



**CITY OF ANAHEIM
WATER UTILITY FUND**

Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

**CITY OF ANAHEIM
WATER UTILITY FUND**

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KPMG LLP
Suite 700
20 Pacifica
Irvine, CA 92618-3391

Independent Auditors' Report

The Honorable City Council
City of Anaheim, California:

We have audited the accompanying financial statements of the Water Utility Fund (Water Utility) of the City of Anaheim, California (the City) as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1 to the financial statements, the financial statements present only the Water Utility Fund of the City of Anaheim, California, and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows, where applicable, for the years then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Utility Fund of the City of Anaheim, California as of June 30, 2012 and 2011, and the changes in its financial position, and its cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.



U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Orange County, California
December 12, 2012

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Management's Discussion and Analysis

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(Unaudited)

(In thousands)

As management of Anaheim Public Utilities, a department of the City of Anaheim, California (City), we offer the readers of the City of Anaheim Water Utility Fund (Water Utility) financial statements a narrative overview and analysis of the financial statements for the fiscal years ended June 30, 2012 and 2011. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

The assets of the Water Utility exceeded its liabilities at the close of fiscal years 2012 and 2011 by \$232,262 and \$232,554, respectively. Of these amounts, \$12,210 and \$13,033, respectively, were available to meet the Water Utility's ongoing obligations to creditors and customers (unrestricted fund net assets). The Water Utility's total fund net assets decreased by \$292 (0.1%) and decreased by \$690 (0.3%) for the fiscal years ended June 30, 2012 and 2011, respectively. Unrestricted fund net assets represented 22.5% and 24.4% of annual operating expenses for fiscal years 2012 and 2011, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Water Utility's financial statements. Because the Water Utility is a business-type activity of the City, an enterprise fund is used to account for its operations. These financial statements include only the activities of the Water Utility and provide comparative information for the last two fiscal years. Information on citywide financial results is available in the City's Comprehensive Annual Financial Report as of June 30, 2012.

The Water Utility's financial statements comprise two components: 1) financial statements and 2) notes to the financial statements. Included as part of the financial statements are the balance sheets, statements of revenues, expenses, and changes in fund net assets, and statements of cash flows.

The balance sheets present the assets and liabilities with the difference between the two reported as fund net assets. Over time, increases or decreases in fund net assets may serve as a useful indicator of whether the financial condition of the Water Utility is improving or deteriorating.

The statements of revenues, expenses, and changes in fund net assets present information showing how the Water Utility's fund net assets have changed during the most recent two fiscal years. Results of operations are recorded using the accrual basis of accounting, whereby transactions are reported when underlying events occur, regardless of the timing of cash flows. Thus, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods, such as accounts receivable and accounts payable. The accrual basis of accounting is more fully described in the accompanying notes to financial statements.

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The statements of cash flows present the flows of cash and cash equivalents during the last two fiscal years, including certain restricted amounts.

The notes to financial statements provide additional information that is essential to the full understanding of the data provided in the financial statements.

Financial Analysis

As noted earlier, fund net assets may serve over time as a useful indicator of the Water Utility's financial position. In the case of the Water Utility, assets exceed liabilities by \$232,262 and \$232,554 at June 30, 2012 and 2011, respectively.

A large portion of the Water Utility's fund net assets (93.0% and 92.8% as of June 30, 2012 and 2011, respectively) reflects its investment in capital assets, such as production, transmission, distribution facilities, and general plant, less any related debt used to acquire those assets that remain outstanding. The Water Utility uses these capital assets to provide services to customers. Consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt on the balance sheets must come from other sources such as operations.

An additional portion of the Water Utility's fund net assets (1.7% and 1.6% as of June 30, 2012 and 2011, respectively) represents resources that are subject to external restrictions on how they may be used. These restrictions are for items such as debt repayment and other legally restricted purposes. The unrestricted portion of the Water Utility's fund net assets (5.3% and 5.6% as of June 30, 2012 and 2011, respectively) may be used to meet the Water Utility's ongoing obligations to creditors and customers. The Water Utility's condensed balance sheets at June 30 are as follows:

Condensed Balance Sheets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 54,300	66,754	41,774
Net utility plant	293,993	282,893	273,853
Total assets	<u>348,293</u>	<u>349,647</u>	<u>315,627</u>
Long-term liabilities, net of current portion	94,027	95,913	62,455
Current liabilities	22,004	21,180	19,928
Total liabilities	<u>116,031</u>	<u>117,093</u>	<u>82,383</u>
Invested in capital assets, net of related debt	216,040	215,701	216,360
Restricted	4,012	3,820	3,827
Unrestricted	12,210	13,033	13,057
Total fund net assets	<u>\$ 232,262</u>	<u>232,554</u>	<u>233,244</u>

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Management's Discussion and Analysis

June 30, 2012 and 2011

(Unaudited)

(In thousands)

As of June 30, 2012

Assets

Total assets as of June 30, 2012 and 2011 were \$348,293 and \$349,647, respectively. The \$1,354 (0.4%) decrease in total assets is primarily due to a \$1,355 decrease in noncurrent assets. Noncurrent assets decreased 0.4% primarily because the Water Utility continued to spend down the bond proceeds received from the issuance of the 2010 Water Revenue Bonds, resulting in a decrease to restricted assets of \$12,387. This decrease was partially offset by an \$11,100 (3.9%) increase in net utility plant. The Water Utility continued to use the proceeds from the 2010 Water Revenue Bonds to build additional storage facilities, wells, and distribution facilities under a plan to ensure the water supply continues to be safe, reliable, and sufficient to meet future demands.

Liabilities

Total liabilities as of June 30, 2012 and 2011 were \$116,031 and \$117,093, respectively. The \$1,062 (0.9%) decrease in total liabilities is due to a \$1,886 decrease in long-term liabilities, and an \$824 increase in current liabilities. Long-term liabilities decreased 2.0% primarily as a result of payments of principal on long-term debt.

Fund Net Assets

Total fund net assets as of June 30, 2012 and 2011 were \$232,262 and \$232,554, respectively. Total fund net assets decreased by \$292 (0.1%) during fiscal year 2012. Fund net assets invested in capital assets, net of related debt increased \$339 (0.2%) primarily because of the construction additions to the water supply and transmission and distribution infrastructure.

As of June 30, 2011

Assets

Total assets as of June 30, 2011 and 2010 were \$349,647 and \$315,627, respectively. The \$34,020 (10.8%) increase in total assets is due primarily to a \$32,792 increase in noncurrent assets, and a \$1,228 increase in current assets. Noncurrent assets increased 11.6% primarily because \$23,210 of the bond proceeds received from the issuance of the 2010 Water Revenue Bonds remained unspent at June 30, 2011, resulting in an increase to restricted cash and cash equivalents. See the statements of cash flows for additional information regarding changes in cash and cash equivalents. Net utility plant increased by \$9,040 (3.3%) as a result of the Water Utility building additional storage facilities, wells, and distribution facilities under a plan to ensure the water supply continues to be safe, reliable, and sufficient to meet future demands.

Liabilities

Total liabilities as of June 30, 2011 and 2010 were \$117,093 and \$82,383, respectively. The \$34,710 (42.1%) increase in total liabilities is due to a \$33,458 increase in long-term liabilities, and a \$1,252

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(Unaudited)

(In thousands)

increase in current liabilities. Long-term liabilities increased 53.6% primarily due to the October 2010 issuance of \$34,525 Water Revenue Bonds used to finance the capital projects program for improving and safeguarding the Water Utility's water supply infrastructure.

