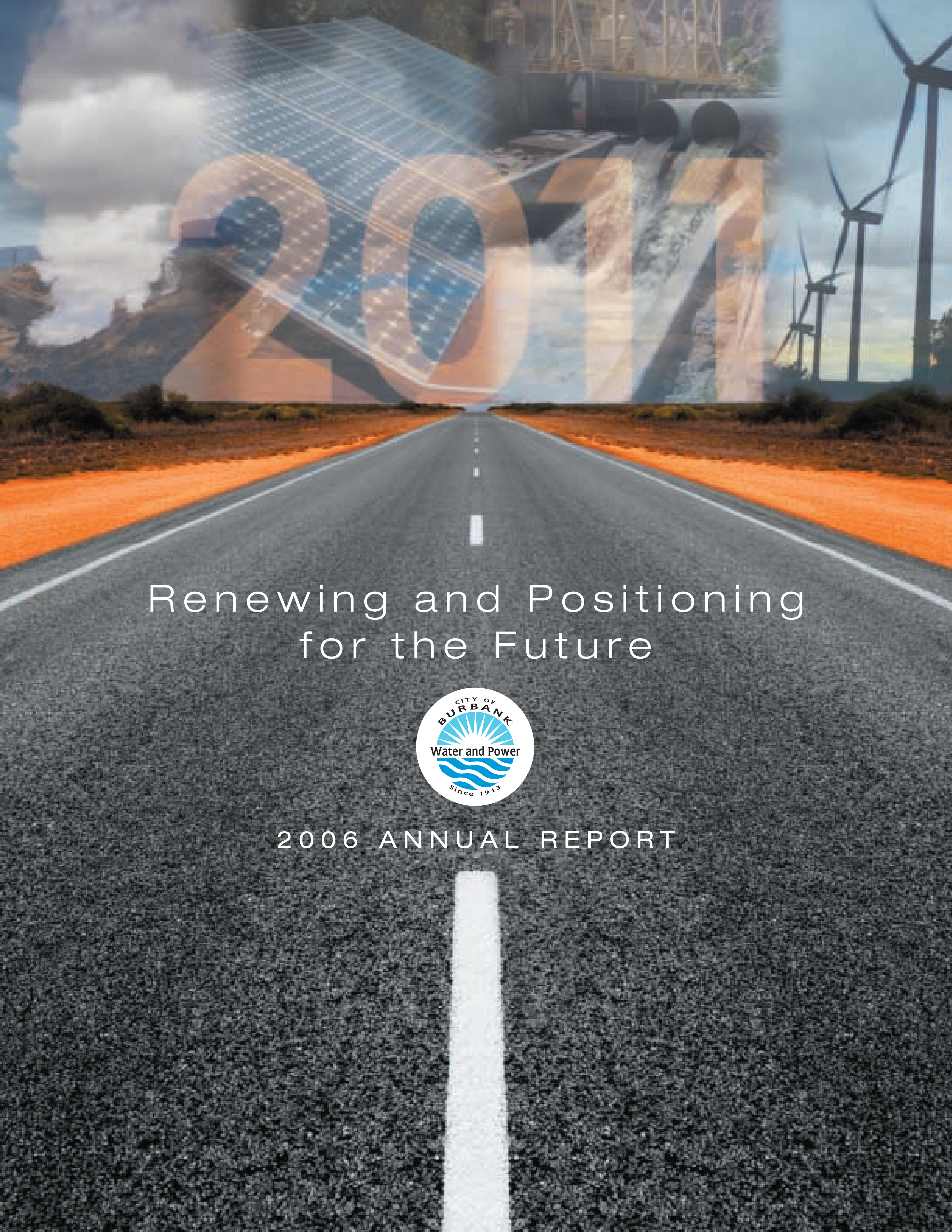

Renewing and Positioning for the Future

CITY OF BURBANK
Water and Power
Since 1913

2006 ANNUAL REPORT

Table of Contents

Burbank Water and Power (BWP) is a community-owned utility that serves the businesses and residents of Burbank with water and power. Here are some

Highlights 2005/06:

On average, BWP is **twice** as reliable as other municipally owned utilities and **four times** as reliable as investor-owned utilities.

Customer energy efficiency and conservation measures reached a lifetime energy savings of **69,185,788** kWh.

We delivered over **1,130,000** megawatt (MW) hours of energy to our customers.

We delivered **22,000** acre feet of potable water and **1,335** acre feet of recycled water.

We purchased **5 MW** of renewable wind energy.

We helped our customers achieve **5,406,674** kilowatt hours (kWh) in energy savings.

We have added **50 MW** of overall efficiency to our resources.

BWP was among the top 3 percent of public utilities awarded with the **"Reliable Public Power Provider"** platinum distinction by a national association.

Board Members & Executive Team

Board Members

Pictured in front, left to right:
Wendy James
Lee Dunayer
Martin Adams
Thomas Jamentz
Pictured in back, left to right:
Robert Olson
Rod Kurihara
Vahe Hovanessian

Executive Team

Pictured left to right:
Bob Liu, Chief Financial Officer
Fredric Fletcher, Assistant General Manager – Power Supply
JoAnn Davis, Administrative Officer
Joanne Fletcher, Assistant General Manager – Customer Service & Marketing
Gregory Simay, Assistant General Manager – Electrical Services
Ronald Davis, General Manager
William Mace, Assistant General Manager – Water

We are proud of our **Board Member Wendy James** who received the 2006 Women in Business award. Ms. James has been a passionate pioneer for the environment for over 30 years and is indeed making the world a better place.

Message from the General Manager

Burbank Water and Power (BWP) is a solidly run utility with a focus on efficiency, reliability, and affordability, coupled with a passion for the community we serve. That includes our ongoing commitment to environmental responsibility. This year's annual report brings together what we are doing to renew and position the utility for the future.

- **Renewable Energy**
  Renewable energy will meet at least 10% of our system energy requirements by 2011, with a goal of 20% by 2017. We'll use a combination of wind, solar and geothermal energy resources. These renewables, together with aggressive energy efficiency measures, can reduce our fossil fuel use (natural gas and coal) even as the demand for electricity increases.
- **Reduce Volatility**
  We implemented a multi-year fuel hedging program to reduce volatility and manage rising energy costs.
- **Renewing Infrastructure**
  We will continue the extensive capital expenditure program that began five years ago to ensure safe and reliable service and efficient operation.
- **Recycled Water**
  BWP will double Burbank's recycled water system by 2010, enabling recycled water to be used in many more areas than today.
- **Increasing Reliability**
  BWP will add water service reliability through the addition of a water-spreading facility to replenish the San Fernando Valley's groundwater basin. The net result is a greater diversity of water supply at a lower cost.

With the services we provide, we touch the lives of every resident and business in Burbank everyday. We have always understood that our role extends beyond providing water and electricity to being an active leader in the community's well-being both for today and tomorrow. We embrace the challenge.

Sincerely,

Ron Davis

Ronald E. Davis
General Manager

Conservation programs
encourage customers to
be more energy efficient

Planning for the Future

BWP supplies both water and electric power, two goods that are at the heart of any economy…and also at the heart of many environmental issues. We continue to make significant progress toward creating a more sustainable economy while enhancing the quallity of life of those we serve.

That's why BWP will meet Burbank's future power supply needs with no new fossil fuel-based resources by following these priorities:

- Upgrading our electric infrastructure for **efficiency and reliability improvements**;
- Encouraging customers to be more energy efficient through **conservation programs**; and
- Pursuing **renewable energy resources**.

Conservation Begins With Us

The electric system's infrastructure (wires, transformers, etc.) produces energy losses. Even a modest reduction in this percentage of energy loss would be the equivalent of hundreds of customers saving energy individually.

We have been making steady progress to reduce our system losses. BWP has reduced peak losses by nearly 30 megawatts (MW), most of which came from installing system capacitors. Additionally, we have converted some circuits to a higher primary voltage (4,000 volts to 12,000 volts) and purchased energy-efficient transformers. These system efficiency improvements have lowered our average annual losses from 7% of energy supplied to 5%.

As an example in 2006, BWP had a peak demand of 307 MW. Without our aggressive internal and external efficiency programs, our peak demand would have been 330 MW. To meet growing demand, BWP is focused on new measures to make the electric system as efficient as possible. Improving system losses doesn't just lower costs; it also helps the environment by reducing greenhouse gas emissions.

We're Helping Burbank Conserve

Conserving energy in homes and businesses is another way of making sure that electricity is doing something useful rather than wasteful. Wasted electricity not only wastes your money but "wastes" the environment with extra greenhouse gases and other pollutants. Last year, we provided cash rebates of **two million** dollars for energy-efficient projects, such as lighting and air conditioning to our businesses and residents - putting our money where our goals are!

Over the years, customer conservation efforts have reduced BWP's summer peak by 15 MWs. By identifying the most cost-effective energy efficiency options, we enable our customers to reduce their energy bill. Energy conservation and efficiency go a long way in preserving our planet's rich natural resources and promoting a healthy environment.

