



**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Financial Statements

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

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## **Independent Auditors' Report**

The Honorable City Council  
City of Anaheim, California:

We have audited the accompanying financial statements of the Electric Utility Fund (Electric Utility) of the City of Anaheim, California (the City) as of and for the years ended June 30, 2009 and 2008, as listed in the accompanying 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. 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 Electric Utility'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 Electric Utility Fund and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2009 and 2008, and 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 Electric Utility Fund of the City of Anaheim, California, as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Management's discussion and analysis on pages 3 through 16 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Orange County, California  
December 3, 2009

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis  
(Unaudited)

June 30, 2009 and 2008

(In thousands)

As management of Anaheim Public Utilities, a department of the City of Anaheim (City), we offer the readers of the City of Anaheim Electric Utility Fund (Electric Utility) financial statements a narrative overview and analysis of the financial statements for the fiscal years ended June 30, 2009 and 2008. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements.

**Financial Highlights**

The assets of the Electric Utility exceeded its liabilities at the close of the most recent two fiscal years by \$320,118 and \$328,391, respectively. Of these amounts, \$80,145 and \$100,803, respectively, may be used to meet the Electric Utility's ongoing obligations to creditors and customers (unrestricted fund net assets). The Electric Utility's total fund net assets decreased by \$8,273 for the fiscal year ended June 30, 2009, but increased by \$7,962 for the fiscal year ended June 30, 2008. Unrestricted fund net assets represented 24.2% and 30.8% of annual operating expenses for fiscal years 2009 and 2008, respectively.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Electric Utility's financial statements. Because the Electric 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 Electric 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, 2009.

The Electric Utility's financial statements comprise two components: (1) financial statements and (2) notes to 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 information on 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 Electric Utility is improving or deteriorating.

The *statements of revenues, expenses, and changes in fund net assets* present information showing how the Electric Utility's fund net assets changed during the most recent two fiscal years. Results of operations are recorded using the accrual basis of accounting, whereby transactions are reported as 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.

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

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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 Electric Utility's financial position. In the case of the Electric Utility, assets exceeded liabilities by \$320,118 and \$328,391 at June 30, 2009 and 2008, respectively.

A portion of the Electric Utility's fund net assets (65.6% and 60.5% as of June 30, 2009 and 2008, respectively) reflects its investment in capital assets, such as production, transmission, distribution facilities, and general plant, less any related debt that remains outstanding used to acquire those assets. The Electric 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 Electric Utility's fund net assets (9.4% and 8.8% as of June 30, 2009 and 2008, 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 Electric Utility's fund net assets (25.0% and 30.7% as of June 30, 2009 and 2008, respectively) may be used to meet the Electric Utility's ongoing obligations to creditors and customers.

The Electric Utility's condensed statements of fund net assets at June 30 are as follows:

**Condensed Statements of Fund Net Assets**

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 409,659	420,217	498,720
Net utility plant	777,129	754,923	672,452
Total assets	<u>1,186,788</u>	<u>1,175,140</u>	<u>1,171,172</u>
Long-term liabilities, net of current portion	767,336	706,325	714,515
Current liabilities	99,334	140,424	136,228
Total liabilities	<u>866,670</u>	<u>846,749</u>	<u>850,743</u>
Invested in capital assets, net of related debt	209,902	198,591	163,918
Restricted	30,071	28,997	27,780
Unrestricted	80,145	100,803	128,731
Total fund net assets	<u>\$ 320,118</u>	<u>328,391</u>	<u>320,429</u>

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(In thousands)

**As of June 30, 2009**

**Assets**

Total assets as of June 30, 2009 and 2008 were \$1,186,788 and \$1,175,140, respectively. The \$11,648 (1.0%) increase in total assets was due to a \$22,206 increase in net utility plant, which was offset by a \$10,558 decrease in current, restricted, and other assets. Net utility plant increased 2.9% primarily due to current year's net capital asset additions of \$52,898 related to land, production, transmission, distribution, and general utility plant, which was offset by current year's depreciation expense of \$30,692. Current, restricted, and other assets decreased 2.5% primarily due to a decrease of \$8,425 in accounts receivable from transmission revenues and a decrease of \$6,180 in cash and investments (see statements of cash flows for additional information regarding changes in cash and cash equivalents), which were offset by an increase of \$4,131 in prepaid purchased power.

**Liabilities**

Total liabilities as of June 30, 2009 and 2008 were \$866,670 and \$846,749, respectively. The \$19,921 (2.4%) increase in total liabilities was due to a \$61,011 increase in long-term liabilities and a \$41,090 decrease in current liabilities. Long-term liabilities increased 8.6% primarily due to a \$70,000 new debt issue in the current year and an increase of \$6,162 in the provision for decommissioning costs which were offset by current year's principal reductions of \$15,370. Current liabilities decreased 29.3% primarily due to a decrease of \$25,377 in accounts payable and accrued expenses, resulting from reduced power costs and capital expenditures, and a net decrease in regulatory credits of \$15,835 (see note 1 of the notes to financial statements for additional information regarding regulatory credits).

**Fund Net Assets**

Total fund net assets as of June 30, 2009 and 2008 were \$320,118 and \$328,391, respectively. Total fund net assets decreased by \$8,273 (2.5%) primarily due to an increase in amounts invested in capital assets, net of related debt of \$11,311, offset by a decrease in unrestricted amounts of \$20,658. Invested in capital assets, net of related debt increased 5.7% primarily due to an increase in capital assets that exceeded increases in capital related debt during fiscal year 2009. Unrestricted net assets decreased 20.5% primarily due to the above investment in capital assets and the one-time general fund transfer in fiscal year 2009 (see discussion of transfers on page 12).

**As of June 30, 2008**

**Assets**

Total assets as of June 30, 2008 and 2007 were \$1,175,140 and \$1,171,172, respectively. The \$3,968 (0.3%) increase in total assets is due to an \$82,471 increase in net utility plant, which was offset by a \$78,503 decrease in current and other assets. Net utility plant increased 12.3% primarily due to current year's net capital asset additions of \$110,662 related to land, production, transmission, distribution, and general utility plant, which was offset by current year's depreciation expense of \$28,191. Current and other assets decreased 15.7% primarily due to \$105,922 of cash and cash equivalents used for

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current year capital purchases, which were offset by an increase of \$10,892 in prepaid purchased power and an increase of \$10,887 in accounts receivable.

***Liabilities***

Total liabilities as of June 30, 2008 and 2007 were \$846,749 and \$850,743, respectively. The \$3,994 (0.5%) decrease in total liabilities was due to an \$8,190 decrease in long-term liabilities and a \$4,196 increase in current liabilities. Long-term liabilities decreased 1.1% primarily due to current year's principal reductions of \$14,839, which were offset by an increase of \$7,479 in the provision for decommissioning costs. Current liabilities increased 3.1% primarily due to an increase in accounts payable and accrued expenses of \$7,318, which were offset by a net decrease in regulatory credits of \$2,330 (see note 1 of the notes to financial statements for additional information regarding regulatory credits.)

***Fund Net Assets***

Total fund net assets as of June 30, 2008 and 2007 were \$328,391 and \$320,429, respectively. Total fund net assets increased by \$7,962 (2.5%) primarily due to an increase in amounts invested in capital assets, net of related debt of \$34,673, offset by a decrease in unrestricted amounts of \$27,928. Invested in capital assets, net of related debt increased 21.2% primarily due to increases in capital assets that exceeded increases in capital related debt during fiscal year 2008. Unrestricted net assets decreased 21.7% primarily due to the investment in capital assets in fiscal year 2008.

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The Electric 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>2009</u>	<u>2008</u>	<u>2007</u>
Revenues:			
Retail sales, net	\$ 272,942	262,352	238,656
Wholesale sales	27,821	22,228	28,835
RSA revenues	30,700	21,800	5,000
Surplus natural gas sales	4,119	8,328	6,162
Transmission revenues	25,717	33,690	28,797
Other revenues	4,254	2,889	2,674
Interest income	13,363	22,555	20,297
Capital contributions	5,257	8,594	2,908
Total revenues	<u>384,173</u>	<u>382,436</u>	<u>333,329</u>
Expenses:			
Purchased power	229,595	235,301	198,957
Fuel and generation	25,763	25,382	35,154
Operations, maintenance, and administration	44,911	38,851	31,229
Depreciation	30,692	28,191	29,387
Accelerated SONGS depreciation	—	—	20,540
Interest expense	27,027	25,091	22,188
Cost of capital assets moved to the City	3,581	5,141	—
Total expenses	<u>361,569</u>	<u>357,957</u>	<u>337,455</u>
Transfers:			
Transfer to the General Fund of the City	(28,933)	(12,393)	(12,331)
Transfer of right-of-way fee to the City	(4,262)	(3,655)	(3,528)
Transfers in (to) other funds of the City	2,318	(469)	(456)
Total transfers	<u>(30,877)</u>	<u>(16,517)</u>	<u>(16,315)</u>
Changes in fund net assets	(8,273)	7,962	(20,441)
Fund net assets at beginning of year	<u>328,391</u>	<u>320,429</u>	<u>340,870</u>
Fund net assets at end of year	<u>\$ 320,118</u>	<u>328,391</u>	<u>320,429</u>

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**Revenues**

***Year ended June 30, 2009***

Total revenues for the year ended June 30, 2009 were \$384,173 as compared with \$382,436 in the prior year, an increase in total revenues of \$1,737 (0.5%). This increase was primarily due to a combination of an increase of \$10,590 in retail sales, an increase of \$5,593 in wholesale sales, an increase of \$8,900 in Rate Stabilization Account (RSA) revenues, which were offset by a decrease of \$4,209 in surplus natural gas sales, a decrease of \$7,973 in transmission revenues, and a decrease of \$9,192 in interest income.

