



**CITY OF ANAHEIM
WATER UTILITY FUND**

Financial Statements

June 30, 2009 and 2008

(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, 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 Water 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 Water 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 Water 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 14 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
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Management's Discussion and Analysis

June 30, 2009 and 2008

(In thousands)

(Unaudited)

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, 2009 and 2008. 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 2009 and 2008 by \$232,170 and \$232,304, respectively. Of these amounts, \$20,229 and \$12,733, 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 \$134 (0.1%) and increased by \$2,193 (1.0%) for the fiscal years ended June 30, 2009 and 2008, respectively. Unrestricted fund net assets represented 43.0% and 26.1% 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 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, 2009.

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 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.

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(In thousands)

(Unaudited)

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 \$232,170 and \$232,304 at June 30, 2009 and 2008, respectively.

A large portion of the Water Utility's fund net assets (89.5% and 92.9% 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 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 (1.8% and 1.6% 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 Water Utility's fund net assets (8.7% and 5.5% as of June 30, 2009 and 2008, respectively) may be used to meet the Water Utility's ongoing obligations to creditors and customers. The Water 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	\$ 60,393	41,041	42,579
Net utility plant	258,456	233,674	222,556
Total assets	<u>318,849</u>	<u>274,715</u>	<u>265,135</u>
Long-term liabilities, net of current portion	64,141	17,951	20,225
Current liabilities	22,538	24,460	14,799
Total liabilities	<u>86,679</u>	<u>42,411</u>	<u>35,024</u>
Invested in capital assets, net of related debt	207,826	215,762	202,308
Restricted	4,115	3,809	3,651
Unrestricted	20,229	12,733	24,152
Total fund net assets	<u>\$ 232,170</u>	<u>232,304</u>	<u>230,111</u>

**CITY OF ANAHEIM
WATER UTILITY FUND**

Management's Discussion and Analysis

June 30, 2009 and 2008

(In thousands)

(Unaudited)

As of June 30, 2009

Assets

Total assets as of June 30, 2009 and 2008 were \$318,849 and \$274,715, respectively. The \$44,134 (16.1%) increase in total assets is due primarily to a \$38,559 increase in noncurrent assets, and a \$5,575 increase in current assets. Noncurrent assets increased 16.2% as a result of increases in net utility plant and in restricted assets. The \$24,782 (10.6%) increase in net utility plant resulted from 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. Restricted assets increased by \$13,470 (384.2%) primarily because some proceeds from the debt financing obtained to fund these planned utility plant additions remained unspent as of June 30, 2009.

Liabilities

Total liabilities as of June 30, 2009 and 2008 were \$86,679 and \$42,411, respectively. The \$44,268 (104.4%) increase in total liabilities is due to a \$46,190 increase in long-term liabilities, which was offset by a \$1,922 decrease in current liabilities. Long-term liabilities increased 257.3% primarily due to the issuance of \$48,580 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, 2009 and 2008 were \$232,170 and \$232,304, respectively. Total fund net assets decreased by \$134 (0.1%) during fiscal year 2009. Fund net assets invested in capital assets, net of related debt decreased \$7,936 (3.7%) primarily because the issuance of the \$48,580 new Water Revenue Bonds offset the construction additions to the utility plant during the year. Unrestricted net assets increased \$7,496 (58.9%), because the reduction in current liabilities enabled additional cash and investments to become available.

As of June 30, 2008

Assets

Total assets as of June 30, 2008 and 2007 were \$274,715 and \$265,135, respectively. The \$9,580 (3.6%) increase in total assets is due to a \$10,713 increase in noncurrent assets, which was offset by a \$1,133 decrease in current assets. Noncurrent assets increased 4.7% primarily because of the \$11,118 (5.0%) increase in net utility plant. The Water Utility is currently 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.

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June 30, 2009 and 2008

(In thousands)

(Unaudited)

Liabilities

Total liabilities as of June 30, 2008 and 2007 were \$42,411 and \$35,024, respectively. The \$7,387 (21.1%) increase in total liabilities is due to a \$9,661 increase in current liabilities, which was offset by a \$2,274 decrease in long-term liabilities. Current liabilities increased 65.3% primarily due to an increase in regulatory credits of \$6,126 and an increase in accounts payable and accrued expenses of \$3,803. Long-term liabilities decreased 11.2% primarily as a result of current year payments of principal on long-term debt.

Fund Net Assets

Total fund net assets as of June 30, 2008 and 2007 were \$232,304 and \$230,111, respectively. Total fund net assets increased by \$2,193 (1.0%) during fiscal year 2008. Fund net assets invested in capital assets, net of related debt increased \$13,454 (6.7%) due to continued expansion and refurbishment of water transmission and distribution infrastructure and a new supply source placed in service in fiscal year 2008. Unrestricted net assets decreased \$11,419 (47.3%), because available cash and investments were used to fund ongoing capital construction projects.

