Always There for You!

CITY OF BURBANK
Water and Power
Since 1913

ANNUAL REPORT
2010

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2009-2010 Highlights

- Completed the eleventh year of an infrastructure modernization and improvement program in the water and electric systems for reliability, safety and efficiency.
- Rated as an American Public Power Association RP3 utility for outstanding electric distribution system reliability and safety.
- Continued the expedited build-out of the recycled water system to reduce potable water system demand and supply costs.
- Strong financial results and investment ratings from bond agencies for both the Water and Electric Funds.
- Helped residents and businesses with their water and energy consumption through aggressive conservation, education, assistance, and rebate programs.

BWP Board

Back row, L to R:
Martin Adams
Thomas Jamentz
Lee Dunayer

Front row, L to R:
Lynn Kronzek *(Vice President)*
Robert Olson *(President)*
Wendy James

Not pictured:
Rod Kurihara

Executive Team

L to R:
Xavier Baldwin, *Interim Assistant General Manager, Power Supply*
Kathleen Hillesland, *Administrative Officer*
Jorge Somoano, *Assistant General Manager, Electrical Service*
Joanne Fletcher, *Assistant General Manager, Customer Service & Marketing*
Ronald Davis, *General Manager*
Bill Mace, *Assistant General Manager, Water*
Bob Liu, *Chief Financial Officer*
Jim Compton, *Assistant General Manager, Technology*

Always There for You!

Burbank Water and Power (BWP) is *Always There for You!* on many fronts. Locally, BWP is available round-the-clock to make sure your water and electric services are reliable and safe. BWP has also provided leadership in transforming its infrastructure, alliances, and finances to align with building a sustainable community. The Burbank City Council's commitment to sustainability is reflected in its approval of BWP plans and funding to move forward on all kinds of sustainability projects. BWP has successfully plugged its water leaks and developed the capability to locally store inexpensive excess water in the ground. BWP is also reducing Burbank's dependence on expensive potable water resources by expanding its recycled water system. BWP has been reducing electric system losses and improving reliability by modernizing its infrastructure. BWP is developing an enabling demand management infrastructure, called Smart Grid, to allow customers to better manage their energy usage, shift energy demand off peak, and integrate renewable resources; in addition, BWP has been, and is, forging alliances to develop, produce and deliver affordable renewable energy.

Away from Burbank, BWP's proven prowess in local sustainability, efficiency and reliability has provided the credentials needed to have an influential voice in Southern California, Sacramento, and Washington DC on policies and regulations related to energy and water resources, and conservation. BWP is sponsoring and participating in efforts to develop consensuses that pursue reasonable and forward thinking sustainability paradigms that will not adversely or materially impact reliability or rates.

Financial results for the Water and Electric Funds were strong in fiscal year 2009-2010. BWP's water and electric rates are very competitive, yet they provided sufficient funding for operations and maintenance, including covering the rising costs of procuring water and energy, while also providing funds for system reliability and capital improvements. The Electric Fund's Standard & Poor's (S&P) credit rating is a very strong "AA-". The Water Fund's S&P rating was recently upgraded to an excellent "AAA". These ratings are significant because they provide BWP access to capital markets as needed for modernizing and for improving system efficiency, reliability, and sustainability. BWP's electric system continues to be one of the most reliable in the nation, in the top one percent, and is recognized as a Platinum Public Power Provider by the American Public Power Association.

BWP will continue its proud tradition of providing Burbank residents and businesses with safe, reliable, and affordable water and electric services, while keeping the goal of helping to build a sustainable community a priority. Improving how efficiently BWP delivers water and energy by avoiding losses, minimizing peak energy use by shifting energy use to off-peak, and reducing potable water demand by shifting applicable demand to recycled water, will continue to be the focus of much of the utility's resources for the foreseeable future. These strategies, as well as working with our customers to conserve and use water and energy more wisely, are the significant building blocks of BWP's sustainability plan.

Sincerely,

Ron Davis

Ron Davis
General Manager

General Manager's Letter

Mayer Hoffman McCann P.C.
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The Honorable Mayor and City Council
City of Burbank
Burbank, California

We have audited the accompanying financial statement 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, 2010 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 partial comparative information has been derived from the financial statements of the Water and Electric Utility Funds of the City of Burbank for the year ended June 30, 2009 and, in our report dated November 13, 2009, we expressed an unqualified opinion on the respective financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 24, 2010 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
November 24, 2010

The management of the Water and Electric Utility Enterprise Funds ("Management") offers the following overview and analysis of the basic financial statements for the fiscal year ended June 30, 2010 ("the fiscal year"). Management encourages readers to utilize the information in the Management's 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 Water and Electric Utility Enterprise Funds for the two most recent fiscal years.

Management has elected to provide highlights to the basic financial statements as well as vital statistics and other relevant information concerning the 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. Under this method, all changes in net assets are reported as soon as the underlying events occur, regardless of the timing of cash flows. Thus, revenues and expenses reported in this statement for some items may affect cash flows in future fiscal periods (examples include billed but uncollected revenues and employee earned but unused vacation leave).

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

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

ELECTRIC UTILITY FUND

During the year ended June 30, 2010, the Electric Utility Fund's significant financial highlights are as follows:

- The Electric Utility's credit rating was upgraded to "AA-" by Standard & Poor's in November 2009. This upgrade reflected the rating agency's view of the Electric Utility's track record of consistent strong financial performance resulting from conservative financial and risk policies, power cost management, reserve levels, and a relatively strong local economy.

- The Electric Utility issued $88,490 of revenue bonds in March 2010, $50 million of which is being used to fund the replacement and upgrade of the electric distribution system and the general plant. The remaining proceeds were used to partially refund the existing revenue bonds for economic benefits.

- Electric sales were lower by 48,205 megawatt hours ("MWh"), or 4.1%, compared to the prior fiscal year primarily due to a cooler than average summer and a weak economy. Net assets increased by $9,980, or 4.4%, due to favorable operating results during the fiscal year.

- The Electric Utility Fund invested $28,986 in capital assets funded by cash reserves and the 2010 bond proceeds. The Electric Utility's pro-active capital investments are reflected in the system-wide reliability statistics. The average customer experienced a service outage only once every 3.0 years compared to an industry average of 1.2 outages per year. Customers who had an outage were out-of-service for an average of only 74.1 minutes compared to an industry average of 80.0 minutes.

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

	2010	2009	Incr. (Decr.)
Retail sales (in MWh)	1,135,782	1,183,987	(48,205)
Operating revenues:			
Retail	$ 154,174	158,039	(3,865)
Wholesale	75,946	120,716	(44,770)
Miscellaneous/Other revenues	4,900	8,834	(3,934)
Total operating revenues	235,020	287,589	(52,569)
Operating expenses:			
Power supply and fuel – retail	89,225	95,043	(5,818)
Purchased power and fuel – wholesale	73,331	116,544	(43,213)
Transmission expense	12,262	11,632	630
Distribution expense	9,369	10,495	(1,126)
Other operating expenses	19,039	16,852	2,187
Depreciation	11,018	12,651	(1,633)
Total operating expenses	214,244	263,217	(48,973)
Operating income	20,776	24,372	(3,596)
Non-operating income (expenses):			
Interest income	1,765	1,707	58
Intergovernmental	140	0	140
Other income (expenses), net	155	484	(329)
Interest expenses	(3,962)	(3,581)	(381)
Total non-operating expenses	(1,902)	(1,390)	(512)
Income before contributions and transfers	18,874	22,982	(4,108)
Contributions and transfers:			
Capital contributions	1,634	1,233	401
Transfers out to the City	(645)	0	(645)
Payments in lieu of taxes	(9,883)	(10,138)	255
Change in net assets	9,980	14,077	(4,097)
Net assets, beginning of year	226,762	212,685	14,077
Net assets, end of year	**$ 236,742**	**226,762**	**9,980**

Retail (sales to residential and commercial customers) and wholesale revenues were the primary revenue sources for the Electric Utility. These revenues made up 96.9% of the Electric Utility's operating revenues. Retail energy sales decreased by 48,205 MWh, or 4.1%, due to a cooler than average summer and a weak economy. Retail revenues were lower by $3,865, or 2.4%, due to lower sales volume but were offset by a 5.75% rate increase effective January 1, 2010.

Miscellaneous/Other revenues were $3,934, or 44.5% lower than the prior fiscal year. The prior year's miscellaneous revenues included various power invoice reconciliations of $2,565 from the Southern California Public Power Authority ("SCPPA").

Wholesale margins of $2,615 contributed to the Electric Utility's financial performance by reducing the Utility's overall power supply expenses for this fiscal year. Wholesale revenues and expenditures both decreased by 37.1% due to lower energy prices, a weak economy, and the de-rating of a transmission line. In general, when energy prices are low there is less market volatility and thus the wholesale opportunities are diminished accordingly. The weak economy has resulted in lower energy demand, and the de-rating of a transmission line has reduced the Utility's ability to monetize excess transmission capacity.

Retail power supply expenses were $5,818, or 6.1% lower than the prior fiscal year as a result of lower retail load and lower energy prices. Lower energy prices were offset by higher costs associated with the addition of renewable energy. Renewable energy made up 4.4% compared to 2.5% of total energy supply in the prior fiscal year.

