coverage for general liability and workers' compensation claims. See note 16, Self-Insurance, for additional information on the City's self-insurance programs.

(E) 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. The threshold for capitalizing assets is $5 or greater, except for betterments which could be less. When items are sold or retired, related gains or losses are included in nonoperating income (expenses). Maintenance and repairs that don't add to the value of the asset or materially extend the useful life of the asset are charged to expense as incurred. Improvements to plant and equipment are capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Depreciation is computed on the straight-line method over the estimated useful lives of the assets as follows:

NOTES TO THE BASIC FINANCIAL STATEMENTSS — Year ended June 30, 2012 ($ in thousands)

Building and Improvements	25 to 40 years
Machinery and Equipment (except vehicles)	5 to 40 years
Production Plant	20 to 40 years
Boiler Plant	20 years
Transmission Structures	40 years
Transmission Equipment	40 years
Poles, Towers, & Fixtures	20 to 40 years
Distribution Stations	20 years
Transformers	25 years
Electric Meters	10 to 20 years
Water Meters	10 to 20 years
Water Services	30 years
Vehicles	5 to 12 years
Office Equipment	5 years

(F) ACCOUNTS RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Accounts receivable includes billed and unbilled utility customer accounts, wholesale power sales, and miscellaneous charges unpaid as of June 30, 2012, offset by estimates for uncollectible accounts. Estimated allowances for uncollectible accounts are adjusted to the 91 days and over receivables' balances.

(G) INVENTORIES

Inventories consist of groundwater, materials and supplies held for future consumption and are priced at average cost.

(H) DEPOSITS AND PREPAID EXPENSES

The Electric and Water Funds, in the normal course of operations, place deposits and reserves with other governmental agencies, power providers and vendors, and records them as such. The Electric and Water Funds also prepay certain expenses, recording them as prepaid, which are then recognized as expense as benefits are received.

(I) RESTRICTED NONPOOLED INVESTMENTS

The Electric and Water Funds have restricted nonpooled investments, in the form of debt service and parity reserves, to comply with the covenants contained in the various debt indentures requiring the establishment of certain specific accounts.

(J) COMPENSATED ABSENCES

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

(K) USE OF 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 affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(L) REVENUE RECOGNITION

Revenues are recorded in the period in which they are earned. The Electric and Water Utility Funds accrue estimated unbilled revenue for energy and water 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 electricity, sales of potable and recycled water, and charges for electric and water related work performed for customers, such as service connection and relocation fees.

The Electric Utility Fund's revenues include grant reimbursements from the DOE for systems modernization projects. The DOE Grant allows for reimbursement of approved expenditures at 31.9% up to $20 million; however, accelerated payments at 50% were received during the fiscal year. The excess, accelerated portions of the DOE payments have been recorded as unearned revenue (see note 13).

The Water Utility Fund's revenues include a Water Cost Adjustment Charge (WCAC). WCAC revenues in excess of water supply expenses have been recorded as unearned revenue (see note 7).

(M) OPERATING EXPENSES

Purchased power and fuel expenses include 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 Electric and Water Utility Funds' administration, customer service, telecom services, public benefits programs, and transfers to the City for cost allocations.

(N) RECLASSIFICATIONS

Certain items in the 2011 financial statements have been reclassified to reflect the classifications used in the financial statements as of and for the year ended June 30, 2012. These reclassifications had no impact on changes in net assets or net assets.

(O) BOND PREMIUMS, DISCOUNTS AND DEBT ISSUANCE COSTS

Initial-issue bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest rate method. Debt issuance costs are deferred and amortized over the lives of the related bond issues on the straight-line method, which approximates the effective interest method. Bond issuance costs, including underwriters' discount, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, and deferred amounts on refunding are included in interest expense.

(P) BOND REFUNDING COSTS

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

(Q) PRIOR YEAR DATA

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Electric and Water Utility Funds' prior year financial statements, from which this selected data was derived.

NOTES TO THE BASIC FINANCIAL STATEMENTS — Year ended June 30, 2012 ($ in thousands)

NOTE 2: Cash and Investments

Cash and investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

	Electric	Water	Total
Pooled cash and investments	$ 46,916	$ 7,832	$ 54,748
Restricted nonpooled cash and investments	5,290	153	5,443
Restricted bond proceeds for capital improvements	5,228	8,738	13,966
Total	**$ 57,434**	**$ 16,723**	**$74,157**
Cash on hand	11	-	11
Investments	57,423	16,723	74,146
Total	**$ 57,434**	**$ 16,723**	**$74,157**

The City combines the cash and investments of all funds into two pools (the City pool, and the Housing Authority pool), except for funds required to be held by outside fiscal agents under the provisions of bond indentures. Each fund's portion of the pooled cash and investments are displayed on the statement of 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.

BWP has no separate bank accounts or investments other than investments held by bond trustee and BWP's equity in the cash and investment pool is managed by the City. BWP is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council. BWP has not adopted a formal investment policy separate from that of the City. GASB Statement No. 40 establishes and modifies disclosure requirements related to deposit and investment risks. The information required by GASB Statement No. 40 related to authorized investments, credit risk, etc. is available in the Comprehensive Annual Financial Report of the City.

The City is responsible for all investments on behalf of the Electric and Water Utility Funds.

NOTE 3: Accounts Receivable

Accounts receivable for the Electric and Water Utility Funds as of June 30, 2012 and June 30, 2011 are:

	Electric		Water	
	2012	2011	2012	2011
Accounts receivable	$ 15,390	$ 13,186	$ 3,392	$ 2,679
Allowance	(318)	(315)	(48)	(53)
Total	**$ 15,072**	**$ 12,871**	**$ 3,344**	**$ 2,626**

The Water Utility Fund's accounts receivable are higher compared to last fiscal year due to the June 2012 billing of $600 to the Los Angeles Department of Water and Power for the design and construction of the Studio District and Valhalla recycled water main extensions.

