



**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

**CITY OF ANAHEIM
ELECTRIC 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 Electric Utility Fund (Electric Utility) of the City of Anaheim, California (the City) as of and for the years ended June 30, 2011 and 2010, 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 of the City of Anaheim, California, and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2011 and 2010, 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, 2011 and 2010, 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 15 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 14, 2011

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis
(Unaudited)

June 30, 2011 and 2010

(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, 2011 and 2010. 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 \$331,298 and \$323,151, respectively. Of these amounts, \$61,456 and \$77,283, 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 increased by \$8,147 and \$3,033 for the fiscal years ended June 30, 2011 and 2010, respectively. Unrestricted fund net assets represented 18.0% and 22.4% of annual operating expenses for fiscal years 2011 and 2010, 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, 2011.

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.

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

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(In thousands)

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 \$331,298 and \$323,151 at June 30, 2011 and 2010, respectively.

A portion of the Electric Utility's fund net assets (71.3% and 66.5% as of June 30, 2011 and 2010, 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 (10.1% and 9.6% as of June 30, 2011 and 2010, 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 (18.6% and 23.9% as of June 30, 2011 and 2010, respectively) may be used to meet the Electric Utility's ongoing obligations to creditors and customers.

The Electric Utility's condensed balance sheets at June 30 are as follows:

Condensed Balance Sheets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 440,439	381,887	409,659
Net utility plant	817,727	793,040	777,129
Total assets	<u>1,258,166</u>	<u>1,174,927</u>	<u>1,186,788</u>
Long-term liabilities, net of current portion	834,363	756,066	767,336
Current liabilities	92,505	95,710	99,334
Total liabilities	<u>926,868</u>	<u>851,776</u>	<u>866,670</u>
Invested in capital assets, net of related debt	236,228	214,858	209,902
Restricted	33,614	31,010	30,071
Unrestricted	61,456	77,283	80,145
Total fund net assets	<u>\$ 331,298</u>	<u>323,151</u>	<u>320,118</u>

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis
(Unaudited)

June 30, 2011 and 2010

(In thousands)

As of June 30, 2011

Assets

Total assets as of June 30, 2011 and 2010 were \$1,258,166 and \$1,174,927, respectively. The \$83,239 (7.1%) increase in total assets was due to a \$24,687 increase in net utility plant and a \$58,552 increase in current, restricted, and other assets. Net utility plant increased 3.1% due to current year's net capital asset additions of \$62,459 related to production, distribution, and general utility plant, which was offset by depreciation expense of \$37,772. Current, restricted, and other assets increased 15.3% primarily due to an increase of \$36,779 in cash and investments (see statements of cash flows for additional information regarding changes in cash and cash equivalents), and an increase of \$17,629 in prepaid purchase power mainly due to a lower true-up of power costs that were less than the estimated payments by \$9,080 for Intermountain Power Agency and \$4,988 Magnolia gas cost.

Liabilities

Total liabilities as of June 30, 2011 and 2010 were \$926,868 and \$851,776, respectively. The \$75,092 (8.8%) increase in total liabilities was due to a \$78,297 increase in long-term liabilities offset by a \$3,205 decrease in current liabilities. Long-term liabilities increased 10.4% primarily due to a \$90,390 new bond issue in the current year and an increase of \$3,454 in the provision for decommissioning costs, which were offset by principal payments of \$17,825. Current liabilities decreased 3.3% primarily due to a decrease of \$3,703 in accounts payable and accrued expenses resulting from decreased fuel and generation expenditures.

Fund Net Assets

Total fund net assets as of June 30, 2011 and 2010 were \$331,298 and \$323,151, respectively. Total fund net assets increased by \$8,147 (2.5%) primarily due to an increase in amounts invested in capital assets, net of related debt of \$21,370, offset by a decrease in unrestricted amounts of \$15,827. Invested in capital assets, net of related debt increased 9.9% primarily due to an increase of \$24,687 in net capital assets during fiscal year 2011. Unrestricted net assets decreased 20.5% primarily due to the above investment in capital assets.

As of June 30, 2010

Assets

Total assets as of June 30, 2010 and 2009 were \$1,174,927 and \$1,186,788, respectively. The \$11,861 (1.0%) decrease in total assets was due to a \$15,911 increase in net utility plant, which was offset by a \$27,772 decrease in current, restricted, and other assets. Net utility plant increased 2.0% due to net capital asset additions of \$51,837 related to production, distribution, and general utility plant, which was offset by depreciation expense of \$35,926. Current, restricted, and other assets decreased 6.8% primarily due to a decrease of \$28,338 in cash and investments (see statements of cash flows for additional information regarding changes in cash and cash equivalents).