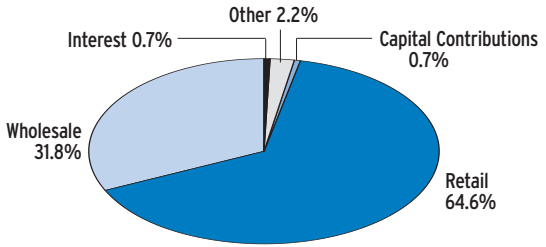
Distribution expenses were $1,126, or 10.7% lower than the prior fiscal year. The decrease was primarily the result of capitalizing more labor costs in building capital assets. Capital spending for this fiscal year was $28,986 compared to $17,636 in the prior fiscal year.

Other operating expenses were $2,187, or 13.0% higher compared to the prior fiscal year. This increase was primarily due to a higher cost allocation for City provided services and a write-off of the remaining cost of issuance associated with the refunded bonds.

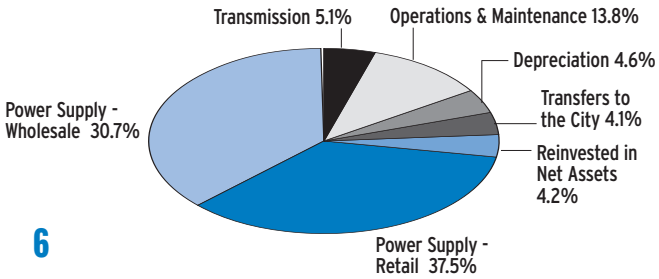
Depreciation expenses were $1,633, or 12.9% lower compared to the prior fiscal year. The decrease was primarily the result of the assets' useful life evaluation study based on the Federal Energy Regulatory Commission ("FERC") accounting guidelines. The FERC accounting method will provide a better basis for financial reporting and benchmarking against other utilities. Assets' useful life was extended as a result of the study.

The Electric Utility transferred $9,883 to the City of Burbank's ("City") General Fund in the form of an in-lieu tax of 5.0% of the electric retail revenues, and a street lighting transfer of 1.50% of the electric retail revenues. Retail customers also contributed $10,376, or 7.0%, of the electric retail revenues to the City's General Fund in the form of a Utility Users Tax. In addition, the Electric Utility set aside $3,918, or 2.85 %, of the retail revenues for Public Benefit programs.

Sources of Revenues



Uses of Revenues



The Electric Utility Fund's net assets at June 30, 2010 and June 30, 2009 are as follows:

Schedule of Net Assets ($ in thousands)

	2010	2009	Incr. (Decr.)
Assets			
Current assets	$ 113,435	80,763	32,672
Non-current assets	13,109	12,820	289
Capital assets, net of retirement and accumulated depreciation	249,816	231,580	18,236
Total assets	**376,360**	**325,163**	**51,197**
Liabilities			
Current liabilities	26,130	32,650	(6,520)
Non-current liabilities	113,488	65,751	47,737
Total liabilities	**139,618**	**98,401**	**41,217**
Net assets			
Invested in capital assets, net of related debt	138,919	161,165	(22,246)
Restricted net assets	8,778	8,890	(112)
Unrestricted net assets	89,045	56,707	32,338
Total net assets	**$ 236,742**	**226,762**	**9,980**

Changes in net assets may serve as a useful indicator of the Electric Utility Fund's financial strength over time. Total assets were higher by $51,197 compared to the prior fiscal year. Approximately 80% of this increase was attributed to the new bond issuance and the remaining increase was attributed to net assets growth. Net assets increased by $9,980 during this fiscal year due to favorable operating results.

A significant portion of the Electric Utility net assets of $138,919, or 58.7%, was invested in capital assets, net of related debt. The change in capital assets, net of related debt, and unrestricted net assets were primarily due to the 2010 new bond issuance. The restricted net assets of $8,778, or 3.7%, were debt reserves requirements related to the Electric Revenue bonds. The unrestricted net assets of $89,045, or 37.6%, were funds available for future investments in capital assets and maintenance activities.

Capital Assets

As of June 30, 2010, the largest portion of the Electric Utility Fund's total assets of $249,816, or 66.4%, was invested in capital assets.

Capital expenditures during the year were $28,986. The capital investments have been focused on facilities upgrade and systems replacement leading to higher energy efficiency, reliability, and productivity. Some of the major projects were the new Service Center and Warehouse, the conversion of 4kV (kilovolts) to 12kV, the implementation of advance meter infrastructures, and the completion of a new substation. The new Service Center and Warehouse will be a LEED (Leadership in Energy and Environmental Design) platinum facility with an efficient layout that maximizes storage capacity for storing parts as well as other improvements to increase overall productivity and efficiency. The conversion to 12kV lines will increase capacity, improve reliability, and reduce losses. The

conversion also allows for the retirement of several older 4kV substations with one new 12kV substation. The new substation will reduce operation and maintenance costs and will also improve reliability through new recloser relays and other automation capabilities.

The City of Burbank was awarded a $20 million grant through the American Recovery and Reinvestment Act for Smart Grid projects on October 27, 2009. This smart electric grid will enhance reliability and increase accessibility to more renewable energy sources. The Electric Utility's Smart Grid will have a secure Wi-Fi mesh network, meter data management system, customer smart choice program, and an overall energy demand management system.

Some of the major capital expenditures during the year are as follows:

($ in thousands)	
Replacement of the Service Center/Warehouse	$ 10,503
Convert Feeders to 12kV	4,846
Smart Grid (Meter Data Management System, AMI meters, Secured WIFI network, Project Management)	3,997
Rebuild Underground Electric Substructure	1,964
Upgrade/Replace 69kV and 34.5kV	1,592
Burbank Substation	646
Enterprise Resource Planning Software	619
Upgrade/Construct 69kV and 34.5kV	424
Replace Miscellaneous Equipment at Major Stations	407
Overhead Distribution Lines	403
Total	**$ 25,401**

The system-wide reliability statistics reflect the Electric Utility's commitment to operate a highly reliable electric distribution system. The average customer experienced a service outage only once every 3.0 years compared to an industry average of 1.2 outages per year. Customers who had an outage were out-of-service for an average of only 74.1 minutes compared to an industry average of 80.0 minutes.

Debt Administration

In March 2010, the Electric Utility issued $88,490 in new revenue bonds. The bond proceeds are used to fund the replacement and upgrade of the electric distribution system and the general plant, and also to refinance the existing 1998 and 2001 revenue bonds for economic benefits. As of June 30, 2010, the Electric Utility Fund has $109,680 in outstanding revenue bonds, of which $3,805 will be due within a year. The Electric Utility repaid $7,891 toward outstanding bonds during this fiscal year.

The Electric Utility Fund was upgraded to an "AA-" rating by Standard & Poor's and maintained an "A1" rating from Moody's Investors Service for its revenue bonds. This upgrade reflected the rating agency's view of the Electric Utility's track record of consistent strong financial performance resulting from conservative financial and risk policies, power cost management, reserve levels, and a relatively strong local economy.

Environmental and Economic Factors

In accordance with the City's Renewable Portfolio Standard ("RPS") policy, 33% of the Utility's energy supply is required to come from eligible renewable resources by 2020. For the fiscal year, renewable energy resources made up 4.4% of the Electric Utility's total energy supply and are expected to grow to approximately 8.9% of the total energy supply by the end of the next fiscal year. During this fiscal year, the Electric Utility received renewable energy from Iberdrola Wind in Wyoming, Pebble Springs Wind in Oregon, Tieton Hydropower in Washington, Milford Wind in Utah, and BWP's Landfill and Valley Pumping Station. The Ameresco Project in California began commercial operation on November 23, 2010 and will supply an additional 1% of the City's energy requirements.

On November 2, 2010, the City Council approved a resolution authorizing the Electric Utility to enter into a Power Purchase Agreement through SCPPA for 25 megawatts ("MW") of the solar tower project in La Paz County, Arizona. This project will use solar convection technology to capture energy from airflow produced due to temperature differentials with a 200MW capacity. Upon the completion of this project by 2014, it will add approximately 8% to the RPS goal. The City will continue to look for other renewable resources to meet its RPS goal.

Projects	Source of Energy	County, State	In-service Date	Capacity MW	Burbank's Capacity MW	Energy Received in MWh FY 09-10	% Total Energy Supply
Iberdrola Wind	Wind	Uinta County, Wyoming	Jul 2006	144.000	4.997	10,119	0.8303%
Pebble Springs Wind	Wind	Gilliam County, Oregon	Feb 2009	98.700	10.000	22,329	1.8322%
Tieton Hydropower	Hydro	Yakima County, Washington	Mar 2009	13.600	6.800	11,602	0.9520%
Milford Wind	Wind	Beaver and Milford Counties, Utah	Nov 2009	200.000	10.000	5,817	0.4773%
Solar Demo	Solar	Los Angeles County, California	1998	0.500	0.500	4	0.0003%
Landfill Micro-Turbines	Landfill Gas	Los Angeles County, California	2001/2005	0.550	0.550	531	0.0436%
Micro Hydro	Hydro	Los Angeles County, California	2002	0.450	0.450	596	0.0489%
Customer Solar	Solar	Los Angeles County, California	Ongoing	1.500	1.500	2,811	0.2307%
Total						**53,809**	**4.4153%**

On January 1, 2011, the California Air Resources Board ("CARB") will adopt a market mechanism for emissions trading for greenhouse gas to be effective in 2012. This standard is part of the Assembly Bill 32 ("AB 32"), the Global Warming Solutions Act of 2006, which sets the 2020 target for greenhouse gas emissions reduction into law. This law will mandate a reduction of greenhouse gas emissions back to the 1990 levels by the year 2020. Although the detail of the program is yet to be released, the Electric Utility will be impacted by the limited amount of greenhouse gases that can be emitted by the power generators. The CARB is working with industry leaders/stakeholders to design a program that is enforceable and meets the requirements of AB 32 with consideration for the potential and adverse impact on communities disproportionately.