NOTE 4: Inventories

Inventories for the Electric and Water Utility Funds as of June 30, 2012 and June 30, 2011 are:

	Electric		Water	
	2012	2011	2012	2011
Materials and supplies inventory	$ 5,398	$ 6,212	$ 518	$ 487
Ground water purchases inventory	-	-	1,216	1,099
Total	**$ 5,398**	**$ 6,212**	**$ 1,734**	**$ 1,586**

NOTE 5: Deposits and Prepaid Expenses

The Electric Utility Fund shows a total of $27,357 in deposits and prepaid expenses. The composition of these deposits and prepaid expenses includes a $13,357 deposit with SCPPA for future use in projects, a $5,149 prepayment to the SCPPA Natural Gas Reserve for future gas deliveries, a $2,804 prepaid unfunded **California Public Employees' Retirement System** (CalPERS) liability obligation, a $2,615 deposit with SCPPA as a fuel reserve for the Magnolia Power Project (MPP), a $1,528 prepayment to Powerex for future energy deliveries, a $968 prepayment for renewable energy, a $181 prepayment for electric power purchases, and various other prepaid expenses of $42. In addition, in June 2000, the City prepaid a lease payment of $1,500 for the use of land to locate a new switching station. The twenty-year lease began in January 2002. For the fiscal year ended June 30, 2012, the Electric Fund amortized $75 on this prepaid lease, leaving a balance of $713.

NOTES TO THE BASIC FINANCIAL STATEMENTS — Year ended June 30, 2012 ($ in thousands)

NOTE 6: Capital Assets

Capital assets include the following as of June 30, 2012:

ELECTRIC	Balance as of June 30, 2011	Additions	Deletions	Balance as of June 30, 2012
Capital assets not being depreciated:				
Land	$ 2,734	-	-	$ 2,734
Construction in progress	43,811	$ 33,948	$ (58,278)	19,481
Total capital assets not being depreciated	46,545	33,948	(58,278)	22,215
Capital assets being depreciated:				
Rights to purchase power	1,335	-	-	1,335
Accumulated depreciation	(498)	(44)	-	(542)
Buildings and improvements	351,217	50,921	(13,668)	388,470
Accumulated depreciation	(149,340)	(11,604)	4,809	(156,135)
Machinery and equipment	33,097	13,831	(3,988)	42,940
Accumulated depreciation	(21,117)	(3,373)	163	(24,327)
Total capital assets being depreciated, net	214,694	49,731	(12,684)	251,741
Total net capital assets	**$ 261,239**	**$ 83,679**	**$ (70,962)**	**$ 273,956**

WATER	Balance as of June 30, 2011	Additions	Deletions	Balance as of June 30, 2012
Capital assets not being depreciated:				
Land	$ 309	-	-	$ 309
Construction in progress	15,520	$ 10,600	$ (18,443)	7,677
Total capital assets not being depreciated	15,829	10,600	(18,443)	7,986
Capital assets being depreciated:				
Buildings and improvements	94,702	18,308	(452)	112,558
Accumulated depreciation	(40,820)	(2,723)	250	(43,293)
Machinery and equipment	4,724	334	(21)	5,037
Accumulated depreciation	(3,054)	(318)	21	(3,351)
Total capital assets being depreciated, net	55,552	15,601	(202)	70,951
Total net capital assets	**$ 71,381**	**$ 26,201**	**$ (18,645)**	**$ 78,937**

CAPITALIZED INTEREST

During the fiscal year the Electric and Water Utility Funds had capitalized interest of $832 and $435, respectively.

PACIFIC 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 Pacific DC Intertie. As of June 30, 2012, 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 $10,910, for a net asset value of $3,724. 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.

NOTE 7: Deferred Revenue

The Water Utility Fund's revenues include a Water Cost Adjustment Charge (WCAC). WCAC revenues in excess of water supply expenses have been deferred to a water cost adjustment deferred revenue account. Water supply expenses (WCAC expenses) include purchase water, electricity to pump water, and chemicals used to treat water. The deferred WCAC liability balance is $1,110 and $1,894 at June 30, 2012 and 2011, respectively, and is reported in accounts payable and accrued expenses.

NOTES TO THE BASIC FINANCIAL STATEMENTS — Year ended June 30, 2012 ($ in thousands)

NOTE 8: Loan Payable and Revenue Bonds Payable

(A) LOAN PAYABLE

	Water 2012	Water 2011
This State Water Resources Control Board (SWRCB) Loan was issued for the purpose of construction improvements to the Reclaimed Water Distribution System (Recycled Water 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.	$ 440	$ 634
Less current portion	(199)	(194)
Total for Reclaimed Water Distribution System (Recycled Water System)	**241**	**440**
This SWRCB Loan was issued for the purpose of upgrading the Recycled Water Pumping Station PS-1 project to create capacity needed to distribute recycled water to new users. The cost of the project is estimated to be $1,916, of which $521 is funded by this loan. The interest rate is 2.6%, with the principal to be repaid no later than November 2030.	521	-
Less current portion	(24)	-
Total for Recycled Water Pumping Station	**497**	**-**
Total long-term intergovernmental loan payments	**$ 738**	**$ 440**

A schedule of aggregate maturities, including interest, on the intergovernmental loan payable subsequent to June 30, 2012 is as follows:

SWRCB Loan for the Reclaimed Water Distribution System (Recycled Water System)

	Water Principal	Water Interest	Water Total
2013	$ 199	$ 12	$ 211
2014	205	7	212
2015	36	-	36
	$ 440	**$ 19**	**$ 459**

SWRCB Loan for the Recycled Water Pumping System

	Water Principal	Water Interest	Water Total
2013	$ 24	$ 11	$ 35
2014	22	13	35
2015	23	12	35
2016	23	12	35
2017	24	11	35
2018 – 2022	128	47	175
2023 – 2027	146	28	174
2028 – 2031	131	9	140
	$ 521	**$ 143**	**$ 664**

(B) REVENUE BONDS PAYABLE

All the revenue bonds issued by the Electric or Water 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 Electric or Water Utility Funds, less amounts required for payment of operating expenses.