The increase of 4.0% in retail sales revenue was mainly due to an overall average 5.0% rate increase for all customer classes on November 1, 2008, offset by an average 2.4% decrease in retail sales volumes in fiscal year 2009.

The increase of 25.2% in wholesale sales revenue was mainly due to more surplus power available to the wholesale market when the retail sales volumes were decreased in this fiscal year.

RSA revenues of \$30,700 were recognized in fiscal year 2009 in order to maintain a debt service coverage ratio of 1.6. This coverage ratio is needed to retain the Electric Utility bond ratings. The increase in the recognition of RSA revenues of 40.8% was necessary due to higher operation costs and loss of transmission revenues in this fiscal year.

The decrease of 50.5% in surplus natural gas sales was mainly due to lower natural gas prices caused by less demand in the natural gas market from the economic slowdown.

Transmission revenues are based upon the Electric Utility providing use of its transmission entitlements to the California Independent System Operator (CAISO) as a participating transmission owner. These revenues are based upon the transmission rates charged by CAISO and the demand in the participants market. The decrease of 23.7% in transmission revenues was mainly due to the decreased congestion transmission revenues caused by lower transmission demand across the state, and lower transmission rates charged by CAISO.

The decrease of 40.8% in interest income was mainly due to lower interest rates earned on decreased cash and investment funds in fiscal year 2009.

**Revenues**

***Year ended June 30, 2008***

Total revenues for the year ended June 30, 2008 were \$382,436 as compared with \$333,329 in the prior year, an increase in total revenues of \$49,107 (14.7%). This increase was primarily due to an increase of \$23,696 in retail sales, an increase of \$16,800 in RSA revenues, an increase of \$5,686 in capital contributions, and an increase of \$4,893 in transmission revenues.

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The increase of 9.9% in retail sales revenue was caused by two major factors. First, the overall average 5.0% rate increase for all class customers on November 1, 2007. The second factor was one cent of the variable RSA rate was moved to the fixed portion of retail base rates on November 1, 2007.

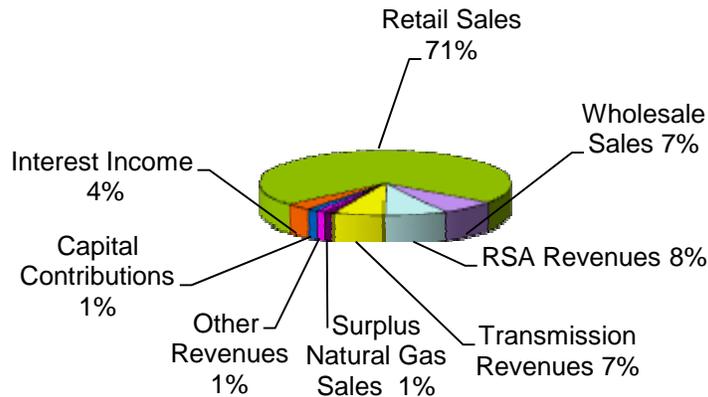
RSA revenues of \$21,800 were recognized in fiscal year 2008 in order to maintain a debt service coverage ratio of 1.6. This coverage ratio is needed to retain the Electric Utility bond ratings. The increase in the recognition of RSA revenues of 336% was necessary due to higher purchase power costs in this fiscal year.

The increase of 195.5% in capital contributions was due to various development projects within the City.

Transmission revenues are based upon the Electric Utility providing use of its transmission entitlements to the CAISO as a participating transmission owner. These revenues are based upon the transmission rates charged by CAISO and the demand in the participants market. The increase of 17.0% in transmission revenues was mainly due to hotter-than-expected summer months, causing higher transmission demand across the state, and higher transmission rates charged by CAISO.

**Revenues by Source**

**Year ended June 30, 2009**



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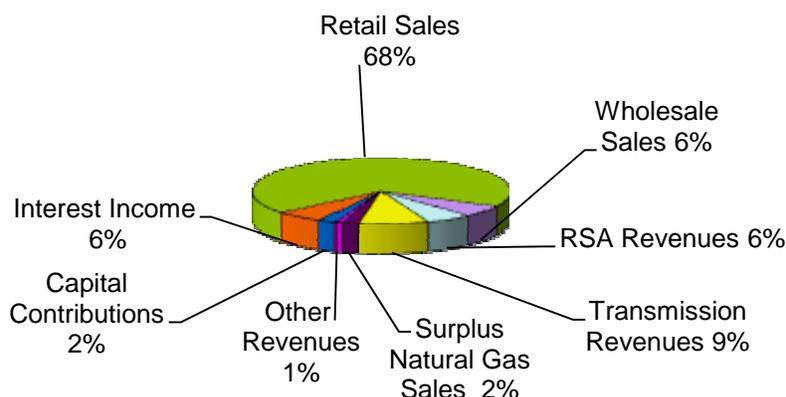
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**Revenues by Source**

**Year ended June 30, 2008**



**Expenses**

**Year ended June 30, 2009**

Total expenses for the year ended June 30, 2009 were \$361,569 as compared with \$357,957 in the prior year. This \$3,612 (1.0%) increase in total expenses was the result of a \$5,706 decrease in purchased power costs which was offset by a \$6,060 increase in operations, maintenance, and administration costs, a \$2,501 increase in depreciation expense, a \$1,560 decrease in cost of capital assets moved to City, and a \$1,936 increase in interest expense.

The 2.4% decrease in purchased power costs was due primarily to the significant decrease in purchased power from the wholesale market, as the Electric Utility's San Juan generation facility provided 65% more energy in this fiscal year due to an extended outage in the previous year.

Operations, maintenance, and administrative expenses increased by \$6,060 (15.6%) which was mainly caused by \$4,150 less overhead from operations and administration applied to capital assets as less capital construction was performed during the year. The reduction of administrative overhead costs eligible for capitalization is the primary reason for the increase in administrative costs.

The 8.9% increase in depreciation expense was due to a total of \$122,123 of assets which included the new Anaheim substation, Lewis substation extension, new switching stations and six underground projects that were placed in service during this fiscal year.

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The \$1,560 decrease in cost of capital assets moved to the City was due to the one-time transfer of the Energy Field Park, built to educate on energy and water-saving technologies. The Energy Field Park has a net book value of \$3,581. Whereas during FY 08, the Electric Utility transferred the Police Heliport capital asset with a net book value of \$5,141 to the City.

The 7.7% increase in interest expense was mainly due to \$2,146 less interest expense being capitalized as a result of a decrease in the average construction work in progress balance of \$43,543 from the previous year.

***Year ended June 30, 2008***

Total expenses for the year ended June 30, 2008 were \$357,957 as compared with \$337,455 in the prior year. This \$20,502 (6.1%) increase in total expenses was the result of a \$36,344 increase in purchased power costs, a \$7,622 increase in operations, maintenance, and administration costs, a \$2,903 increase in interest expense and \$5,141 cost of the Police Heliport capital asset transferred to the City, which was offset by \$21,736 decrease in depreciation expense and a \$9,772 decrease in fuel and generation expense.

The 18.3% increase in purchased power costs was due primarily to the significant increase in natural gas prices coupled with an unplanned four-month outage at the Electric Utility's San Juan generation facility. As a result of this extended outage, the Electric Utility was forced to replace the power that would have been provided by San Juan by running its Magnolia facility more than originally planned at a higher variable cost due to the rise in natural gas prices. In addition, the Electric Utility was forced to purchase power from the wholesale market to make up the power needed that Magnolia could not provide. The outage at San Juan costs the Electric Utility an additional \$11 million. The Electric Utility has also begun to purchase more of its power from renewable supplies in order to reduce its carbon footprint. Renewable power currently costs more to produce than traditional fossil fuel based power; therefore, the Electric Utility is incurring increased purchased power expenses as a result of this shift. Transmission costs also increased significantly as a result of higher-than-normal demand caused by the abnormally hot spring and early summer months.