WATER UTILITY FUND

During the year ended June 30, 2010, the Water Utility Fund's significant financial highlights are as follows:

- Water Utility maintained an "AA+" from Standard & Poor's for its revenue bonds. In October 2010, the Water Utility's credit rating was upgraded to "AAA" by Standard & Poor's and Fitch Ratings.

- Water sales were lower by 980,361 hundred cubic feet ("CCF"), or 10.9%, compared to the prior fiscal year primarily due to water conservation and a weak economy, coupled with a cooler than average summer. Net assets increased by $2,606, or 5.2%, due to favorable operating results. This increase was used to fund capital projects.

- The Water Utility Fund invested an additional $11,156 in capital assets during the fiscal year. The Water Utility is committed to delivering safe drinking water to its customers at competitive rates by continuously modernizing the water production facilities, managing water supply costs, reducing system losses, and expanding the use of recycled water.

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

	2010	2009	Incr. (Decr.)
Potable water (in CCF)	7,999,469	8,979,830	(980,361)
Recycled water (in CCF)	959,129	794,266	164,863
Operating revenues:			
Potable water sales	$ 19,798	19,407	391
Recycled water sales	1,674	1,446	228
Miscellaneous/Other revenues	646	519	127
Total operating revenues	22,118	21,372	746
Operating expenses:			
Water supply expenses	8,586	7,895	691
Operations, maintenance and administration	5,664	6,388	(724)
Other operating expenses	2,456	2,764	(308)
Depreciation	2,569	2,526	43
Total operating expenses	19,275	19,573	(298)
Operating income	2,843	1,799	1,044
Non-operating income (expenses):			
Interest income	347	309	38
Other income (expenses), net	(252)	43	(295)
Interest expenses	(238)	(258)	20
Total non-operating expenses	(143)	94	(237)
Income before contributions and transfers	2,700	1,893	807
Contributions and transfers:			
Capital contributions	1,025	1,516	(491)
Transfers out to the City	(80)	-	(79)
Payments in lieu of taxes	(1,040)	(965)	(75)
Change in net assets	2,606	2,444	162
Net assets, beginning balance	49,847	47,403	2,444
Net assets, ending balance	**$ 52,453**	**49,847**	**2,606**

Potable water sales were the primary source of revenue for the Water Utility Fund. Potable revenue made up 89.5% and recycled water made up 7.6% of the total Water Utility operating revenues. Sales volume of potable water decreased by 980,361 CCF, or 10.9%, due to water conservation and a weak economy, coupled with a cooler than average summer and the displacement of potable water use by recycled water. For comparison, the recycled water sales volume increased by 21% from the prior year. Potable water revenues were higher by $391, or 2.0%, from the prior year due to a 15.0% rate increase offset by lower sales volume. Recycled water revenue grew by $228, or 15.8%, due to a rate increase along with higher sales volume.

Water supply expenses were higher by $691, or 8.8%, compared to the prior fiscal year primarily due to higher imported water rates resulting from the drought and water crisis in California. As a result of the water crisis, Metropolitan Water District ("MWD") drew down its regional water storage by 60% from its March 2007 levels and raised rates by 21.1% effective September 2009. The higher imported MWD water cost was mitigated by higher operational capacity at the Burbank Operable Units ("BOU") and the displacement of potable water by recycled water.

The BOU ran at 68.8% of operating capacity for the fiscal year compared to the prior fiscal year's capacity of 60.7%. Higher BOU operational capacity was a result of rebuilding the internal fittings of the carbon filters to reduce downtime caused by mechanical system failures. The BOU supplied approximately 46.9% of the City's potable water supply compared to 42.2% in the prior fiscal year. The average cost of groundwater produced at the BOU was $111.00 per acre foot ("AF"), compared to the average cost of MWD's imported treated water at $680.70/AF.

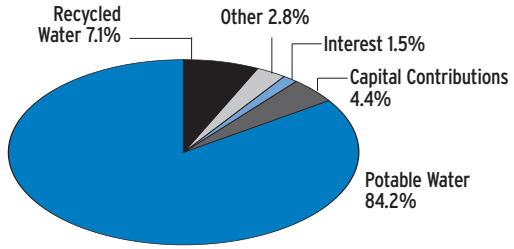
The Water Utility has been expanding its recycled water system since 2007. This expansion has increased recycled water sales volume, reduced potable water use and therefore, lowered the overall water supply costs by avoiding the higher costs of imported water from the MWD.

Operating, maintenance, and administration expenses were $724, or 11.3% lower than the prior fiscal year. The decrease was primarily the result of capitalizing more labor costs in building capital assets. Capital spending for this fiscal year was $11,156 compared to $5,842 in the prior fiscal year.

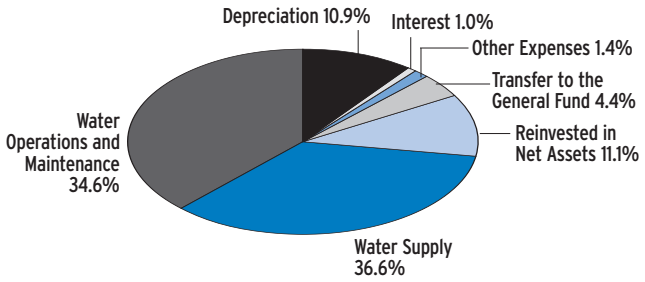
Capital contributions were $491, or 32.4% lower than the prior fiscal year. The decrease was primarily the result of lower construction activities related to the weak economy.

The Water Utility transferred 5.0% of the water revenues, or $1,040, to the City's General Fund in the form of an in-lieu tax.

Sources of Revenues



Uses of Revenues



The Water Utility Fund's net assets at June 30, 2010 and June 30, 2009 are as follows:

Schedule of Net Assets ($ in thousands)

	2010	2009	Incr. (Decr.)
Assets			
Current assets	$ 13,273	12,472	801
Non-current assets	967	1,021	(54)
Capital assets, net of retirement and accumulated depreciation	56,786	47,204	9,582
Total assets	**71,026**	**60,697**	**10,329**
Liabilities			
Current liabilities	6,279	6,585	(306)
Non-current liabilities	12,294	4,265	8,029
Total liabilities	**18,573**	**10,850**	**7,723**
Net assets			
Invested in capital assets, net of related debt	53,562	42,626	10,936
Restricted net assets	490	470	20
Unrestricted net assets	(1,599)	6,751	(8,350)
Total net assets	**$52,453**	**49,847**	**2,606**

Changes in net assets may serve as a useful indicator of the Water Utility Fund's financial strength over time. Total assets were higher by $10,329 compared to the prior fiscal year. Approximately 75% of this increase was attributed to interfund loans from the City's General Fund. These loans were used to temporarily fund capital expenditures in anticipation of the long-term revenue bond issuance. The remainder of the increase was attributed to net assets growth. Net assets increased by $2,606 during the fiscal year due to favorable operating results.

Total liabilities were higher than the prior fiscal year by $7,723 primarily due to the $9,000 interfund loan (See "Debt Administration"). The increases in total assets were primarily attributed to capital asset additions which are discussed in the following section.

Approximately all of the Water Utility's net assets of $53,562 were invested in capital assets, net of related debt. The change in capital assets, net of related debt and unrestricted net assets were primarily due to the interfund loans. The restricted net assets of $490 were debt reserve requirements related to the Water Revenue bonds. The unrestricted net assets were funds for future investments in capital assets and maintenance activities.

Capital Assets

As of June 30, 2010, a majority of the Water Utility Fund's total assets of $56,786, or 80.0%, were invested in capital assets. Capital assets included potable and recycled water system expansions, system and plant replacements, system improvements, Aid-In-Construction projects, and other capital expenditures.

Capital expenditures during the year were $11,156. Capital improvement programs are designed to upgrade, replace and expand the water system infrastructure to ensure reliability, and to provide safe and accurately measured services. These ongoing and pro-active investments reflect the Water Utility's goal of delivering competitive rates and safe drinking water with reliable production and distribution facilities.

The Water Utility is in its third year of building out the Recycled Water System and its infrastructure in accordance with the City's Recycled Water Master Plan. This program will shift outdoor irrigation use of potable water to recycled water for users, i.e. golf courses, parks, businesses and schools. The City plans to continue its expansion of the recycled water expansion program to help reduce the community's dependence on imported water and promote sustainability.

Some of the major investments during the year are as follows:

($ in thousands)	
Meter Replacements	$ 2,931
Replacement of the Service Center/Warehouse	2,039
Recycled Water	2,855
System/Service Replacement	1,276
Smart Grid (Meter Data Management System)	388
Transmission Water Mains	344
Domestic Water Mains	332
Water Tanks and Reservoir Repair	201
Total	**$ 10,366**

Debt Administration

Capital additions and improvements to the water system have been funded through revenue bonds, interfund loans, and a State Water Resources Control Loan. The Water Utility has $2,900 in outstanding revenue bonds, of which $955 will be due within a year. $9,000 of interfund loans were used to temporarily fund capital expenditures in anticipation of long-term revenue bond issuance.