Conserving Water Is A Must For The Future

With a dedication to water conservation and efficiency, we are expanding the use of recycled water for outdoor landscape use. We are also finding new ways to increase our water supply to rely less on imported water.

- The U.S. Bureau of Reclamation awarded BWP a grant for its DRIP program, which is designed to save water used outside the home for watering plants and shrubs. The program is saving 73,800 gallons a month.
- We offer cash incentives of up to $265 per toilet for Burbank customers retrofitting to high water efficiency toilets.
- BWP rebates are available for high water-efficiency clothes washers that use half the energy and water of conventional models.

Water Recycling Will Play A Greater Role

One of Burbank's major goals has been to expand the use of recycled water in order to displace the need for purchased, potable water. BWP successfully delivers recycled water for landscape irrigation purposes to many key customers including the public golf courses, schools, the landfill, and City parks.

Burbank has long been a leader in the use of recycled water, first implementing recycled water for use in our power plants 40 years ago. Recycled water use benefits the environment and decreases our dependence on imported water.

- BWP continues to use 100% recycled water in its power plants.
- This year, with the assistance of a state matching grant, BWP is developing a Recycled Water Master Plan to guide the expansion of the recycled water system.
- Our newest recycled water customer is the Bob Hope Airport.

Airport parking lots are kept green with recycled water

Pacoima Spreading Facility

Increasing Water Reliability While Lowering Costs

BWP has found a way to lower the cost of our purchased water while increasing the reliability of our water supply. BWP is building a water service connection to provide water to the Pacoima Spreading Facility. The Spreading Basin serves as a facility to collect rainwater and can also receive purchased water to percolate into the groundwater. This forward-thinking approach allows BWP to buy water at a significantly lower price for potable use, especially during drought and emergencies. This program alone could potentially provide for one-third of Burbank's annual water needs.

Minimizing the Impact of Volatile Fuel Prices

Natural gas generation provides nearly half of Burbank's electricity needs. The price of natural gas can be extremely volatile, varying over a range of $2 to $20 per million British Thermal Units over the past six years. For the last two years, we have successfully implemented our Fuel Management Program. To hedge against market volatility, BWP:

- Purchases gas in the forward market to minimize the effect of gas price spikes and to ensure rate stability;
- Owns natural gas reserves to guard against volatile market prices; and
- Makes economic purchases of renewable energy resources to back down the use of natural gas generation.

These strategies not only stabilize the price of our natural gas but also foster the transition to renewables.

Protecting Air and Water Resources

Again, embracing our community responsibility, BWP continues moving beyond the provision of water and electricity, devoting resources to environmental stewardship.

- BWP has actively worked to remove chromium six, a water contaminant, from local groundwater supplies. For the past three years, BWP participated in and helped fund a $3 million study to identify and develop treatment processes that remove chromium six.
- BWP is one of the first municipal utilities to offer a generous incentive program to dry cleaners to stop using perchloroethylene (PERC), which is a toxic air contaminant, groundwater pollutant and potential human carcinogen. Professional Wet Cleaning is a cleaner alternative to PERC and also uses less energy.

Improving Our Curb Appeal

BWP has a long-term Master Plan that aligns BWP yard facilities (built in the 1940s) with its current and future business needs. After over 65 years, we are in need of a remodel. Major work, which includes a Warehouse and Service Center and an extensive solar carport, will be completed in 2008.

Aerial view of
Burbank Water and Power

BWP art in public places

Two major art projects were completed on our property this year. Both pieces, “Community” (above) and “Water and Light,” (right) foster a feeling of community in the surrounding areas and are major additions to Burbank’s Art in Public Places.

Renewing For The Future

The City of Burbank strongly supports renewable energy. Our challenge is to manage, if not balance, the competing interests of environmental stewardship, reliability, and affordability.

While we are busy positioning BWP for the future, another very important goal is to help our residential and business customers reduce their need for electricity and water. Reducing demand for electricity and water has a threefold reward - our community reaps environmental benefits, BWP avoids the highest peak demand costs, and our customers save money.

Renewable Energy

- A contract for 5 MW of renewable generation from a Wyoming wind farm inked in 2006. That's enough renewable electricity to provide for the annual energy needs of 2,250 Burbank homes.
- Resource plans are underway for a total of 65 MW for wind. This would correspond to 16.25% of Burbank's annual energy requirements.

Quantifying Our Impact On The Environment

- We voluntarily joined the California Climate Action Registry and have been working to measure our carbon footprint for 2005. This will help us to report, reduce and manage our greenhouse gas (GHG) emissions.

Reducing Our Carbon Footprint

- This past year the Burbank City Council passed a Resolution that provides a policy framework for BWP to reduce GHG emissions. This reflects the City's environmental and community ethics.

Helping to Build a Market for Hybrids

- One technology with the potential to significantly reduce oil consumption while reducing harmful air emissions is the Plug-In Hybrid Electric Vehicle (PHEV). The City and BWP are in the driver's seat having joined the Plug-In Partners, a national campaign to demonstrate to automakers that a market exists today for PHEVs.

Soaring Solar Rebates

- Solar photovoltaic systems produce renewable electricity from the sun's energy. We proudly supported Burbank's largest commercial solar photovoltaic installation.

Financial Statement • Index

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The Honorable Mayor and City Council
City of Burbank
Burbank, California

Independent Auditors' Report

We have audited the accompanying financial statements of the Water and Electric Utility Funds, each an enterprise fund of the City of Burbank, California as of and for the year ended June 30, 2006 as listed in the accompanying table of contents. These financial statements are the responsibility of the management of the City of Burbank, California. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative financial information has been derived from the City's 2005 financial statements which were audited by Conrad and Associates, L.L.P., who merged with Mayer Hoffman McCann P.C. as of January 1, 2006, and whose report dated September 30, 2005 expressed unqualified opinions on the respective financial statements of the Water and Electric Utility Funds.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Water and Electric Utility Funds of the City of Burbank, California, as of June 30, 2006, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The introductory section and historical summary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and historical summary schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

The Honorable Mayor and City Council
City of Burbank
Burbank, California

In accordance with *Government Auditing Standards*, we have also issued a report dated September 29, 2006 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California
September 29, 2006

Management of the Water and Electric Utility Enterprise Funds (Water and Electric Utility Funds) offer the following overview and analysis of the basic financial statements of the Water and Electric Utility Enterprise Funds for the fiscal year ended June 30, 2006 (the fiscal year). Management encourages readers to utilize information in the Management Discussion and Analysis (MD&A) in conjunction with the accompanying basic financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Overview of the Basic Financial Statements

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

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

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

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

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

The Notes to the Basic Financial Statements provide additional information that is essential to fully understand the data provided in the financial statements.

Electric Utility Fund

During the year ending June 30, 2006, the significant financial highlights are as follows:

- Net assets increased by $11,579, or 7%, due to positive operating results. Total assets increased by $15,294, or 5%, during the year. Of this increase, 76% was funded by current year positive operating results and 24% from additional liabilities.

- The Electric Utility Fund invested an additional $13,412 in capital assets during this fiscal year. This is consistent with the Electric Utility Enterprise Fund's goal to deliver a reliable service at stable rates to customers. The Electric Utility management's emphasis on a highly reliable electric distribution program has been reflected in the system-wide reliability statistics. The average customer was out of service every 3.1 years, lasting 67 minutes on the average this fiscal year.

Financial Analysis

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

	2006	2005	Incr. (Decr.)
Retail sales (in MWh)	1,137,703	1,093,700	44,003
Operating revenues:			
Retail	$ 143,487	136,304	7,183
Wholesale	195,512	110,037	85,475
Miscellaneous/ other revenues	6,159	5,494	665
Total operating revenues	345,158	251,835	93,323
Operating expenses:			
Power supply and fuel – retail	88,495	73,008	15,487
Purchased power and fuel – wholesale	188,655	105,856	82,799
Transmission expense	10,176	7,526	2,650
Distribution expense	10,022	8,994	1,028
Other operating expenses	15,380	13,232	2,148
Depreciation	11,678	11,252	426
Total operating expenses	324,406	219,868	104,538
Operating income	20,752	31,967	(11,215)
Nonoperating income (expense):			
Interest income	2,668	1,934	734
Other income (expense), net	(312)	(86)	(226)
Interest expense	(4,426)	(4,223)	(203)
Total nonoperating expenses	(2,070)	(2,375)	305
Income before contributions and transfers	18,682	29,592	(10,910)
Contributions and transfers:			
Capital contributions	1,913	2,434	(521)
Transfers in from the City	0	60	(60)
Transfers out to the City	(9,016)	(8,626)	(390)
Change in net assets	11,579	23,460	(11,881)
Net assets, beginning of year	172,644	149,184	23,460
Net assets, end of year	$ 184,223	172,644	11,579

Retail (residential, commercial, and industrial) and wholesale revenues were the primary revenue sources for the Electric Utility, making up to 98% of the total operating revenues. Retail revenue grew by $7.2 million, or 5.3%, due to a load increase.

The wholesale margin, in dollars, was higher compared to the prior fiscal year while the wholesale margin, as a percentage of wholesale revenues, was slightly lower compared to prior year. Wholesale margin continues to contribute significantly to the Electric Utility's financial performance by reducing the utility's overall power supply costs.