Operations, maintenance, and administrative expenses increased by \$7,622 or 24.4% as a result of several factors. The Electric Utility increased its conservation and energy efficiency programs in order to reduce overall demand in the long term. Over time, these increased expenditures will be returned through a reduction in future power supply costs as the need for additional power will be reduced. The Electric Utility also experienced significant increases in copper, aluminum, fuel, and other commodity prices. Because copper and aluminum are such an integral part of the electric distribution system maintenance and repair costs are particularly sensitive to price increases for these commodities. The Electric Utility has also embarked on several new internal efficiency programs that have increased administrative costs in 2008, but it is expected that these programs will have a significant return in the future through increased labor and process efficiency.

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The 13.1% increase in interest expenses was due to more interest expense paid for the 2007 bond issue because the Electric Utility paid interest on this particular issuance for a full 12 months.

The 43.5% decrease in depreciation expenses was attributable to San Onofre Nuclear Generating Stations (SONGS) depreciation expense. Because the Electric Utility ended its participation in SONGS in fiscal year 2007, all of the associated depreciation expenses ended as well.

The 27.8% decrease in fuel and generation expense from the prior year was primarily due to a decrease of \$9,825 in SONGS operation costs resulting from SONGS termination in the middle of fiscal year 2007.

**Transfers**

***Year ended June 30, 2009***

Transfers to the City's General Fund, as defined by City Charter, are equal to a maximum of 4% of total operating revenues. In order to match the transfer's revenue base to the time period in which the revenues are earned, the Electric Utility made a one-time transfer of \$14,910 to the General Fund of the City, which is based on the current year's total operating revenues. The total transfer to the City's General Fund was \$28,933 for fiscal year 2009.

The transfer of the right-of-way fee to the City is equal to 1.5% of retail electric revenues of the prior fiscal year. The right-of-way fee transferred to the City was \$4,262 for fiscal year 2009. There were no significant changes in the amount of right-of-way fee transferred to the City during fiscal year 2009 when compared with fiscal year 2008.

Transfers in from other funds in fiscal year 2009 were \$2,318 as compared with a transfer to other funds of \$469 in the prior fiscal year. The \$2,318 transfer in resulted from \$1,345 in Fiber Optics equipment transfers from the Water Utility and \$973 cash transfers from other City funds.

***Year ended June 30, 2008***

Transfers to the City's General Fund, as defined by City Charter, are equal to a maximum of 4% of total operating revenues. The transfer to the City's General Fund was \$12,393 for fiscal year 2008. The transfer of the right-of-way fee to the City is equal to 1.5% of retail electric revenues of the prior fiscal year. The right-of-way fee transferred to the City was \$3,655 for fiscal year 2008. There were no significant changes in the amount of the General Fund and right-of-way fee transferred to the City during fiscal year 2008 when compared with fiscal year 2007.

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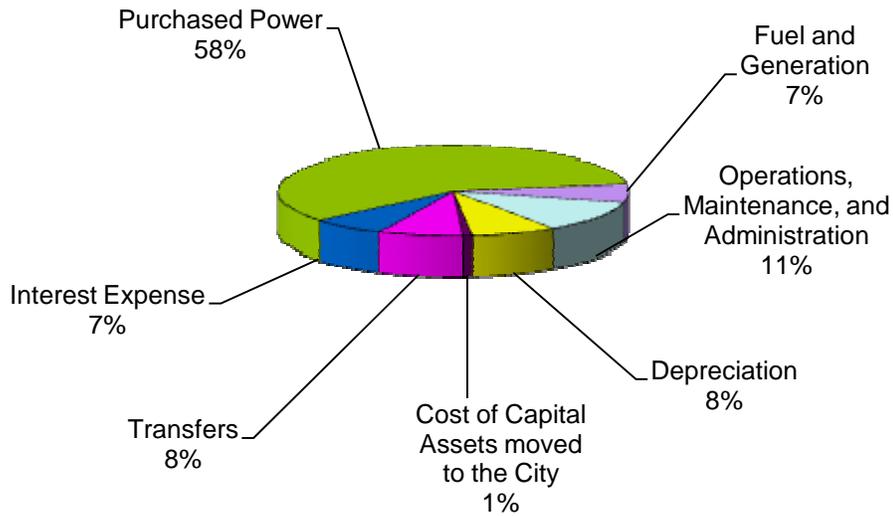
June 30, 2009 and 2008

(In thousands)

Transfers to other funds in fiscal year 2008 were \$469 as compared with \$456 in the prior fiscal year.

**Expenses and Transfers**

**Year ended June 30, 2009**



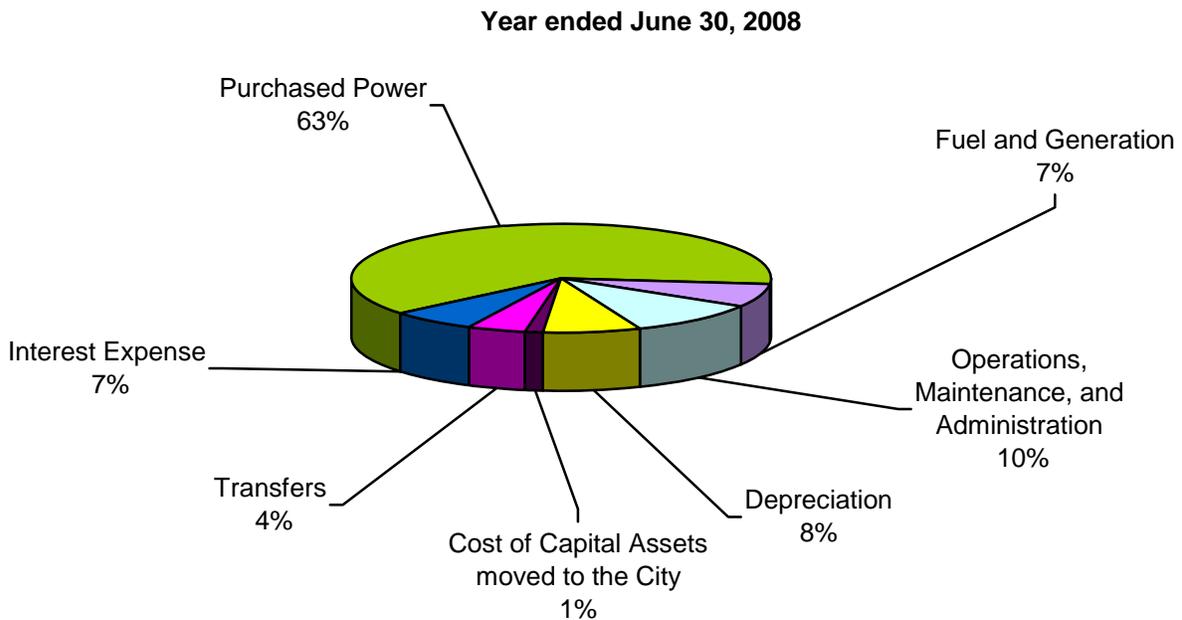
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**Expenses and Transfers**



**Capital Assets and Debt Administration**

***Capital Assets***

The Electric Utility's investment in net utility plant as of June 30, 2009 and 2008 was \$777,129 and \$754,923, respectively, net of accumulated depreciation. This includes investments in production, transmission, and distribution related facilities as well as general plant capital assets. The Electric Utility's investment, before depreciation, in total utility plant at June 30, 2009 was \$1,061,819, an increase of \$45,495 (4.5%) over the prior fiscal year.

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(In thousands)

The Electric Utility's capital assets as of June 30 are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Production	\$ 112,697	110,666	103,450
Transmission	89,438	88,489	59,757
Distribution	702,331	592,045	499,316
General plant	85,694	84,670	75,483
Land	35,671	35,009	33,974
Construction in progress	35,988	105,445	135,831
Total utility plant	<u>1,061,819</u>	<u>1,016,324</u>	<u>907,811</u>
Less accumulated depreciation	<u>(284,690)</u>	<u>(261,401)</u>	<u>(235,359)</u>
Net utility plant	<u>\$ 777,129</u>	<u>754,923</u>	<u>672,452</u>

***As of June 30, 2009***

The Electric Utility experienced an increase in gross utility plant this fiscal year of \$45,495 (4.5%), which includes construction of the new Anaheim Substation, the expansion or improvement of existing substations, transmission and distribution system improvements, and the replacement of aging overhead electrical lines with state-of-the-art underground facilities.

Accumulated depreciation increased \$23,289 (8.9%) mainly due to current year depreciation expense of \$30,692 offset by retirements of \$7,403.

***As of June 30, 2008***

The Electric Utility experienced an increase in gross utility plant this fiscal year of \$108,513 (12%), which includes land purchases for a new Anaheim Substation, the expansion or improvement of existing substations, transmission and distribution system improvements, and the replacement of aging overhead electrical lines with state-of-the-art underground facilities.

Accumulated depreciation increased \$26,042 (11.1%) mainly due to current year depreciation expense of \$28,191.

**Long-Term Debt**

As of June 30, 2009 and 2008, the Electric Utility had total long-term debt outstanding of \$663,360 and \$608,730, respectively.