2002 Series Bonds:	Electric 2012	Electric 2011
$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 3.000% to 5.375%. Payments are made semiannually on June 1 and December 1, with the final payment to be made on June 1, 2022. The outstanding balances of the 2002 bonds were refunded with the 2012 Series A Electric Revenue Bonds.	-	$17,385
Less:		
Current portion	-	(1,245)
Original issue discount/premium/ economic gain	-	153
Long-term Bonds Series of 2002	**-**	**$16,293**

2010A Series Bonds:	Electric 2012	Electric 2011
These bonds were issued to partially advance refund the 1998 Bonds and the 2001 Bonds and to pay the costs of issuance of the Series 2010A Bonds. Payable in installments ranging from $2,290 to $3,530. Interest rates range from 3.00% to 5.00%. Payments are made semiannually on June 1 and December 1, with the final payment to be made on June 1, 2023. The bonds are secured by a pledge of net revenues of the Electric Enterprise Fund, as well as all amounts on deposit in the accounts established under the indenture, including the reserve account.	$ 33,535	$35,825
Less:		
Current portion	(2,490)	(2,290)
Original issue discount/premium/ economic gain	1,332	1,373
Long-term Bonds Series A of 2010	**$ 32,377**	**$34,908**

NOTES TO THE BASIC FINANCIAL STATEMENTS — Year ended June 30, 2012 ($ in thousands)

	Electric	
2010B Series Bonds:	**2012**	**2011**
These bonds were issued to finance a portion of the costs of certain improvements to the Electric System, including the conversion of certain residential and commercial distribution circuits, to fund a deposit in the Parity Reserve Fund and to pay the costs of issuance. Payable in installments ranging from $2,210 to $4,195. Interest rates range from 3.00% to 5.00%. Payments are made semiannually on June 1 and December 1, with the final payment to be made on June 1, 2040. The bonds are secured by a pledge of net revenues of the Electric Enterprise Fund, as well as all amounts on deposit in the accounts established under the indenture, including the reserve account.	$ 52,665	$ 52,665
Less:		
Current portion	-	-
Original issue discount/premium/ economic gain	1,628	1,711
Long-term Bonds Series B of 2010	**$ 54,293**	**$ 54,376**

	Electric	
2012 Series A Bonds:	**2012**	**2011**
These bonds were issued to refund on a current basis all of the outstanding 2002 Electric Bonds and to pay the costs of issuance of the Series 2012A Bonds. Payable in installments ranging from $375 to $1,145. Interest rates range from 2.00% to 5.00%. Payments are made semiannually on June 1 and December 1, with the final payment to be made on June 1, 2022. The bonds are secured by a pledge of net revenues of the Electric Enterprise Fund, as well as all amounts on deposit in the accounts established under the indenture, including the reserve account.	$ 9,810	-
Less:		
Current portion	(970)	-
Original issue discount/premium/ economic gain	1,897	-
Long-term Bonds Series A of 2012	**$ 10,737**	-
Total Electric long-term revenue bonds payable	**$ 97,407**	**$ 105,577**

	Water	
2010A Series Bonds:	**2012**	**2011**
These bonds were issued to refund on a current basis all of the outstanding 1998 Water Bonds, finance the costs of certain improvements to the City's water system and to pay the costs of issuance of the Series 2010A Bonds. Payable in installments ranging from $165 to $970. Interest rates range from 2.00% to 5.00%. Payments are made semiannually on June 1 and December 1, with the final payment to be made on June 1, 2023. The bonds are secured by a pledge of net revenues of the Water Enterprise Fund, as well as all amounts on deposit in the accounts established under the indenture, including the reserve account.	$ 7,905	$ 8,385
Less:		
Current portion	(490)	(480)
Original issue discount/premium/ economic gain	863	(61)
Long-term Bonds Series A of 2010	**$ 8,278**	**$ 7,844**

	Water	
2010B Series Bonds:	**2012**	**2011**
These bonds were issued to finance the costs of the 2010 Water Project and to pay the costs of issuance of the Series 2010B Bonds. Payable in installments ranging from $850 to $2,275. Interest rates range from 4.89% to 5.79%. Payments are made semiannually on June 1 and December 1, with the final payment to be made on June 1, 2040. The bonds are secured by a pledge of net revenues of the Water Enterprise Fund, as well as all amounts on deposit in the accounts established under the indenture, including the reserve account. The City expects to receive a direct cash subsidy from the United States Department of Treasury equal to 35% of the interest on the Series 2010B Bonds.	$ 27,945	$ 27,945
Less:		
Current portion	-	-
Original issue discount/premium/ economic gain	(126)	(130)
Long-term Bonds Series B of 2010	**$ 27,819**	**$ 27,815**
Total Water long-term revenue bonds payable	**$ 36,097**	**$ 35,659**

NOTES TO THE BASIC FINANCIAL STATEMENTS — Year ended June 30, 2012 ($ in thousands)

The Electric and Water Funds are in compliance with the covenants contained in the various debt indentures, which require the establishment of certain specific accounts for the revenue and revenue/refunding bonds.

The Electric Utility Fund issued $9,810 of revenue bonds in the fiscal year ended June 30, 2012, to refund the existing 2002 revenue bonds and to pay the issuance costs of the 2012A Series Bonds.

A schedule of aggregate maturities on bonds payable subsequent to June 30, 2012 is as follows:

	Electric		Water		
	Principal	Interest	Principal	Interest	Total
2013	$ 3,460	$ 4,143	$ 490	$ 1,890	$ 9,983
2014	3,450	4,014	470	1,876	9,810
2015	3,580	3,885	735	1,858	10,058
2016	3,745	3,724	765	1,828	10,062
2017	3,920	3,546	795	1,798	10,059
2018 – 2022	21,660	14,833	4,485	8,482	49,460
2023 – 2027	12,910	10,345	5,430	7,360	36,045
2028 – 2032	14,025	7,767	6,605	5,764	34,161
2033 – 2037	17,165	4,660	9,490	3,570	34,885
2038 – 2040	12,095	1,007	6,585	774	20,461
Total	**$ 96,010**	**$ 57,924**	**$ 35,850**	**$ 35,200**	**$ 224,984**

(C) PLEDGED REVENUE

The Electric and Water Utility Funds have debt issuances outstanding that are collateralized by the pledging of utility net revenues. The amount and term of the remainder of these commitments are indicated in the Revenue Bonds Payable tables in Section (B). Utility net revenues are pledged to secure the payment of the principal of and redemption premium, if any, and interest on the bonds outstanding, and any parity debt. All remaining utility net revenues, after making the aforementioned secured payments, will be available to the Electric and Water Funds for all lawful utility purposes. The pledge of utility net revenues shall be irrevocable until all of the bonds and parity debt are no longer outstanding.