Retail power supply expenses were higher compared to the prior year corresponding with load increases and higher natural gas and spot energy costs.

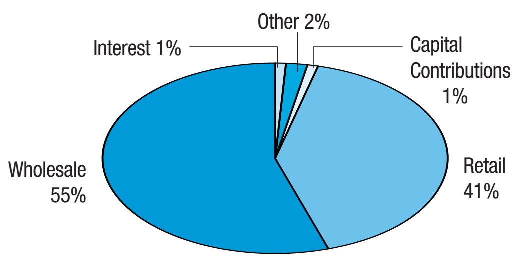
Transmission expenses were higher by $2.7 million, partially caused by higher debt service payments for Mead Adelanto and Mead Phoenix transmission projects. Transmission expense in the prior year was unusually low due to refunds from the prior periods.

Distribution and other operating expenses were higher than the prior year primarily due to an overall fringe benefits increase of approximately $1.8 million, or 36%, and a receivable write-off of $300 from energy sales during the California Energy Crisis.

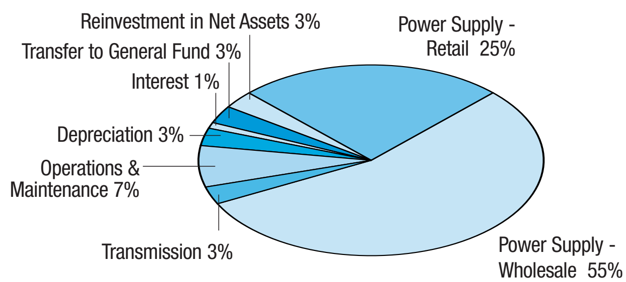
A $9,016 transfer to the City's General Fund included the in-lieu and street lighting transfers. The in-lieu and street lighting transfers were computed based on 5% and 1.25% respectively, of current fiscal year retail revenues. These transfers represent approximately 7% of the City's General Fund source of revenue. The Electric Utility retail customers also contributed an additional 7% of retail revenues in the form of Utility User's Tax (UUT). Additionally, $4 million, or 2.85%, of its retail revenues are set aside for Public Benefit programs. Some of the major Public Benefit programs are included below:

Program *($ in thousands)*		Amount
Energy Solutions Rebate Program	$	843
Lifeline Assistance		606
Business Bucks Commercial Audit		424
Home Rewards Residential Rebate Program		364
Total	$	2,237

SOURCES OF REVENUES



USES OF REVENUES



The Electric Utility Fund's net assets at June 30, 2006 and June 30, 2005 are as follows:

Schedule of Net Assets *($ in thousands)*		2006	2005	Incr. (Decr.)
Assets				
Current assets	$	105,907	91,160	14,747
Noncurrent assets		13,445	14,666	(1,221)
Capital assets, net		198,182	196,414	1,768
Total assets		317,534	302,240	15,294
Liabilities				
Current liabilities		42,389	30,680	11,709
Noncurrent liabilities		90,922	98,916	(7,994)
Total liabilities		133,311	129,596	3,715
Net assets				
Invested in capital assets, net of related debt		101,387	92,532	8,855
Restricted net assets		11,092	11,363	(271)
Unrestricted net assets		71,744	68,749	2,995
Total net assets	$	184,223	172,644	11,579

Changes in net assets may serve over time as a useful indicator of the Electric Utility Fund's financial position. In the case of the Electric Utility Fund, assets exceeded liabilities by $184,223 as of June 30, 2006, which was an increase of $11,579 from the prior year due to a positive operating result.

Total assets increased by $15,294, or 5%, from the prior fiscal year. The majority of this increase, or 76%, was funded by positive operating results, and the remaining 24% from an increase in liabilities. Capital assets are discussed in the following section.

Capital Assets

As of June 30, 2006, the largest portion, or 62%, of the Electric Utility Fund's total assets were invested in capital assets.

Additions to the Electric Utility Fund's capital assets included electric system improvements, Aid-In-Construction (AIC) projects, and other capital improvement projects. Net capital asset additions during the year were approximately $13,412. The Electric Utility management's emphasis on a highly reliable electric distribution program through preventive maintenance, modernization, and redundancy programs have been reflected in the system-wide reliability statistics. The average customer was out of service every 3.1 years, lasting 67 minutes on average this fiscal year. Major capital projects completed and capitalized during the year are as follows:

($ in thousands)	
Padmount Transformer and Switch Installations	$ 3,290
SCR Retrofit/Upgrade Project	1,493
Expand 34.5 KV system from Capon Switching station to six other substations	1,475
Magnolia 3 and 4 Demolition	1,383
Utility Vehicle Upgrades	956
Olive/Lincoln Line Upgrade to 69KV within BWP yard	900
Residential Remote Meter Installations	655
Landfill Microturbine	577
Olive Station Annunciator Improvements	563
Relocate and construct new Burbank substation at Lake and Olive	413
Fiber Optic Link Installations	275
Total	$ 11,980

Debt Administration

As of June 30, 2006, the Electric Utility Fund had $95,758 in outstanding revenue bonds, of which $8,230 will be due within a year. The Electric Utility paid off $7,980 in outstanding bonds this fiscal year. These bonds were issued for improvements to the electric system, construction of a new generator, and to retrofit the existing generators.

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

Economic Factors

The City Council approved a rate increase of 3.5% for Burbank's electric customers beginning on July 1, 2006, due to a significant increase in fuel prices. The Electric Utility's management continues to develop both current and long-term procurement strategies to proactively manage price volatility and ensure a stable supply of natural gas.

The City Council also approved the 2006 Integrated Resource Plan (IRP) and supports policy recommendations that the Electric Utility meet future power supply needs by developing resources in the following order of priority:

- Efficiency Improvements
- Conservation
- Renewable Energy

As part of the IRP implementation, the Electric Utility has also participated in various renewable energy projects through collaborative efforts with SCPPA.

Water Utility Fund

During the year ending June 30, 2006, the Water Utility Fund's significant financial highlights are as follows:

- Net assets increased by $3,515, or 10%, as a result of positive operating results. Of this increase, 34% was used to reduce outstanding liabilities and 66% to pay for additions to capital assets.
- The Water Utility Fund invested an additional $3,148 in capital assets during this fiscal year. This capital investment is consistent with the Water Utility's goal to deliver competitive rates and safe drinking water to customers by continuously modernizing water production facilities and expanding its recycled water business.

Financial Analysis

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

	2006	2005	Incr. (Decr.)
Potable water (in CCF)	9,246,172	9,072,456	173,716
Operating revenues:			
Potable water sales	$ 16,167	15,889	278
Recycled water sales	638	531	107
Miscellaneous/ other revenues	2,131	819	1,312
Total operating revenues	18,936	17,239	1,697
Operating expenses:			
Water supply expenses	6,429	6,601	(172)
Operations, maintenance, and administration	5,403	4,422	981
Other operating expenses	1,392	1,620	(228)
Depreciation	2,118	2,289	(171)
Total operating expenses	15,342	14,932	410
Operating income	3,594	2,307	1,287
Nonoperating income (expense):			
Interest income	210	201	9
Other income (expense), net	16	44	(28)
Interest expense	(366)	(400)	34
Total nonoperating expenses	(140)	(155)	15
Income before contributions and transfers	3,454	2,152	1,302
Contributions and transfers:			
Capital contributions	915	1,652	(737)
Transfers out to the City	(854)	(797)	(57)
Change in net assets	3,515	3,007	508
Net assets, beginning of year	35,874	32,867	3,007
Net assets, end of year	$ 39,389	35,874	3,515

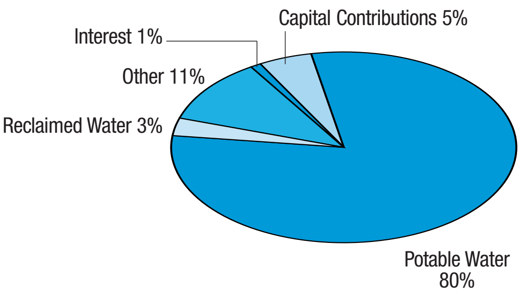
Potable water sales were the primary revenue source for the Water Utility Fund, making up 85% of total operating revenues. Potable water sales revenue was adjusted by the Water Cost Adjustment Charge (WCAC) over collection by $640, compared to $34 in the prior year. This over collection was recorded as deferred revenues to offset significant increases in water supply expenses due to groundwater replenishment in the near future.

Water supply expenses were lower compared to the prior fiscal year. The operating capacity of 61% for this fiscal year was higher than the prior year's capacity of 54% at the Burbank Operable Unit (BOU). This increase in operating capacity is due to more water wells available for service in addition to continuing improvements made to the production facility at the BOU during the year. For the year, the BOU supplied approximately 41% of the total water supply compared to 36% in the prior year.