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenue bonds	\$ 663,360	608,730	623,420
Capital leases	—	—	149
Total long-term debt outstanding	<u>663,360</u>	<u>608,730</u>	<u>623,569</u>
Less:			
Current portion	(15,995)	(15,370)	(14,768)
Unamortized bond premium	8,594	8,331	9,173
Unamortized refunding costs	<u>(5,708)</u>	<u>(6,289)</u>	<u>(6,903)</u>
Total noncurrent long-term debt outstanding	<u>\$ 650,251</u>	<u>595,402</u>	<u>611,071</u>

During fiscal year 2009, the credit rating of the Electric Utility was AA- by Fitch Ratings, A1 by Moody's Investors Service, and AA- by Standard & Poor's Corporation. Additional information on the Electric Utility's long-term liabilities can be found in note 6 of the notes to financial statements.

***As of June 30, 2009***

Total long-term debt outstanding increased \$54,630 (9.0%) mainly due to a \$70,000 new bond issue offset by current year principal payments on outstanding debt of \$15,370. The revenues of the Electric Utility have been pledged to pay the outstanding long-term debt.

***As of June 30, 2008***

Total long-term debt outstanding decreased \$14,839 (2.4%) mainly due to current year principal payments on outstanding debts of \$14,690. The revenues of the Electric Utility have been pledged to pay the outstanding long-term debt.

**Economic Factors and Rates**

There are no budgeted base rate increases for fiscal year 2010.

**Requests for Information**

This financial report is designed to provide a general overview of the Electric 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, California 92805.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Balance Sheets

June 30, 2009 and 2008

(In thousands)

<b>Assets</b>	<b>2009</b>	<b>2008</b>
Utility plant:		
Production	\$ 112,697	110,666
Transmission	89,438	88,489
Distribution	702,331	592,045
General plant	85,694	84,670
Total depreciable utility plant	990,160	875,870
Less accumulated depreciation	(284,690)	(261,401)
Net depreciable utility plant	705,470	614,469
Land	35,671	35,009
Construction in progress	35,988	105,445
Net utility plant	777,129	754,923
Restricted assets:		
Investments	226,500	175,049
Total restricted assets	226,500	175,049
Other assets:		
Prepaid purchased power	37,446	36,985
Unamortized debt issuance costs	6,769	6,508
Total other assets	44,215	43,493
Total noncurrent assets	1,047,844	973,465
Current assets:		
Cash and cash equivalents	13,831	39,660
Investments	48,562	82,298
Restricted cash and cash equivalents	20,760	14,347
Restricted investments	1,638	6,117
Accounts receivable, net	37,501	45,926
Current portion of due from other funds of the City	200	929
Accrued interest receivable	2,584	3,382
Materials and supplies inventory	10,101	8,919
Prepaid purchased power	3,767	97
Total current assets	138,944	201,675
Total assets	\$ 1,186,788	1,175,140

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Balance Sheets

June 30, 2009 and 2008

(In thousands)

<b>Fund Net Assets and Liabilities</b>	<b>2009</b>	<b>2008</b>
Fund net assets:		
Invested in capital assets, net of related debt	\$ 209,902	198,591
Restricted for:		
Debt service	11,687	11,706
Renewal and replacement	14,781	12,989
Other purposes	3,603	4,302
Unrestricted	80,145	100,803
Total fund net assets	320,118	328,391
Long-term liabilities:		
Long-term debt obligation, less current portion	650,251	595,402
Provision for decommissioning costs	117,085	110,923
Total long-term liabilities	767,336	706,325
Current liabilities (payable from restricted assets):		
Current portion of long-term debt	11,996	11,528
Accounts payable	1,151	824
Wages payable	29	23
Arbitrage rebate liabilities	1,033	811
Accrued interest payable	8,189	7,278
Total current liabilities (payable from restricted assets)	22,398	20,464
Current liabilities (payable from unrestricted current assets):		
Current portion of long-term debt	3,999	3,842
Accounts payable and accrued expenses	13,864	39,568
Wages payable	838	750
Regulatory credits	54,475	70,310
Deposits	3,760	5,490
Total current liabilities (payable from unrestricted current assets)	76,936	119,960
Total liabilities	866,670	846,749
Total fund net assets and liabilities	\$ 1,186,788	1,175,140

See accompanying notes to financial statements.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

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

Years ended June 30, 2009 and 2008

(In thousands)

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Retail sales of electricity, net	\$ 272,942	262,352
Wholesale sales of electricity	27,821	22,228
RSA revenues	30,700	21,800
Surplus natural gas sales	4,119	8,328
Transmission revenues	25,717	33,690
Other operating revenues	4,227	2,762
Total operating revenues	<u>365,526</u>	<u>351,160</u>
Operating expenses:		
Purchased power	229,595	235,301
Fuel and generation	25,763	25,382
Operations, maintenance, and administration	44,911	38,851
Depreciation	30,692	28,191
Total operating expenses	<u>330,961</u>	<u>327,725</u>
Operating income	<u>34,565</u>	<u>23,435</u>
Nonoperating revenues (expenses):		
Interest income	13,363	22,555
Interest expense	(27,027)	(25,091)
Cost of capital assets moved to the City	(3,581)	(5,141)
Grants	27	127
Total nonoperating expenses, net	<u>(17,218)</u>	<u>(7,550)</u>
Income before capital contributions and transfers	17,347	15,885
Capital contributions	5,257	8,594
Transfer to the General Fund of the City	(28,933)	(12,393)
Transfer of right-of-way fee to the City	(4,262)	(3,655)
Transfers to other funds of the City	—	(469)
Transfers from other funds of the City	2,318	—
Change in fund net assets	<u>(8,273)</u>	<u>7,962</u>
Fund net assets at beginning of year	<u>328,391</u>	<u>320,429</u>
Fund net assets at end of year	<u>\$ 320,118</u>	<u>328,391</u>

See accompanying notes to financial statements.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Statements of Cash Flows

Years ended June 30, 2009 and 2008

(In thousands)

	<b>2009</b>	<b>2008</b>
Cash flows from operating activities:		
Receipts from customers and users	\$ 354,128	335,484
Receipts from services provided to other funds of the City	2,258	796
Payments to suppliers	(278,359)	(252,076)
Payments to employees	(36,370)	(35,598)
Payments for services provided by other funds of the City	(9,974)	(10,187)
Net cash provided by operating activities	31,683	38,419
Cash flows from noncapital financing activities:		
Receipts of interfund balances	729	—
Payments to interfund balances	—	(509)
Transfers from other funds of the City	973	—
Transfers to the General Fund and other funds of the City	(33,195)	(16,048)
Grant receipts	27	127
Net cash used in noncapital financing activities	(31,466)	(16,430)
Cash flows from capital and related financing activities:		
Proceeds from borrowings, net of premium	71,089	—
Principal payments on long-term debt	(15,370)	(14,690)
Capital purchases	(49,164)	(105,922)
Interest paid	(28,845)	(29,737)
Issuance costs	(740)	—
Transfers from (to) other funds of the City for capital purposes	590	(426)
Capital contributions	1,882	3,852
Net cash used in capital and related financing activities	(20,558)	(146,923)
Cash flows from investing activities:		
Purchases of investment securities	(227,077)	(89,213)
Proceeds from sale and maturity of investment securities	214,746	178,857
Interest income received	13,256	20,622
Net cash provided by investing activities	925	110,266
Decrease in cash and cash equivalents	(19,416)	(14,668)
Cash and cash equivalents at beginning of year	54,007	68,675
Cash and cash equivalents at end of year	\$ 34,591	54,007

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Statements of Cash Flows

Years ended June 30, 2009 and 2008

(In thousands)

	<b>2009</b>	<b>2008</b>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 34,565	23,435
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	30,692	28,191
Increase in provision for decommissioning costs	6,162	7,479
Changes in assets and liabilities:		
Accounts receivable, net	8,425	(10,887)
Materials and supplies inventory	(1,182)	(2,072)
Prepaid purchased power	(4,131)	(10,892)
Accounts payable and accrued expenses	(25,377)	7,318
Wages payable	94	(160)
Regulatory credits	(15,835)	(2,330)
Deposits	(1,730)	(1,663)
Total adjustments	(2,882)	14,984
Net cash provided by operating activities	\$ 31,683	38,419
Schedule of noncash investing, capital, and financing activities:		
Capital contributions	\$ 3,375	4,742
Transfers to other funds of the City	(2,826)	(5,184)
Increase in fair value of investments	905	2,701
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 13,831	39,660
Restricted cash and cash equivalents	20,760	14,347
Total cash and cash equivalents	\$ 34,591	54,007

See accompanying notes to financial statements.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)

**(1) Summary of Significant Accounting Policies**

**(a) Basis of Accounting**

The Electric Utility Fund (Electric 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 electric system operations was transferred to the Electric Utility Fund. The financial statements of the Electric Utility, an enterprise fund, are presented on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles and methods prescribed by the Federal Energy Regulatory Commission (FERC). The Electric Utility is not subject to the regulations of the FERC. Under Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Electric Utility has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

**(b) Electric Utility Plant and Depreciation**

The cost of additions to the Electric Utility plant and replacement of retired units is capitalized. The Electric 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. 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, net of proceeds, is recorded in accumulated depreciation.