In addition to the revenue bonds and the interfund loans, the Water Utility also has an outstanding State Water Resources Control Loan of $823, of which $189 is due within a year. This loan was issued for improvements to the Reclaimed Water Distribution System (now known as the Recycled Water System). The Water Utility repaid a total of $1,094 towards outstanding bonds and loans this fiscal year.

The Water Utility Fund was upgraded to an "AAA" from Standard & Poor's and Fitch Ratings in October 2010. These ratings reflect the rating agencies' view of the Water Utility's strong financial position, limited external capital needs, adequate water supply, and a relatively strong local economy.

Environmental and Economic Factors

Effective September 1, 2009, the City enacted a limit on landscape irrigation to no more than three days per week for no more than 15 minutes per day, per irrigation as a part of Stage II of the Sustainable Water Use Ordinance. This is consistent with the State's mandatory conservation programs due to the drought and judicial intervention on water from the Sacramento-San Joaquin River Delta. The State law now requires a 20% reduction in daily per capita use by 2020 for a goal of 155 gallons per capita per day ("gpcd"). The City was able to meet the 20% gpcd reduction requirement for the fiscal year ended June 2010 where water gpcd was at 154.55. This was achieved by conservation efforts and displacement of potable water use by recycled water.

Chromium VI contamination in groundwater is under review by the California Department of Health Services ("CDPH") in order to draft a new Public Health Goal ("PHG") since Chromium VI was concluded to be carcinogenic when ingested. The current regulatory maximum contaminant limits ("MCL") for Chromium VI are 100 parts per billion ("ppb") and 50 ppb for the Federal and State, respectively. On August 20, 2009, the California Office of Environmental Health Hazard Assessment ("OEHHA") released its PHG draft for Chromium VI to be 0.06 ppb, a very low limit that is well below the laboratory detection limit of 1 ppb, and invited public comments through October 19, 2009. A final PHG for Chromium VI will not be announced and available until the OEHHA completes its work within the next two years. When the final PHG is announced, the CDPH will set a MCL. The development of the MCL will take into consideration these factors: reliable detection limits, removal levels possible with existing validated technology, and a reasonable cost and/or economic impact on communities. The MCL is not expected for at least two years after the adoption of the final PHG. Currently, under the Burbank City Council's direction, Burbank's drinking water does not exceed 5ppb. If the Water Utility is required to provide water with Chromium VI levels below 5ppb there will be an increased reliance on imported water from the MWD, or significant investments for the removal of Chromium VI from the

groundwater. Such a change could increase water costs and increase the Water Utility's dependence on MWD for treated water.

In September 2010, the State Water Resources Control Board approved a $5.5 million loan application for the Water Utility, with a 20-year repayment plan at an estimated rate of 2.9%. The interest rate is based on one-half of the General Obligation bond rate obtained by the State Treasurer's Office. This loan will be used to fund the design and construction of two recycled water projects, improvements to a pumping station and a recycled water pipeline extension to the Valhalla Cemetery. The Water Utility anticipates that it will use approximately $4.0 million of the approved loan for these two projects.

The Water Utility issued $37.9 million of revenue bonds in November 2010. These bond proceeds are to fund capital improvement projects for the build-out of the Recycled Water Expansion Programs, replacement of a reservoir, upgrade of the water distribution system and reservoirs, and the general plant. The proceeds will also be used to repay the interfund loans from the City's General Fund, reimburse prior capital spending, and refund the existing revenue bonds.

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, 2010

With comparative financial information for the year ended June 30, 2009 • $ in thousands

Assets	Water 2010	Water 2009	Electric 2010	Electric 2009
Current assets:				
Cash and cash equivalents (note 2):				
General operating	$ 4,221	2,541	22,170	26,635
Capital reserve	2,220	3,720	10,000	10,000
General plant reserve	-	-	800	800
Fleet replacement reserve	-	-	2,210	2,210
Bond proceeds	-	-	38,055	-
Water replenishment	-	-	-	-
Water cost adjustment charge (WCAC) reserve	1,633	1,543	-	-
Distribution main reserve	1,100	1,100	-	-
Total cash and cash equivalents	9,174	8,904	73,235	39,645
Accounts receivable, net (note 3)	2,177	2,149	12,727	13,629
Inventories (note 4)	1,898	1,337	4,795	5,744
Deposits and prepaid expenses (note 5)	-	6	22,496	21,427
Interest receivable	24	76	182	318
Total current assets	**13,273**	**12,472**	**113,435**	**80,763**
Non-current assets:				
Restricted non-pooled investments (note 2)	688	654	11,302	10,249
Advances receivable	240	326	1,593	2,167
Deferred bond issuance and acquisition costs	39	41	214	404
Total non-current assets	**967**	**1,021**	**13,109**	**12,820**
Capital assets (note 6):				
Land	309	309	2,734	2,734
Rights to purchase power	-	-	1,335	1,335
Utility plant and equipment	80,789	76,887	326,125	328,813
Construction in progress	16,777	7,890	76,591	52,174
Total utility plant and equipment	97,875	85,086	406,785	385,056
Less accumulated depreciation	(41,089)	(37,882)	(156,969)	(153,476)
Total capital assets, net	**56,786**	**47,204**	**249,816**	**231,580**
Total assets	**$ 71,026**	**60,697**	**376,360**	**325,163**

Liabilities	Water 2010	Water 2009	Electric 2010	Electric 2009
Current liabilities:				
Accounts payable and accrued expenses (note 7)	$ 3,512	3,085	7,296	8,245
Current portion of loan payable (note 8)	189	184	-	-
Current portion of compensated absences (note 8)	29	73	818	324
Accrued payroll	1	1	12	12
Bond interest payable	9	13	795	93
Due to the City of Burbank	48	39	463	411
Customer deposits (note 10)	1,536	2,280	12,941	14,440
Current portion of revenue bonds payable, net (note 8)	955	910	3,805	9,125
Total current liabilities	**6,279**	**6,585**	**26,130**	**32,650**
Non-current liabilities:				
Revenue bonds payable, net (note 8)	1,879	2,832	109,250	61,197
Loan payable (note 8)	682	823	-	-
Compensated absences (note 8)	733	610	4,238	4,554
Interfund loan (note 9)	9,000	-	-	-
Total non-current liabilities	**12,294**	**4,265**	**113,488**	**65,751**
Total liabilities	**18,573**	**10,850**	**139,618**	**98,401**
Net Assets				
Net assets:				
Invested in capital assets, net of related debt	53,562	42,626	138,919	161,165
Restricted for debt service	490	470	8,778	8,890
Unrestricted	(1,599)	6,751	89,045	56,707
Total net assets	**$ 52,453**	**49,847**	**236,742**	**226,762**

See accompanying notes to basic financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEAR ENDED JUNE 30, 2010

With comparative financial information for the year ended June 30, 2009 • $ in thousands

	Water		Electric	
	2010	2009	2010	2009
Operating revenues:				
Sale of power-retail	$ -	-	154,174	158,039
Sale of power and fuel-wholesale (note 13)	-	-	75,946	120,716
Sale of water	21,472	20,853	-	-
Other revenues	646	519	4,900	8,834
Total operating revenues	22,118	21,372	235,020	287,589
Operating expenses:				
Power supply expenses-retail (note 12)	-	-	89,225	95,043
Purchased power and fuel expenses-wholesale (note 13)	-	-	73,331	116,544
Water purchases expense	8,586	7,895	-	-
Water maintenance and operation expenses	4,613	5,646	-	-
Transmission expenses	-	-	12,262	11,632
Distribution expenses	-	-	9,369	10,495
Other operating expenses	3,507	3,506	19,039	16,852
Depreciation	2,569	2,526	11,018	12,651
Total operating expenses	19,275	19,573	214,244	263,217
Operating income	2,843	1,799	20,776	24,372
Nonoperating income (expenses):				
Interest income	347	309	1,765	1,707
Intergovernmental	17	14	140	109
Interest expense	(238)	(258)	(3,962)	(3,581)
Other income (expenses), net	(269)	29	155	375
Total nonoperating income (expenses)	(143)	94	(1,902)	(1,390)
Income before contributions and transfers	2,700	1,893	18,874	22,982
Capital contributions				
Transfers out to the City:				
Transfers out	(80)	-	(645)	-
Payments in lieu of taxes (note 11)	(1,040)	(965)	(9,883)	(10,138)
Change in net assets	2,606	2,444	9,980	14,077
Net assets, July 1	**49,847**	**47,403**	**226,762**	**212,685**
Net assets, June 30	**$ 52,453**	**49,847**	**236,742**	**226,762**

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS • YEAR ENDED JUNE 30, 2010

With comparative financial information for the year ended June 30, 2009 • $ in thousands