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Management's Discussion and Analysis

June 30, 2009 and 2008

(In thousands)

(Unaudited)

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

	2009	2008	2007
Revenues:			
Sale of water, net	\$ 49,985	47,938	48,062
Other operating revenues	822	1,185	1,538
Interest income	2,218	1,927	1,995
Other nonoperating revenues	14	2	—
Capital contributions	1,199	3,005	1,980
Total revenues	54,238	54,057	53,575
Expenses:			
Purchased water	22,558	21,608	22,922
Treatment and pumping	6,747	6,650	5,605
Operations, maintenance, and administration	10,818	12,932	14,676
Depreciation	6,918	7,616	6,954
Interest expense	1,612	313	739
Total expenses	48,653	49,119	50,896
Transfers:			
Transfer to the General Fund of the City	(4,062)	(2,008)	(1,882)
Transfer of right-of-way fee to the City	(719)	(721)	(684)
Transfers from other funds of the City	407	—	456
Transfers to other funds of the City	(1,345)	(16)	(376)
Total transfers	(5,719)	(2,745)	(2,486)
Changes in fund net assets	(134)	2,193	193
Fund net assets at beginning of year	232,304	230,111	229,918
Fund net assets at end of year	\$ 232,170	232,304	230,111

Revenues

Year ended June 30, 2009

Total revenues for the fiscal year ended June 30, 2009 were \$54,238 as compared with \$54,057 in fiscal year 2008. There were no significant or unusual changes.

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Management's Discussion and Analysis

June 30, 2009 and 2008

(In thousands)

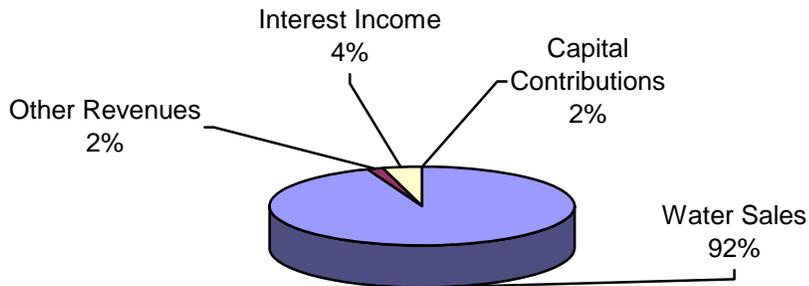
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Year ended June 30, 2008

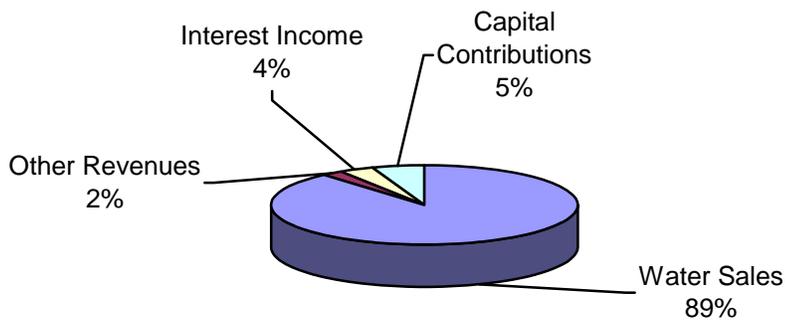
Total revenues for the fiscal year ended June 30, 2008 were \$54,057 as compared with \$53,575 in fiscal year 2007. There were no significant or unusual changes.

Revenues by Source

Year ended June 30, 2009



Year ended June 30, 2008



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June 30, 2009 and 2008

(In thousands)

(Unaudited)

Expenses

Year ended June 30, 2009

Total expenses for the fiscal year ended June 30, 2009 were \$48,653 as compared with \$49,119 in fiscal year 2008. This \$466 (0.9%) decrease in total expenses is due to a \$2,114 decrease in operations, maintenance, and administrative expenses (OM&A), partially offset by a \$97 increase in treatment and pumping costs, a \$950 increase in purchased water costs, and a \$1,299 increase in interest expense.

OM&A decreased 16.3% from fiscal year 2008. Administrative costs decreased by \$2,469 (116.8%), maintenance costs decreased by \$179 (8.5%), and operating costs increased by \$534 (25.3%) over the prior year. Administrative costs decreased because increasing amounts of administrative overhead costs became eligible for capitalization as a result of the expansion of the Water Utility's capital improvement program. Maintenance costs also decreased due to the increasing capital projects workload being performed to ensure system reliability.

The cost of purchased water increased 4.4%, primarily because of higher per unit costs imposed by both the Orange County Water District (OCWD) and the Metropolitan Water District (MWD) of Southern California, the two primary water supply sources for the Water Utility. Treatment and pumping costs also increased by 1.5% primarily as a result of increased pump power (electricity) costs.

The large (415.0%) increase in interest expense resulted from the additional interest payments made on the \$48,580 Water Revenue Bonds issued in July 2008.