Fund Net Assets

Total fund net assets as of June 30, 2011 and 2010 were \$232,554 and \$233,244, respectively. Total fund net assets decreased by \$690 (0.3%) during fiscal year 2011. Fund net assets invested in capital assets, net of related debt decreased \$659 (0.3%) primarily because the increased debt obligation from the issuance of the \$34,525 Water Revenue bonds offset the construction additions to the water supply and transmission and distribution infrastructure.

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(Unaudited)

(In thousands)

The Water Utility's statements of revenues, expenses, and changes in fund net assets for the years ended June 30 are summarized as follows:

Revenues, Expenses, and Changes in Fund Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenues:			
Sale of water, net	\$ 57,041	54,871	54,449
Rate Stabilization Account revenues	—	—	1,300
Other operating revenues	707	727	619
Interest income	1,119	840	1,111
Other nonoperating revenues	463	497	308
Capital contributions	1,799	2,365	713
Total revenues	<u>61,129</u>	<u>59,300</u>	<u>58,500</u>
Expenses:			
Purchased water	28,088	27,042	27,227
Treatment and pumping	5,739	6,166	6,448
Operations, maintenance, and administration	10,788	11,204	11,556
Depreciation	9,739	8,964	8,103
Interest expense	3,803	2,920	1,746
Total expenses	<u>58,157</u>	<u>56,296</u>	<u>55,080</u>
Transfers:			
Transfer to the General Fund of the City	(2,374)	(2,063)	(2,380)
Transfer of right-of-way fee to the City	(823)	(836)	(750)
Transfers from other funds of the City	—	—	963
Transfers to other funds of the City	(67)	(795)	(179)
Total transfers	<u>(3,264)</u>	<u>(3,694)</u>	<u>(2,346)</u>
Changes in fund net assets	(292)	(690)	1,074
Fund net assets at beginning of year	<u>232,554</u>	<u>233,244</u>	<u>232,170</u>
Fund net assets at end of year	<u>\$ 232,262</u>	<u>232,554</u>	<u>233,244</u>

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(Unaudited)

(In thousands)

Revenues

Year ended June 30, 2012

Total revenues for the fiscal year ended June 30, 2012 were \$61,129 as compared with \$59,300 in fiscal year 2011, an increase of \$1,829. This increase was primarily due to a \$2,170 increase in revenues from the sale of water, which was partially offset by a \$566 reduction in capital contributions. Revenues from the sale of water increased 4.0% primarily because the Water System Reliability Adjustment (WSRA) charge increased by 7.5 cents to a total of 22.5 cents per hundred cubic foot effective on July 1, 2011. The WSRA is charged to customers in order to recover projected capital costs, including rehabilitation and construction of water and reclaimed water system infrastructure, as well as the related debt service payments. In addition, the Water Utility experienced a small increase (0.7%) in customer demand, from 59,923 to 60,371 acre feet.

Year ended June 30, 2011

Total revenues for the fiscal year ended June 30, 2011 were \$59,300 as compared with \$58,500 in fiscal year 2010, an increase of \$800. This increase was primarily due to a \$1,652 increase in capital contributions and a \$422 increase in revenues from the sale of water, which was partially offset by a \$1,300 reduction in Rate Stabilization Account (RSA) revenues. Capital contributions increased 231.7% primarily because of the increased number of development projects reaching final completion during the year, after several years of construction delays. Revenues from the sale of water increased only 0.8% primarily because the increase of 7.5 cents to a total of 15 cents per hundred cubic foot for the Water System Reliability Adjustment (WSRA) was offset by a 4.7% reduction in customer demand. The WSRA is charged to customers in order to recover projected capital costs, including rehabilitation and construction of water and reclaimed water system infrastructure, as well as the related debt service payments. No RSA revenues were recognized in fiscal year 2011, since the rates charged to customers were sufficient to cover any increased water supply costs.

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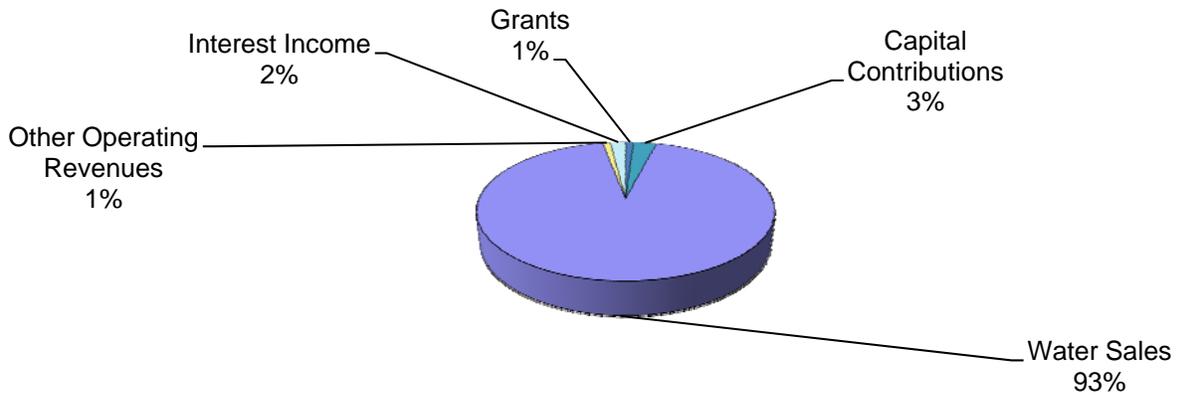
June 30, 2012 and 2011

(Unaudited)

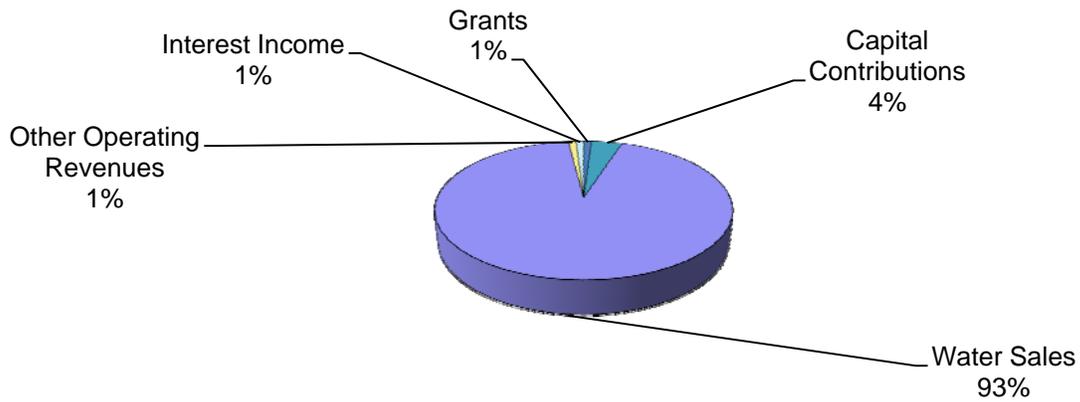
(In thousands)

Revenues by Source

Year ended June 30, 2012



Year ended June 30, 2011



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(Unaudited)

(In thousands)

Expenses

Year ended June 30, 2012

Total expenses for the fiscal year ended June 30, 2012 were \$58,157 as compared with \$56,296 in fiscal year 2011. This \$1,861 (3.3%) increase in total expenses is primarily due to a \$1,046 increase in purchased water costs and an \$883 increase in interest expense. The 3.9% increase in purchased water costs was primarily the result of increased commodity costs charged by the Water Utility's two sources of water supply, the Metropolitan Water District (MWD) and the Orange County Water District (OCWD). The 30.2% increase in interest expense resulted from paying a full year of interest expense for the \$34,525 Water Revenue Bonds, which were issued in October 2010.