	FY 11-12 Net Revenues Pledged	Total Bond Principal Debt	Total Bond Interest Debt	Principal Paid this Fiscal Year	Interest Paid this Fiscal Year
Electric Utility	$ 37,624	$ 96,010	$ 57,924	$ 9,865	$ 5,841[(1)]
Water Utility	7,219	35,850	35,200	480[(2)]	1,905[(3)]

(1) Interest expense (page 17) includes a reduction for capitalized interest of $832, offset by adjustments of $273.
(2) For 2010A Series Bonds.
(3) Includes interest only payments of $1,568 for 2010B Series Bonds; interest expense (page 17) includes a reduction for capital interest of $435, offset by adjustments of $87 and a SWRCB loan payment of $18.

(D) UTILITY FUNDS' LONG-TERM LIABILITIES

The following is a summary of changes in the Electric Utility Fund's long-term liabilities as of June 30, 2012:

	July 1, 2011	Additions	Retirements	June 30, 2012	Due within 1 Year
Revenue Bond Payable:					
2002 Series A Bonds	$ 17,385	-	$ (17,385)	-	-
2010 Series A Bonds	35,825	-	(2,290)	$ 33,535	$ 2,490
2010 Series B Bonds	52,665	-	-	52,665	-
2012 Series A Bonds	-	9,810	-	9,810	970
Compensated Absences	4,649	4,021	(3,834)	4,836	367
	$ 110,524	**$ 13,831**	**$ (23,509)**	**$100,846**	**$ 3,827**
Less current portion	(3,752)			(3,827)	
Less unamortized bond premium/ discount/economic gain	3,237			4,857	
Total	**$ 110,009**			**$101,876**	

The following is a summary of changes in the Water Utility Fund's long-term liabilities as of June 30, 2012:

	July 1, 2011	Additions	Retirements	June 30, 2012	Due within 1 Year
Intergovernmental Loan Payable	$ 634	-	$ (194)	$ 440	$ 199
Intergovernmental Loan Payable	-	$ 521	-	521	24
2010 Series A Bonds	8,385	-	(480)	7,905	490
2010 Series B Bonds	27,945	-	-	27,945	-
Compensated Absences	709	670	(677)	702	28
	$ 37,673	**$ 1,191**	**$ (1,351)**	**$ 37,513**	**$ 741**
Less current portion	(711)			(741)	
Less unamortized bond premium/ discount/economic gain	818			737	
Total	**$ 37,780**			**$ 37,509**	

NOTES TO THE BASIC FINANCIAL STATEMENTS — Year ended June 30, 2012 ($ in thousands)

NOTE 9: Customer Deposits

California AB 1890 directs municipalities, including the Electric Utility, to collect 2.85% of certain electric revenues for Public Benefits' (PB) programs, including investment in renewable resources. The entire unspent portion of the PB obligation for the Electric Utility has been recorded in the Electric Utility Fund's liabilities included in customer deposit liabilities. The amount of the PB obligation is part of customer deposits, but reported as the PB liability. The unspent portion of the PB obligation as of June 30, 2012 and June 30, 2011 is $7,670 and $7,790, respectively.

NOTE 10: Related Party Transactions

The City assesses a 5.0% in-lieu of taxes on certain Electric and Water Utility Funds' revenues. In addition, an assessment of 1.5% is made on certain electric revenues to maintain and operate the City's street lighting system. These charges are reflected in the accompanying statements of revenues, expenses and changes in fund net assets for the years ended June 30, 2012 and 2011 as follows:

	Electric		Water	
	2012	2011	2012	2011
In-lieu of taxes	$ 8,179	$ 8,045	$ 1,153	$ 1,018
Street lighting	2,319	2,291	-	-
Total payment in-lieu of taxes	**$ 10,498**	**$ 10,336**	**$ 1,153**	**$ 1,018**

The City also allocates certain administrative and overhead costs to the Electric and Water Utility Funds in the other operating expenses category. These costs for the years ended June 30, 2012 and 2011 were as follows:

	Electric		Water	
	2012	2011	2012	2011
Administrative & overhead costs	$ 4,670	$ 4,104	$ 830	$ 740
Total	**$ 4,670**	**$ 4,104**	**$ 830**	**$ 740**

In addition, the City receives a 7% Utility User Tax on certain electric revenues that is not reflected in the Electric Utility Fund's financial statements; it is recorded directly into the General Fund. This tax for the year ended June 30, 2012 and 2011 was as follows:

	Electric	
	2012	2011
Utility User Tax	$ 10,697	$ 10,543
Total	**$ 10,697**	**$ 10,543**

NOTE 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 include "take or pay", "take and pay" and term purchases. Local generation and market purchases supplement firm contracts to meet the City's retail load requirements.

(B) JOINT POWERS AGENCY CONTRACTS

The City, through its Electric Utility Fund, has entered into several "take or pay" contracts and one "take and pay" contract through its participation in two joint power agencies, the IPA and SCPPA, in order to meet the electric needs of its customers. These contracts are not considered joint ventures since the City has no interest in the assets, liabilities, or equity associated with any of the projects to which these contracts refer. Under the "take or pay" contract, 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. The City is only obligated to pay its share of the indebtedness upon delivery of energy under the "take and pay" contracts. However, in the opinion of management, the City does not have a financial responsibility for purposes of GASB Statement No. 14 because the IPA and SCPPA do not depend on revenue from the City to continue in existence.

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

During the fiscal years ended June 30, 2012 and 2011, the Electric Fund made payments totaling $34,397 and $34,433 for "take or pay" contracts, respectively, and $2,689 and $2,362 for the "take and pay" contract, respectively.

(a) Intermountain Power Agency (IPA)

In 1980, the City, along with the California Cities of Los Angeles, Anaheim, Glendale, Pasadena and Riverside, entered into a power sales contract with IPA, which obligates each purchaser to purchase, on a "take or pay" basis, a percentage share of capacity and energy generated by the Intermountain Power Project (IPP) in Utah. The City, through contract, is entitled to 60 MW or 3.371% of the 1,800 MW of generation at the plant. In addition, the City entered into an Excess Power Sales Agreement, also on a "take or pay" contract, with Utah municipal and cooperative IPP purchasers, which provides for the City to obtain up to an additional 0.797% (14 MW) when not used by the Utah municipal or cooperative IPP purchasers.