Year ended June 30, 2008

Total expenses for the fiscal year ended June 30, 2008 were \$49,119 as compared with \$50,896 in fiscal year 2007. This \$1,777 (3.5%) decrease in total expenses is due to a \$1,314 decrease in purchased water costs, partially offset by a \$1,045 increase in treatment and pumping costs, and a \$1,744 decrease in OM&A.

The cost of purchased water decreased 5.7%. The amount of water the Water Utility pumped from the OCWD increased from 69.0% to 79.1% of the total water purchased for sale. Consequently, the amount of purchased water obtained from the MWD decreased from 31.0% to 20.9%. Because water purchased from MWD has a higher unit cost than the cost of water pumped from OCWD, this increase in the amount of water allowed to be pumped enabled the Water Utility to purchase less of the higher cost water from MWD. In addition, during fiscal year 2008, the Water Utility experienced approximately a 4.0% decrease in customer demand, resulting in a reduction in the total amount of water purchased. Treatment and pumping costs, however, increased 18.6% primarily as a result of the increased pump power (electricity) costs required for the greater OCWD well production volume.

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OM&A decreased 11.9% from fiscal year 2007. Operating costs decreased by \$267 (1.8%), maintenance costs increased by \$1,188 (8.1%), and administrative costs decreased \$2,665 (18.2%) over the prior year. Maintenance costs have increased due to additional work being performed to ensure system reliability. Administrative costs decreased primarily because the allocation to the Water Utility of the common expenses shared with the Electric Utility Fund of the City (Electric Utility) was reduced by 10.0%, based on an updated analysis of the benefits provided by those shared expenses.

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 Water Utility made a one-time additional transfer of \$2,084 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 \$4,062 for fiscal year 2009.

The transfer of the right-of-way fee to the City is equal to 1.5% of net revenues from the sale of water in 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 was \$719 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.

Upon the completion of several joint capital projects, the Water Utility transferred ownership of its share of these projects, valued at \$1,345, to the Electric Utility.

Year ended June 30, 2008

Transfers to the City's General Fund, as defined by City Charter, are equal to a maximum of 4.0% of total operating revenues. The transfer to the City's General Fund was \$2,008 for fiscal year 2008. In addition, a right-of-way fee is transferred to the City's General Fund and is equal to 1.5% of net revenues. Net revenues are defined as revenues from sale of water less uncollectible accounts. The right-of-way fee transferred to the City amounted to \$721 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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WATER UTILITY FUND**

Management's Discussion and Analysis

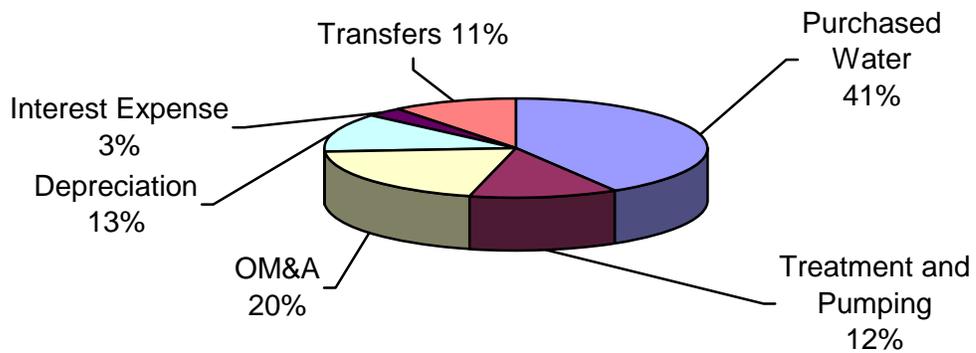
June 30, 2009 and 2008

(In thousands)

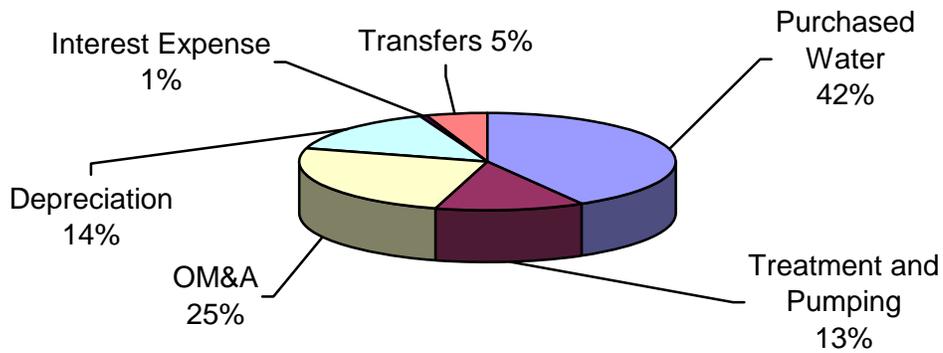
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Expenses and Transfers

Year ended June 30, 2009



Year ended June 30, 2008



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June 30, 2009 and 2008

(In thousands)

(Unaudited)

Capital Assets and Debt Administration

Capital Assets

The Water Utility's net investment in capital assets as of June 30, 2009 and 2008 was \$258,456 and \$233,674, 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 2009 were \$28,823 (8.9%).