Year ended June 30, 2011

Total expenses for the fiscal year ended June 30, 2011 were \$56,296 as compared with \$55,080 in fiscal year 2010. This \$1,216 (2.2%) increase in total expenses is primarily due to a \$1,174 increase in interest expense. The 67.2% increase in interest expense resulted from the additional interest expense incurred from the issuance of \$34,525 Water Revenue Bonds in October 2010.

Transfers

Year ended June 30, 2012

Transfers to the City's General Fund, as defined by City Charter, are equal to a maximum of 4.0% of total operating revenues. Transfers to the City's General Fund were \$2,374 and \$2,063 for fiscal years 2012 and 2011, respectively. In addition, a right-of-way fee is transferred to the City's General Fund and is equal to 1.5% of net revenues of the prior fiscal year. Net revenues are defined as revenues from sale of water less uncollectible accounts. The right-of-way fee transferred to the City amounted to \$823 for fiscal year 2012 and \$836 for fiscal year 2011. There were no significant changes in the amount of right-of-way fee transferred to the City during fiscal year 2012 when compared with fiscal year 2011.

Upon completion of several joint capital projects, the Water Utility transferred ownership of its share of these projects, valued at \$67, to the Electric Utility.

Year ended June 30, 2011

Transfers to the City's General Fund, as defined by City Charter, are equal to a maximum of 4.0% of total operating revenues. Transfers to the City's General Fund were \$2,063 and \$2,380 for fiscal years 2012 and 2011, respectively. In addition, a right-of-way fee is transferred to the City's General Fund and is equal to 1.5% of net revenues of the prior fiscal year. Net revenues are defined as revenues from sale of water less uncollectible accounts. The right-of-way fee transferred to the City amounted to \$836 for fiscal year 2011 and \$750 for fiscal year 2010. There were no significant changes in the amount of right-of-way fee transferred to the City during fiscal year 2011 when compared with fiscal year 2010.

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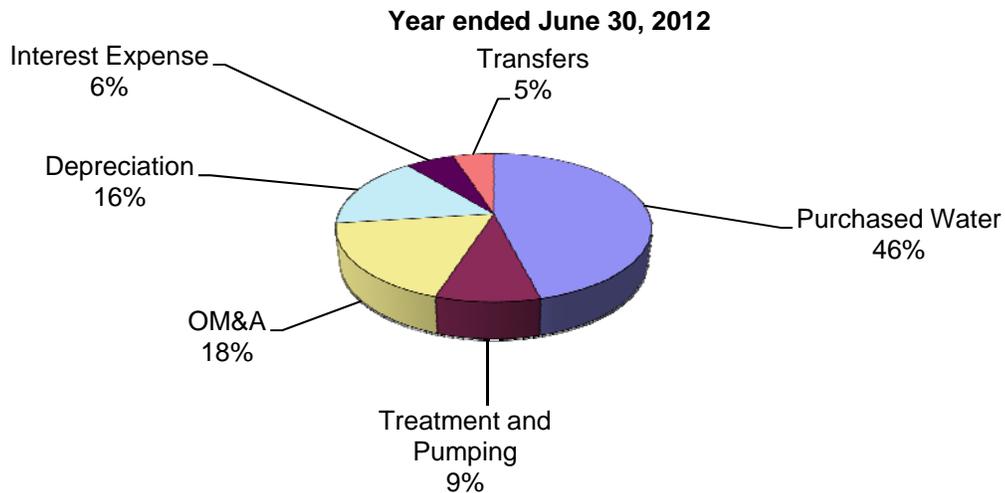
June 30, 2012 and 2011

(Unaudited)

(In thousands)

Upon completion of several joint capital projects, the Water Utility transferred ownership of its share of these projects, valued at \$769, to the Electric Utility. In addition, the Water Utility transferred \$26 to the City's Redevelopment Agency for capital purposes during fiscal year 2011. Transfer from other funds of the City decreased \$963 in fiscal year 2011 is due to a onetime transfer of vehicle capital assets from the City to the Water Utility in prior year.

Expenses and Transfers



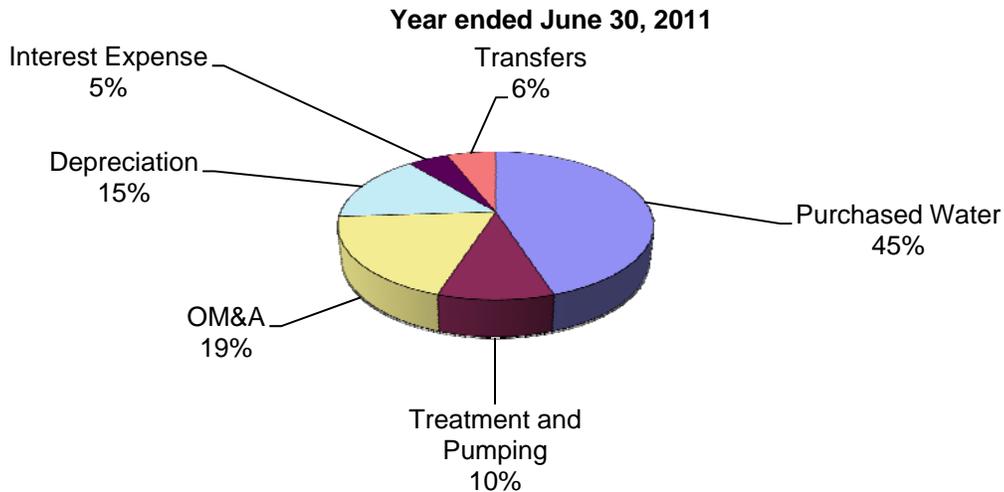
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(Unaudited)

(In thousands)



Capital Assets and Debt Administration

Capital Assets

The Water Utility's net investment in capital assets as of June 30, 2012 and 2011 was \$293,993 and \$282,893, respectively, net of accumulated depreciation. The Water Utility's net investment in capital assets includes land, production wells and treatment plant, transmission and distribution facilities, and general plant. The total net additions to investment in capital assets (before accumulated depreciation) for fiscal year 2012 were \$19,541 (5.1%).

The Water Utility's investments in capital assets as of June 30 are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Source of water supply	\$ 43,350	39,172	37,446
Pumping plant	50,008	48,508	41,934
Transmission and distribution	280,609	276,390	249,713
General plant	7,030	6,950	6,301
Land	2,339	2,298	2,298
Construction in progress	<u>22,871</u>	<u>13,348</u>	<u>36,413</u>
Total utility plant	406,207	386,666	374,105
Less accumulated depreciation	<u>(112,214)</u>	<u>(103,773)</u>	<u>(100,252)</u>
Net utility plant	<u>\$ 293,993</u>	<u>282,893</u>	<u>273,853</u>

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Additional information on the Water Utility's capital assets can be found in note 3 to the financial statements.

As of June 30, 2012

The Water Utility showed a net increase of \$11,100 (3.9%) in the investment in capital assets (net utility plant) this fiscal year, due mainly to ongoing projects to expand and refurbish the water transmission and distribution infrastructure, pumping plant, and source of supply. In 1999, the Water Utility made the decision to increase its pumping capacity by building ten new wells over the next ten years or so. As of June 30, 2012, the Water Utility has completed approximately 86% of the planned new well pumping capacity.

As of June 30, 2011

The Water Utility showed a net increase of \$9,040 (3.3%) in the investment in capital assets (net utility plant) this fiscal year, due mainly to ongoing projects to expand and refurbish the water transmission and distribution infrastructure, pumping plant, and source of supply. In 1999, the Water Utility made the decision to increase its pumping capacity by building ten new wells over the next decade. As of June 30, 2011, the Water Utility has completed approximately 86% of the planned new well pumping capacity.

Long-Term Debt

As of June 30, 2012 and 2011, the Water Utility had total long-term debt outstanding of \$95,112 and \$97,374, respectively.