	Water		Electric	
	2010	2009	2010	2009
Cash flows from operating activities:				
Cash received from customers	$ 22,520	21,061	238,712	306,146
Cash paid to suppliers	(13,837)	(10,803)	(172,741)	(240,749)
Cash paid to employees	(4,092)	(7,107)	(35,665)	(35,263)
Cash received for miscellaneous purposes	10	14	140	109
Net cash provided by (used in) operating activities	4,601	3,165	30,446	30,243
Cash flow from noncapital financing activities:				
Advances receivable	86	84	574	558
Due to City of Burbank	9	(6)	52	(52)
Loan proceeds from general fund	9,000	-	-	-
Transfers to City	(1,119)	(959)	(10,528)	(10,086)
Net cash provided by (used in) noncapital financing activities	7,976	(881)	(9,902)	(9,580)
Cash flows from capital and related activities:				
Proceeds from sale of capital assets	2	29	739	375
Proceeds from issuance of debt	-	-	92,638	-
Principal payments - bond	(910)	(875)	(49,904)	(8,805)
Interest payments	(238)	(256)	(3,071)	(3,516)
Capital contributions	1,025	1,516	1,634	1,233
Acquisition and construction of capital assets	(12,415)	(5,828)	(29,838)	(17,747)
Payments on loans	(136)	(179)	-	-
Net cash used in capital and related activities	(12,672)	(5,593)	12,198	(28,460)
Cash flows from investing activities:				
Interest received	399	361	1,901	1,907
Sale/(purchase) of restricted investment	(34)	76	(1,053)	450
Net cash provided by investing activities	365	437	848	2,357
Net increase (decrease) in cash and cash equivalents	270	(2,872)	33,590	(5,440)
Cash and cash equivalents, beginning of year	8,904	11,776	39,645	45,085
Cash and cash equivalents, end of year	**$ 9,174**	**8,904**	**73,235**	**39,645**

	Water		Electric	
	2010	2009	2010	2009
Cash flows from operating activities:				
Operating income (loss)	$ 2,843	1,799	20,776	24,372
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	2,569	2,526	11,018	12,651
Other nonoperating revenue and expenses net of sales proceeds of capital assets	10	14	140	109
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(28)	(311)	902	18,560
Increase (decrease) in due to/from the City of Burbank	-	-	-	(52)
(Increase) decrease in inventories	(561)	(596)	949	(1,523)
(Increase) decrease in deposits and prepaid expenses	6	-	(1,069)	(3,796)
Increase (decrease) in accounts payable and accrued expenses	427	504	(949)	(22,014)
Increase (decrease) in accrued payroll	-	-	-	1
Increase (decrease) in compensated absences	79	253	178	864
Increase (decrease) in customer deposits	(744)	(1,024)	(1,499)	1,071
Total adjustments	1,758	1,366	9,670	5,871
Net cash provided by (used by) operating activities	**$ 4,601**	**3,165**	**30,446**	**30,243**
Noncash investing, capital, and financing activities:				
Increase (decrease) in fair market value of investments	**$ (122)**	**(160)**	**153**	**(713)**

See accompanying notes to basic financial statements.

NOTE 1: Summary of Significant Accounting Policies

(A) ACCOUNTING METHODS

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

The basic financial statements include the following:

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

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

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

Statement of Cash Flows – For the purposes of the statement 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.

(B) 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 recovered primarily through user charges or (b) where the City Council has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital expenditures, public policy, management control, accountability and other purposes.

(C) REPORTING ENTITY

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

The Water and Electric Utility Enterprise Funds are used to account for the construction, operation and maintenance of the City owned water and electric utility. The City considers the Water and Electric Utility Funds to be Enterprise Funds (a proprietary fund type) as defined under accounting principles generally accepted in the United States of America; accordingly, the accrual basis of accounting is followed by the Water and Electric Utility Funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. Estimated earned but unbilled revenues which result from cycle utility billing practices are 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 (CAP).

(D) 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.

(E) CAPITAL ASSETS

Capital assets are recorded at cost or, in the case of gifts or contributed assets, at fair market value at the date of donation. The threshold for capitalizing assets is $5 or greater, except for betterments which could be less. When items are sold or retired, related gains or losses are included in non-operating income (expenses). 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
Building 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, & 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

(F) INVENTORIES

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

(G) COMPENSATED ABSENCES

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

(H) ESTIMATES

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

(I) REVENUE RECOGNITION

Revenues are recorded in the period in which they are earned. The Water and Electric Utility Funds accrue estimated unbilled revenue for water and energy sold but not billed at the end of the fiscal period. All residential and commercial accounts are billed monthly. Operating revenues consist of sales of potable and recycled water, retail and wholesale sales of electricity, and charges for water and electric related work performed for customers, such as service connection 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 note 7).

(J) OPERATING EXPENSES

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

Purchased power and fuel expenses include all open market purchases of energy and fuel, firm contracts for the purchase of energy and fuel, energy production costs, and the costs of entitlements for energy and transmission as discussed in note 12.

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.

(K) 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.

(L) 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.

(M) PRIOR YEAR DATA

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

NOTE 2: Cash and Investments

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

	Water	Electric	Total
Pooled cash and investments	$ 9,174	73,235	82,409
Restricted investments	688	11,302	11,990
Total	$ 9,862	84,537	94,399
Cash on hand	$ -	16	16
Investments	9,862	84,521	94,383
Total	$ 9,862	84,537	94,399

The pooled cash and investments of the 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 balances primarily for checking accounts.

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 following table 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.

($ in thousands)

Authorized Investment Type	Authorized by City Policy	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment One Issuer
Agency-U.S. Federal Agency	Yes	5 years	90%	None
Burbank Investment Pool	Yes	N/A	None	None
Corporates-Medium Term Notes	Yes	5 years	30%	5%
LAIF-Local Agency Investment Fund	Yes	N/A	None	None
U.S. Treasury Obligations	Yes	5 years	100%	None
Banker's Acceptance	No	N/A	N/A	N/A
Commercial Paper	No	N/A	N/A	N/A
Timed Certificates of Deposit	Yes	5 years	40%	$250
Negotiable Certificates of Deposit	Yes	5 years	20%	$250
Money Market Mutual Funds	Yes	90 days	15%	None
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

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	Maximum Percentage of Portfolio	Maximum 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 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 way 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:

($ in thousands)

Investment Type	Remaining Maturity (in Months) 12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months	Total
Burbank Investment Pool	$ 44,338	-	-	-	44,338
LAIF-Local Agency Investment Fund	38,055	-	-	-	38,055
Held by Bond Trustee:					
Investment Agreements	1,573	-	-	6,321	7,894
Money Market	4,096	-	-	-	4,096
Total	**$ 88,062**	**-**	**-**	**6,321**	**94,383**

Note: The table above excludes cash on hand of $16 (see pg. 16).

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. The following table shows 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	Rating as of Year-End
Burbank Investment Pool	$ 44,338	N/A	N/A	Not Rated
LAIF-Local Agency Investment Fund	38,055	N/A	N/A	Not Rated
Held by Bond Trustee:				
Investment Agreements	7,894	N/A	N/A	Not Rated
Money Market	4,096	Aaa	N/A	Aaa
Total	**$ 94,383**			

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.

Recent economic news reports problems with a number of financial institutions. Some institutions have reported financial difficulties as an indirect result of delinquencies associated with home mortgages. There is also news of Federal financial assistance for financial companies. The full ramifications of this are not determinable at this time and it is not possible to determine with certainty all of the institutions that might be impacted by current market conditions.

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. BWP is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council. BWP has not adopted a formal investment policy separate from that of the City; however, BWP is 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.

NOTE 3: Accounts Receivable

	Water		Electric	
	2010	2009	2010	2009
Accounts receivable	$ 2,220	2,176	13,201	13,818
Allowance for uncollectible accounts	(43)	(27)	(474)	(189)
Total	$ 2,177	2,149	12,727	13,629

The Electric receivables were lower compared to last fiscal year due to decreased energy trading activities in the wholesale market.

NOTE 4: Inventories

The Water and Electric Utility Funds' inventories as of June 30, 2010 and June 30, 2009 are:

	Water		Electric	
	2010	2009	2010	2009
Materials and supplies inventory	$ 531	581	4,795	5,744
Groundwater inventory	1,367	756	-	-
Total	$ 1,898	1,337	4,795	5,744

At June 30, 2010, the Water Utility's average cost of groundwater inventory was $203.87 per AF.

NOTE 5: Deposits and Prepaid Expenses

The Electric Utility Fund shows a total of $22,496 in deposits and prepaid expenses. The composition of these deposits and prepaid expenses include a $3,918 prefunded Other Post Employment Benefits (OPEB) obligation (see note 14), a $2,565 deposit with the Southern California Public Power Authority (SCPPA) as a fuel reserve for the Magnolia Power Project (MPP), a $9,364 deposit with SCPPA for future use in projects, a $1,734 prepayment to Powerex for future energy deliveries, a $3,709 prepayment to SCPPA Natural Gas Reserve for future gas deliveries, and a $331 prepayment for renewable energy. In addition, in June 2000, the City prepaid a lease payment of $1,500 for the use of land to locate a new switching station. The twenty-year lease began in January 2002. For the fiscal year ended June 30, 2010, the Electric Fund amortized $75 on this prepaid lease, leaving a balance of $863.