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Source of water supply	\$ 37,446	35,900	31,764
Pumping plant	41,874	40,482	39,118
Transmission and distribution	244,018	217,356	223,037
General plant	4,030	4,908	4,941
Land	2,298	2,130	2,113
Construction in progress	21,342	21,409	7,984
	<u>351,008</u>	<u>322,185</u>	<u>308,957</u>
Total utility plant			
Less accumulated depreciation	<u>(92,552)</u>	<u>(88,511)</u>	<u>(86,401)</u>
Net utility plant	<u>\$ 258,456</u>	<u>233,674</u>	<u>222,556</u>

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

As of June 30, 2009

The Water Utility showed a net increase of \$24,782 (10.6%) 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 and source of supply. In 1999, the Water Utility made the decision to increase its pumping capacity by building one new well per year for each of the subsequent 10 years. As of June 30, 2009, the Water Utility has completed approximately 80% of the planned new well pumping capacity.

As of June 30, 2008

The Water Utility showed a net increase of \$11,118 (5.0%) 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 and source of supply. In 1999, the Water Utility made the decision to increase its pumping capacity by building one new well per year for each of the subsequent

**CITY OF ANAHEIM
WATER UTILITY FUND**

Management's Discussion and Analysis

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(In thousands)

(Unaudited)

10 years. As of June 30, 2008, the Water Utility has completed approximately 70% of the planned new well pumping capacity.

Long-Term Debt

As of June 30, 2009 and 2008, the Water Utility had total long-term debt outstanding of \$67,080 and \$20,870, respectively.

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Water revenue bonds	\$ 54,500	7,355	8,730
Notes payable and advances	12,580	13,515	14,456
Capital lease obligations	—	—	62
Total long-term debt outstanding	<u>67,080</u>	<u>20,870</u>	<u>23,248</u>
Less:			
Current portion	(2,452)	(2,370)	(2,348)
Unamortized bond premium	41	122	165
Unamortized refunding costs	<u>(528)</u>	<u>(671)</u>	<u>(840)</u>
Total noncurrent long-term debt outstanding	<u>\$ 64,141</u>	<u>17,951</u>	<u>20,225</u>

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

As of June 30, 2009

Long-term debt increased \$46,210 (221.4%) primarily due to the issuance of \$48,580 Water Revenue Bonds, the proceeds of which provided funding for the Water Utility's ongoing improvements to the Water Utility's infrastructure system. The revenues of the Water Utility have been pledged to pay the outstanding long-term debt. The Water Utility continued to make repayments of principal on outstanding bonds and notes payable in accordance with the applicable payment terms.

As of June 30, 2008

Long-term debt decreased \$2,378 primarily due to the repayment of principal on outstanding bonds and notes payable and advances. The revenues of the Water Utility have been pledged to pay the outstanding long-term debt.

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(In thousands)

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Economic Factors and Rates

For fiscal year 2010, the OCWD decreased the Basin Production Percentage (BPP) for all cities and water districts they serve (including Anaheim) from 69.0% to 62.0%. As a result, the Water Utility may need to purchase a larger quantity of MWD water that is priced higher than ground water pumped from OCWD. The decrease in the BPP was attributed to lower groundwater basin storage available. The Water Utility's Water Rates, Rules, and Regulations provide for an automatic adjustment of its commodity adjustment when OCWD and MWD increase the cost per acre foot of water. Effective July 7, 2009, the Water Commodity Adjustment increased from \$0.99 to \$1.20 per 100 cubic foot.

In addition, as approved on March 18, 2008 and effective July 7, 2009, the Water Utility began charging all customers a Water System Reliability Adjustment of \$0.075 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.

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, California 92805.

**CITY OF ANAHEIM
WATER UTILITY FUND**

Balance Sheets

June 30, 2009 and 2008

(In thousands)

Assets	2009	2008
Utility plant:		
Source of water supply	\$ 37,446	35,900
Pumping plant	41,874	40,482
Transmission and distribution	244,018	217,356
General plant	4,030	4,908
	<hr/>	<hr/>
Total depreciable utility plant	327,368	298,646
Less accumulated depreciation	(92,552)	(88,511)
	<hr/>	<hr/>
Net depreciable utility plant	234,816	210,135
Land	2,298	2,130
Construction in progress	21,342	21,409
	<hr/>	<hr/>
Net utility plant	258,456	233,674
	<hr/>	<hr/>
Restricted assets:		
Investments	16,976	3,506
	<hr/>	<hr/>
Total restricted assets	16,976	3,506
	<hr/>	<hr/>
Other assets:		
MWDOC pipeline receivable	210	234
Unamortized debt issuance costs	440	109
	<hr/>	<hr/>
Total other assets	650	343
	<hr/>	<hr/>
Total noncurrent assets	276,082	237,523
	<hr/>	<hr/>
Current assets:		
Cash and cash equivalents	6,951	8,976
Investments	24,405	18,625
Restricted cash and cash equivalents	2,074	1,328
Restricted investments	1,197	1,313
Accounts receivable, net	6,488	6,338
Accrued interest receivable	213	296
Materials and supplies inventory	320	284
Purchased water in storage	1,119	32
	<hr/>	<hr/>
Total current assets	42,767	37,192
	<hr/>	<hr/>
Total assets	\$ 318,849	274,715
	<hr/> <hr/>	<hr/> <hr/>