(b) Southern California Public Power Authority (SCPPA)

SCPPA membership consists of 10 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.

Southern Transmission System Project (STS)

Pursuant to an agreement dated May 1, 1983 with the IPA, SCPPA made payments-in-aid of construction to IPA to defray all costs of acquisition and construction of the 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 SCPPA, serves as project manager and operating agent of IPP. The STS consists of a 488 mile transmission line and the associated converter station on each end. The 500kV DC bi-pole transmission lines are currently rated at 2,400 megawatts (MW) as a result of an upgrade completed in December 2010. The City's ownership share of this project is 4.498%.

Magnolia Power Project (MPP)

In March 2003, the City, along with the Cities of Anaheim, Cerritos, Colton, Glendale and Pasadena, entered into a power sales agreement with SCPPA for MPP. MPP commenced commercial operations in Burbank, California in September 2005. MPP is a combined-cycle natural gas-fired generation plant with a nominal rate net base capacity of 242 MW, but can boost its output to 295 MW, if needed. The City has entitlement up to 97.6 MW or 30.992% of its output. The City's share of outstanding debt is 32.35% which excludes debt relating solely to the City of Cerritos. The City is also MPP's operating agent.

Prepaid Natural Gas Project (PNGP)

The PNGP primarily consists of the acquisition by SCPPA of the right to receive an aggregate amount of approximately 135 billion cubic feet (cu ft) of natural gas, which subsequently was reduced to approximately 90 billion cu ft as a result of restructuring to accelerate a portion of the long-term savings, reduce the remaining volumes of gas to be delivered, and shorten the overall duration of five prepaid agreements (with the City, and the Cities of Anaheim, Colton, Glendale and Pasadena).

The City's natural gas supply agreement with SCPPA is expected to provide approximately one-fourth of the City's gas requirements for MPP. The City has no obligation under the natural gas supply agreement to pay for gas not delivered.

Milford I Wind Project (MIWP)

M1WP is located near Milford, Utah and began commercial operations in November 2009. The facility is a 200 MW nameplate capacity wind farm comprised of 97 wind turbine generators, delivered by a 90 mile transmission line, 345kV, extending from the generation site to the IPP switchyard in Delta, Utah. This plant generates enough capacity to supply electricity to power more than 60,000 homes and offset over 366,000 tons per year of carbon dioxide that would otherwise be emitted from a coal-powered plant. SCPPA (on behalf of project participants LADWP, the City, and the City of Pasadena, California) acquired 100% of this facility and issued bonds in 2010 to finance the purchase by prepayment of a specified quantity of energy from this facility over the 20-year delivery term, with a guaranteed annual quantity in each year. The City's share of this project is 5.000% of the total capacity of 10 MW, energy, and environmental attribute rights produced at this facility.

Mead-Adelanto Project (MA)

SCPPA also entered into an agreement dated December 17, 1991 to acquire a 67.917% interest in the MA, 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 from the Multiple Projects Fund, and commercial operations commenced in April 1996. LADWP serves as the operations manager of MA. The project is a 202 mile, 500kV AC transmission line with a rating of 1,200 MW. The City's ownership share of MA is 11.534%.

Palo Verde Project (PV)

Pursuant to an assignment agreement dated August 14, 1981 with the Salt River Project, SCPPA purchased a 5.910% interest in the Palo Verde Nuclear Generating Station, a 3,810 MW nuclear-fueled generating station near Phoenix, Arizona and a 6.550% share of the right to use certain portions of the Arizona Nuclear Power Project Valley Transmission System (collectively, the PV). Units 1, 2 and 3 of PV began commercial operations in January 1986, September 1986 and January 1988, respectively. The City's ownership share of this project is 4.400% (9.7 MW).

Tieton Hydro Project (THP)

This facility was acquired by SCPPA in November 2009 with 100% of entitlement shares. Each of the two project participants, the City and the City of Glendale, California, have an equal 50.000% entitlement share of this project. THP is a run of the reservoir hydroelectric facility, comprised of a powerhouse constructed at the base of the United States Bureau of Reclamation (USBR) Tieton Dam on the Tieton River in the State of Washington, on a 21 mile, 115kV transmission line from the plant substation to the interconnection of the electrical grid. The powerhouse has a maximum capacity of 20 MW, with a nameplate capacity of 13.6 MW. USBR owns and operates the dam and controls the flows into the Tieton River from the Rimrock Lake reservoir, which was created by the dam. Average annual generation from this plant is approximately 48,000 megawatt hours (MWh). The City is also Tieton's operating agent.

Mead-Phoenix Project (MP)

SCPPA entered into an agreement dated December 17, 1991 to acquire an interest in the MP, a transmission line extending between the West Wing substation in Arizona and the Marketplace substation in Nevada. The agreement provides SCPPA with an 18.308% interest in the West Wing-Mead project, a 17.756% interest in the Mead substation project component and a 22.408% interest in the Mead-Marketplace component. The project is a 256 mile, 500kV AC transmission line with a rating of 1,300 MW. The City's ownership share of MP is 15.400%.

Natural Gas Project (NGP)

The NGP was acquired by SCPPA in 2005 and 2006 and is being developed for the primary purpose of providing the participants with stable long-term supplies of gas for the purpose of fueling their electric generation needs.

SCPPA issued 2008 Bonds to provide monies for the refinancing of the City's share of the costs of acquisition and development of the NGP through the redemption of a portion of SCPPA's draw down bonds previously issued for the NGP.

NOTES TO THE BASIC FINANCIAL STATEMENTS — Year ended June 30, 2012 ($ in thousands)

SCPPA has sold entitlements to 100% of the production capacity of the NGP pursuant to separate gas sales agreements with the five participants - the City, and the Cities of Anaheim, Colton, Glendale and Pasadena. The participants are obligated to pay for such production capacity, including amounts required to pay debt service on bonds issued to finance their respective share of the NGP, on a "take or pay" basis. The City has 14.286% of entitlement shares in the Pinedale, Wyoming Subproject (2005 purchase), and 27.273% of entitlement shares in the Barnett, Texas Subproject (2006 purchase).