NOTE 6: Capital Assets

Capital assets include the following as of June 30, 2010 and 2009:

WATER	Balance as of June 30, 2008	Additions	Deletions	Balance as of June 30, 2009	Additions	Deletions	Balance as of June 30, 2010
Capital assets not being depreciated:							
Land	$ 309	-	-	309	-	-	309
Construction in progress	4,853	5,752	(2,715)	7,890	20,175	(11,288)	16,777
Total capital assets not being depreciated	5,162	5,752	(2,715)	8,199	20,175	(11,288)	17,086
Capital assets being depreciated:							
Buildings and improvements	68,392	2,654	-	71,047	8,059	(2,334)	76,772
Accumulated depreciation	(31,358)	(2,228)	-	(33,586)	(3,682)	243	(37,025)
Machinery and equipment	5,704	137	-	5,840	3,325	(5,148)	4,017
Accumulated depreciation	(3,998)	(297)	(1)	(4,296)	(199)	431	(4,064)
Total capital assets being depreciated, net	38,740	266	(1)	39,005	7,503	(6,808)	39,700
Total net capital assets	**$ 43,902**	**6,018**	**(2,716)**	**47,204**	**27,678**	**(18,096)**	**56,786**

ELECTRIC	Balance as of June 30, 2008	Additions	Deletions	Balance as of June 30, 2009	Additions	Deletions	Balance as of June 30, 2010
Capital assets not being depreciated:							
Land	$ 2,734	-	-	2,734	-	-	2,734
Construction in progress	49,473	15,741	(13,040)	52,174	48,911	(24,494)	76,591
Total capital assets not being depreciated	52,207	15,741	(13,040)	54,908	48,911	(24,494)	79,325
Capital assets being depreciated:							
Land improvements	2,282	-	-	2,282	-	(2,282)	-
Accumulated depreciation	(318)	(91)	-	(409)	(76)	485	-
Rights to purchase power	1,335	-	-	1,335	-	-	1,335
Accumulated depreciation	(369)	(43)	-	(412)	(43)	-	(455)
Buildings and improvements	286,446	14,118	-	300,565	21,355	(24,306)	297,614
Accumulated depreciation	(123,100)	(11,055)	-	(134,155)	(4,952)	263	(138,844)
Machinery and equipment	24,996	980	(9)	25,966	2,639	(94)	28,511
Accumulated depreciation	(16,995)	(1,506)	1	(18,500)	(5,947)	6,777	(17,670)
Total capital assets being depreciated, net	174,277	2,403	(8)	176,672	12,976	(19,157)	170,491
Total net capital assets	**$ 226,484**	**18,144**	**(13,048)**	**231,580**	**61,887**	**(43,651)**	**249,816**

During the fiscal year ended June 30, 2010, a study was conducted on the Water and Electric Funds' utility capital assets. The purpose of the study was to improve the accuracy and ongoing usefulness of the utility capital asset records for both Utility Funds. As a result of the study, a considerable portion of the Water and Electric Funds' capital assets were reclassified into new utility mass asset capital and accumulated depreciation accounts. Utility mass asset capital accounting improves the accuracy of utility capital asset records and provides a better basis for financial reporting and comparison to other utilities. Additionally, assets identified as no longer in service by the study were retired. The adjustments related to the reclassifications and retirements of utility capital assets were immaterial in total and were included in the Water and Electric Funds' non-operating income on the financial statements for the fiscal year ended June 30, 2010.

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, 2010, the Electric Utility Fund has recorded its share of the Intertie of approximately $14,634 within its plant and equipment assets, less accumulated depreciation approximating $10,178, for a net asset value of $4,456. Such asset is being depreciated using the straight-line method over a useful life of 40 years. The City's voting right in the project is directly in proportion to its percentage interest.

NOTE 7: Accounts Payable & 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 deferred revenue account. Water supply expenses (WCAC expenses) include purchased water, electricity to pump water, and chemicals used to treat water. The deferred WCAC balances were $1,204 and $1,543 at June 30, 2010 and 2009, respectively.

The Electric Utility Fund's accounts payable and accrued expenses were lower compared to last fiscal year due to decreased energy trading activities in the wholesale market.

	Water		Electric	
	2010	2009	2010	2009
Accounts payable & accrued expenses	$ 2,308	1,542	7,296	8,245
WCAC	1,204	1,543	-	-
Total	$ 3,512	3,085	7,296	8,245

NOTE 8: Loan Payable and Revenue Bonds Payable

(A) LOAN PAYABLE

	Water	
	2010	2009
This State Water Resources Control Loan was issued for the purpose of construction improvement to the Reclaimed Water Distribution System (now known as the Recycled Water System). Funds are disbursed on either a reimbursement basis, or at such time, as they are due and payable by the City. The interest rate is 2.7%, with the principal to be repaid no later than April 2014, 20 years from the loan date.	$ 823	1,007
Less current portion	(189)	(184)
Long-term intergovernmental loan payment	$ 634	823

A schedule of aggregate maturities, including interest, on the intergovernmental loan payable subsequent to June 30, 2010 is as follows:

	Water		
	Principal	Interest	Total
2011	$ 189	22	211
2012	194	17	211
2013	199	12	211
2014	241	7	248
	$ 823	58	881

(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.

1998 Series A Bonds:	Water 2010	Water 2009	Electric 2010	Electric 2009
$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. The entire remaining balance of the 1998 bonds were refunded during the fiscal year with the 2010A Series Bonds.	$ 2,900	3,810	-	38,385
Less:				
Current portion	(955)	(910)	-	(1,865)
Original issue discount/(premium)	(66)	(68)	-	(361)
Long-term 1998 Series A Bonds	**$ 1,879**	**2,832**	**-**	**36,159**

2001 Series A Bonds:	Water 2010	Water 2009	Electric 2010	Electric 2009
$54,745 Burbank Water and Power Electric Revenue Bonds, Series A 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. The remaining balance of the 2001 bonds were refunded with 2010A Series Bonds in the amount of $8,660.	$ -	-	2,605	12,435
Less:				
Current portion	-	-	(2,605)	(6,105)
Original issue discount/(premium)	-	-	-	(59)
Long-term 2001 Series A Bonds	**$ -**	**-**	**-**	**6,271**

2002 Series A Bonds:	Water 2010	Water 2009	Electric 2010	Electric 2009
$25,000 Burbank Water and Power Electric Revenue Bonds, Series A of 2002, were issued for retrofitting Olive 1 and Olive 2 steam generators to meet new air quality emission limits, other electric improvements, and refunding certain electric revenue bonds. Payments are in installments ranging from $990 to $2,000. Interest rates range from 3.000% to 5.375%. Payments are made semiannually on June 1 and December 1, with the final payment to be made on June 1, 2022.	$ -	-	18,585	19,740
Less:				
Current portion	-	-	(1,200)	(1,155)
Original issue discount/(premium)	-	-	167	182
Long-term 2002 Series A Bonds	**$ -**	**-**	**17,552**	**18,767**
Total Water long-term revenue bonds payable	**$ 1,879**	**2,832**		

2010A Series Bonds:	Electric 2010	Electric 2009
$35,825 Burbank Water and Power Electric Revenue/Refunding Bonds, Series of 2010A, were issued to partially refund the 1998 Bonds and the 2001 Bonds, and to pay the cost of issuance of the Series 2010A Bonds. Payments are in installments ranging from $2,290 to $3,530. Interest rates range from 3.00% to 5.00%. Payments are made semiannually on June 1 and December 1, with the final payment to be made on June 1, 2023.	$ 35,825	-
Less:		
Current portion	-	-
Original issue discount/ (premium)	3,866	-
Long-term 2010A Series Bonds	**$ 39,691**	**-**

2010B Series Bonds:	Electric 2010	Electric 2009
$52,665 Burbank Water and Power Electric Revenue Bonds, Series of 2010B (Taxable Build America Bonds), were issued to finance a portion of certain improvements to the Electric System, fund a deposit to the Parity Reserve Fund, and to pay the costs of issuance of the Series 2010B Bonds. Payments are in installments ranging from $3,853 to $5,505, with interest only payments from 2011 to 2023. Interest rates range from 6.123% to 6.323%. Payments are made semiannually on June 1 and December 1, with the final payment to be made on June 1, 2040.	$ 52,665	-
Less:		
Current portion	-	-
Original issue discount/ (premium)	(658)	-
Long-term 2010B Series Bonds	**52,007**	**-**
Total Electric long-term revenue bonds payable	**$ 109,250**	**61,197**

The Electric Utility Fund issued $88,490 of revenue bonds in fiscal year ended June 30, 2010, of which $50,000 will be used to fund the replacement/upgrade of the electric distribution system and the general plant. The remaining proceeds will be used to partially refund the existing revenue bonds. The advance refunding was undertaken to reduce total debt service payments over the next thirteen years by $935 and resulted in an economic loss of $326.