**CITY OF ANAHEIM
WATER UTILITY FUND**

Balance Sheets

June 30, 2009 and 2008

(In thousands)

Fund Net Assets and Liabilities	2009	2008
Fund net assets:		
Invested in capital assets, net of related debt	\$ 207,826	215,762
Restricted for:		
Debt service	1,530	1,472
Renewal and replacement	2,585	2,337
Unrestricted	20,229	12,733
Total fund net assets	232,170	232,304
Long-term liabilities:		
Long-term debt obligations, less current portion	64,141	17,951
Total long-term liabilities	64,141	17,951
Current liabilities (payable from restricted assets):		
Current portion of long-term debt	2,452	2,370
Arbitrage rebate liability	2	12
Accrued interest payable	817	259
Total current liabilities (payable from restricted assets)	3,271	2,641
Current liabilities (payable from unrestricted current assets):		
Accounts payable and accrued expenses	10,987	13,043
Wages payable	277	245
Regulatory credits	7,157	6,954
Customer deposits	846	1,577
Total current liabilities (payable from unrestricted current assets)	19,267	21,819
Total liabilities	86,679	42,411
Total fund net assets and liabilities	\$ 318,849	274,715

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, 2009 and 2008

(In thousands)

	2009	2008
Operating revenues:		
Sales of water, net	\$ 49,985	47,938
Other operating revenues	822	1,185
Total operating revenues	50,807	49,123
Operating expenses:		
Purchased water	22,558	21,608
Treatment and pumping	6,747	6,650
Operations, maintenance, and administration	10,818	12,932
Depreciation	6,918	7,616
Total operating expenses	47,041	48,806
Operating income	3,766	317
Nonoperating revenues (expenses):		
Interest income	2,218	1,927
Interest expense	(1,612)	(313)
Grants	14	2
Total net nonoperating revenues	620	1,616
Income before capital contributions and transfers	4,386	1,933
Capital contributions	1,199	3,005
Transfer to the General Fund of the City	(4,062)	(2,008)
Transfer of right-of-way fee to the City	(719)	(721)
Transfers from other funds of the City	407	—
Transfers to other funds of the City	(1,345)	(16)
Change in fund net assets	(134)	2,193
Fund net assets at beginning of year	232,304	230,111
Fund net assets at end of year	\$ 232,170	232,304

See accompanying notes to financial statements.

**CITY OF ANAHEIM
WATER UTILITY FUND**

Statements of Cash Flows

Years ended June 30, 2009 and 2008

(In thousands)

	2009	2008
Cash flows from operating activities:		
Receipts from customers and users	\$ 49,881	49,110
Receipts from services provided to other funds of the City	248	198
Payments to suppliers	(27,251)	(22,019)
Payments to employees	(11,503)	(10,812)
Payments for services provided by other funds of the City	(4,516)	(4,402)
Net cash provided by operating activities	6,859	12,075
Cash flows from noncapital financing activities:		
Transfers to the General Fund and other funds of the City	(4,781)	(2,729)
Transfers from other funds of the City	407	—
Receipts from grants	14	2
Net cash used in noncapital financing activities	(4,360)	(2,727)
Cash flows from capital and related financing activities:		
Proceeds from borrowings, net of discount	48,532	—
Proceeds from sale of capital assets	—	5,642
Issuance costs	(374)	—
Capital purchases	(29,812)	(15,346)
Principal payments on long-term debt	(2,370)	(2,316)
Interest paid	(2,355)	(732)
Transfers to other funds of the City for capital purposes	(590)	—
Net cash provided by (used in) capital and related financing activities	13,031	(12,752)
Cash flows from investing activities:		
Purchases of investment securities	(80,913)	(15,607)
Proceeds from sale and maturity of investment securities	61,973	17,009
Collection of pipeline receivable	24	30
Interest income received	2,107	1,760
Net cash provided by (used in) investing activities	(16,809)	3,192
Decrease in cash and cash equivalents	(1,279)	(212)
Cash and cash equivalents at beginning of year	10,304	10,516
Cash and cash equivalents at end of year	\$ 9,025	10,304

**CITY OF ANAHEIM
WATER UTILITY FUND**

Statements of Cash Flows

Years ended June 30, 2009 and 2008

(In thousands)

	2009	2008
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 3,766	317
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,918	7,616
Changes in assets and liabilities:		
Accounts receivable, net	(150)	(218)
Materials and supplies inventory	(36)	(3)
Purchased water in storage	(1,087)	249
Accounts payable and accrued expenses	(2,056)	3,803
Wages payable	32	(92)
Customer deposits	(731)	(182)
Regulatory credits	203	585
Total adjustments	3,093	11,758
Net cash provided by operating activities	\$ 6,859	12,075
Schedule of noncash investing, capital, and financing activities:		
Capital contributions	\$ 1,199	3,005
Transfers out of capital assets	(755)	(16)
Increase in fair value of investments	194	218
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 6,951	8,976
Restricted cash and cash equivalents	2,074	2,183
Total cash and cash equivalents	\$ 9,025	11,159

See accompanying notes to financial statements.