The Water Utility's outstanding long-term debt as of June 30 is as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Water revenue bonds	\$ 85,740	86,655	53,010
Notes payable and advances	9,372	10,719	11,618
Total long-term debt outstanding	95,112	97,374	64,628
Less:			
Current portion	(1,412)	(1,807)	(1,779)
Unamortized bond premium	558	658	17
Unamortized refunding costs	(231)	(312)	(411)
Total noncurrent long-term debt outstanding	\$ <u>94,027</u>	<u>95,913</u>	<u>62,455</u>

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(Unaudited)

(In thousands)

The Water Utility maintains an AAA credit rating from both Standard & Poor's and Fitch Ratings. Additional information on the Water Utility's long-term debt can be found in note 5 to the financial statements.

As of June 30, 2012

Long-term debt decreased \$1,886 (2.0%) primarily due to the repayments of principal on outstanding bonds and notes payable in accordance with the applicable payment terms. The revenues of the Water Utility have been pledged to pay the outstanding long-term debt.

As of June 30, 2011

Long-term debt increased \$33,458 (53.6%) primarily due to the issuance of \$34,525 Water Revenue Bonds, the proceeds of which provided funding for the Water Utility's ongoing improvements to the infrastructure system. The revenues of the Water Utility have been pledged to pay the outstanding long-term debt. The Water Utility continued to make payments of principal on outstanding bonds and notes payable in accordance with the applicable payment terms.

Economic Factors and Rates

For fiscal year 2013, OCWD set the Basin Production Percentage (BPP) for all cities and water districts they serve (including Anaheim) at 68.0%, up from the 65.0% fiscal year 2012 limit. Consequently, the Water Utility will be able to pump 3.0% more ground water from OCWD without incurring a penalty and purchase 3.0% less from MWD in order to fulfill its water supply requirements. Water purchased from MWD is priced higher than ground water pumped from OCWD, so increasing the BPP lessens the impacts of MWD cost increases. The Water Utility's Water Rates, Rules, and Regulations provide for an automatic adjustment of its commodity adjustment when OCWD and MWD increase or decrease the cost per acre foot of water. Partly because of the increase in the BPP for fiscal year 2013, the Water Commodity Adjustment is expected to remain at the fiscal year 2012 rate of \$1.22 per 100 cubic foot.

As approved on March 18, 2008, the Water Utility instituted a charge to all customers for a Water System Reliability Adjustment (WSRA). The WSRA is set to remain at the fiscal year 2012 rate of \$0.225 per 100 cubic foot. The purpose of this charge is to recover projected capital costs, including rehabilitation and construction of water and reclaimed water system infrastructure and the related debt service payments.

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(Unaudited)

(In thousands)

Requests for Information

This financial report is designed to provide a general overview of the Water Utility's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Assistant General Manager – Finance and Administration, Anaheim Public Utilities, 201 South Anaheim Boulevard, Suite 1101, Anaheim, CA 92805.

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Balance Sheets

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(In thousands)

Assets	2012	2011
Utility plant:		
Source of water supply	\$ 43,350	39,172
Pumping plant	50,008	48,508
Transmission and distribution	280,609	276,390
General plant	7,030	6,950
Total depreciable utility plant	380,997	371,020
Less accumulated depreciation	(112,214)	(103,773)
Net depreciable utility plant	268,783	267,247
Land	2,339	2,298
Construction in progress	22,871	13,348
Net utility plant	293,993	282,893
Restricted assets:		
Cash and cash equivalents	11,571	24,544
Investments	7,707	7,121
Total restricted assets	19,278	31,665
Other assets:		
Metropolitan Water District Orange County pipeline receivable	101	117
Unamortized debt issuance costs	707	759
Total other assets	808	876
Total noncurrent assets	314,079	315,434
Current assets:		
Cash and cash equivalents	12,407	9,480
Investments	10,918	13,323
Restricted cash and cash equivalents	1,957	2,101
Restricted investments	528	938
Accounts receivable, net	6,701	6,850
Accrued interest receivable	122	162
Materials and supplies inventory	567	370
Purchased water in storage	1,014	989
Total current assets	34,214	34,213
Total assets	\$ 348,293	349,647

**CITY OF ANAHEIM
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Balance Sheets

June 30, 2012 and 2011

(In thousands)

Fund Net Assets and Liabilities	2012	2011
Fund net assets:		
Invested in capital assets, net of related debt	\$ 216,040	215,701
Restricted for:		
Debt service	1,301	1,125
Renewal and replacement	2,711	2,695
Unrestricted	12,210	13,033
Total fund net assets	232,262	232,554
Long-term liabilities:		
Long-term debt obligations, less current portion	94,027	95,913
Total long-term liabilities	94,027	95,913
Current liabilities (payable from restricted assets):		
Current portion of long-term debt	1,412	1,807
Arbitrage rebate liability	5	5
Accrued interest payable	1,068	1,227
Total current liabilities (payable from restricted assets)	2,485	3,039
Current liabilities (payable from unrestricted current assets):		
Accounts payable and accrued expenses	12,567	11,083
Wages payable	184	349
Regulatory credits	6,010	5,945
Customer deposits	758	764
Total current liabilities (payable from unrestricted current assets)	19,519	18,141
Total liabilities	116,031	117,093
Total fund net assets and liabilities	\$ 348,293	349,647

See accompanying notes to financial statements.

**CITY OF ANAHEIM
WATER UTILITY FUND**

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

Years ended June 30, 2012 and 2011

(In thousands)

	2012	2011
Operating revenues:		
Sales of water, net	\$ 57,041	54,871
Other operating revenues	707	727
Total operating revenues	57,748	55,598
Operating expenses:		
Purchased water	28,088	27,042
Treatment and pumping	5,739	6,166
Operations, maintenance, and administration	10,788	11,204
Depreciation	9,739	8,964
Total operating expenses	54,354	53,376
Operating income	3,394	2,222
Nonoperating revenues (expenses):		
Interest income	1,119	840
Interest expense	(3,803)	(2,920)
Grants	463	497
Total net nonoperating expenses	(2,221)	(1,583)
Income before capital contributions and transfers	1,173	639
Capital contributions	1,799	2,365
Transfer to the General Fund of the City	(2,374)	(2,063)
Transfer of right-of-way fee to the City	(823)	(836)
Transfers to other funds of the City	(67)	(795)
Change in fund net assets	(292)	(690)
Fund net assets at beginning of year	232,554	233,244
Fund net assets at end of year	\$ 232,262	232,554

See accompanying notes to financial statements.