Hoover Uprating Project (HU)

On March 1, 1986, SCPPA and the City, and eight participants including the Cities of Anaheim, Azusa, Banning, Colton, Glendale, Pasadena, Riverside and Vernon entered into an agreement pursuant to which each participant assigned its entitlement to capacity and associated firm energy to SCPPA in return for SCPPA's agreement to make advance payments to the USBR on behalf of such participants. SCPPA has an 18.680% interest in the contingent capacity of the HU. All 17 "uprated" generators of the HU have commenced commercial operations. The City has a 15.957% (15 MW) ownership interest in this project.

A summary of the City's contracts and related projects and its commitments at June 30, 2012 is as follows:

	Bonds and notes outstanding	City of Burbank portion*	City of Burbank share of bonds	City of Burbank obligation relating to total debt service
Intermountain Power Project	**$ 2,190,575**	**3.371%**	**$ 73,844**	**$ 90,326**
SCPPA: (1)				
Southern Transmission System	812,669	4.498%	36,554	49,276
Magnolia Power Project (Project A)	349,784	32.350%	113,155	170,030
Prepaid Natural Gas Project #1	321,396	33.099%	106,379	192,099
Milford I Wind Project	229,640	5.000%	11,482	17,653
Mead-Adelanto	162,640	11.534%	18,759	22,480
Palo Verde	69,100	4.400%	3,040	3,275
Tieton Hydropower Project	52,050	50.000%	26,025	50,390
Mead-Phoenix	50,555	15.400%	7,785	9,290
Natural Gas Project - Barnett	24,530	100.000%	24,530	36,527
Hoover Uprating Project	11,355	15.957%	1,812	2,107
Natural Gas Project - Pinedale	7,920	100.000%	7,920	11,793
SCPPA Total	**$ 2,091,639**	**17.089%**	**$ 357,441**	**$ 564,920**
Total	**$ 4,282,214**	**10.072%**	**$ 431,285**	**$ 655,246**

(1) All SCPPA listed obligations are "take or pay" contracts except the Prepaid Natural Gas Project #1, a "take and pay" contract, and the Milford I Wind Project, a prepaid purchase power agreement.

* Burbank shares in % and amounts are estimated based on weighted average.

NOTES TO THE BASIC FINANCIAL STATEMENTS — Year ended June 30, 2012 ($ in thousands)

The following schedule details the amount of principal and interest that is due and payable by the City as part of the joint power agency contracts, by project, in the fiscal year indicated (year ending June 30).

	2012/13		2013/14		2014/15		2015/16		2016/17		2017/22	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Intermountain Power Project	$ 4,874	$ 2,895	$ 7,411	$ 2,654	$ 7,055	$ 2,311	$ 8,451	$ 2,150	$ 4,329	$ 1,901	$ 36,878	$ 4,591
SCPPA:												
Southern Transmission System	2,563	727	2,210	1,415	2,267	1,367	2,336	1,312	2,325	1,256	13,480	4,696
Magnolia Power Project (Proj A)	3,080	2,019	4,963	3,787	3,329	3,639	3,461	3,507	3,614	3,357	12,311	14,850
Prepaid Natural Gas Project #1	1,586	2,706	1,341	5,332	1,279	5,265	1,345	5,201	1,411	5,134	10,923	24,389
Milford I Wind Project	393	275	407	537	423	521	441	503	459	485	2,650	2,068
Mead-Adelanto	1,757	440	1,876	765	2,022	641	2,029	538	2,044	434	9,031	903
Palo Verde	469	38	483	64	499	52	514	40	529	27	546	14
Tieton Hydropower Project	388	646	395	1,284	408	1,273	420	1,259	435	1,244	2,508	5,893
Mead-Phoenix	852	186	909	315	801	255	804	214	816	173	3,604	360
Natural Gas Project-Barnett	2,045	661	1,765	1,238	1,701	1,160	1,701	1,081	1,674	987	6,323	3,726
Hoover Uprating Project	266	46	280	79	293	66	308	51	324	35	341	18
Natural Gas Project-Pinedale	660	214	570	400	549	375	549	349	541	319	2,042	1,203
Total	**$ 18,933**	**$ 10,853**	**$ 22,610**	**$ 17,870**	**$ 20,626**	**$ 16,925**	**$ 22,359**	**$ 16,205**	**$ 18,501**	**$ 15,352**	**$100,637**	**$ 62,711**

	2022/27		2027/32		2032/37		2037/42		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Intermountain Power Project	$ 4,846	$ (19)	-	-	-	-	-	-	**$ 73,844**	**$ 16,483**
SCPPA:										
Southern Transmission System	9,843	1,857	$ 1,530	$ 92	-	-	-	-	**36,554**	**12,722**
Magnolia Power Project (Proj A)	17,403	11,940	22,598	8,804	$ 42,397	$ 4,972	-	-	**113,156**	**56,875**
Prepaid Natural Gas Project #1	21,207	20,531	36,043	13,593	31,244	3,569	-	-	**106,379**	**85,720**
Milford I Wind Project	3,364	1,354	3,346	428	-	-	-	-	**11,483**	**6,171**
Mead-Adelanto	-	-	-	-	-	-	-	-	**18,759**	**3,721**
Palo Verde	-	-	-	-	-	-	-	-	**3,040**	**235**
Tieton Hydropower Project	4,115	5,094	4,420	3,919	5,640	2,698	$ 7,298	$ 1,056	**26,027**	**24,366**
Mead-Phoenix	-	-	-	-	-	-	-	-	**7,786**	**1,503**
Natural Gas Project-Barnett	4,691	2,187	3,904	913	726	44	-	-	**24,530**	**11,997**
Hoover Uprating Project	-	-	-	-	-	-	-	-	**1,812**	**295**
Natural Gas Project-Pinedale	1,514	706	1,261	295	234	14	-	-	**7,920**	**3,875**
Total	**$ 66,983**	**$ 43,650**	**$ 73,102**	**$ 28,044**	**$ 80,241**	**$ 11,297**	**$ 7,298**	**$ 1,056**	**$431,290**	**$223,963**

NOTES TO THE BASIC FINANCIAL STATEMENTS — Year ended June 30, 2012 ($ in thousands)

Hedge Policies and Outstanding Hedge Contracts

The Electric Utility Fund utilizes natural gas hedging as outlined in the Energy Risk Management Policy. The purpose of hedging is to protect against fluctuating prices and deliver stable and competitive rates to its retail customers. Currently, the Electric Utility Fund (Buyer) has natural gas swap agreements with a few low risk counterparties (Seller) in place. The Buyer pays the agreed or fixed price and the Seller pays the floating market price. Depending on the price at the delivery month, Buyer will make payments or receive payments based on the price differentials. The financial settlements will either offset or add to the actual price of natural gas purchased at the spot market. These contracts are not included within the scope of GASB Statement No. 53 because they are entered into for the purpose of gas/electricity use in the normal course of operations.