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)

(Unaudited)

(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) Utility Plant and Depreciation

The cost of additions to utility plant and replacement of retired units is 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, net of proceeds, is 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

(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

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)

(Unaudited)

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.

(d) Revenue Recognition

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 approximately \$3,825 and \$3,641 for fiscal years 2009 and 2008, respectively. Residential and smaller commercial accounts are billed bimonthly, and all other customers are billed monthly.

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.

Revenues are reported net of uncollectible amounts. Total uncollectible amounts written off are \$47 and \$63 for the fiscal years ended June 30, 2009 and 2008, respectively. The applicable allowances for uncollectible amounts are \$34 and \$68 at June 30, 2009 and 2008, respectively. See note 5 for discussion of pledged revenue.

(e) 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).

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)

(Unaudited)

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.

(f) 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.

(g) 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.

(h) 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 \$670 and \$630 for the Water Utility at June 30, 2009 and 2008, respectively.

(i) 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 \$1,978 and \$2,008 for the fiscal years ended June 30, 2009 and 2008, respectively. In order to match the transfer's revenue base to the time period in which the revenues are earned, the Water Utility made a one-time additional \$2,084 transfer 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 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 \$719 and \$721 for the fiscal years ended June 30, 2009 and 2008, respectively.

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)

(Unaudited)

During the fiscal year ended June 30, 2009, 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, valued at \$1,345, to the Electric Utility.

(j) 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.

(k) 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 United States government, federal agencies, and government-sponsored enterprises; medium-term corporate notes; 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.

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)

(Unaudited)

The Water Utility maintains cash equivalents and investments at June 30, 2009 and 2008 with the following carrying amounts:

	2009	2008
Cash equivalents and investments pooled with the Treasurer	\$ 36,289	31,682
Investments held with trustee	15,314	2,066
	\$ 51,603	33,748

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

	2009	2008
Restricted assets – cash equivalents and investments	\$ 20,247	6,147
Unrestricted assets – cash equivalents and investments	31,356	27,601
	\$ 51,603	33,748

(a) 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 Government Code.

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)

(Unaudited)

(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 issue(r)</u>
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 (TCD)	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 5% 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 5% concentration in the following U.S. agency securities: Federal Farm Credit Bank \$50,027 (11%), Federal Home Loan Bank \$61,647 (13%), Federal Home Loan Mortgage Corporation \$43,621 (9%), and Federal National Mortgage Association \$67,245 (15%).

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)

(Unaudited)

(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

At June 30, 2009, 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 \$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 5% concentration in the following U.S. agency securities, guaranteed investment contracts, collateralized investment contracts, and money market mutual funds: Federal Home Loan Bank \$33,736 (12%), Federal Home Loan Mortgage Corporation \$43,406 (15%), Federal Farm Credit Bank \$23,177 (8%), Bank of America \$16,645 (6%), Morgan Stanley \$23,775 (8%), 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.

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)

(Unaudited)

(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, 2009 and 2008

(In thousands)

(Unaudited)

The distribution of the Water Utility's cash and 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	\$ 24,981	1,071	6,098	9,351	8,461	—
Medium-term notes	A1-A+	3,064	1,172	756	—	1,136	—
Commercial paper	P1-A1+	1,597	1,597	—	—	—	—
Money market mutual funds	AAA	6,557	6,557	—	—	—	—
LAIF	Unrated	90	90	—	—	—	—
Total Treasurer's pooled investments		<u>36,289</u>	<u>10,487</u>	<u>6,854</u>	<u>9,351</u>	<u>9,597</u>	<u>—</u>
Investments controlled by bond trustees:							
Guaranteed investment agreements	Unrated	13,124	9,227	—	—	—	3,897
Collateralized investment contracts	Unrated	1,210	—	—	—	—	1,210
Money market mutual funds	AAA	980	980	—	—	—	—
Total investments controlled by bond trustees		<u>15,314</u>	<u>10,207</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,107</u>
Total investments		<u>\$ 51,603</u>	<u>20,694</u>	<u>6,854</u>	<u>9,351</u>	<u>9,597</u>	<u>5,107</u>
<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	\$ 4,285	4,285	—	—	—	—
U.S. agency securities	AAA	15,325	3,226	494	5,072	6,533	—
Medium-term notes	Aa2-AA-	1,398	351	710	—	337	—
Commercial paper	P1-A1+	3,437	3,437	—	—	—	—
Money market mutual funds	AAA	2,140	2,140	—	—	—	—
LAIF	Unrated	5,097	5,097	—	—	—	—
Total Treasurer's pooled investments		<u>31,682</u>	<u>18,536</u>	<u>1,204</u>	<u>5,072</u>	<u>6,870</u>	<u>—</u>
Investments controlled by bond trustees:							
Guaranteed investment agreements	Unrated	1,211	—	—	—	—	1,211
Money market mutual funds	AAA	855	855	—	—	—	—
Total investments controlled by bond trustees		<u>2,066</u>	<u>855</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,211</u>
Total investments		<u>\$ 33,748</u>	<u>19,391</u>	<u>1,204</u>	<u>5,072</u>	<u>6,870</u>	<u>1,211</u>