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

Production	30 years
Transmission and distribution	20 to 75 years
General plant	5 to 50 years

**(c) 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 based on net realizable 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

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)

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). Interest income, which includes changes in fair value, on investments is allocated to all funds on the basis of average daily cash and investment balances. The Electric Utility's cash and investments pooled with the City Treasurer (Treasurer) are carried at fair value based on the value of each participating dollar. Additional information pertinent to the value of these investments is provided in note 2.

For the purpose of the statements of cash flows, the Electric 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 of 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.

**(d) Revenue Recognition**

Revenue is recorded in the period earned. The Electric Utility accrues estimated unbilled revenues for energy sold but not billed at the end of a fiscal period. Most residential and some smaller commercial accounts are billed bimonthly, and all other customers are billed monthly.

Unbilled electric service charges are included in accounts receivable at year-end. Unbilled accounts receivable totaled \$16,298 and \$18,076 at June 30, 2009 and 2008, respectively.

Revenues are reported net of uncollectible amounts. Total uncollectible amounts written off are \$745 and \$755 for the years ended June 30, 2009 and 2008, respectively. The applicable allowances for uncollectible accounts are \$351 and \$340 at June 30, 2009 and 2008, respectively. See note 6 for discussion of pledged revenue.

**(e) Operating Expenses**

Purchased power includes all open market purchases of energy, firm contracts for the purchase of energy, and the costs of entitlements for energy and transmission, as discussed in note 10.

Fuel and generation include all costs associated with the City's ownership interest in San Juan Generating Station, Unit 4 (SJ), the Combustion Turbine located in Anaheim, and the City's portion of San Onofre Nuclear Generating Station, Units 2 and 3 (SONGS) spent fuel storage costs and insurance premiums after the sale of SONGS on December 29, 2006. This includes the amortization of decommissioning costs for SONGS and SJ.

Operations, maintenance, and administration expenses include all costs associated with the distribution of energy, administration, operating and maintaining the local facilities, customer service, and public benefit programs.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)

**(f) Regulatory Credits**

The Electric Utility's Rates, Rules, and Regulations provide for the Rate Stabilization Account (RSA), formerly referred to as Power Cost Adjustment/Rate Stabilization Account, which contains two components: the Power Cost Adjustment (PCA) that was adopted by City Council on April 1, 2001, and the Environmental Mitigation Adjustment (EMA) that was adopted by the City Council on January 13, 2009. The PCA has mitigated variations in the power supply or fuel costs. The EMA will allow the recovery of environmental mitigation costs, such as greenhouse gas emissions costs, the marginal cost differential between renewable power and traditional fossil fuel based power, and environmental mitigation costs. The RSA provides the City with operational and billing flexibility to mitigate material fluctuations in the cost of energy, loss of revenues or unplanned costs including unexpected long-term loss of a generating facility, unplanned limits on the ability to transmit energy to the City, or major disasters. The RSA funded by PCA and EMA collections is billed to customers through standard rates. As permitted by FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, and approved by the City Council, amounts collected for the RSA are deferred and recorded as regulatory credits in the balance sheets.

Since inception, the Electric Utility has collected \$117,454 in regulatory credits related to PCA. As of August 1, 2008, the PCA rate was changed from \$0.0049 to \$0.0099 for all domestic retail customers, excluding residential lifeline customers, and from \$0.0040 to \$0.0065 for all nondomestic retail customers. As of June 30, 2009 and 2008, the Electric Utility recorded a liability for regulatory credits of \$53,954 and \$70,310, respectively. During fiscal year 2009 and 2008, \$30,700 and \$21,800, respectively, was recognized as RSA revenues to mitigate the impact of energy costs and operation costs.

Since inception, the Electric Utility has collected \$521 in regulatory credits related to EMA. As of April 20, 2009, the EMA rate was changed to \$0.0050 per kWh for all domestic customers, and zero for all other customers. As of June 30, 2009, the Electric Utility recorded a liability for regulatory credits of \$521. During fiscal year 2009, no amounts were recognized as RSA revenues to mitigate the impact of environmental mitigation costs.

**(g) Provision for Decommissioning Costs**

Federal regulations require the Electric Utility to provide for the future decommissioning costs of its former ownership share of SONGS. The Electric Utility has established a provision for decommissioning costs of SONGS and restoration of the beachfront at San Onofre. The Electric Utility funded the reserve and recognized this expense over the useful life of the generating plant. A separate irrevocable trust account was established for amounts funded and these amounts are classified as restricted assets in the accompanying balance sheets. As of June 30, 2009 and 2008, the Electric Utility has recorded a provision for decommissioning costs for SONGS of \$114,885 and \$109,163, respectively. For the years ended June 30, 2009 and 2008, the Electric Utility has recorded decommissioning

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)

costs incurred for SONGS of \$5,722 and \$7,039, respectively, which are included in the fuel and generation component in operating expenses.

The California Public Utilities Commission approved a cost estimate by Southern California Edison (SCE) for the decommissioning costs of SONGS. At June 30, 2009, SCE's future cost estimate for the Electric Utility's share of decommissioning costs is \$104,649. The Electric Utility currently has \$114,885 in irrevocable trust for the decommissioning costs. Based on an assumed 4% rate of return, it is estimated that the Electric Utility's current reserve of \$114,885 will grow to \$191,291 by 2022, which exceeds SCE's future cost estimate of \$147,170. Based on these estimates, the Electric Utility does not expect that it will need to further fund the provision for decommissioning with cash contributions for SONGS.

The Electric Utility has a 10.04% ownership interest of SJ. The Electric Utility is providing for the future demolition and reclamation costs of its ownership share of SJ. As of June 30, 2009 and 2008, the Electric Utility has recorded a provision for decommissioning costs for SJ of \$2,200 and \$1,760, respectively. For the years ended June 30, 2009 and 2008, the Electric Utility has recorded decommissioning costs incurred for SJ of \$440 for each year, which are included in the fuel and generation component of operating expenses. Based on cost projections, it is estimated that \$440 will be required per year until 2027 to fund this obligation.

**(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 old debt or the life of the new debt, whichever is shorter, on a basis that approximates the effective-interest method. Bond refunding costs are recorded 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 Electric 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 \$1,950 and \$1,684 for the Electric Utility at June 30, 2009 and 2008, respectively.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(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 operating revenues. Such transfers are not in lieu of taxes, and amounted to \$28,933 and \$12,393 for the years ended June 30, 2009 and 2008, respectively. Included in the transfer of \$28,933, and in order to match the transfer's revenue base to the time period in which the revenues are earned, the Electric Utilities made a one-time additional transfer of \$14,910 to the General Fund of the City.

The transfer of right-of-way fees to the City represents the City Council approved transfer of 1.5% of retail electric revenues of the prior fiscal year to the General Fund of the City. 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 \$4,262 and \$3,655 for the years ended June 30, 2009 and 2008, respectively.

Other transfers to or from other funds of the City are either cash transfers or capital transfers between city funds. The net amount of transfers was \$2,318 and \$(469) for the years ended June 30, 2009 and 2008, respectively.

**(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.

**(m) Reclassifications**

Certain reclassifications have been made to the 2008 financial statement information to conform to the 2009 financial statement presentation. Such reclassifications had no effect on the previously reported change in fund net assets.

**(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 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 AA-Af in July 2008.

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

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)

certificates of deposit; bankers' acceptances; commercial paper rated A-1 by S&P; P-1 by Moody's Investors Service (Moody's); or F-1 by Fitch Ratings (Fitch); LAIF; repurchase agreements; reverse repurchase agreements; and money market mutual funds.

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

	<b>2009</b>	<b>2008</b>
Cash equivalents and investments pooled with the Treasurer	\$ 103,988	160,203
Investments held with trustee	207,303	157,268
	\$ 311,291	317,471

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

	<b>2009</b>	<b>2008</b>
Restricted assets – cash equivalents and investments	\$ 248,898	195,513
Unrestricted assets – cash equivalents and investments	62,393	121,958
	\$ 311,291	317,471

***Investments***

The Treasurer prepares an investment policy statement annually, which is presented to the Investment Advisory 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 the Government Code.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)

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

The following table below 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.

<b>Authorized investment type</b>	<b>Maximum maturity</b>	<b>Maximum percentage of portfolio*</b>	<b>Maximum investment in one issue(r)</b>
U.S. Treasury obligations	5 Years	100%	30%
U.S. agency securities	5 Years	100	40
Bankers' acceptances	180 days	40	5
Commercial paper	270 days	25	5
Negotiable certificates of deposit	360 days	25	5
Repurchase agreements	360 days	30	None
Reverse repurchase agreements	90 days	20	None
Medium-term corporate notes	5 Years	30	5%
Money market mutual funds	N/A	20	10
LAIF	N/A	\$80 million	None
Time certificates of deposit	1 year	20%	5%

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

At June 30, 2009, the City exceeded five percent concentration in the following U.S. agency securities: Federal Farm Credit Bank \$53,216 (13%), Federal Home Loan Bank \$58,138 (14%), Federal Home Loan Mortgage Corporation \$77,875 (19%), and Federal National Mortgage Association \$92,289 (23%).