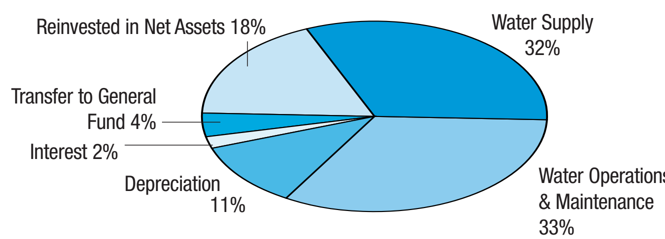
Operations, maintenance, administration and other operating expenses were higher primarily due to a fringe benefits increase of approximately $338, or 31%, from the prior year.

The in-lieu transfer of $840 from the Water Utility Fund to the City's General Fund was based on 5% of water revenues.

SOURCES OF REVENUES



USES OF REVENUES



The Water Utility Fund's net assets at June 30, 2006 and 2005 are as follows:

Schedule of Net Assets *($ in thousands)*

	2006	2005	Incr. (Decr.)
Assets			
Current assets	$ 14,152	12,677	1,475
Noncurrent assets	949	1,146	(197)
Capital assets, net	38,384	37,350	1,034
Total assets	53,485	51,173	2,312
Liabilities			
Current liabilities	7,014	7,266	(252)
Noncurrent liabilities	7,082	8,033	(951)
Total liabilities	14,096	15,299	(1,203)
Net assets			
Invested in capital assets, net of related debt	30,465	28,610	1,855
Restricted net assets	747	828	(81)
Unrestricted net assets	8,177	6,436	1,741
Total net assets	$ 39,389	35,874	3,515

Changes in net assets are a useful indicator of the Water Utility Fund's financial position. The Water Utility Fund's assets exceeded liabilities by $39,389 as of June 30, 2006. This was an increase of $3,515 over the prior year due to a positive operating result.

Of this increase, $2,312, or 66%, was used to fund capital assets and build up water replenishment reserves. Capital assets are discussed in the following section. The remaining portion of the net asset increase, $1,203, or 34%, was used to reduce the Water Utility's liability.

Capital Assets

As of June 30, 2006, the majority, or 72%, of the Water Utility Fund's total assets were invested in capital assets.

Additions to the Water Utility Fund's capital assets were due to water system improvements, Aid-In-Construction (AIC) projects, and other capital projects. Net capital asset additions during the year were approximately $3,148. Major capital projects completed and capitalized during the year are as follows:

($ in thousands)	
Domestic water mains	$ 1,045
Recycled water	526
Meter replacements	462
Booster Pumps	300
Utility Vehicle Upgrades	267
Water tanks and reservoir repair	214
Fire Service	143
Total	$ 2,957

Debt Administration

At the end of the current fiscal year, the Water Utility Fund had $6,251 in outstanding revenue bonds, of which $805 is due within a year. These bonds were issued to finance additions and improvements to the water system.

In addition to revenue bonds, the Water Utility Fund also had an outstanding State Water Resources Control Loan of $1,531, of which $170 is due within a year. This loan was issued for construction improvement to the recycled water distribution system. The Water Utility repaid a total of $935 in outstanding bonds and loans this fiscal year.

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

Economic Factors

The City Council approved a 4.8% water rate increase for Fiscal Year 2006-07. This is the fifth annual increase in the City Council's five-year approved plan to replenish water reserves.

The Metropolitan Water District (MWD) had an average increase of 4.1%, compared to the prior year. According to MWD's Five-Year Financial Forecast, the average annual rate increase is expected to be between 4.4% and 6.3% per year for calendar years 2007-11. These increases reflect anticipated increases in the cost of power, debt service, operations & maintenance, and capital improvement programs.

Requests for Information

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

Statement of Net Assets • June 30, 2006

With comparative financial information for the year ended June 30, 2005 • $ in thousands

	Water		Electric	
Assets	2006	2005	2006	2005
Current assets:				
Cash and cash equivalents (note 2):				
General operating	$ 4,971	4,626	41,619	47,467
Capital and debt reduction	2,807	2,807	10,000	10,000
General plant	-	-	800	800
Fleet replacement	-	-	3,000	3,000
Bond construction	-	-	3,814	4,005
Water replenishment	1,000	1,000	-	-
WCAC	1,641	1,000	-	-
Distribution main	1,100	1,100	-	-
Total cash and cash equivalents	11,519	10,533	59,233	65,272
Accounts receivables, net (note 3)	2,142	1,758	32,894	19,436
Inventories (note 4)	414	328	4,878	4,754
Deposits and prepaid expenses (note 5)	17	29	8,461	1,388
Interest receivable	60	29	441	310
Total current assets	14,152	12,677	105,907	91,160
Noncurrent assets:				
Restricted nonpooled investments (note 2)	902	1,097	11,822	12,914
Rights to purchase power	-	-	1,053	1,126
Deferred bond issuance and acquisition costs	47	49	570	626
Total noncurrent assets	949	1,146	13,445	14,666
Capital assets (note 6):				
Land	309	309	2,734	3,632
Utility plant and equipment	65,827	62,396	289,854	271,846
Construction in progress	3,260	3,545	27,191	30,958
Total utility plant and equipment	69,396	66,250	319,779	306,436
Less accumulated depreciation	(31,012)	(28,900)	(121,597)	(110,022)
Total capital assets, net	38,384	37,350	198,182	196,414
Total assets	53,485	51,173	317,534	302,240

(Continued)

See accompanying notes to basic financial statements.

Statement of Net Assets (continued) • June 30, 2006

With comparative financial information for the year ended June 30, 2005 • $ in thousands

	Water		Electric	
Liabilities	2006	2005	2006	2005
Current liabilities:				
Accounts payable and accrued expenses (note 7)	2,398	2,244	21,647	12,195
Current portion of loan payable (note 8)	170	165	-	-
Current portion of compensated absences (note 8)	38	33	194	208
Accrued payroll	204	148	989	867
Bond interest payable	24	27	173	178
Due to the City of Burbank	38	39	367	363
Customer deposits (note 9)	3,337	3,840	10,789	8,889
Current portion of revenue bonds payable, net (note 8)	805	770	8,230	7,980
Total current liabilities	7,014	7,266	42,389	30,680
Noncurrent liabilities:				
Revenue bonds payable, net (note 8)	5,446	6,247	87,528	95,724
Loan payable (note 8)	1,361	1,531	-	-
Compensated absences (note 8)	275	255	3,394	3,192
Total noncurrent liabilities	7,082	8,033	90,922	98,916
Total liabilities	14,096	15,299	133,311	129,596
Net Assets				
Net assets:				
Invested in capital assets, net of related debt	31,212	29,438	112,479	103,895
Unrestricted	8,177	6,436	71,744	68,749
Total net assets	$ 39,389	35,874	184,223	172,644

See accompanying notes to basic financial statements.

Statement of Revenues, Expenses and Changes in Fund Net Assets • Year ended June 30, 2006

With comparative financial information for the year ended June 30, 2005 • $ in thousands

	Water		Electric	
	2006	2005	2006	2005
Operating revenues:				
Sale of power-retail	$ -	-	143,487	136,304
Sale of power and fuel-wholesale (note 12)	-	-	195,512	110,037
Sale of water	16,805	16,420	-	-
Other revenues	2,131	819	6,159	5,494
Total operating revenues	18,936	17,239	345,158	251,835
Operating expenses:				
Power supply expenses-retail (note 11)	-	-	88,495	73,008
Purchased power and fuel expenses-wholesale (note 12)	-	-	188,655	105,856
Water supply expenses (note 1)	6,429	6,601	-	-
Water maintenance and operation expenses	5,403	4,422	-	-
Transmission expenses	-	-	10,176	7,526
Distribution expenses	-	-	10,022	8,994
Other operating expenses (note 1)	1,392	1,620	15,380	13,232
Depreciation	2,118	2,289	11,678	11,252
Total operating expenses	15,342	14,932	324,406	219,868
Operating income	3,594	2,307	20,752	31,967
Nonoperating income (expenses):				
Interest income	210	201	2,668	1,934
Interest expense	(366)	(400)	(4,426)	(4,223)
Other income (expenses), net	16	44	(312)	(86)
Total nonoperating income (expenses)	(140)	(155)	(2,070)	(2,375)
Income before contributions and transfers	3,454	2,152	18,682	29,592
Capital contributions	915	1,652	1,913	2,434
Transfers in from the City (note 13)	-	-	-	60
Transfers out to the City:				
Payments in lieu of taxes (note 10)	(840)	(797)	(8,903)	(8,551)
Other	(14)	-	(113)	(75)
Change in net assets	3,515	3,007	11,579	23,460
Net assets, July 1	35,874	32,867	172,644	149,184
Net assets, June 30	$ 39,389	35,874	184,223	172,644

See accompanying notes to basic financial statements.