**CITY OF ANAHEIM
WATER UTILITY FUND**

Statements of Cash Flows

Years ended June 30, 2012 and 2011

(In thousands)

	2012	2011
Cash flows from operating activities:		
Receipts from customers and users	\$ 57,656	55,143
Receipts from services provided to other funds of the City	322	311
Payments to suppliers	(26,245)	(25,963)
Payments to employees	(12,964)	(12,643)
Payments for services provided by other funds of the City	(4,309)	(4,787)
Net cash provided by operating activities	14,460	12,061
Cash flows from noncapital financing activities:		
Transfers to the General Fund and other funds of the City	(3,197)	(2,899)
Receipts from grants	441	497
Net cash used for noncapital financing activities	(2,756)	(2,402)
Cash flows from capital and related financing activities:		
Proceeds from borrowings, net of premium	—	35,243
Issuance costs	—	(405)
Capital purchases	(18,264)	(14,456)
Principal payments on long-term debt	(2,262)	(1,779)
Interest paid, net of amounts capitalized	(4,736)	(3,601)
Transfers to other funds of the City for capital purposes	(39)	(788)
Capital contributions	3	15
Net cash (used for) provided by capital and related financing activities	(25,298)	14,229
Cash flows from investing activities:		
Purchases of investment securities	(6,429)	(5,596)
Proceeds from sale and maturity of investment securities	8,600	7,015
Collection of pipeline receivable	16	16
Interest income received	1,217	952
Net cash provided by investing activities	3,404	2,387
(Decrease) increase in cash and cash equivalents	(10,190)	26,275
Cash and cash equivalents at beginning of year	36,125	9,850
Cash and cash equivalents at end of year	\$ 25,935	36,125

**CITY OF ANAHEIM
WATER UTILITY FUND**

Statements of Cash Flows

Years ended June 30, 2012 and 2011

(In thousands)

	2012	2011
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 3,394	2,222
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	9,739	8,964
Changes in assets and liabilities:		
Accounts receivable, net	171	(103)
Materials and supplies inventory	(197)	1
Purchased water in storage	(25)	192
Accounts payable and accrued expenses	1,484	798
Wages payable	(165)	28
Customer deposits	(6)	(49)
Regulatory credits	65	8
Total adjustments	11,066	9,839
Net cash provided by operating activities	\$ 14,460	12,061
Schedule of noncash investing, capital, and financing activities:		
Capital contributions	\$ 1,796	2,365
Transfers out of capital assets	(28)	(7)
Decrease in fair value of investments	(58)	(94)
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 12,407	9,480
Restricted cash and cash equivalents, current portion	1,957	2,101
Restricted cash and cash equivalents, noncurrent portion	11,571	24,544
Total cash and cash equivalents	\$ 25,935	36,125

See accompanying notes to financial statements.

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2012 and 2011

(In thousands)

(1) Summary of Significant Accounting Policies

(a) Basis of Accounting

The Water Utility Fund (Water Utility) of the City of Anaheim, California (City) was established on June 30, 1971, at which time the portion of the City's General Fund net assets related to water system operations was transferred to Water Utility net assets. The financial statements of the Water Utility, an enterprise fund, are presented on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles and accounting principles and methods prescribed by the California Public Utilities Commission (CPUC). The Water Utility is not subject to the regulations of the CPUC. Under Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund and Other Governmental Entities That Use Proprietary Fund Accounting*, the Water Utility has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

(b) New Accounting Pronouncements

On July 1, 2011, the Water Utility adopted the GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. This Statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. It also sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. This statement had no material effects on amounts reported in the Water Utility's financial statements for the fiscal year ended June 30, 2012.

The Water Utility is currently reviewing its accounting practices to determine the potential impacts on the financial statements for the following GASB Statements:

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Issued in December 2010, this Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance from all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. This Statement is effective for financial statements for periods beginning after December 15, 2011.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflows of Resources, and Net Position*. Issued in June 2011, This Statement provides guidance for deferred outflows of resources and deferred inflows of resources. Deferred outflows and deferred inflows of resources are defined as a consumption of net assets by the government that is applicable to a future reporting period and the acquisition of net assets by the government that is applicable to a future reporting period. Net position is defined as the residual of all other elements presented

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2012 and 2011

(In thousands)

in a statement of financial position. This Statement is effective for financial statements for periods beginning after December 15, 2011.

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Issued in March 2012, this Statement establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement is effective for financial statements for period beginning after December 15, 2012.
- GASB Statement No. 68, this Statement provides guidance for employers offering defined benefit pensions through plans administered as trusts or equivalent arrangements. It replaces certain requirements related to plan trusts in Statement No. 27 Accounting for Pension by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This Statement is effective for periods beginning after June 15, 2014.

(c) Utility Plant and Depreciation

The costs of additions to utility plant and replacement of retired units are capitalized. Utility plant is recorded at cost, including capitalized interest, or in the case of contributed plant at fair market value at the date of the contribution, except those assets acquired prior to July 1, 1977, which are recorded at historical cost. Cost includes labor, materials, allocated indirect charges such as engineering, supervision, construction and transportation equipment, retirement plan contributions and other fringe benefits, and certain administrative and general expenses. The cost of minor replacements is included in maintenance expense. The net book value of assets retired or disposed of, related salvage value proceeds, and the costs of removal are recorded in accumulated depreciation.

Depreciation of utility plant is provided by the straight-line method based on the following estimated service lives of the properties:

Source of water supply	15 to 75 years
Pumping plant	10 to 75 years
Transmission and distribution	20 to 75 years
General plant	5 to 50 years

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2012 and 2011

(In thousands)

(d) Pooled Cash and Investments

The City pools available cash from all funds for the purpose of enhancing investment income through investment activities. Investments in U.S. Treasury obligations, U.S. agency securities, and corporate notes are carried at fair value based on quoted market prices. Participating guaranteed investment contracts and flexible repurchase agreements are carried at fair value. Money market mutual funds are carried at fair value based on the fund's share price. The City's investment in the State of California Local Agency Investment Fund (LAIF) is carried at fair value based on the value of each participating dollar as provided by LAIF. LAIF is authorized by California Government Code (Government Code) Section 16429 under the oversight of the Treasurer of the State of California. Commercial paper, nonparticipating guaranteed investment contracts, and negotiable certificates of deposit are carried at amortized cost (which approximates fair value). Investment income, which includes changes in fair value, is allocated to all funds on the basis of average daily cash and investment balances. The Water Utility's cash and investments pooled with the City Treasurer (Treasurer) are carried at fair value based on the value of each participating dollar. See note 2 for further discussion.

For the purpose of the statements of cash flows, the Water Utility considers cash equivalents to be highly liquid short-term investments that are readily convertible to known amounts of cash and mature within three months from the date they are acquired. Cash and cash equivalents are included in the City's cash and investments pool and in accounts held by fiscal agents.

(e) Restricted Assets

Certain proceeds of the Water Utility's bonds, as well as certain resources set aside for their repayments, are classified as restricted on the statement of balance sheet, because they are maintained in separate bank accounts and their use is limited by applicable debt covenants. Generally, the Water Utility would first apply restricted resources when expenses incurred for which both restricted and unrestricted resources are available.

(f) Operating Revenues

Operating revenues are revenues generally derived from activities that are billable in accordance with the Water Utility's Rates, Rules, and Regulations.

The City Council must be notified for all changes in base water rates. Rates have been structured to recover the Water Utility's costs for providing water services. The Water Utility's Rates, Rules, and Regulations include a Water Commodity Adjustment formula by which billings to customers are subject to adjustment, up or down, to reflect variations in the cost of water production and water quality measures to the Water Utility.

Revenue is recorded in the period earned. The Water Utility accrues estimated unbilled revenues for water sold but not billed at the end of a fiscal period, which amounted to

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2012 and 2011

(In thousands)

approximately \$3,840 and \$3,954 for fiscal years 2012 and 2011, respectively. Residential and smaller commercial accounts are billed bimonthly, and all other customers are billed monthly.

Revenues are reported net of uncollectible amounts. Total uncollectible amounts written off are \$65 and \$93 for the fiscal years ended June 30, 2012 and 2011, respectively. The applicable allowances for uncollectible amounts are \$61 and \$68 at June 30, 2012 and 2011, respectively. See note 5 for discussion of pledged revenue.

(g) Operating Expenses

Purchased water includes all purchases of water from the Metropolitan Water District (MWD) of Southern California and ground water basin pumping charges from the Orange County Water District (OCWD).

Treatment and pumping charges include all costs associated with the Water Utility's Lenain Filtration Plant and all costs associated with pumping the water throughout the Water Utility's water distribution system. This includes the energy costs associated with the pumps.

Operation, maintenance, and administration expenses (OM&A) include all costs associated with the distribution of water, administration, operating, and maintaining the water facilities, and customer service.