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)

(Unaudited)

(3) Water Utility Plant

The following is a summary of changes in capital assets:

	Balance as of June 30, 2007	Additions	Deletions	Balance as of June 30, 2008	Additions	Deletions	Balance as of June 30, 2009
Source of water supply	\$ 31,764	4,136	—	35,900	1,546	—	37,446
Pumping plant	39,118	1,526	(162)	40,482	1,392	—	41,874
Transmission and distribution	223,037	2,935	(8,616)	217,356	28,264	(1,602)	244,018
General plant	4,941	223	(256)	4,908	483	(1,361)	4,030
	<u>298,860</u>	<u>8,820</u>	<u>(9,034)</u>	<u>298,646</u>	<u>31,685</u>	<u>(2,963)</u>	<u>327,368</u>
Depreciable utility plant	298,860	8,820	(9,034)	298,646	31,685	(2,963)	327,368
Less accumulated depreciation	<u>(86,401)</u>	<u>(7,616)</u>	<u>5,506</u>	<u>(88,511)</u>	<u>(6,918)</u>	<u>2,877</u>	<u>(92,552)</u>
	<u>212,459</u>	<u>1,204</u>	<u>(3,528)</u>	<u>210,135</u>	<u>24,767</u>	<u>(86)</u>	<u>234,816</u>
Net depreciable utility plant	212,459	1,204	(3,528)	210,135	24,767	(86)	234,816
Land	2,113	304	(287)	2,130	168	—	2,298
Construction in progress	<u>7,984</u>	<u>16,076</u>	<u>(2,651)</u>	<u>21,409</u>	<u>31,064</u>	<u>(31,131)</u>	<u>21,342</u>
	<u>10,097</u>	<u>16,380</u>	<u>(2,938)</u>	<u>23,539</u>	<u>31,232</u>	<u>(31,131)</u>	<u>23,640</u>
Nondepreciable utility plant	10,097	16,380	(2,938)	23,539	31,232	(31,131)	23,640
Net utility plant	<u>\$ 222,556</u>	<u>17,584</u>	<u>(6,466)</u>	<u>233,674</u>	<u>55,999</u>	<u>(31,217)</u>	<u>258,456</u>

(4) Operating Expenses

Total operating expenses shared with the City's Electric Utility amounted to \$27,661 and \$26,164 for the fiscal years ended June 30, 2009 and 2008, respectively, of which \$5,532 and \$5,233, 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, 2009 and 2008

(In thousands)

(Unaudited)

(5) 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>
Water revenue bonds	\$ 7,355	48,580	(1,435)	54,500	1,490
Notes payable and advances	13,515	—	(935)	12,580	962
	<u>20,870</u>	<u>\$ 48,580</u>	<u>(2,370)</u>	<u>67,080</u>	<u>2,452</u>
Less current portion	(2,370)			(2,452)	
Add unamortized bond premium	122			41	
Less unamortized refunding costs	<u>(671)</u>			<u>(528)</u>	
Total long-term liabilities	<u>\$ 17,951</u>			<u>64,141</u>	
<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>
Water revenue bonds	\$ 8,730	—	(1,375)	7,355	1,435
Notes payable and advances	14,456	—	(941)	13,515	935
Capital lease obligations	62	—	(62)	—	—
	<u>23,248</u>	<u>\$ —</u>	<u>(2,378)</u>	<u>20,870</u>	<u>2,370</u>
Less current portion	(2,348)			(2,370)	
Add unamortized bond premium	165			122	
Less unamortized refunding costs	<u>(840)</u>			<u>(671)</u>	
Total long-term liabilities	<u>\$ 20,225</u>			<u>17,951</u>	

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)

(Unaudited)