NOTE 12: Purchase 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 one of primarily optimizing revenues from temporarily underutilized electric assets to develop wholesale net margins that reduce its power supply expenses.

The Electric Utility's Wholesale margin for the years ended June 30, 2012 and 2011 were as follows:

	2012	2011
Wholesale Revenues	$ 35,484	$ 59,200
Wholesale Costs	32,747	57,261
Wholesale Margin	$ 2,737	$ 1,939

Wholesale revenues and costs decreased by 40.0% and 42.8% respectively, due to cooler weather and lower energy and fuel prices, resulting in an increased wholesale margin of 41.1%.

NOTE 13: Department of Energy (DOE) Grants

On October 27, 2009 the Electric Utility was awarded a $20 million grant from the DOE under the American Recovery and Reinvestment Act of 2009. During fiscal years 2011-12 and 2010-11, the DOE reimbursed the Electric Utility $8,763 and $6,424 respectively, for covered expenditures related to various systems modernization capital projects. The DOE grant allows for reimbursement of approved expenditures at 31.9% up to $20 million; however, accelerated payments at 50% were received during both fiscal years. The Electric Utility Fund's accelerated DOE payments as of June 30, 2012 are as follows:

Electric Utility Unearned Revenue	2012	2011	Total
Systems modernization expenditures	$17,526	$12,847	$30,373
Accelerated DOE payments received	8,763	6,424	15,187
Less: Grant reimbursements @ 31.9%	(5,591)	(4,098)	(9,689)
Unearned accelerated DOE payments	**$ 3,172**	**$ 2,326**	**$ 5,498**

NOTE 14: Gain / (Loss) on Disposal of Capital Assets

During the fiscal year, the Electric and Water Utility Funds replaced analog meters with smart meters (meters than can be read remotely). Retirements of the analog meters resulted in a one-time loss of $2,212 for the Electric Utility and $206 for the Water Utility.

NOTE 15: Defined Benefit Pension Plan and Post-Retirement Health Care Benefits

The Electric and Water Utility Funds' 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.

For fiscal year 2011-12, the Electric and Water Utility Funds' contributions ranged from 1% to 8%, dependent on the bargaining group. The Electric and Water Utility Funds are required to contribute at an actuarially determined rate. In fiscal year 2011-12, the Electric and Water Utility Funds, as employer, were required to contribute 15.778%. The contribution requirements of plan members and the City are established, and may be amended, by PERS.

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

Electric and Water Utility Funds' annual pension costs are as follows:

	Annual Pension Cost (APC)		
Fiscal Year Ending	Electric	Water	Percentage of APC contributed
June 30, 2010	$ 3,645	$ 875	100%
June 30, 2011	3,675	766	100%
June 30, 2012	4,943	939	100%

Additional information regarding the defined benefit pension plan can be found in the City's Comprehensive Annual Financial Report.

Other Post Employment Benefits

In addition to providing pension benefits, the Electric and Water Utility Funds, as part of the City, provide certain health care benefits for retired employees. Burbank Employees Retiree Medical Trust (BERMT) was established in April 2003 by the City to provide post-retirement medical benefits to all non-safety employees, including elected and appointed officials. Plan provisions and contribution requirements are established by and may be amended by the City Council. Eligibility for benefits require that members have reached age 58 with a minimum of 5 years of contributions into the plan. However, no benefits will be paid prior to April 2009. Additional information regarding the health care benefits for retired employees can be found in the City's Comprehensive Annual Financial Report.

The Electric and Water Utility Funds, as part of the City, also make contributions for other post-employment benefits (OPEB). The Electric and Water Utility Funds assume their share of OPEB costs based upon the results of actuarial studies. No separate obligations are calculated for the Electric and Water Utility Funds for the BERMT and the CalPERS Healthcare (PEMHCA); and accordingly, no obligation is presented herein.

NOTES TO THE BASIC FINANCIAL STATEMENTS — Year ended June 30, 2012 ($ in thousands)

In addition, the City entered into an agreement to provide certain OPEB to the International Brotherhood of Electrical Workers (IBEW) employees on July 22, 2008. The agreement, known as URMT (Utility Retiree Medical Trust), is for IBEW members and 12 management employees as a supplement to benefit payments from BERMT and PEMHCA. The total target benefit is $600/month for the fiscal year, including payments from BERMT, PEMHCA minimum and IBEW Retiree Medical Trust Fund. The Electric Fund's current prepaid unfunded portion of the IBEW OPEB is as follows:

	URMT
Annual required contribution	$ 179
Interest on net OPEB obligation/(asset)	(287)
Adjustment to annual required contribution	243
Annual OPEB cost	135
Contributions made	(84)
Decrease in net OPEB obligation	51
Net OPEB obligation/(asset) - beginning of year	**$ (3,708)**
Net OPEB asset - end of year	**$ (3,657)**

Further information regarding the City's participation in PERS and OPEB may be found in the City's Comprehensive Annual Financial Report.

NOTE 16: Self-Insurance

The Electric and Water Funds are in the City's self-insurance program as part of its policy to self-insure certain levels of risk within separate lines of coverage to maximize cost savings. The City has chosen to self-insure its liability exposure for the first $1,000 of any loss. Additional coverage of $4,000 is purchased through ACCEL, the Authority for California Cities Excess Liability. The City then purchased additional coverage from commercial market for total coverage of $40,000.