(h) Debt Issuance Costs

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

(i) Bond Refunding Costs

Bond refunding costs are deferred and amortized over the life of the new bond or over the life of the old bond, whichever is shorter, on a basis that approximates the effective-interest method. These costs are shown as a reduction of the long-term debt obligation on the accompanying financial statements.

(j) Vacation and Sick Pay

Vacation and sick pay for all City employees are paid by the General Benefits and Insurance Fund of the City. The General Benefits and Insurance Fund is reimbursed through payroll charges to the Water Utility based on estimates of benefits to be earned during the year. Vested vacation and sick pay benefits are accrued in the General Benefits and Insurance Fund and amounted to \$685 and \$719 for the Water Utility at June 30, 2012 and 2011, respectively.

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2012 and 2011

(In thousands)

(k) Transfers (to) from Other Funds of the City

The City Charter provides that transfers to the General Fund of the City shall not exceed 4% of total revenue. Such transfers are not in lieu of taxes and amounted to \$2,374 and \$2,063 for the fiscal years ended June 30, 2012 and 2011, respectively.

The transfer of right-of-way fees to the City represents the City Council approved transfer of 1.5% of net water revenues of the prior fiscal year to the General Fund of the City. Net revenues are defined as revenues from the sale of water, less uncollectible amounts. Bond disclosure requirements designate that this transfer must be recognized as an expense in the calculation of bond coverage. The transfer of right-of-way fee to the City amounted to \$823 and \$836 for the fiscal years ended June 30, 2012 and 2011, respectively.

Transfers from other funds of the City are either cash transfers or capital asset transfers between City funds.

During the fiscal years ended June 30, 2012 and 2011, the Water Utility participated in several joint projects with the Electric Utility. The Water Utility was responsible for its share of the costs while the projects were ongoing. Upon completion, the Water Utility transferred ownership of its share of the projects to the Electric Utility, valued at \$67 and \$769 for fiscal years 2012 and 2011, respectively. In fiscal year 2011, the Water Utility also transferred \$26 to the City's Redevelopment Agency for its share of improvements.

(l) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. As such, actual results could differ from those estimates.

(2) Deposits and Investments

The City maintains a cash and investment pool, which includes the cash balances of all City funds, and is invested by the Treasurer to enhance interest earnings. The pooled interest earned, net of administrative fees, is reallocated to each fund based on their respective average daily cash balances.

The City's pooled investment fund has been reviewed by Standard and Poor's Corporation (S&P) and received a credit rating of AAf in July 2011.

The City's investment policy further limits the permitted investments in Government Code Sections 53600 et al, 16429.1, and 53684 to the following: obligations of the U.S. government, federal agencies, and government-sponsored enterprises; medium-term corporate notes;

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2012 and 2011

(In thousands)

certificates of deposit; bankers' acceptances; commercial paper; LAIF; repurchase agreements; reverse repurchase agreements; and money market mutual funds.

The Water Utility maintains cash equivalents and investments at June 30 with the following carrying amounts:

	2012	2011
Cash equivalents and investments pooled with the Treasurer	\$ 22,828	27,855
Cash equivalents and investments held with trustee	22,260	29,652
	\$ 45,088	57,507

At June 30, the Water Utility's cash equivalents and investments are recorded as follows:

	2012	2011
Restricted assets – cash equivalents and investments	\$ 21,763	34,704
Unrestricted assets – cash equivalents and investments	23,325	22,803
	\$ 45,088	57,507

(a) Investments

The Treasurer prepares an investment policy statement annually, which is presented to the Budget, Investment and Technology Commission for review and the City Council for approval. The approved investment policy statement is submitted to the California Debt and Investment Advisory Committee in accordance with Government Code.

The policy provides the basis for the management of a prudent, conservative investment program. Public funds are invested for the maximum security of principal and to meet daily cash flow needs, while providing a return. All investments are made in accordance with the Government Code, and in general, the Treasurer's policy is more restrictive than Government Code.

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2012 and 2011

(In thousands)

(b) Investments Authorized by the Government Code and the City's Investment Policy

The following table identifies the investment types that are authorized for the City by its investment policy. The table also identifies certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provisions of the Government Code or the City's investment policy.

<u>Authorized investment type</u>	<u>Maximum maturity</u>	<u>Maximum percentage of portfolio*</u>	<u>Maximum investment in one issuer</u>	<u>Minimum Rating (S&P/ Moody's/ Fitch)</u>
U.S. Treasury obligations	5 years	100%	100%	None
U.S. agency securities	5 years	100	40	None
Bankers' acceptances	180 days	40	5	None
Commercial paper	270 days	25	5	A-1/P-1/F-1
Negotiable certificates of deposit	360 days	25	5	None
Repurchase agreements	360 days	30	None	None
Reverse repurchase agreements	90 days	20	None	None
Medium-term corporate notes	5 years	30	5	A/A/A
Money market mutual funds	N/A	20	10	None
LAIF (2 accounts)	N/A	\$50 million per account	None	None
Time certificates of deposit (TCD)	1 year	20	5	None

* Excluding amounts held by bond trustees that are not subject to Government Code restrictions.

The City's pooled investments comply with the requirements of the investment policy. GAAP requires disclosure of certain investments in any one issuer that exceed 5% concentration of the total investments. At June 30, 2012, the following investments represent 5% or more of the City's total investments: U.S. agency securities: Federal Farm Credit Bank \$57,844 (14%), Federal Home Loan Bank \$36,398 (9%), and Federal National Mortgage Association \$65,178 (15%).

At June 30, 2011, the followings represent 5% or more of the City's total investments: U.S. agency securities: Federal Farm Credit Bank \$57,549 (13%), Federal Home Loan Bank \$50,787 (11%), and Federal National Mortgage Association \$76,347 (17%).

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2012 and 2011

(In thousands)

(c) Investments Authorized by Debt Agreements

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

<u>Authorized investment type</u>	<u>Maximum maturity</u>	<u>Maximum percentage of portfolio</u>	<u>Maximum investment in one issuer</u>
U.S. Treasury obligations	None	None	None
U.S. agency securities	None	None	None
Guaranteed investment contracts	None	None	None
Collateralized investment contracts	None	None	None
Flexible repurchase agreements	None	None	None
Money market mutual funds	None	None	None
LAIF	None	None	None
City of Anaheim Treasurer's investment portfolio	None	None	None

At June 30, 2012, the City's investments controlled by bond trustees exceeded 5% concentration in the following U.S. agency securities, guaranteed investment contracts, flexible repurchase agreements, LAIF, and money market mutual funds: Federal Home Loan Bank \$51,272 (13%), Federal National Mortgage Association \$41,939 (11%), Federal Farm Credit Bank \$29,301 (7%), Morgan Stanley \$26,299 (7%), U.S. Bank money market \$39,484 (10%), and LAIF \$63,903 (16%). All guaranteed investment contracts have downgrade language that requires collateral should credit ratings drop below certain levels.

At June 30, 2011, the City's investments controlled by bond trustees exceeded 5% concentration in the following U.S. agency securities, guaranteed investment contracts, flexible repurchase agreements, and money market mutual funds: Federal Home Loan Bank \$55,077 (15%), Federal National Mortgage Association \$34,979 (9%), Federal Farm Credit Bank \$32,290 (9%), Bank of America \$16,645 (5%), Credit Agricole \$19,365 (5%), Morgan Stanley \$29,290 (8%), Dreyfus Treasury \$16,988 (5%), U.S. Bank money market \$32,290 (9%), and Wells Fargo 100% Treasury \$19,355 (5%). All guaranteed investment contracts have downgrade language that requires collateral should credit ratings drop below certain levels.