Statements of Cash Flows • Year ended June 30, 2006

With comparative financial information for the year ended June 30, 2005 • $ in thousands

	Water		Electric	
	2006	2005	2006	2005
Cash flows from operating activities:				
Cash received from customers	$ 18,552	17,355	331,700	263,261
Cash paid to suppliers	(8,212)	(9,255)	(280,436)	(189,022)
Cash paid to employees	(5,354)	(4,462)	(27,754)	(24,719)
Cash paid for other expenses	-	-	(424)	-
Cash received from other income, net of sale proceeds of capital assets	4	36	-	(170)
Net cash provided by (used in) operating activities	4,990	3,674	23,086	49,350
Cash flow from noncapital financing activities:				
Transfers from City	-	17	4	131
Transfers to City	(855)	(795)	(9,016)	(8,627)
Net cash provided by (used in) noncapital financing activities	(855)	(778)	(9,012)	(8,496)
Cash flows from capital and related activities:				
Proceeds from sale of capital assets	12	8	112	84
Principal payments - bond	(770)	(750)	(7,980)	(7,760)
Interest expense	(367)	(400)	(4,375)	(4,029)
Capital contributions	915	1,652	1,913	2,434
Acquisition and construction of capital assets	(3,148)	(2,932)	(13,412)	(14,655)
Payments on loans	(165)	(161)	-	-
Net cash used in capital and related activities	(3,523)	(2,583)	(23,742)	(23,926)
Cash flows from investing activities:				
Interest received	179	172	2,537	1,842
Sale of restricted investment	-	(42)	-	(761)
Purchase of restricted investment	195	-	1,092	-
Net cash provided by investing activities	374	130	3,629	1,081
Net increase (decrease) in cash and cash equivalents	986	443	(6,039)	18,009
Cash and cash equivalents, beginning of year	10,533	10,090	65,272	47,263
Cash and cash equivalents, end of year	$ 11,519	10,533	59,233	65,272

See accompanying notes to basic financial statements.

Notes to Financial Statements • Year ended June 30, 2006

$ in thousands

	Water		Electric	
	2006	2005	2006	2005
Cash flows from operating activities:				
Operating income (loss)	$ 3,594	2,307	20,752	31,967
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	2,118	2,289	11,678	11,252
Other nonoperating revenue and expenses net of sales proceeds of capital assets	4	36	(424)	(170)
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(384)	116	(13,458)	11,426
(Increase) decrease in inventories	(86)	(6)	(124)	(873)
(Increase) decrease in deposits and prepaid expenses	12	160	(7,073)	851
Increase (decrease) in right to purchase power	-	-	73	44
Increase (decrease) in accounts payable and accrued expenses	154	(887)	9,452	(7,352)
Increase (decrease) in accrued payroll	56	(5)	122	46
Increase (decrease) in compensated absences	25	(140)	188	434
Increase (decrease) in customer deposits	(503)	(196)	1,900	1,725
Total adjustments	1,396	1,367	2,334	17,383
Net cash provided by (used by) operating activities	$ 4,990	3,674	23,086	49,350
Noncash investing, capital and financing activities:				
Increase (decrease) in fair market value of investments	$ (70)	(1)	(242)	(163)

See accompanying notes to basic financial statements.

NOTE 1: Summary of Significant Accounting Policies

(a) Significant Accounting Policies

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

(b) Accounting Methods

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

The basic financial statements include the following:

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

- Net assets invested in capital assets, net of related debt, consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets represents net asset whose use is restricted through external constraints imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

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

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

(c) Basis of Presentation

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

(d) Reporting Entity

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

$ in thousands

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

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

(e) Self-Insurance Program

The Water and Electric Utility Funds are part of the City's self-insurance programs, which provide coverage for general liability and workers' compensation claims. These activities are accounted for in the City's Self-Insurance Internal Service Fund, a Proprietary Fund type. Fund revenues are primarily premium charges to other funds and are planned to match estimated payments, including both reported and incurred but not reported claims, operating expenses and reinsurance premiums. The fund expenses the estimated liability for claims in cases where such amounts are reasonably determinable and where the liability is likely. See note 15, Self-Insurance Program, for additional information on the City's self-insurance programs.

(f) Capital Assets

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

	Estimated useful life
Buildings and improvements	20 to 40 years
Machinery and equipment (except vehicles)	20 years
Production plant	30 years
Boiler plant	20 years
Transmission structures	40 years
Transmission equipment	20 to 40 years
Poles, towers and fixtures	20 to 40 years
Distribution stations	30 to 40 years
Transformers	20 to 40 years
Electric meters	20 years
Water meters	15 to 20 years
Water services	40 years
Vehicles	5 to 10 years
Office Equipment	3 to 10 years

(g) Inventories

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

(h) Compensated Absences

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

(i) Estimates

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

(j) Revenue Recognition

Revenues are recorded in the period in which they are earned. The Water and Electric Utility Funds accrue estimated unbilled revenue for energy sold but not billed at the end of the fiscal period. All residential and commercial accounts are billed monthly. Operating revenues consist of retail and wholesale sales of electric and water, charges for electric and water related work performed for customers, such as service connection fees, and relocation fees. The Water Utility Fund's revenues include a Water Cost Adjustment Charge (WCAC). WCAC revenues in excess of water supply expenses have been deferred. See footnote 7.

(k) Operating Expenses

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

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

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

(l) Debt Issuance Costs

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

(m) Bond Refunding Costs

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

$ in thousands

NOTE 2: Cash and Investments

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

		Electric	Water	Total
Pooled cash and investments	$	59,217	11,519	70,736
Restricted non-pooled cash and cash equivalents		16	-	16
Restricted investments		11,822	902	12,724
Total	$	71,055	12,421	83,476
Cash on hand	$	16	-	16
Investments		71,039	12,421	83,460
Total	$	71,055	12,421	83,476

The pooled cash and investments of Water and Electric Utility Funds are maintained on deposit with the City Treasurer. The amounts are invested in the pooled funds and specific investment securities for the purpose of increasing income through investment activities. Investment income is allocated to the Funds based upon a proportionate share of total pooled investment earnings. Further information concerning the City's investment pool can be found in the City's Comprehensive Annual Financial Report.

Restricted non-pooled cash and cash equivalents consist of minimum required balance primarily for checking account and petty cash.

Cash and investments restricted for a specific purpose by either bond resolution, funding agency or an outside third party are classified as restricted assets.

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the **investment types** that are authorized for the City by the California Government Code (Code) (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the Code (or the City's investment policy, where more restrictive) that address **interest rate risk, credit risk** and **concentration of credit risk.** This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the Code or the City's investment policy.

Authorized Investment Type	Authorized by City Policy	Maximum Maturity	Max. Percentage of Portfolio	Max. Investment One Issuer
Agency-U.S. Federal Agency	Yes	5 years	70%	None
Burbank Investment Pool	Yes	N/A	None	None
Corporates-medium term notes	No	N/A	N/A	N/A
LAIF-Local Agency Investment Fund	Yes	N/A	None	None
U.S. Treasury obligations	Yes	5 years	100%	None
Banker's acceptances	No	N/A	N/A	N/A
Commercial paper	No	N/A	N/A	N/A
Timed certificates of deposit	No	N/A	N/A	N/A
Negotiable certificates of deposit	No	N/A	N/A	N/A
Money market mutual funds	No	N/A	N/A	N/A
Local Agency bonds	No	N/A	N/A	N/A
Repurchase agreements	No	N/A	N/A	N/A
Reverse repurchase agreements	No	N/A	N/A	N/A
Mutual funds	No	N/A	N/A	N/A
Mortgage pass-through securities	No	N/A	N/A	N/A
County pooled investment funds	No	N/A	N/A	N/A

$ in thousands

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Max. Percentage of Portfolio	Max. Investment One Issuer
Investment Agreements	N/A	None	None
LAIF-Local Agency Investment Fund	N/A	None	None
Money Market	N/A	None	None
Pledge Bonds	N/A	None	None
U.S. Treasury Obligations	N/A	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates which will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

		Remaining Maturity (in Months)				
Investment Type		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months	Total
Burbank Investment Pool		66,922	-	-	-	66,922
LAIF-Local Agency Investment Fund		3,814	-	-	-	3,814
Held by Bond Trustee:						
Investment Agreements		932	-	2,664	6,621	10,217
Money Market		2,316	-	-	-	2,316
U.S. Treasury Obligations		191	-	-	-	191
Total	$	74,175	-	2,664	6,621	83,460

Note: This table above excludes cash on hand of $16 (See Pg. 31).

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Code, the City's investment policy, or debt agreements, and the actual rating as of year end for each investment type. The column marked "exempt from disclosure" identifies those investment types for which GASB 40 does not require disclosure as to credit risk:

$ in thousands

		Minimum Legal Rating	Exempt from Disclosure
Burbank Investment Pool	$ 66,922	N/A	N/A
LAIF-Local Agency Investment Fund	3,814	N/A	N/A
Held by Bond Trustee:			
Investment Agreements	10,217	A	N/A
Money Market	2,316	Aaa	N/A
U.S. Treasury Obligations	191	Aaa	N/A
Total	$ 83,460		

	Rating as of Year-End				
	Aaa	Aa	A	Not Rated	Total
Burbank Investment Pool	$ -	-	-	66,922	66,922
LAIF-Local Agency Investment Fund	-	-	-	3,814	3,814
Held by Bond Trustee:					
Investment Agreements	6,415	3,802	-	-	10,217
Money Market	2,316	-	-	-	2,316
U.S. Treasury Obligations	191	-	-	-	191
Total	$ 8,922	3,802	-	70,736	83,460

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the Code, section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of the portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Equity in the Cash and Investment Pool of the City of Burbank

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 managed by the City of Burbank. 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 of the City of Burbank. BWP has not adopted a formal investment policy separate from that of the City of Burbank; BWP is however permitted to invest in LAIF, and U.S. Federal Agency notes. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon BWP's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis. The pool is treated as a demand deposit, meaning that funds can be withdrawn with no advance notice.