A schedule of aggregate maturities on bonds payable subsequent to June 30, 2010 is as follows:

($ in thousands)

	Water		Electric		
	Principal	Interest	Principal	Interest	Total
2011	$ 955	145	3,805	6,838	11,743
2012	1,005	96	3,535	5,841	10,477
2013	65	45	3,785	5,722	9,617
2014	70	42	3,945	5,567	9,624
2015	75	38	4,115	5,400	9,628
2016 - 2020	425	135	23,835	23,745	48,140
2021 - 2025	305	29	18,500	17,662	36,496
2026 - 2030	-	-	12,950	13,573	26,523
2031 - 2035	-	-	15,830	9,210	25,040
2036 - 2040	-	-	19,380	3,775	23,155
Total	**$ 2,900**	**530**	**109,680**	**97,333**	**210,443**

The following is a summary of changes in the Water Utility Fund's long-term liabilities as of June 30, 2010:

June 30, 2010	July 1, 2009	Additions	Retirements	June 30, 2010	Due within One Year
Intergovernmental Loan Payable	$ 1,007	-	(184)	823	189
Revenue Bond Payable:					
1998 Series A Bonds	3,810	-	(910)	2,900	955
Compensated Absences	683	751	(672)	762	29
	$ 5,500	751	(1,766)	4,485	1,173
Less:					
Current portion	(1,167)			(1,173)	
Unamortized bond discount/(premium)	(68)			(68)	
Total	**$ 4,265**			**3,244**	

The following is a summary of changes in the Electric Utility Fund's long-term liabilities as of June 30, 2010:

June 30, 2010	July 1, 2009	Additions	Retirements	June 30, 2010	Due within One Year
Revenue Bond Payable:					
1998 Series A Bonds	$ 38,385	-	(38,385)	-	-
2001 Series A Bonds	12,435	-	(9,830)	2,605	2,605
2002 Series A Bonds	19,740	-	(1,155)	18,585	1,200
2010 Series A Bonds	-	35,825	-	35,825	-
2010 Series B Bonds	-	52,665	-	52,665	-
Compensated Absences	4,878	4,542	(4,364)	5,056	818
	$ 75,438	93,032	(53,734)	114,736	4,623
Less:					
Current portion	(9,449)			(4,623)	
Unamortized bond discount/(premium)	(238)			(314)	
Total	**$ 65,751**			**109,799**	

NOTE 9: Interfund Loan

During the fiscal year the City advanced $9,000 to the Water Fund. The terms of the advance include payment of interest at the rate of return of 2.5% per year, and termination and repayment of the advance with a six-month notice from the City to the Water Fund or with a three-month notice from the Water Fund to the City.

NOTE 10: 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 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 PB liability. The unspent portion of the PB obligation as of June 30, 2010 and June 30, 2009 is $9,177 and $9,752, respectively.

NOTE 11: Related Party Transactions

The City assesses a 5% in-lieu of taxes on Water and Electric Utility Fund revenues. In addition, an assessment of 1.5% 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, 2010 and 2009 as follows:

	Water		Electric	
	2010	2009	2010	2009
In-lieu of taxes	$ 1,040	965	7,667	7,899
Street lighting	-	-	2,216	2,239
Total payment in-lieu of taxes	**$1,040**	**965**	**9,883**	**10,138**

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, 2010 and 2009 were as follows:

	Water		Electric	
	2010	2009	2010	2009
Administrative & overhead costs	$ 796	688	3,859	3,028
Total	**$ 796**	**688**	**3,859**	**3,028**

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, 2010 and 2009 was as follows:

	Electric	
	2010	2009
Utility Users Taxes	$ 10,184	10,376
Total	**$ 10,184**	**10,376**

NOTE 12: 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 the City's retail load requirements.

(B) "TAKE OR PAY" CONTRACTS

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

Southern Transmission System Project (STS)

Pursuant to an agreement dated May 1, 1983 with the IPA, SCPPA made payments-in-aid of construction to IPA to defray all costs of acquisition and construction of the STS, which provides for the transmission of energy from the Intermountain Generating Station in Utah to Southern California. STS commenced commercial operations in July 1986. The Department of Water and Power of the City of Los Angeles (LADWP), a member of SCPPA, serves as project manager and operating agent of the Intermountain Power Project (IPP). The STS consists of a 488-mile transmission line and the associated converter station on each end. The 500kV DC bi-pole transmission lines are currently rated at 1,920 megawatts (MW). The City's ownership share of this project is 4.5%.

Mead-Phoenix Project (MP)

SCPPA entered into an agreement dated December 17, 1991 to acquire an interest in the MP, a transmission line extending between the West Wing substation in Arizona and the Marketplace substation in Nevada. The agreement provides SCPPA with an 18.31% interest in the West Wing-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, 500kV AC transmission line with a rating of 1,300 MW. The City's ownership share of MP is 15.4%.

Mead-Adelanto Project (MA)

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

Palo Verde Project (PV)

Pursuant to an assignment agreement dated August 14, 1981 with the Salt River Project, SCPPA purchased a 5.91% interest in the Palo Verde Nuclear Generating Station, a 3,810 MW 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 PV). Units 1, 2 and 3 of PV began commercial operations in January 1986, September 1986 and January 1988, respectively. The City's ownership share of this project is 4.4% (9.7 MW).

Magnolia Power Project (MPP)

In March 2003, the City entered into a power sales agreement with SCPPA for MPP. MPP commenced commercial operations in Burbank, CA in September 2005. MPP is a combined-cycle natural gas-fired generation plant with a nominally rate net base capacity of 242 MW, but can boost its output to 310 MW if needed. The City is obligated for 97.6 MW or 30.992% of its output. The City is also MPP's operating agent.

Natural Gas Project (NGP)

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

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

SCPPA has sold entitlements to 100% of the production capacity of the NGP pursuant to separate gas sales agreements with the five participants. The participants are obligated to pay for such production capacity, including amounts required to pay debt service on bonds issued to finance their respective share of the NGP, on a "take or pay" basis. The City has 14.2857% of entitlement shares in the Pinedale, Wyoming Subproject (2005 purchase), and 27.2727% of entitlement shares in the Barnett, Texas Subproject (2006 purchase).

Milford I Wind Project (MIWP)

M1WP is located near Milford, Utah and began commercial operations in November 2009. The facility is a 203.5 MW nameplate capacity wind farm comprised of 97 wind turbine generators, delivered by a 90-mile transmission line, 345 kV, extending from the generation site to the IPP switchyard in Delta, Utah. This plant generates enough capacity to supply electricity to power more than 60,000 homes and offset over 366,000 tons per year of carbon dioxide that would otherwise be emitted from a coal-powered plant. SCPPA (on behalf of project participants LADWP, the City and Pasadena), acquired 100% of output from this wind farm. The City's share of this project is 5%.

Tieton Hydro Project (THP)

This facility was acquired by SCPPA in November 2009 with 100% of entitlement shares. Each of the two project participants, the City, and the City of Glendale, CA, have an equal 50% entitlement share of this project. THP is a run of the reservoir hydroelectric facility, comprised of a powerhouse constructed at the base of the USBR Tieton Dam on the Tieton River in WA, on a 21-mile 115 kV transmission line from the plant substation to the interconnection of the electrical grid. The powerhouse has a maximum capacity of 20 MW, with a nameplate capacity of 13.6 MW. USBR owns and operates the dam and controls the flows into the Tieton River from the Rimrock Lake reservoir, which was created by the dam. Average annual generation from this plant is approximately 48,000 megawatt hours (MWh).

(b) Intermountain Power Agency (IPA)

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

A summary of the City's "take or pay" contracts and related projects and its contingent liability at June 30, 2010 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
SCPPA:				
Hoover Uprating	$ 14,495	15.957%	$ 2,313	$ 2,871
IPP Southern Transmission System	900,705	4.498%	40,514	58,827
Mead-Adelanto	190,440	11.534%	21,965	27,665
Mead-Phoenix	60,640	15.400%	9,339	11,692
Palo Verde	89,470	4.400%	3,937	4,395
Magnolia Power Project	366,555	32.350%	118,582	184,731
Natural Gas Project - Pinedale	9,603	100.000%	9,603	14,641
Natural Gas Project - Barnett	29,742	100.000%	29,742	45,346
Natural Gas Prepaid Project #1	333,370	33.099%	110,341	210,391
Milford I Wind Project	237,235	5.000%	11,862	19,094
Tieton Hydropower Project	47,655	50.000%	23,828	24,174
Intermountain Power Project	2,641,768	3.371%	89,054	112,480
Total	**$ 4,921,678**	**9.572%**	**$ 471,080**	**$ 716,307**

The following schedule 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).

	2010/11		2011/12		2012/13		2013/14	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
SCPPA:								
Hoover Uprating	$ 246	113	255	103	266	93	280	79
IPP STS	1,484	991	1,604	1,896	2,435	1,804	2,151	1,679
Mead-Adelanto	1,556	546	1,650	990	1,757	881	1,876	765
Mead-Phoenix	754	237	799	424	852	372	909	315
Palo Verde	441	98	455	87	469	76	483	64
Magnolia Power Project	2,836	2,152	2,958	4,184	3,080	4,061	3,220	3,925
Natural Gas Project-Pinedale	787	489	896	462	660	427	570	400
Natural Gas Project-Barnett	2,438	1,516	2,774	1,430	2,045	1,323	1,765	1,238
Natural Gas Prepaid Project #1	-	935	1,892	5,562	1,753	5,471	1,590	5,388
Milford I Wind Project	-	222	380	564	393	551	407	537
Tieton Hydropower Project	23,828	347	-	-	-	-	-	-
Intermountain Power Project	7,215	3,703	6,902	3,294	5,966	2,847	7,411	2,635
Total	**$ 41,585**	**11,349**	**20,565**	**18,996**	**19,676**	**17,906**	**20,662**	**17,025**