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2012 and 2011

(In thousands)

(d) Custodial Credit Risk

Custodial credit risk for investments is the risk that the City will not be able to recover the value of investment securities that are in the possession of an outside party. All securities owned by the City with the exception of LAIF and money market mutual funds are deposited in trust for safekeeping with a custodial bank different from the City's primary bank. Securities are not held in broker accounts. Funds held by LAIF and money market mutual funds are held in the City's name.

Custodial credit risk for investments held by the bond trustee is the risk that the City will not be able to recover the value of investment securities that are in the possession of an outside party. All securities held by the bond trustee are in the name of the bond issue in trust for safekeeping with the bond trustee, which is different from the City's primary bank.

(e) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Treasurer mitigates this risk by investing in long-term securities only with funds that are not needed for current cash flow purposes and holding these securities to maturity. The Treasurer uses the segmented time distribution method to identify and manage interest rate risk. In accordance with the City's investment policy, the Treasurer monitors the segmented time distribution of its investment portfolio and analysis of cash flow demand.

Investments held by bond trustees are typically long-term securities, which are not adversely affected by interest rate changes. Investment contracts for construction funds are usually limited to three years or less.

Information about the sensitivity of the fair values of the Water Utility's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the table on the following page.

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2012 and 2011

(In thousands)

The distribution of the Water Utility's proportionate share of cash and investments by maturity at June 30, 2012 and 2011 is as follows:

Investments	Credit rating (S&P/Moody's)	Fair value, June 30, 2012	12 months or less	13 to 24 months	25 to 36 months	37 to 60 months	More than 60 months
Treasurer's pooled investments:							
U.S. agency securities	AA+/Aaa	\$ 10,743	1,911	3,033	3,208	2,591	—
Medium-term notes	A-/A3	396	124	—	—	272	—
Medium-term notes	A-/Baa2	454	454	—	—	—	—
Medium-term notes	A/A2	339	—	—	339	—	—
Medium-term notes	A+/A1	280	280	—	—	—	—
Medium-term notes	A+/A2	497	443	—	54	—	—
Medium-term notes	AA/Aa2	164	—	—	—	164	—
Medium-term notes	AA+/A1	561	—	—	276	285	—
Medium-term notes	AAA/Aaa	616	—	165	—	451	—
Commercial paper	A-1/P-1	2,820	2,820	—	—	—	—
Money market mutual funds	AAA/Aaa	1,409	1,409	—	—	—	—
LAIF	Unrated	4,549	4,549	—	—	—	—
Total investments controlled by City Treasurer		<u>22,828</u>	<u>11,990</u>	<u>3,198</u>	<u>3,877</u>	<u>3,763</u>	<u>—</u>
Investments controlled by bond trustees:							
Guaranteed investment agreements	Unrated	3,897	—	—	—	—	3,897
Collateralized investment contracts	Unrated	1,210	—	—	—	—	1,210
Money market mutual funds	AAA/Aaa	17,153	17,153	—	—	—	—
Total investments controlled by bond							

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2012 and 2011

(In thousands)

<u>Investments</u>	<u>Credit rating (S&P/Moody's)</u>	<u>Fair value, June 30, 2011</u>	<u>12 months or less</u>	<u>13 to 24 months</u>	<u>25 to 36 months</u>	<u>37 to 60 months</u>	<u>More than 60 months</u>
Treasurer's pooled investments:							
U.S. agency securities	AAA/Aaa	\$ 12,826	1,792	2,275	3,071	5,688	—
Medium-term corporate notes	AA/Aaa	690	—	—	189	501	—
Medium-term corporate notes	AA/Aa	509	325	—	—	184	—
Medium-term corporate notes	A/A	1,932	585	1,029	—	318	—
Medium-term corporate notes	A-1/P-1	529	—	529	—	—	—
Commercial paper	A-1/P-1	6,548	6,548	—	—	—	—
Money market mutual funds	AAA/aaa	725	725	—	—	—	—
LAIF	Unrated	4,096	4,096	—	—	—	—
Total investments controlled by City Treasurer		<u>27,855</u>	<u>14,071</u>	<u>3,833</u>	<u>3,260</u>	<u>6,691</u>	<u>—</u>
Investments controlled by bond trustees:							
Guaranteed investment agreements	Unrated	3,897	—	—	—	—	3,897
Collateralized investment contracts	Unrated	1,210	—	—	—	—	1,210
Money market mutual funds	AAA/Aaa	24,545	24,545	—	—	—	—
Total investments controlled by bond trustees		<u>29,652</u>	<u>24,545</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,107</u>
Total investments		<u>\$ 57,507</u>	<u>38,616</u>	<u>3,833</u>	<u>3,260</u>	<u>6,691</u>	<u>5,107</u>

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2012 and 2011

(In thousands)

(3) Water Utility Plant

The following is a summary of changes in capital assets:

	<u>Balance as of June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance as of June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance as of June 30, 2012</u>
Source of water supply	\$ 37,446	2,358	(632)	39,172	4,181	(3)	43,350
Pumping plant	41,934	6,828	(254)	48,508	1,625	(125)	50,008
Transmission and distribution	249,713	30,772	(4,095)	276,390	5,210	(991)	280,609
General plant	6,301	649	—	6,950	80	—	7,030
Depreciable utility plant	335,394	40,607	(4,981)	371,020	11,096	(1,119)	380,997
Less accumulated depreciation	<u>(100,252)</u>	<u>(8,964)</u>	<u>5,443</u>	<u>(103,773)</u>	<u>(9,739)</u>	<u>1,298</u>	<u>(112,214)</u>
Net depreciable utility plant	235,142	31,643	462	267,247	1,357	179	268,783
Land	2,298	—	—	2,298	41	—	2,339
Construction in progress	36,413	15,185	(38,250)	13,348	18,894	(9,371)	22,871
Nondepreciable utility plant	38,711	15,185	(38,250)	15,646	18,935	(9,371)	25,210
Net utility plant	<u>\$ 273,853</u>	<u>46,828</u>	<u>(37,788)</u>	<u>282,893</u>	<u>20,292</u>	<u>(9,192)</u>	<u>293,993</u>

(4) Operating Expenses

Total operating expenses shared with the City's Electric Utility amounted to \$26,524 and \$26,684 for the fiscal years ended June 30, 2012 and 2011, respectively, of which \$6,366 and \$6,404, respectively, of shared operating expenses were allocated to the Water Utility.

The shared expenses allocated to each utility are based on estimates of the benefits each utility derives from those common expenses.

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2012 and 2011

(In thousands)

(5) Long-Term Liabilities

The following is a summary of changes in long-term liabilities:

<u>June 30, 2012</u>	<u>Beginning of year</u>	<u>Additions</u>	<u>Retirements</u>	<u>End of year</u>	<u>Due within one year</u>
Water revenue bonds	\$ 86,655	—	(915)	85,740	950
Notes payable	10,719	—	(1,347)	9,372	462
	97,374	—	(2,262)	95,112	\$ 1,412
Less current portion	(1,807)	(1,867)	2,262	(1,412)	
Add unamortized bond premium	658	—	(100)	558	
Less unamortized refunding costs	(312)	—	81	(231)	
Total long-term liabilities	\$ 95,913	(1,867)	(19)	94,027	

<u>June 30, 2011</u>	<u>Beginning of year</u>	<u>Additions</u>	<u>Retirements</u>	<u>End of year</u>	<u>Due within one year</u>
Water revenue bonds	\$ 53,010	34,525	(880)	86,655	915
Notes payable	11,618	—	(899)	10,719	892
	64,628	34,525	(1,779)	97,374	\$ 1,807
Less current portion	(1,779)	(1,807)	1,779	(1,807)	
Add unamortized bond premium	17	718	(77)	658	
Less unamortized refunding costs	(411)	—	99	(312)	
Total long-term liabilities	\$ 62,455	33,436	22	95,913	

**CITY OF ANAHEIM
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Notes to Financial Statements

June 30, 2012 and 2011

(In thousands)

Annual debt service requirements for the Water Utility's revenue bonds and notes payable at June 30, 2012 to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal years ending June 30:			
2013	\$ 1,412	4,385	5,797
2014	1,863	4,459	6,322
2015	1,929	4,394	6,323
2016	1,996	4,324	6,320
2017	2,069	4,252	6,321
2018 – 2022	11,503	20,117	31,620
2023 – 2027	13,970	17,469	31,439
2028 – 2032	17,345	13,656	31,001
2033 – 2037	21,735	8,712	30,447
2038 – 2041	21,290	2,432	23,722
	<u>\$ 95,112</u>	<u>84,200</u>	<u>179,312</u>

Interest costs of \$807 and \$1,190 have been capitalized for the fiscal years ended June 30, 2012 and 2011, respectively.