$ in thousands

NOTE 3: Accounts Receivable

		Water		Electric	
		2006	2005	2006	2005
Accounts receivable	$	2,182	1,838	33,061	21,021
Allowance		(40)	(80)	(167)	(1,585)
Total	$	2,142	1,758	32,894	19,436

Changes in the allowances for uncollectible accounts, net of California Independent System Operator receivables, reflect a change in the accrual method. The Utility now fully reserves receivables over 90 days old. The Water Utility Fund's allowance for doubtful accounts decreased by $40 from 2005 to 2006; while the Electric Utility Fund's allowance for doubtful accounts, net of the reserves for CAL ISO receivables, increased by $82 from 2005 to 2006.

In May, 2006, the Electric Fund received partial payment of $3.0 million on its receivables from the CAL ISO of $4.7 million. The City sold energy and ancillary services to the CAL ISO during the period from October 2000 to February 2001 in order to assist the CAL ISO in maintaining reliability in the region, and in response to a federal order by the Department of Energy requiring generators in the region to sell power to the CAL ISO. The Electric Fund had $1.5 million allowance on its CAL ISO receivables, and used it in May 2006.

During FY 2005-06, the Electric Utility Fund advanced the Magnolia Power Project $5,183 to complete the construction financing. The Electric Utility Fund expects to be reimbursed from an additional 10 year bond financing that SCPPA issued in late July 2006. (See also note 17 Subsequent event).

At June 30, 2006, the Electric Utility Fund had a receivable of $4,091 from power sales that was paid in July 2006.

NOTE 4: Inventory

The Electric Utility Fund's inventories as of June 30, 2006 and June 30, 2005:

		2006	2005
Materials and supplies inventory	$	3,242	2,878
Natural gas inventory		1,636	1,876
Total Inventories	$	4,878	4,754

On June 30, 2006, the natural gas inventory was 278,554 MMBtu, valued at $5.87 per MMBtu, for a balance of $1,636. On June 30, 2005, the natural gas inventory was 317,327 MMBtu, valued at $5.91 per MMBtu, for a balance of $1,876.

$ in thousands

NOTE 5: Deposits and Prepaid Expenses

The Electric Utility Fund shows a total of $8,461 in deposits and prepaid expenses. The composition of these deposits and prepaid expenses includes a $7,269 deposit with SCPPA as a fuel reserve for the Magnolia Power Project. In addition, in June 2000, the City of Burbank 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, 2006, the Electric Fund amortized $75 on this prepaid lease, leaving a balance of $1,163.

NOTE 6: Capital Assets

Capital assets include the following at June 30, 2006 and 2005:

WATER	Balance as of June 30, 2004	Additions	Deletions	Balance as of June 30, 2005	Additions	Deletions	Balance as of June 30, 2006
Capital assets not being depreciated:							
Land	$ 309	-	-	309	-	-	309
Construction in progress	3,515	2,971	(2,941)	3,545	2,708	(2,993)	3,260
Total capital assets not being depreciated	3,824	2,971	(2,941)	3,854	2,708	(2,993)	3,569
Capital assets being depreciated:							
Buildings and improvements	54,886	2,539	(26)	57,399	3,171	-	60,570
Accumulated depreciation	(23,508)	(1,924)	-	(25,432)	(1,852)	-	(27,284)
Machinery and equipment	4,716	352	(71)	4,997	265	(5)	5,257
Accumulated depreciation	(3,255)	(284)	71	(3,468)	(265)	5	(3,728)
Total capital assets being depreciated, net	32,839	683	(26)	33,496	1,319	-	34,815
Total net capital assets	$ 36,663	3,654	(2,967)	37,350	4,027	(2,993)	38,384

ELECTRIC	Balance as of June 30, 2004	Additions	Deletions	Balance as of June 30, 2005	Additions	Deletions	Balance as of June 30, 2006
Capital assets not being depreciated:							
Land	$ 2,734	-	-	2,734	-	-	2,734
Construction in progress	35,145	18,284	(22,471)	30,958	10,898	(14,665)	27,191
Total capital assets not being depreciated	37,879	18,284	(22,471)	33,692	10,898	(14,665)	29,925
Capital assets being depreciated:							
Land improvements	898	-	-	898	1,384	-	2,282
Accumulated depreciation	(4)	(45)	-	(49)	(87)	-	(136)
Buildings and improvements	231,685	17,507	-	249,192	14,649	-	263,841
Accumulated depreciation	(87,253)	(9,870)	19	(97,104)	(10,184)	-	(107,288)
Machinery and equipment	21,481	6,150	(4,977)	22,654	1,178	(101)	23,731
Accumulated depreciation	(11,709)	(1,399)	239	(12,869)	(1,405)	101	(14,173)
Total capital assets being depreciated, net	155,098	12,343	(4,719)	162,722	5,535	-	168,257
Total net capital assets	$ 192,977	30,627	(27,190)	196,414	16,433	(14,665)	198,182

North-South DC Intertie

The City is a participant in an agreement with the City of Los Angeles, Southern California Edison, the City of Glendale and the City of Pasadena for an unrestricted 3.846% interest in the North-South DC Intertie. As of June 30, 2006, 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 $8,349 for a net asset value of $6,285. 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.

$ in thousands

NOTE 7: Accounts Payable and Accrued Expenses

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 payable account. Water supply expenses (WCAC expenses) include purchased water, electricity to pump water, replacement ground water, and chemicals used to treat water. The deferred WCAC balances were $1,641 and $1,000 at June 30, 2006 and 2005, respectively.

At June 30, 2006, the Electric Utility Fund had accrued expense for power purchases approximately $15,268 that was paid in July 2006.

		Water		Electric	
		2006	2005	2006	2005
Accounts Payable & Accrued Expenses	$	757	1,244	21,647	12,195
WCAC		1,641	1,000	-	-
Total	$	2,398	2,244	21,647	12,195

NOTE 8: Loan and Revenue Bonds Payable

(a) Loan Payable

		Water	
		2006	2005
This State Water Resources Control Loan was issued for the purpose of construction improvement to the Reclaimed Water Distribution System. Funds are disbursed on either a reimbursement basis, or at such time, as they are due and payable by the City. The interest rate is 2.7%, with the principal to be repaid no later than April 2014, 20 years from the loan date	$	1,531	1,696
Less current portion		(170)	(165)
Long-term intergovernmental loan payment	$	1,361	1,531

A schedule of aggregate maturities, including interest, on the intergovernmental loan payable subsequent to June 30, 2006 is as follows:

		Water		
		Principal	Interest	Total
2007	$	170	41	211
2008		174	37	211
2009		179	32	211
2010		184	27	211
2011		189	22	211
2012 – 2014		634	36	670
	$	1,530	195	1,725

(b) Revenue Bonds Payable

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

Notes to Financial Statements • Year ended June 30, 2006

$ in thousands

	Water		Electric	
	2006	2005	2006	2005
1998 Series A Bonds: $45,160 Public Service Department Electric Revenue Bonds, 1998 Series A, and $10,585 Public Service Department Water Revenue Bonds, 1998 Series A were issued to partially advance refund the 1992 Series A Public Service Department Water and Electric Revenue Bonds and to provide funds for additions and improvements, payable in installments ranging from $750 to $3,700. Interest rates range from 2.90% to 4.75%. Payments are made semiannually on June 1 and December 1, with the final payment to be made on June 1, 2023.	$ 6,330	7,100	43,560	45,160
Less:				
Current portion	(805)	(770)	(1,660)	(1,600)
Original issue discount/premium	(79)	(83)	(418)	(437)
Long-term 1998 Series A Bonds	5,446	6,247	41,482	43,123
2001 Series Bonds: $54,745 Burbank Water and Power Electric Revenue Bonds, Series of 2001, were issued to fund the acquisition and installation of a 47 MW gas-fired turbine, other electric improvements and refund outstanding senior lien revenue bonds. Payments are in installments ranging from $5,360 to $6,770. Interest rates range from 2.25% to 4.00%. Payments are made semiannually on June 1 and December 1, with the final payment to be made on June 1, 2011.	$ -	-	29,550	34,910
Less:				
Current portion	-	-	(5,520)	(5,360)
Original issue discount/premium	-	-	(147)	(176)
Long-term Bonds Series of 2001	-	-	23,883	29,374
2002 Series Bonds: $25,000 Burbank Water and Power Electric Revenue Bonds, Series of 2002, were issued for retrofitting Olive 1 and Olive 2 steam generators to meet new air quality emission limits, other electric improvements and refund certain electric revenue bonds. Payments are in installments ranging from $990 to $2,000. Interest rates range from 3.00% to 5.375%. Payments are made semiannually on June 1 and December 1, with the final payment to be made on June 1, 2022.	$ -	-	22,990	24,010
Less:				
Current portion	-	-	(1,050)	(1,020)
Original issue discount/premium	-	-	223	237
Long-term Bonds Series of 2002	-	-	22,163	23,227
Total long-term revenue bonds payable	$ 5,446	6,247	87,528	95,724