	2014/15		2016/20		2021/25		2026/30	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
SCPPA:								
Hoover Uprating	$ 293	66	973	104	-	-	-	-
IPP STS	2,225	1,616	12,709	6,692	13,570	3,104	4,336	530
Mead-Adelanto	1,976	641	10,754	1,783	2,396	94	-	-
Mead-Phoenix	770	255	4,300	712	955	37	-	-
Palo Verde	499	52	1,590	80	-	-	-	-
Magnolia Power Project	3,356	3,790	14,533	16,585	15,753	13,241	20,864	10,136
Natural Gas Project-Pinedale	549	375	2,403	1,458	1,680	888	1,339	454
Natural Gas Project-Barnett	1,701	1,160	7,442	4,516	5,205	2,750	4,146	1,405
Natural Gas Prepaid Project #1	1,345	5,314	7,353	25,543	14,585	22,852	26,818	17,524
Milford I Wind Project	423	521	2,413	2,305	3,057	1,661	3,891	827
Intermountain Power Project	7,055	2,309	35,818	7,913	18,687	724	-	-
Total	**$ 20,192**	**16,099**	**100,288**	**67,691**	**75,888**	**45,351**	**61,394**	**30,876**

	2031/35		2036/40	
	Principal	Interest	Principal	Interest
SCPPA:				
Magnolia Power Project	25,471	6,597	26,510	1,478
Natural Gas Project-Pinedale	719	86	-	-
Natural Gas Project-Barnett	2,226	266	-	-
Natural Gas Prepaid Project #1	43,090	8,753	11,916	2,706
Milford I Wind Project	899	45	-	-
Total	**$ 72,405**	**15,747**	**38,426**	**4,184**

Hedge Policies and Outstanding Hedge Contracts

The Electric Utility Fund utilizes natural gas hedging as outlined in the Energy Risk Management Policy. The purpose of hedging is to protect against fluctuating prices and deliver stable and competitive rates to its retail customers. Currently, the Electric Utility Fund (Buyer) has natural gas swap agreements with a few low risk counterparties (Seller) in place. The Buyer pays the agreed or fixed price and the Seller pays the floating market price. Depending on the price at the delivery month, Buyer will make payments or receive payments based on the price differentials. The financial settlements will either offset or add to the actual price of natural gas purchased at the spot market. These contracts are not included within the scope of GASB 53 because they are entered into for the purpose of gas/electricity use in the normal course of operations.

NOTE 13: Purchase Power and Fuel Expenses – Wholesale

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

	2010	2009
Wholesale revenues	$ 75,946	120,716
Wholesale costs	73,331	116,544
Wholesale margin	**$ 2,615**	**4,172**

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

Water and Electric Utility Fund employees participate with other City employees in the California Public Employees Retirement System (PERS), a multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability 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.

Prior to July 1, 2008, the Water and Electric Utility Funds made 7% contributions on behalf of its employees. Effective July 1, 2008, the Water and Electric Utility Fund increased this contribution to 8%. The Water and Electric Utility Fund is required to contribute at an actuarially determined rate. In fiscal year 2009-10, the Water and Electric Utility Fund, as employer, was required to contribute 11.087%. 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 Funds' annual pension costs are as follows:

	Annual Pension Cost ("APC")		
Fiscal Year Ending	Electric	Water	APC %
June 30, 2008	3,781	696	100%
June 30, 2009	3,945	696	100%
June 30, 2010	3,645	875	100%

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

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

Other Post Employment Benefits

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

In addition, the City entered into an agreement to provide certain OPEB to the International Brotherhood of Electrical Workers (IBEW) employees on July 22, 2008. The agreement is for IBEW members and 7 management employees as a supplement to benefit payments from BERMT and PEMHCA. The total target benefit is $600/month for the first 2 years, including payments from BERMT, PEMHCA minimum and IBEW Retiree Medical Trust Fund. The Electric Utility Fund accrued an Annual Required Contribution (ARC) for $510 in its fiscal year 2009-2010 operating expenses. The Electric Fund also prepaid the estimated unfunded portion of the IBEW OPEB of $3,642. Further information regarding the City's participation in PERS and OPEB may be found in the City'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 its policy to self-insure certain levels of risk within separate lines of coverage to maximize cost savings. The City has chosen to self-insure its liability exposure for the first $1,000 of any loss. Additional coverage of $4,000 is purchased through ACCEL, the Authority for California Cities Excess Liability. The City then purchased additional coverage from commercial market for total coverage of $40,000.

The workers' compensation coverage is purchased through a pooling agreement. The City self-insures the first $2,000 of each loss and then the pool covers all losses to statutory limits. The City charges the Water and Electric Utility Funds a premium based upon the proportional payroll cost, job classification, and claim history.

Additional information regarding all the City's self-insurance programs 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 of 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, each of whom purchased energy and ancillary services from the CAL ISO during this period, are presently pursuing claims in state and federal courts 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 Events

In September 2010, the State Water Resources Control Board approved a $5,500 loan application for the Water Utility, with a 20-year repayment plan at an approximate rate of 2.9%.

In November 2010, Burbank Water and Power issued Water Bonds Series 2010A and 2010B. 2010A issued for $8,795, payable in installments ranging from $165 to $970. Interest rates range from 2.00% to 5.00%. Payments are made semiannually on June 1 and December 1, with the final payment to be made on June 1, 2023. 2010B issued for $27,945, payable in installments ranging from $850 to $2,275. Payments are made semiannually on June 1 and December 1, with the final payment to be made on June 1, 2040.

SCHEDULE 1: Annual Electric Supply

Resource	MWh	Percentage
Intermountain Power Project	541,600	44.4%
Hoover Uprating	19,600	1.6%
Palo Verde Nuclear	78,400	6.4%
Magnolia Power Project	473,600	38.7%
Firm & Non-Firm Contracts	38,900	3.2%
On-Site Generation	16,500	1.3%
Renewables	53,800	4.4%
TOTAL	**1,222,400**	**100.0%**

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

	2010	2009	2008	2007	2006
Number of Retail Customers:					
Residential	44,833	44,499	44,279	44,009	43,973
Commercial[1]	6,560	6,553	6,537	6,299	6,288
Large Commercial[1]	199	81	71	164	167
Other[1,2]	226	234	264	290	274
Total	**51,818**	**51,367**	**51,151**	**50,762**	**50,702**
Retail Kilowatt-hour Sales (millions):					
Residential	277	286	286	285	268
Commercial	288	309	282	257	244
Large Commercial	536	553	578	613	588
Other[2]	35	36	34	33	38
Total	**1,136**	**1,184**	**1,180**	**1,188**	**1,138**
Electric Revenues:					
Retail	$ 154,174	158,039	155,514	153,916	143,487
Wholesale	75,946	120,716	220,177	207,259	195,512
Miscellaneous[3]	4,900	8,834	6,476	7,585	6,159
Total	**$ 235,020**	**287,589**	**382,167**	**368,760**	**345,158**
Peak Demand (MW)	**285**	**289**	**308**	**307**	**284**

1 Restructured commercial and large commercial customer classes in January 1, 2008 and January 1, 2010
2 Other includes school, street lighting and miscellaneous users
3 Other miscellaneous revenues include transmission, telecommunications, etc.

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

	2010	2009	2008	2007	2006
Residential	13.51	13.27	13.07	12.93	12.38
Commercial	14.17	13.93	13.45	13.20	12.69
Large Commercial	12.19	12.22	11.86	11.98	11.55
Weighted Average Electric Rate	13.04	12.94	12.55	12.47	12.01

1 All weighted average rates have been adjusted to exclude Public Benefit and Street Lighting

SCHEDULE 4: Annual Water Supply

Resource	AF	Percentage
Metropolitan Water District	8,801	46.9%
Local Production - BOU	9,958	53.1%
TOTAL	**18,759**	**100.0%**

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

		2010	2009	2008	2007	2006
Number of Potable Water Customers:						
Residential		22,059	22,033	22,043	22,046	22,050
Commercial		3,095	3,100	3,100	3,073	3,072
Large Commercial		110	114	116	114	114
Other[1]		1,138	1,118	1,112	1,104	1,102
Recycled		101	88	82	71	60
Total		**26,503**	**26,453**	**26,453**	**26,408**	**26,398**
CCF Sales Per Year (x1,000):						
Potable						
Residential		5,748	6,556	6,942	7,381	6,755
Commercial		1,651	1,695	1,732	1,930	1,749
Large Commercial		308	356	364	373	370
Other[1]		289	377	409	305	338
Recycled		958	794	912	953	514
Total		**8,954**	**9,778**	**10,359**	**10,942**	**9,726**
Water Revenues:						
Retail[2]	$	21,472	20,853	22,503	18,777	16,805
Miscellaneous[3]		646	519	721	841	2,131
Total	**$**	**22,118**	**21,372**	**23,224**	**19,618**	**18,936**
Maximum Day (Million gallons)		**23.9**	**29.0**	**30.8**	**33.0**	**31.9**

1 Other includes city department water, school, fire protection, and miscellaneous users
2 Potable and Recycled
3 Other miscellaneous revenues include connection fees, recycled water credits, etc.

SCHEDULE 6: Weighted Average Billing Price – Water $ per CCF

	2010	2009	2008	2007	2006
Residential	2.50	2.17	1.99	1.84	1.81
Commercial	2.18	1.99	1.84	1.74	1.67
Large Commercial	2.04	1.85	1.74	1.67	1.58
Weighted Average Water Rate	2.41	2.12	1.95	1.82	1.78