At June 30, 2008, the City exceeded five percent concentration in the following U.S. agency securities: Federal National Mortgage Association \$67,245 (15%), Federal Home Loan Bank \$61,647 (13%), Federal Farm Credit Bank \$50,027 (11%), and Federal Home Loan Mortgage Corporation \$43,621 (9%).

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)

***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

At June 30, 2009, the City's investments controlled by bond trustees exceeded five percent concentration in the following U.S. agency securities, guaranteed investment contracts, flexible repurchase agreements, and money market mutual funds: Federal Home Loan Bank \$39,819 (12%), Federal Home Loan Mortgage Corporation \$22,472 (7%), Federal Farm Credit Bank \$35,838 (11%), Bank of America \$16,645 (5%), Trinity Plus \$44,311 (13%), and Morgan Stanley \$30,605 (9%). All guaranteed investment contracts have downgrade language that requires collateral should credit ratings drop below certain levels.

At June 30, 2008, the City's investments controlled by bond trustees exceeded five percent concentration in the following U.S. agency securities, guaranteed investment contracts, collateralized investments contracts, and money market mutual funds: Federal Home Loan Mortgage Corporation \$43,406 (15%), Federal Home Loan Bank \$33,736 (12%), Federal Farm Credit Bank \$23,177 (8%), Morgan Stanley \$23,775 (8%), Bank of America \$16,645 (6%), and Dreyfus Institutional Reserve Treasury Fund \$14,270 (5%). All guaranteed investment contracts have downgrade language that requires collateral should credit ratings drop below certain levels.

***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.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)

Custodial credit risk for investments held by 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.

***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 longer-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.

Interest rate risk for investments held by bond trustees is offset by the fact that the long-term investments are for the reserve funds with the semiannual interest payments used to pay a portion of the debt service. These are 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. Money market mutual funds are used to accumulate monthly or semiannual debt service payments.

Information about the sensitivity of the fair values of the Electric Utility's investments (including investments held by bond trustees) to market interest rate fluctuations for the fiscal years 2009 and 2008 is provided by the following tables.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)

The distribution of the Electric Utility's investments by maturity at June 30, 2009 and 2008 is as follows:

<u>Investments</u>	<u>Credit rating</u>	<u>Fair value, June 30, 2009</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	\$ 71,583	3,069	17,476	26,795	24,243	—
Medium-term notes	Aa2-AA-	8,780	3,357	2,167	—	3,256	—
Commercial paper	P1-A1+	4,577	4,577	—	—	—	—
Money market mutual funds	AAA	18,789	18,789	—	—	—	—
LAIF	Unrated	259	259	—	—	—	—
Total treasurer's pooled investments		<u>103,988</u>	<u>30,051</u>	<u>19,643</u>	<u>26,795</u>	<u>27,499</u>	<u>—</u>
Investments controlled by bond trustees:							
U.S. agency securities	AAA	113,762	—	2,088	24,718	86,956	—
Guaranteed investment contracts	Unrated	67,062	—	44,311	—	—	22,751
Collateralized investment contracts	Unrated	5,874	—	—	—	—	5,874
Flexible repurchase agreements	Unrated	9,066	—	—	9,066	—	—
Money market mutual funds	AAA	11,539	11,539	—	—	—	—
Total investments controlled by bond trustees		<u>207,303</u>	<u>11,539</u>	<u>46,399</u>	<u>33,784</u>	<u>86,956</u>	<u>28,625</u>
Total Electric Utility investments		<u>\$ 311,291</u>	<u>41,590</u>	<u>66,042</u>	<u>60,579</u>	<u>114,455</u>	<u>28,625</u>

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<u>Investments</u>	<u>Credit rating</u>	<u>Fair value, June 30, 2008</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. Treasury obligations	Exempt	\$ 21,666	21,666	—	—	—	—
U.S. agency securities	AAA	77,492	16,315	2,500	25,645	33,032	—
Medium-term notes	Aa2-AA-	7,069	1,777	3,590	—	1,702	—
Commercial paper	P1-A1+	17,381	17,381	—	—	—	—
Money market mutual funds	AAA	10,819	10,819	—	—	—	—
LAIF	Unrated	25,776	25,776	—	—	—	—
Total treasurer's pooled investments		<u>160,203</u>	<u>93,734</u>	<u>6,090</u>	<u>25,645</u>	<u>34,734</u>	<u>—</u>
Investments controlled by bond trustees:							
U.S. agency securities	AAA	107,427	—	15,200	20,789	71,438	—
Guaranteed investment contracts	Unrated	22,751	—	—	—	—	22,751
Collateralized investment contracts	Unrated	16,114	—	—	—	—	16,114
Flexible repurchase agreements	Unrated	9,066	—	—	—	9,066	—
Money market mutual funds	AAA	1,910	1,910	—	—	—	—
Total investments controlled by bond trustees		<u>157,268</u>	<u>1,910</u>	<u>15,200</u>	<u>20,789</u>	<u>80,504</u>	<u>38,865</u>
Total Electric Utility investments		<u>\$ 317,471</u>	<u>95,644</u>	<u>21,290</u>	<u>46,434</u>	<u>115,238</u>	<u>38,865</u>

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**(3) Electric Utility Plant**

The following is a summary of changes in capital assets:

	<u>Balance as of June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance as of June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance as of June 30, 2009</u>
Production	\$ 103,450	7,216	—	110,666	2,031	—	112,697
Transmission	59,757	28,810	(78)	88,489	957	(8)	89,438
Distribution	499,316	93,148	(419)	592,045	112,032	(1,746)	702,331
General plant	<u>75,483</u>	<u>9,187</u>	<u>—</u>	<u>84,670</u>	<u>7,103</u>	<u>(6,079)</u>	<u>85,694</u>
Depreciable utility plant	738,006	138,361	(497)	875,870	122,123	(7,833)	990,160
Less accumulated depreciation	<u>(235,359)</u>	<u>(28,191)</u>	<u>2,149</u>	<u>(261,401)</u>	<u>(30,692)</u>	<u>7,403</u>	<u>(284,690)</u>
Net depreciable utility plant	<u>502,647</u>	<u>110,170</u>	<u>1,652</u>	<u>614,469</u>	<u>91,431</u>	<u>(430)</u>	<u>705,470</u>
Land	33,974	1,035	—	35,009	662	—	35,671
Construction in progress	<u>135,831</u>	<u>138,648</u>	<u>(169,034)</u>	<u>105,445</u>	<u>49,458</u>	<u>(118,915)</u>	<u>35,988</u>
Nondepreciable utility plant	<u>169,805</u>	<u>139,683</u>	<u>(169,034)</u>	<u>140,454</u>	<u>50,120</u>	<u>(118,915)</u>	<u>71,659</u>
Net utility plant	<u>\$ 672,452</u>	<u>249,853</u>	<u>(167,382)</u>	<u>754,923</u>	<u>141,551</u>	<u>(119,345)</u>	<u>777,129</u>

**(4) Operating Expenses**

Total operating expenses shared with the City's Water Utility Fund amounted to \$27,661 and \$26,164 for the years ended June 30, 2009 and 2008, respectively, of which \$22,129 and \$20,931, respectively, were allocated to the Electric Utility.

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

**(5) Jointly Owned Utility Projects**

**(a) SONGS**

The City sold its 3.16% ownership interest of SONGS to SCE on December 29, 2006. As such, the Electric Utility ceased recording all related operating expenses, except marine mitigation costs and spent fuel storage charges, as of December 29, 2006. Based on the SONGS settlement agreement, the Electric Utility is responsible for the City's share of marine mitigation costs up to \$2,300, and SCE is responsible for costs between approximately \$2,300 and \$7,300. The Electric Utility is responsible for spent fuel storage charges until the federal government takes possession.

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As a former participant in SONGS, the Electric Utility is subject to assessment of retrospective insurance premiums in the event of a nuclear incident at SONGS or any other licensed reactor in the United States of America.

**(b) San Juan Generating Station**

The Electric Utility also owns a 10.040% ownership interest in the existing coal-fired San Juan Generating Station (SJ), Unit 4, located near Waterflow, New Mexico. Other participants include Public Service of New Mexico, 45.485%; the City of Farmington, 8.475%; the County of Los Alamos, 7.200%; and M-S-R Public Power Agency, 28.800%. The Electric Utility's original purchase cost and cumulative share of ongoing construction costs included in utility plant at June 30, 2009 and 2008 amounted to \$75,464 and \$74,144, respectively. There are no separate financial statements for this venture, as each participant's interest is reflected in its respective financial statements.