In October 2010, the Water Utility issued revenue bonds Series 2010-A and 2010-B in an aggregate principal amount of \$34,525. The aggregate proceeds totaled \$35,243, of which \$34,827 was deposited in project acquisition funds to finance capital improvements to the Water Utility's infrastructure and \$416 was deposited in the cost of issuance fund. There is no required reserve fund for these bonds. The total debt service payments over the life of the bonds until fiscal year 2041 will be \$75,927.

The Series 2010-A bonds were issued as tax-exempt bonds in the amount of \$4,835. The Series 2010-B bonds were issued in the amount of \$29,690 as federally taxable Build America Bonds. The Water Utility will receive a subsidy from the federal government amounting to 35% of the interest cost on the Build America Bonds as principal and interest payments are made.

In accordance with the bond resolutions, a reserve for maximum annual debt service has been established and a reserve for renewal and replacement is being accumulated in an amount equal to a maximum of 1% of the depreciated book value of the utility plant in service.

The bond resolutions for the Water Revenue Bonds, the 2008 Series and the 2004 Series, require the establishment of a bond service account accumulating monthly one-sixth of the interest, which will become due and payable on the outstanding bonds within the next 6 months, and by one-twelfth of the principal amount, which will mature and be payable on the outstanding

**CITY OF ANAHEIM
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(In thousands)

bonds within the next 12 months. Those amounts have been recorded in net assets restricted for debt service on the accompanying balance sheets.

There are various limitations and restrictions contained in the Water Utility's bonds and notes. The Water Utility's management believes it is in compliance with all limitations and restrictions.

The Water Utility has pledged future revenues to repay a total of \$168,648 and \$173,855 of outstanding long-term obligations, principal, and interest for the years ended June 30, 2012 and 2011, respectively. Proceeds from bonds provide financing for various capital improvements, primarily distribution assets. The Water Utility's bonds are payable solely from water net revenues and are payable through fiscal year 2041. As of June 30, 2012 and 2011, the annual principal and interest payments on the bonds are 35.4% and 33.2% of net revenues, respectively. Debt service paid and total net revenues were \$5,207 and \$14,175, and \$4,155 and \$12,523 for the years ended June 30, 2012 and 2011, respectively.

Restricted cash and investments include reserve provisions as well as undisbursed bond proceeds at June 30 as follows:

	2012	2011
Held by fiscal agent:		
Bond reserve fund	\$ 6,734	6,442
Bond construction fund	9,944	23,210
Held by treasurer:		
Bond service account	2,374	2,356
Renewal and replacement account	2,711	2,696
	\$ 21,763	34,704

The Water Utility's interest and other finance charges, excluding capitalized interest, for the fiscal years ended June 30, 2012 and 2011 were \$3,803 and \$2,920, respectively.

(6) Pension Plan

The City contributes to the State of California Public Employees' Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for California cities that participate in this retirement plan.

For both fiscal years ended June 30, 2012 and 2011, as a condition of participation, employees are required to contribute 8% of their annual covered salary to PERS. The City pays 7% of the employees' required contributions and the employees pay the remaining 1%. For management employees hired after January 10, 2012, the entire 8% is paid by the employees. The City is required to contribute the remaining amounts necessary to fund PERS, using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board

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(In thousands)

of Administration. The Water Utility is allocated their portion of the City's required contribution, as determined by PERS actuaries. This allocation is based on eligible employee wages.

The Water Utility contributed \$2,116, \$1,917, and \$1,970, to PERS for the fiscal years ended June 30, 2012, 2011, and 2010, respectively, which represented 100% of its required contributions.

Information is not available separately for the Water Utility as to the cost of benefits funded, the actuarially computed present value of vested and nonvested accumulated plan benefits, the related assumed rates of return used, and the actuarially computed value of vested benefits over the related pension fund assets. Refer to the City's Comprehensive Annual Financial Report as of June 30, 2012 for further information.

(7) Self-Insurance Program

The Water Utility participates in the City's self-insured workers' compensation and general liability program. The liability for such claims, including claims incurred but not reported, is transferred to the City in consideration of self-insurance premiums paid by the Water Utility. Premiums for workers' compensation and general liability programs are charged to the Water Utility by the City based on various allocation methods that include actual cost, claims experience, exposure base, and number of participants. Premiums charged and paid were \$150 for the fiscal years ended June 30, 2012 and 2011.

At June 30, 2012, the City was fully funded for self-insured workers' compensation and general liability claims (self-insured retention levels of \$750 per occurrence for workers' compensation claims and \$1,000 per occurrence for general liability claims). Above these self-insured retention levels, the City's potential liability is covered through various commercial insurance and intergovernmental risk pooling programs. Settled claims have not exceeded total insurance coverage in any of the past three years, nor does management believe that there are any claims pending that will exceed total insurance coverage.

(8) Regulatory Credits

The Water Utility's Rates, Rules, and Regulations provide for a water regulatory credits account to reflect variations in the cost of water to the Water Utility and provide more stable retail water rates to the customers of the City's Water Utility. This rate stabilization account (RSA) provides increased flexibility by allowing the Water Utility to maintain financial performance indicators and goals specified in bond covenants. The account is funded through expense reimbursements such as water supply cost refunds received from the MWD and OCWD and other miscellaneous credits and revenue. As permitted by FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, and approved by the City Council, revenues from amounts collected are deferred and recorded as regulatory credits in the balance sheets. At June 30, 2012 and 2011, the liability recorded for regulatory credits totaled \$6,010 and \$5,945, respectively. In fiscal years 2012 and 2011, the Water Utility funded this account through a variety of miscellaneous credits. During fiscal years 2012 and 2011, no RSA revenue was recognized.

**CITY OF ANAHEIM
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June 30, 2012 and 2011

(In thousands)

(9) Commitments and Contingencies

(a) Litigation

A number of claims and suits are pending against the City for alleged damages to persons and property and for other alleged liabilities arising out of matters usually incidental to the operation of a utility such as the water system of the City. In the opinion of management, the exposure under these claims and suits would not materially affect the financial position of the Water Utility as of June 30, 2012 and 2011.

(b) Construction Commitments

At June 30, 2012, the Water Utility had the following commitments with respect to unfinished capital projects:

Capital project	Construction commitment	Estimated completion date
Linda Vista Reservoir & Pump Station Replacement	\$ 5,971	2013
Water Recycling Demonstration Project	2,227	2013
Hidden Canyon Pump Station Upgrade	1,536	2013
Well #58 at Anaheim Lake – Drilling	1,208	2013
	<u>\$ 10,942</u>	

At June 30, 2011, the Water Utility had construction commitments totaling \$14,234.