The workers' compensation coverage is purchased through a pooling agreement. The City self-insures the first $2,000 of each loss and then the pool covers all losses to statutory limits. The City charges the Electric and Water Utility Funds a premium based upon the proportional payroll cost, job classification, and claim history. There were no significant settlements or reductions in insurance coverage from settlements for the past three years.

Additional information regarding all the City's self-insurance programs can be found in the City's Comprehensive Annual Financial Report.

NOTE 17: Contingencies

Potential Litigation

BWP is presently involved in certain matters of litigation that have arisen in the normal course of conducting electric and water operations. Management believes, based on consultation with the City Attorney, that these cases in the aggregate are not expected to result in a material adverse financial impact on either the Electric or Water Funds.

NOTE 18: Subsequent Events

The Cap-and-Trade Program, adopted by the CARB, went into effect on January 1, 2012, and emission obligations commenced on January 1, 2013 to comply with Assembly Bill 32 (AB 32), the Global Warming Solutions Act of 2006. Under AB 32, CARB is mandated to implement regulations that reduce GHG emissions by capping them at 1990 levels by placing an upper limit on statewide GHG emissions beginning in 2013, and reducing GHG emissions by two percent in 2014 and three percent annually thereafter until 2020. Initially, electric utilities will be given emission allowances to cover all or part of their obligations. Electric utilities can buy or sell the allowances to comply with the emission regulation. Quarterly allowance auctions were held on November 14, 2012, February 19, 2013, and May 16, 2013, and the reserve sale was scheduled for June 27, 2013. Management expects no material financial impact in the foreseeable future, based on current regulatory information.

ELECTRIC UTILITY FUND

SCHEDULE 1: Annual Electric Supply

Fiscal year ended June 30, 2012

Resource	MWh	Percentage
Intermountain Power Project	473,000	36.9%
Hoover Uprating	23,000	1.8%
Palo Verde Nuclear	82,500	6.4%
Magnolia Power Project	346,100	27.0%
Firm & Non-Firm Contracts	118,600	9.2%
On-Site Generation	17,000	1.3%
Renewables	223,700	17.4%
TOTAL	**1,283,900**	**100.0%**

SCHEDULE 2: Customers, Sales, Electric Revenues and Demand ($ in thousands)

	Fiscal year ended June 30				
	2012	**2011**	**2010**	**2009**	**2008**
Number of Retail Service:					
Residential	45,164	45,049	44,833	44,499	44,279
Commercial[1]	6,857	6,887	6,908	6,787	6,801
Large Commercial[1]	75	75	77	81	71
Total	**52,096**	**52,011**	**51,818**	**51,367**	**51,151**
Retail Kilowatt-hour Sales (millions):					
Residential	265	265	277	286	286
Commercial	518	510	498	510	671
Large Commercial	338	344	361	389	223
Total	**1,121**	**1,119**	**1,136**	**1,185**	**1,180**
Electric Revenues:					
Retail	$ 161,788	$ 160,059	$ 154,174	$ 158,039	$ 155,514
Wholesale	35,484	59,200	75,946	120,716	220,177
Miscellaneous[2]	4,959	6,642	4,900	8,834	6,476
Total	**$ 202,231**	**$ 225,901**	**$ 235,020**	**$ 287,589**	**$ 382,167**
Peak Demand (MW)	**305**	**316**	**285**	**289**	**308**

1 Restructured commercial and large commercial customer classes in January 1, 2009 and January 1, 2010

2 Other miscellaneous revenues include transmission, telecommunications, etc.

SCHEDULE 3: System Weighted Average Billing Price – Electric[1] (cents per kilowatt-hour)

	Fiscal year ended June 30				
	2012	**2011**	**2010**	**2009**	**2008**
Residential	$ .1481	$ .1450	$ .1389	$ .1365	$ .1344
Commercial	.1472	.1462	.1385	.1364	.1312
Large Commercial	.1298	.1287	.1214	.1186	.1158
System Weighted Average Electric Rate	.1422	.1405	.1332	.1306	.1291

1 All weighted average rates exclude Street Lighting.

WATER UTILITY FUND

SCHEDULE 4: Annual Water Supply

Fiscal year ended June 30, 2012

Resource	AF	Percentage
Metropolitan Water District	8,706	47.2%
Local Production – BOU	9,730	52.8%
TOTAL	**18,436**	**100.0%**

SCHEDULE 5: Customers, Water Sales, Water Revenues ($ in thousands)

	Fiscal year ended June 30				
	2012	**2011**	**2010**	**2009**	**2008**
Number of Water Service:					
Residential	22,086	22,073	22,059	22,033	22,043
Commercial	3,091	3,070	3,095	3,100	3,100
Large Commercial	117	108	110	114	116
Other[1]	1,162	1,144	1,138	1,118	1,112
Recycled	125	109	101	88	82
Total	**26,581**	**26,504**	**26,503**	**26,453**	**26,453**
CCF Sales per Year (x1,000):					
Potable					
Residential	5,685	5,483	5,748	6,556	6,942
Commercial	1,477	1,548	1,651	1,695	1,732
Large Commercial	302	281	308	356	364
Other[1]	280	272	289	377	409
Recycled	808	763	892	794	912
Total	**8,552**	**8,347**	**8,888**	**9,778**	**10,359**
Water Revenues:					
Retail[2]	$ 25,734	$ 22,656	$ 21,472	$ 20,853	$ 22,503
Miscellaneous[3]	995	625	646	519	721
Total	**$ 26,729**	**$ 23,281**	**$ 22,118**	**$ 21,372**	**$ 23,224**
Maximum Day (million gallons)	**23.8**	**22.6**	**23.9**	**29.0**	**30.8**

1 Other includes city department water, school, fire protection, and miscellaneous users

2 Potable and Recycled

3 Other miscellaneous revenues include connection fees, recycled water credits, etc.

SCHEDULE 6: Weighted Average Billing Price — Water ($ per CCF)

	Fiscal year ended June 30				
	2012	**2011**	**2010**	**2009**	**2008**
Residential	$ 3.01	$ 2.88	$ 2.50	$ 2.17	$ 1.99
Commercial	2.58	2.38	2.12	1.93	1.80
Large Commercial	2.50	2.37	2.04	1.85	1.74
Weighted Average Water Rate	2.89	2.74	2.39	2.10	1.94