**(6) Long-Term Liabilities**

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

<u>June 30, 2009</u>	<u>Beginning of year</u>	<u>Additions</u>	<u>Retirements</u>	<u>End of year</u>	<u>Due within one year</u>
Anaheim Public Financing Authority Revenue Bonds	\$ 608,730	70,000	(15,370)	663,360	15,995
Provision for decommissioning costs	110,923	6,162	—	117,085	—
	719,653	<u>\$ 76,162</u>	<u>(15,370)</u>	780,445	<u>15,995</u>
Less current portion	(15,370)			(15,995)	
Add unamortized bond premium	8,331			8,594	
Less unamortized refunding costs	<u>(6,289)</u>			<u>(5,708)</u>	
Total long-term liabilities	<u>\$ 706,325</u>			<u>767,336</u>	

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<u>June 30, 2008</u>	<u>Beginning of year</u>	<u>Additions</u>	<u>Retirements</u>	<u>End of year</u>	<u>Due within one year</u>
Electric Revenue Bonds	\$ 6,615	—	(6,615)	—	—
Anaheim Public Financing Authority Revenue Bonds	616,805	—	(8,075)	608,730	15,370
Capital leases	149	—	(149)	—	—
Provision for decommissioning costs	<u>103,444</u>	<u>7,479</u>	<u>—</u>	<u>110,923</u>	<u>—</u>
	727,013	<u>\$ 7,479</u>	<u>(14,839)</u>	719,653	<u>15,370</u>
Less current portion	(14,768)			(15,370)	
Add unamortized bond premium	9,173			8,331	
Less unamortized refunding costs	<u>(6,903)</u>			<u>(6,289)</u>	
Total long-term liabilities	<u>\$ 714,515</u>			<u>706,325</u>	

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Long-term debt consists of the following at June 30:

	2009	2008
<p>Anaheim Public Financing Authority Revenue Bonds, issue of 1998, true interest cost (TIC) 5.08%, dated May 1, 1988, sold on June 2, 1998 in the amount of \$65,000 of which \$49,625 was advance refunded on February 7, 2007. The remaining principal of \$5,060, at a rate of 5.00%, is maturing from October 1, 2009 through 2011 in annual principal installments ranging from \$1,605 to \$1,770. The total debt service is \$5,448 to maturity.</p>	\$ 5,060	6,585
<p>Anaheim Public Financing Authority Revenue Bonds, issue of 1999, with an initial interest rate of 4.625%, dated September 1, 1999, sold on September 29, 1999 in the amount of \$45,000. On the conversion date, October 2, 2005, the 1999 bond was remarked in the amount of \$43,010. The remaining principal of \$39,480 at rates ranging from 3.00% to 5.00% is maturing from October 1, 2009 through 2027 in annual principal installments ranging from \$1,245 to \$2,795. The total debt service is \$57,212 to maturity.</p>	39,480	40,555
<p>Anaheim Public Financing Authority Revenue Bonds, issue of 2002, TIC 4.97%, dated February 15, 2002, sold on March 12, 2002 in the amount of \$178,705. The Series 2002-A was issued in the amount of \$96,210, of which (1) \$3,025 was issued as serial bonds at a rate of 4.90%, maturing from October 1, 2021 to 2022 in annual principal installments ranging from \$1,390 to bonds at \$1,635 and (2) \$93,185 was issued as term bonds at a rate of 5.00%, maturing from October 1, 2023 through 2031 in annual principal installments from \$5,210 to \$18,045. The Series 2002-B was issued in the amount of \$82,495 as serial bonds. The remaining principal of \$79,045 at rates ranging from 3.60% to 5.25% is maturing from October 1, 2009 through 2020 in principal installments ranging from \$2,210 to \$10,450. The total debt service is \$293,720 to maturity.</p>	175,255	178,705

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	<b>2009</b>	<b>2008</b>
<p>Anaheim Public Financing Authority Revenue Bonds, issue of 2003, TIC 3.99%, dated April 1, 2003, sold on April 9, 2003 in the amount of \$60,415. The Series 2003-A was issued in the amount of \$37,735 as serial bonds at rates ranging from 4.00% to 5.00%, maturing from October 1, 2010 to 2022 in annual principal installments ranging from \$1,915 to \$5,600. The Series 2003-B was issued in the amount of \$22,680. The remaining principal of \$10,410 at rates ranging of 5.00% is maturing from October 1, 2009 through 2010 in principal installments ranging from \$4,115 to \$6,295. The total debt service is \$62,948 to maturity.</p>	\$ 48,145	54,180
<p>Anaheim Public Financing Authority Revenue Bonds, issue of 2004, TIC 4.99%, dated June 1, 2004, sold June 30, 2004 in the amount of \$131,265 of which: (1) \$97,060 was issued as serial bonds. The remaining principal of \$87,060 at rates ranging from 4.00% to 5.25% is maturing from October 1, 2009 to 2025 in annual principal installments ranging from \$2,310 to \$9,595; (2) \$13,325 was issued as term bonds at a rate of 5.00% maturing from October 1, 2026 through 2029 in annual principal installments from \$3,085 to \$3,585; and (3) \$20,880 was issued as term bonds at a rate of 5.00% maturing from October 1, 2030 through 2034 in annual principal installments ranging from \$3,770 to \$4,605. The total debt service is \$207,451 to maturity.</p>	121,265	123,590
<p>Anaheim Public Financing Authority Revenue Bonds, issue of 2007, TIC 4.49%, dated and sold on February 7, 2007 in the amount of \$206,035, of which: (1) \$73,000 was issued as serial bonds. The remaining principal of \$71,120 at rates ranging from 4.00% to 5.00% is maturing from October 1, 2009 through 2028 in annual principal installments ranging from \$995 to \$11,530; (2) \$24,410 was issued as term bonds at a rate of 4.75% maturing on October 1, 2026 and 2027 in annual principal installments from \$11,685 to \$12,725; (3) \$36,675 was issued as term bonds at a rate of 4.50% maturing from October 1, 2029 through 2032 in annual principal installments from \$7,665 to \$12,550; and (4) \$71,950 was issued as term bonds at a rare of 4.50% maturing from October 1, 2033 through 2037 in annual principal installments ranging from \$13,125 to \$15,715. The total debt service is \$386,287 to maturity.</p>	204,155	205,115

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	<b>2009</b>	<b>2008</b>
Anaheim Public Financing Authority Revenue Bonds, issue of 2009, TIC 4.98%, dated and sold on March 10, 2009 in the amount of \$70,000, of which: (1) \$37,405 was issued as serial bonds at rates ranging from 3.00% to 5.00% is maturing from October 1, 2010 through 2030 in annual principal installments ranging from \$1,100 to \$2,765; (2) \$12,610 was issued as term bonds at a rate of 5.25% maturing on October 1, 2031 through 2034 in annual principal installments from \$2,910 to \$3,405; (3) \$19,985 was issued as term bonds at a rate of 5.25% maturing from October 1, 2035 through 2039 in annual principal installments ranging from \$3,590 to \$4,430. The total debt service is \$139,979 to maturity.	70,000	—
Total Anaheim Public Financing Authority Revenue Bonds	\$ 663,360	608,730

Annual debt service requirements, excluding amounts for decommissioning costs, at June 30, 2009 to maturity are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Fiscal year ending June 30:			
2010	\$ 15,995	31,788	47,783
2011	17,825	30,825	48,650
2012	18,175	30,016	48,191
2013	18,995	29,217	48,212
2014	19,765	28,345	48,110
2015 – 2019	114,135	126,155	240,290
2020 – 2024	104,715	98,810	203,525
2025 – 2029	131,090	69,759	200,849
2030 – 2034	135,845	35,340	171,185
2035 – 2039	82,390	9,314	91,704
2040	4,430	116	4,546
	\$ 663,360	489,685	1,153,045

Interest costs of \$3,185 and \$5,331 have been capitalized to utility plant for the years ended June 30, 2009 and 2008, respectively.

In accordance with the bond resolutions, a reserve for maximum annual debt service has been established and a reserve for renewals and replacements is being accumulated in an amount equal to a maximum of 2% of the depreciated book value of the Electric Utility plant in service.

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The bond resolutions require the establishment of a bond service account by accumulating monthly one-sixth of the interest, which will become due and payable on the outstanding bonds within the next 6 months, and one-twelfth of the principal amount, which will mature and be payable on the outstanding 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 Electric Utility's bonds. The management of the Electric Utility believes it is in compliance with all limitations and restrictions.

Electric Utility has pledged future electric revenues to repay a total of \$1,153,045 and \$1,057,234 outstanding long-term obligations, principal and interest for the years ended June 30, 2009 and 2008, respectively. Proceeds from bonds provide financing for various capital improvements, primarily distribution assets. The Electric Utility's bonds are payable solely from electric net revenues and are payable through fiscal year 2040. As of June 30, 2009 and 2008, the annual principal and interest payments on the bonds are 56.2% and 59.4% of net revenues, respectively. Debt service paid and total net revenues were \$44,168 and \$78,647, and \$44,140 and \$74,308 for the years ended June 30, 2009 and 2008, respectively.