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

	2009	2008
<p>Water Revenue Bonds, 2008 Series, true interest cost (TIC) 4.8594%, dated July 1, 2008, sold on July 9, 2008 in the amount of \$48,580, maturing serially beginning October 1, 2013 through October 1, 2038. The annual principal installments range from \$260 to \$3,750 at rates ranging from 4.0% to 5.0%. Total remaining debt service is \$99,497 to maturity.</p>	\$ 48,580	—
<p>Water Revenue Bonds, 2004 Series, TIC 3.5629%, dated May 1, 2004, sold on May 26, 2004 in the amount of \$12,105, maturing serially through October 1, 2016. The annual principal installments range from \$5 to \$1,490 at rates ranging from 4.0% to 4.5%. Total remaining debt service is \$6,620 to maturity.</p>	5,920	7,355
<p>Total Water Revenue Bonds</p>	\$ <u>54,500</u>	<u>7,355</u>
<p>Note payable to State of California Revolving Fund, interest rate of 2.8%, issued June 12, 2001, in the amount of \$18,063, semiannual principal and interest payments of \$592 through July 31, 2021; total remaining debt service is \$14,812 to maturity.</p>	\$ 12,430	13,250
<p>Advances from the OCWD, interest rate of 3.5%, a partial installment under terms of a \$750 per Well Construction Program Agreement, dated April 18, 1990, for the construction of Wells 46, 47, and 49; semiannual principal and interest installment payments of \$94 through July 31, 2010; total remaining debt service is \$155 to maturity.</p>	150	265
<p>Total notes payable and advances</p>	\$ <u>12,580</u>	<u>13,515</u>

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)

(Unaudited)

Annual debt service requirements for the Water Utility's revenue bonds, notes payable, and advances at June 30, 2009 to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal years ending June 30:			
2010	\$ 2,452	2,890	5,342
2011	1,779	2,815	4,594
2012	1,807	2,754	4,561
2013	1,867	2,692	4,559
2014	1,742	2,629	4,371
2015 – 2019	7,996	12,271	20,267
2020 – 2024	8,347	10,935	19,282
2025 – 2029	10,610	8,843	19,453
2030 – 2034	13,430	5,961	19,391
2035 – 2039	17,050	2,214	19,264
	<u>\$ 67,080</u>	<u>54,004</u>	<u>121,084</u>

Interest costs of \$1,444 and \$562 have been capitalized for the fiscal years ended June 30, 2009 and 2008, respectively.

In July 2008, the Water Utility issued revenue bonds in the principal amount of \$48,580. The proceeds totaled \$48,532, of which \$44,261 was deposited in project acquisition funds to finance capital improvements to the Utility's infrastructure, \$3,897 was deposited in the required reserve fund, and \$374 was used to pay for the cost of issuance. The total debt service payments over the life of the bonds until fiscal year 2039 will be \$101,195.

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 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 six months, and by 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 Water Utility's bonds and notes. The Water Utility's management believes it is in compliance with all limitations and restrictions.

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)

(Unaudited)

The Water Utility has pledged future revenues to repay a total of \$106,117 and \$8,324 of 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 Water Utility's bonds are payable solely from water net revenues and are payable through fiscal year 2039. As of June 30, 2009 and 2008, the annual principal and interest payments on the bonds are 26.3% and 17.2% of net revenues, respectively. Debt service paid and total net revenues were \$3,402 and \$12,916 and \$1,700 and \$9,862 for the years ended June 30, 2009 and 2008, respectively.

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

	2009	2008
Held by fiscal agent:		
Bond reserve fund	\$ 6,087	2,066
Bond construction fund	9,227	—
Held by Treasurer:		
Bond service account	2,354	1,744
Renewal and replacement account	2,579	2,337
	\$ 20,247	6,147

The Water Utility's interest and other finance charges, excluding capitalized interest, for the fiscal years ended June 30, 2009 and 2008 were \$1,612 and \$313, 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, 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 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 \$1,011, \$911, and \$1,371 to PERS for the fiscal years ended June 30, 2009, 2008, and 2007, respectively, which represented 100% of its required contributions.

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)

(Unaudited)

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, 2009 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 \$89 and \$125 for the fiscal 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 claims pending that will exceed 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 stabilization account 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. In fiscal year 2009, the Water Utility funded this account through a variety of miscellaneous credits. In fiscal year 2008, funding for this account consisted primarily of proceeds of \$5,642 from the sale of land previously held for use as a future well site. 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, 2009 and 2008, the liability recorded for regulatory credits totaled \$7,157 and \$6,954, respectively.

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands)

(Unaudited)

(9) Commitment 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, 2009 and 2008.

(b) Construction Commitments

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

<u>Capital Project</u>	<u>Construction Commitment</u>	<u>Estimated Completion Date</u>
Well #54 next to Anaheim Substation	\$ 1,929	2010
Well #56 at Willow Park	1,783	2010
Pressure Regulating Station 68	133	2009
Pressure Regulating Station 70	394	2010
Nohl Canyon Tank	6,128	2010
Reservoir Mixing Improvement Project	600	2010
Intertie No. 18 with City of Orange	53	2010
Water Main Relocations (Citywide)	269	2010
Lincoln Water Main, East St. to La Plaza	277	2010
	<u>\$ 11,566</u>	

At June 30, 2008, the Water Utility had construction commitments totaling \$24,834.