$ in thousands

A schedule of aggregate maturities on bonds payable subsequent to June 30, 2006 is as follows:

	Water		Electric		
	Principal	Interest	Principal	Interest	Total
2007	$ 805	293	8,230	4,184	13,512
2008	840	262	8,505	3,907	13,514
2009	875	228	8,805	3,607	13,515
2010	910	192	9,125	3,287	13,514
2011	955	145	9,475	2,939	13,514
2012 – 2016	1,290	256	18,735	10,986	31,267
2017 – 2021	450	114	23,995	5,877	30,436
2022 – 2026	205	15	9,230	619	10,069
Total	$ 6,330	1,505	96,100	35,406	139,341

The following is a summary of changes in the Water Utility Fund's long-term liabilities as of June 30, 2006:

June 30, 2006	July 1, 2005	Additions	Retirements	June 30, 2006	Due within One Year
Intergovernmental Loan Payable	$ 1,696	-	(165)	1,531	170
Revenue Bond Payable:					
1998 Series A Bonds	7,100	-	(770)	6,330	805
Compensated Absences	288	58	(33)	313	38
	$ 9,084	58	(968)	8,174	1,013
Less current portion	(968)			(1,013)	
Less unamortized bond premium (discounts)	(83)			(79)	
Total	$ 8,033			7,082	

June 30, 2005	July 1, 2004	Additions	Retirements	June 30, 2005	Due within One Year
Intergovernmental Loan Payable	$ 1,857	-	(161)	1,696	165
Revenue Bond Payable:					
1998 Series A Bonds	7,850	-	(750)	7,100	770
Compensated Absences	428		(140)	288	33
	$ 10,135	-	(1,051)	9,084	968
Less current portion	(926)			(968)	
Less unamortized bond premium (discounts)	(86)			(83)	
Total	$ 9,123			8,033	

$ in thousands

The following is a summary of changes in the Electric Utility Fund's long-term liabilities as of June 30, 2006:

June 30, 2006	July 1, 2005	Additions	Retirements	June 30, 2006	Due within One Year
Revenue Bond Payable:	$				
1998 Series A Bonds	45,160	-	(1,600)	43,560	1,660
2001 Series A Bonds	34,910	-	(5,360)	29,550	5,520
2002 Series A Bonds	24,010	-	(1,020)	22,990	1,050
Compensated Absences	3,400	396	(208)	3,588	194
	$ 107,480	396	(8,188)	99,688	8,424
Less current portion	(8,188)			(8,424)	
Less unamortized bond premium (discounts)	(376)			(342)	
Total	$ 98,916			90,922	

June 30, 2005	July 1, 2004	Additions	Retirements	June 30, 2005	Due within One Year
Revenue Bond Payable:	$				
1998 Series A Bonds	45,160	-	-	45,160	1,600
2001 Series A Bonds	41,680	-	(6,770)	34,910	5,360
2002 Series A Bonds	25,000	-	(990)	24,010	1,020
Compensated Absences	2,966	625	(191)	3,400	208
	$ 114,806	625	(7,951)	107,480	8,188
Less current portion	(7,951)			(8,188)	
Less unamortized bond premium (discounts)	(410)			(376)	
Total	$ 106,445			98,916	

NOTE 9: Customer Deposits

AB 1890 requires the Electric Utility to spend 2.85% of its electric revenues for Public Benefits (PB) purposes. The entire unspent portion of the PB obligation for the City and the Electric Utility has been recorded in the Electric Utility Fund's liabilities. The amount of the PB obligation is part of customer deposits, but reported as the Public Benefits liability. The unspent portion of the PB obligation is included in customer deposits and as of June 30, 2006 and June 30, 2005 is $7,277 and $5,948, respectively.

$ in thousands

NOTE 10: Related Party Transactions

The City assesses a 5% in-lieu of taxes on Water and Electric Utility Fund revenues. In addition, an assessment of 1.25% is made on 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, 2006 and 2005 as follows:

		Water		Electric	
		2006	2005	2006	2005
In-lieu of taxes	$	840	797	7,166	6,850
Street Lighting		-	-	1,737	1,701
Total Payment in-lieu of taxes	$	840	797	8,903	8,551

The City also allocates certain administrative and overhead costs to the Water and Electric Utility Funds in the other operating expenses category. These costs for the years ended June 30, 2006 and 2005 was as follows:

		Water		Electric	
		2006	2005	2006	2005
Administrative and overhead costs	$	434	675	2,701	2,413
Total	$	434	675	2,701	2,413

In addition, the City receives a 7% user utility tax on electric revenues that is not reflected in the Electric Utility Fund's financial statements. This tax for the year ended June 30, 2006 and 2005 was as follows:

		Electric	
		2006	2005
User Utility Taxes	$	9,492	9,013
Total	$	9,492	9,013

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 includes "take or pay" and term purchases. Local generation and market purchases supplement firm contracts to meet Burbank's retail load requirements.

(B) Take or Pay Contracts

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

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

(a) Southern California Public Power Authority (SCPPA)

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

Hoover Uprating Project (HU)

On March 1, 1986, the Authority and six participants entered into an agreement pursuant to which each participant assigned its entitlement to capacity and associated firm energy to the Authority in return for the Authority's agreement to make advance payments to the United States Bureau of Reclamation (USBR) on behalf of such participants. The Authority has an 18.68% interest in the contingent capacity of the Hoover uprating project. All 17 "uprated" generators of the HU have commenced commercial operations. The City has a 16% (15MW) ownership interest in this project.

Southern Transmission System Project (STS)

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

Mead-Phoenix (MP)

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

Mead-Adelanto (MA)

The Authority also entered into an agreement dated as of December 17, 1991 to acquire a 67.92% interest in the Mead-Adelanto Project, a transmission line extending between the Adelanto substation in Southern California and the marketplace substation in

$ in thousands

Nevada. Funding for these projects was provided by a transfer of funds from the multiple projects fund and commercial operations commenced in April 1996. LADWP serves as the operations manager of Mead-Adelanto. The project is a 202 mile, 500 kV AC transmission line with a rating of 1,200 megawatts. The City's ownership share of Mead-Adelanto is 11.5%.

Palo Verde (PV)

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

Magnolia Power Project (MPP)

In March 2003, the City of Burbank entered into a power sales agreement with the Authority for the Magnolia Power Project (MPP). MPP commenced commercial operation in September 2005. MPP is a combined-cycle natural gas-fired generation plant with a nominally rate net base capacity of 224 megawatts. The City is obligated for 97.6 megawatts or 30.992% of its output. The City of Burbank is also MPP's operating agent.

Natural Gas Project

On July 1, 2005, the Authority issued taxable Natural Gas Project Revenue Bonds, Draw Down Series 2005A ("the Draw Down Bonds") on behalf of Anaheim, Burbank and Colton to finance their share of the project. The maximum amount that may be drawn and outstanding on the Draw Down Bonds is $100,000 and the initial draw was $26,300. As of June, 2006, the outstanding aggregate principal of Draw Down Bonds was $28,200. The bonds mature in the fiscal year ended June 30, 2008; however, it is anticipated that these bonds will be replaced by long-term financing.

(b) Intermountain Power Agency (IPA)

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

A summary of the City of Burbank "take or pay" contracts and related projects and its contingent liability at June 30, 2006 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
Southern California Public Power Authority:				
Hoover uprating	$ 20,085	15.957%	$ 3,206	$ 4,307
Southern Transmission system	901,815	4.498%	40,563	60,448
Mead-Adelanto	229,170	11.534%	26,431	37,076
Mead-Phoenix	71,905	15.400%	11,073	15,554
Palo Verde	125,260	4.400%	5,511	6,801
Magnolia Power Project (Project A)	299,975	30.992%	92,964	190,232
Natural Gas Project	28,200	25.000%	7,050	7,900
Intermountain Power Project	2,980,874	3.371%	100,485	139,834
Total	$ 4,657,284	6.142%	$ 287,283	$ 462,152

$ in thousands

The schedule below details the amount of principal and interest that is due and payable by the City as part of the take-or-pay contract for each project in the fiscal year indicated (year ending June 30).