In March 2009, the Electric Utility issued revenue bonds in the principal amount of \$70,000. The proceeds totaled \$71,089, of which \$70,345 was deposited in construction funds to finance capital electric distribution system; \$744 was used to pay the cost of issuance funds. The total debt service payments over the life of the bonds until fiscal year 2040 will be \$139,979.

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

	<b>2009</b>	<b>2008</b>
Held by fiscal agent:		
Bond reserve fund	\$ 47,931	47,932
Bond service fund	1,078	1,448
Bond construction fund	44,319	—
Decommissioning reserve	113,975	107,888
Held by Treasurer:		
Bond service account	18,798	17,536
Renewal and replacement account	14,781	12,989
Decommissioning and fuel reserves	2,200	1,760
Public benefit program fees	4,783	5,149
Restricted rebate	1,033	811
	\$ 248,898	195,513

The Electric Utility's interest and other finance charges, excluding capitalized interest, for the years ended June 30, 2009 and 2008 were \$27,027 and \$25,091, respectively.

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**(7) Advance Refundings**

When conditions have warranted in prior years, the Electric Utility has sold various issues of bonds to provide for the refunding of previously issued obligations. The proceeds received from the sales of the bond issues were used to refund the outstanding bond issues or to deposit in an irrevocable escrow fund held by the escrow agent, an amount which, when combined with interest earnings thereon, is at least equal to the sum of the outstanding principal amount of the bonds, the interest to accrue thereon, and including the first optional redemption date thereof, and the premium required to redeem the bonds outstanding on such date. Accordingly, the trust account assets and the liability for defeased bonds are not included in the Electric Utility's financial statements.

The outstanding amount of the refunded bonds totaled \$2,055 and \$52,290 at June 30, 2009 and 2008, respectively.

A summary of bonds defeased by the Electric Utility and outstanding as of June 30 is as follows:

<u>Issue</u>	<u>2009</u>	<u>2008</u>
1997 FARECal Certificates of Participation	\$ 2,055	2,665
1998 Anaheim Public Financing Authority Revenue Bonds	—	49,625
	<u>\$ 2,055</u>	<u>52,290</u>

**(8) 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 years ended June 30, 2009 and 2008, 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%. 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 of Administration. The Electric Utility is allocated its portion of the City's required contribution, as determined by PERS actuaries. This allocation is based on eligible employee wages.

The Electric Utility contributed 100% of its allocated required contributions of \$4,044, \$3,646, and \$3,198 to PERS for the years ended June 30, 2009, 2008, and 2007, respectively.

Information is not available separately for the Electric 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

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the related pension fund assets. Refer to the City's Comprehensive Annual Financial Report as of June 30, 2009 for further information.

**(9) Self-Insurance Program**

The Electric 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 Electric Utility. Premiums for workers' compensation and general liability programs are charged to the Electric Utility by the City based on various allocation methods that include actual cost, trends in claims experience, exposure base, and number of participants. Premiums charged and paid were \$354 and \$501 for the years ended June 30, 2009 and 2008, respectively.

At June 30, 2009, 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 insurance coverage in any of the past three years, nor does management believe that there are any pending claims that will exceed insurance coverage.

**(10) Commitments and Contingencies**

**(a) Take-or-Pay Contracts**

**Intermountain Power Agency**

The Electric Utility has entered into a power purchases contract with the Intermountain Power Agency (IPA) for delivery of electric power. The share of IPA power is equal to 13.225% of the generation output of IPA's two recently uprated coal-fueled generating units located in Delta, Utah (Unit 1 and 2 net output is 900 mega watts each). The Electric Utility is obligated for the following percentage of electrical facilities at IPA:

	<b>Entitlement</b>	<b>Expiration</b>
Generation:		
Intermountain Power Project	13.225%	2027

The contract constitutes an obligation of the Electric Utility to make payments from revenues and requires payment of certain minimum charges. These minimum charges include debt service requirements on the financial obligations used to construct the plant. These requirements are considered a cost of purchased power.

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**Southern California Public Power Authority**

The Electric Utility is a member of the Southern California Public Power Authority (SCPPA), a joint powers agency. SCPPA provides for the financing and construction of electric generating and transmission projects for participation by some or all of its members. To the extent the Electric Utility participates in projects developed by SCPPA, it is obligated for its proportional share of the cost of the project. The Electric Utility is obligated for the following percentage of electrical facilities owned by SCPPA:

	<b>Entitlement</b>	<b>Expiration</b>
Transmission:		
Southern Transmission System (STS)	17.6%	2027
Mead-Adelanto Project (MAP)	13.5	2030
Mead-Phoenix Project (MPP)	24.2	2030
Generation:		
Hoover Dam Upgrading (Hoover)	42.6%	2018
Magnolia Generating Station (Magnolia)	38.0	2037
Natural Gas Reserves Project:		
SCPPA Natural Gas Project-Pinedale, Wyoming	35.7	2033
SCPPA Natural Gas Project-Barnett, Texas	45.5	2033

**Take-or-Pay Commitments**

As part of the take-or-pay commitments with IPA and SCPPA, the Electric Utility has agreed to pay its share of current and long-term obligations. Payment for these obligations will be made from the operating revenues received during the year that the payment is due. A long-term obligation has not been recorded on the accompanying financial statements for these commitments. The following schedule details the amount of debt service that is due and payable by the Electric Utility for each project and the final maturity date.

Fiscal year	IPA	STS	MAP	MPP	Hoover	Magnolia	Natural gas	Total
2010	\$ 40,428	13,595	1,906	1,059	956	4,674	7,461	70,079
2011	40,660	13,729	3,099	1,929	957	8,757	9,175	78,306
2012	42,150	16,633	3,089	1,923	956	8,761	9,836	83,348
2013	39,345	15,027	3,086	1,922	958	8,759	8,096	77,193
2014	39,085	15,071	3,090	1,925	957	8,766	7,369	76,263
2015 – 2019	164,531	76,117	14,830	7,932	3,828	40,056	32,606	339,900
2020 – 2024	95,431	65,418	5,819	3,114	—	34,976	21,385	226,143
2025 – 2029	—	19,092	—	—	—	37,796	14,560	71,448
2030 – 2034	—	—	—	—	—	39,054	8,275	47,329
2035 – 2039	—	—	—	—	—	42,318	—	42,318
Total	\$ 461,630	234,682	34,919	19,804	8,612	233,917	118,763	1,112,327

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In addition to debt service, the City's entitlement requires the payment for fuel costs, operations and maintenance costs (O&M), administration and general costs (A&G), and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service; however, prior experience indicates that annual costs are generally consistent from year to year. The fiscal year 2009 and 2008 billings for fuel, O&M, A&G, and other costs at these projects are as follows:

Fiscal year	IPA	STS	MAP	MPP	Hoover	Magnolia	Natural gas	Total
2009	\$ 45,790	2,885	203	332	269	33,663	991	84,133
2008	46,305	1,642	340	464	225	36,577	916	86,469

**(b) Prepaid Purchased Power**

The Electric Utility has prepaid purchased power costs for the following take-or-pay contracts as of June 30:

	<u>2009</u>	<u>2008</u>
SCPPA – Stabilization fund prepayment	\$ 32,453	27,621
SCPPA – Magnolia power prepayment	4,993	6,940
SCPPA – Canyon prepayment	3,767	2,424
SJ – Fuel acquisition prepayment	—	97
Prepaid purchased power	<u>\$ 41,213</u>	<u>37,082</u>

**(c) Litigation**

A number of claims and suits are pending against the City for alleged damages to persons and property and for other alleged capital expenditures liabilities arising out of matters usually incidental to the operation of a utility such as the electric 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 Electric Utility as of June 30, 2009 and 2008.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)

**(d) Construction Commitments**

At June 30, 2009, the Electric Utility had the following commitments with respect to unfinished capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Completion Date</u>
Utilities cable and wire equipments	\$ 1,680	2010
69kV Distribution circuit breakers	732	2011
Substation Security System	523	2010
Gene Autry Way (I-5 freeway Bore)	584	2010
Underground district #50 and #53 Euclid	758	2010

**(11) Subsequent Events**

***Canyon Power Project***

The City is currently in the licensing process to build a 200 megawatt peaking facility within the City limits. The new Combustion Turbine Generation (CTG) facility will be owned by SCPPA but operated by Anaheim.

Scheduled to come online in the summer or fall of 2011, the Canyon Power Project (CPP) will increase City's local electric resources. The CPP will lower the City's dependence on wholesale purchases to meet peak demand, reduce the need to purchase additional local capacity, reduce potential CAISO fees for back stop resource procurement, and allow the City to meet reliability requirements. Construction of internal generation will enable the City to more reliably meet retail load and satisfy a large portion of the City's generation reserve requirement.

In November 2009, \$172.3 million of revenue anticipation notes were sold through SCPPA to cover the cost of the turbines. These are 12-month notes that are intended to be paid for with long-term financing issued in 2010 for approximately \$320 million to finance the entire project.