	2007		2008		2009	
	Principal	Interest	Principal	Interest	Principal	Interest
SCPPA:						
Hoover Uprating	$ 210	149	219	140	227	132
IPP STS	1,246	1,744	1,392	1,796	1,419	1,724
Mead-Adelanto	1,251	1,186	1,286	1,154	1,315	1,122
Mead-Phoenix	501	509	516	497	527	484
Palo Verde	508	213	523	194	539	173
Magnolia Power Project	1,089	4,504	1,331	4,482	1,357	4,456
Natural Gas Project	-	425	7,050	425	-	-
Intermountain Power	4,065	4,777	4,964	4,443	4,681	4,169
Total	$ 8,870	13,507	17,281	13,131	10,065	12,260

	2010		2011		2012/16	
	Principal	Interest	Principal	Interest	Principal	Interest
SCPPA:						
Hoover Uprating	$ 236	122	246	113	1,403	392
IPP STS	1,389	1,645	1,490	1,566	10,752	6,571
Mead-Adelanto	1,352	1,089	1,446	1,056	8,706	3,712
Mead-Phoenix	539	470	702	457	3,868	1,534
Palo Verde	443	153	457	135	2,496	401
Magnolia Power Project	1,390	4,423	1,436	4,375	8,197	20,865
Natural Gas Project	-	-	-	-	-	-
Intermountain Power	5,574	3,847	7,348	3,698	29,518	12,943
Total	$ 10,923	11,749	13,125	11,400	64,940	46,418

	2017/21		2022/26		2027/31	
	Principal	Interest	Principal	Interest	Principal	Interest
SCPPA:						
Hoover Uprating	$ 665	53	-	-	-	-
IPP STS	13,302	4,119	9,573	720	-	-
Mead-Adelanto	11,075	1,326	-	-	-	-
Mead-Phoenix	4,420	530	-	-	-	-
Palo Verde	545	21	-	-	-	-
Magnolia Power Project	10,469	18,595	13,414	15,648	17,119	11,942
Natural Gas Project	-	-	-	-	-	-
Intermountain Power	34,273	5,535	10,062	(63)	-	-
Total	$ 74,749	30,179	33,049	16,305	17,119	11,942

	2032/36		2037/41	
	Principal	Interest	Principal	Interest
SCPPA:				
Hoover Uprating	$ -	-	-	-
IPP STS	-	-	-	-
Mead-Adelanto	-	-	-	-
Mead-Phoenix	-	-	-	-
Palo Verde	-	-	-	-
Magnolia Power Project	21,849	7,212	15,313	766
Natural Gas Project	-	-	-	-
Intermountain Power	-	-	-	-
Total	$ 21,849	7,212	15,313	766

$ in thousands

NOTE 12: Purchased Power and Fuel Expenses - Wholesale

The Electric Utility Fund has been involved in the wholesale market for many years. Since 2000, the Electric Utility Fund's strategy has been one of primarily optimizing revenues from temporarily underutilized electric assets to develop wholesale net margins to reduce its power supply expenses.

		2006	2005
Wholesale Revenues	$	195,512	110,037
Wholesale Costs		188,655	105,856
Wholesale Margin	$	6,857	4,181

NOTE 13: Transfer in from the City

Transfers in from the City represent the construction costs associated with the relocation of the Hollywood Way and Alameda substation due to the expansion of SR-134. The cost of this project was recorded as part of the Utility Plant and Equipment. As of June 30, 2006, the total cost for this project, which was paid through bond proceeds and impact fees by the Burbank Redevelopment Agency – West Olive Project Area, was $11,214.

NOTE 14: Defined Benefit Pension Plan and Post-Retirement Health Care Benefits

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

The Water and Electric Utility Fund makes a 7% contribution on behalf of its employees. The City is required to contribute at an actuarially determined rate. In FY 2005-06, the Water and Electric Utility Fund, as employer, was required to contribute an additional 9.456%. 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 Water and Electric Utility Funds of the actuarially computed pension benefit obligation and the plans' net assets available for benefits.

Water and Electric Utility Fund annual pension costs are in the following table:

Fiscal Year	Annual Pension Cost (APC)		Percentage of
Ending	Electric	Water	APC Contributed
June 30, 2004	1,248	241	100%
June 30, 2005	1,899	364	100%
June 30, 2006	3,175	600	100%

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

In addition to providing pension benefits, the City provides certain health care benefits for retired employees. Burbank Employees Retiree Medical Trust (BPRMT) 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 of Burbank's Comprehensive Annual Financial Report.

NOTE 15: Self-Insurance Program

The Water and Electric Funds are in the City's self-insurance program as part of the City's policy to self-insure certain levels of risk within separate lines of coverage to maximize cost savings. The 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 an additional coverage from commercial market for a 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 Water and Electric Utility Funds a premium based upon the proportional payroll cost, job classification, and claim history. Additional information regarding the City's insurance program can be found in the City's Comprehensive Annual Financial Report.

NOTE 16: Contingencies

Litigation Related to Alleged Overcharges for the Sale of Power

The City made bilateral sales of energy and ancillary services during the period May 2000 to February 2001 in order to assist the California Independent System Operator ("CAL ISO") in maintaining reliability in the region, and in response to a federal order by the Department of Energy requiring generators in the region to sell power to the CAL ISO. The CAL ISO in turn resold at least some portion of this power to its customers and entities participating in its markets. The three investor-owned utilities in California and the state Department of Water Resources, each of whom purchased energy and ancillary services from the CAL ISO during this period, are presently pursuing claims in state and federal court in which they seek to impose refund liability on the City and other similarly-situated publicly-owned utilities for their sales to the CAL ISO. The Electric Utility Fund's management believes that the ultimate outcome of these matters will not have a material impact on the financial condition of the utility.

Other Litigation

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

NOTE 17: Subsequent Event

In July 2006, SCPPA issued $37.73 million par value Magnolia Power Project A, Revenue Bonds, Series 2006-1. The bonds were issued primarily for the purpose of completing the construction financing of Magnolia Power Project. The City's ownership share of Magnolia Power Project is 30.992%.

SCHEDULE 1: Annual Electric Supply
Fiscal Year Ended June 30, 2006

Resource	MWh	Percentage
Intermountain Power Project	579,000	44.0%
Hoover	23,000	1.8%
Palo Verde Nuclear	59,000	4.5%
Magnolia Power Project	187,000	14.2%
Firm Contracts	32,000	2.4%
Non-Firm Contracts	355,000	27.0%
On-Site Generation	80,000	6.1%
TOTAL	1,315,000	100.0%

SCHEDULE 2: Customer, Sales, Electric Revenues and Demand
Fiscal Years Ended June 30; $ in Thousands

	2006	2005	2004	2003	2002
Number of Customers:					
Residential	43,973	43,930	44,683	44,460	44,726
Commercial	6,288	6,274	6,278	6,396	6,333
Industrial	167	167	165	253	246
Other	274	262	234	330	350
Total	50,702	50,633	51,360	51,439	51,655
Kilowatt-hour Sales (millions)					
Residential	268	259	271	242	238
Commercial	244	241	246	235	238
Industrial	588	535	528	522	532
Other	38	58	59	37	40
Total	1,138	1,093	1,104	1,036	1,048
Electric Revenues ($000's):					
Retail	$ 143,487	136,304	136,789	126,418	128,108
Wholesale	$ 195,512	110,037	131,044	85,680	46,501
Other	$ 6,159	5,494	3,342	3,484	4,106
Total	$ 345,158	251,835	271,175	215,582	178,715
Peak Demand (MW)	284	281	269	264	246

SCHEDULE 3: Weighted Average Billing Price — Electric
Fiscal Years Ended June 30; Cents per Kilowatt-hour

	2006	2005	2004	2003	2002
Residential	12.9	12.9	12.9	12.8	12.5
Commercial	13.2	13.7	13.4	13.3	12.3
Industrial	12.0	12.2	12.4	12.3	11.7
Weighted Average Electric Rate	12.5	12.7	12.9	12.7	12.2

See accompanying notes to basic financial statements.

SCHEDULE 4: Annual Water Supply

Fiscal Year Ended June 30, 2006

Resource	A.F.	Percentage
Metropolitan Water District	13,031	59.5%
Local Production	8,881	40.5%
TOTAL	21,912	100.0%

SCHEDULE 5: Customers, Water Sales, Water Revenues

Fiscal Years Ended June 30; $ in Thousands

	2006	2005	2004	2003	2002
Number of Customers:					
Residential	22,050	22,104	22,111	21,947	22,419
Commercial	3,072	3,069	3,036	3,120	3,049
Industrial	114	121	122	155	145
Other	1,102	1,096	1,046	1,018	996
Total	26,338	26,390	26,315	26,240	26,609
CCF Sales Per Year (x1,000):					
Residential	6,755	6,620	7,254	6,943	7,064
Commercial	1,749	1,852	1,829	1,718	1,770
Industrial	370	344	354	337	355
Other	852	674	742	699	544
Total	9,726	9,490	10,179	9,697	9,733
Revenues from Sale of Water					
Retail	$ 16,805	16,420	16,245	15,240	14,010
Other	$ 2,131	819	1,016	1,706	1,120
Total	$ 18,936	17,239	17,261	16,946	15,130
Maximum Day (Million gallons)	31.9	35.1	34.2	33.3	31.3

SCHEDULE 6: Weighted Average Billing Price — Water

Fiscal Years Ended June 30; Cents per CCF

	2006	2005	2004	2003	2002
Residential	1.8	1.7	1.6	1.6	1.5
Commercial	1.7	1.6	1.5	1.5	1.3
Industrial	1.6	1.5	1.5	1.4	1.3
Weighted Average Water Rate	1.8	1.7	1.5	1.5	1.4

See accompanying notes to basic financial statements.

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