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Management's Discussion and Analysis
(Unaudited)

June 30, 2011 and 2010

(In thousands)

Liabilities

Total liabilities as of June 30, 2010 and 2009 were \$851,776 and \$866,670, respectively. The \$14,894 (1.7%) decrease in total liabilities was due to a \$11,270 decrease in long-term liabilities and a \$3,624 decrease in current liabilities. Long-term liabilities decreased 1.5% primarily due to principal payments of \$15,995, which were partially offset by an increase of \$6,808 in the provision for decommissioning costs. Current liabilities decreased 3.6% primarily due to a net decrease in regulatory credits of \$9,545 (see note 1 of the notes to financial statements for additional information regarding regulatory credits), which were partially offset by an increase of \$5,537 in accounts payable and accrued expenses resulting from increased power costs and capital expenditures.

Fund Net Assets

Total fund net assets as of June 30, 2010 and 2009 were \$323,151 and \$320,118, respectively. Total fund net assets increased by \$3,033 (0.9%). There were no significant or unusual changes during the fiscal year.

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Management's Discussion and Analysis
(Unaudited)

June 30, 2011 and 2010

(In thousands)

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>2011</u>	<u>2010</u>	<u>2009</u>
Revenues:			
Retail sales, net	\$ 300,522	282,967	272,942
Wholesale sales	21,039	35,409	27,821
RSA revenues	22,500	31,200	30,700
Surplus natural gas sales	9,096	2,496	4,119
Transmission revenues	24,590	22,532	25,717
Other revenues	6,033	3,434	4,254
Interest income	7,438	12,326	13,363
Capital contributions	7,349	4,351	5,257
Total revenues	<u>398,567</u>	<u>394,715</u>	<u>384,173</u>
Expenses:			
Purchased power	239,339	236,208	229,595
Fuel and generation	21,921	26,981	25,763
Operations, maintenance, and administration	42,707	45,923	44,911
Depreciation	37,772	35,926	30,692
Interest expense	30,079	29,243	27,027
Cost of capital assets moved to the City	—	—	3,581
Total expenses	<u>371,818</u>	<u>374,281</u>	<u>361,569</u>
Transfers:			
Transfer to the General Fund of the City	(16,042)	(14,122)	(28,933)
Transfer of right-of-way fee to the City	(4,713)	(4,555)	(4,262)
Transfers from other funds of the City	2,153	1,276	2,318
Total transfers	<u>(18,602)</u>	<u>(17,401)</u>	<u>(30,877)</u>
Changes in fund net assets	8,147	3,033	(8,273)
Fund net assets at beginning of year	<u>323,151</u>	<u>320,118</u>	<u>328,391</u>
Fund net assets at end of year	<u>\$ 331,298</u>	<u>323,151</u>	<u>320,118</u>

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Management's Discussion and Analysis
(Unaudited)

June 30, 2011 and 2010

(In thousands)

Revenues

Year ended June 30, 2011

Total revenues for the year ended June 30, 2011 were \$398,567 as compared with \$394,715 in the prior year, an increase in total revenues of \$3,852 (1.0%). This increase was primarily due to an increase of \$17,555 in retail sales, an increase of \$6,600 in surplus natural gas sales, and an increase of \$2,058 in transmission revenues, which were offset by a decrease of \$14,370 in wholesale sales and a decrease of \$8,700 in Rate Stabilization Account (RSA) revenues.

The increase of 6.2% in retail sales revenue was in response to the increasing power costs, for which a 5.0% base rate increase was approved on December 1, 2010.

The increase of 264% in surplus natural gas sales was mainly due to more natural gas available for resale in the spot market. When Magnolia and Combustion Turbine plants experienced unplanned outages, less purchased gas was used for both plants in this fiscal year.

The increase of 9.1% in transmission revenues was mainly due to the increased congestion transmission revenues. 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 40.6% in wholesale sales revenue was the combination of a wholesale sales volume decline of 32% and wholesale average price drop of 12% in the market.

RSA revenues of \$22,500 were recognized in this fiscal year 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 decrease in the recognition of RSA revenues of 27.9% was mainly due to higher retail sales and surplus natural gas sales to reduce RSA revenues needed in this fiscal year. Additional information on the RSA can be found in the Regulatory Credits section of note 1 of the notes to the financial statements on page 23 of this report.

Year ended June 30, 2010

Total revenues for the year ended June 30, 2010 were \$394,715 as compared with \$384,173 in the prior year, an increase in total revenues of \$10,542 (2.7%). This increase was primarily due to an increase of \$10,025 in retail sales and an increase of \$7,588 in wholesale sales, which were partially offset by a decrease of \$1,623 in surplus natural gas sales and a decrease of \$3,185 in transmission revenues.

The increase of 3.7% in retail sales revenue was in response to sustained increased power costs, for which the City Council increased base rates with an equal and corresponding drop in the Power Cost

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Management's Discussion and Analysis
(Unaudited)

June 30, 2011 and 2010

(In thousands)

Adjustment (PCA) charge. The PCA is a rate charged to customers to collect for the variability in power and fuel supply costs and is not included in retail base rates.

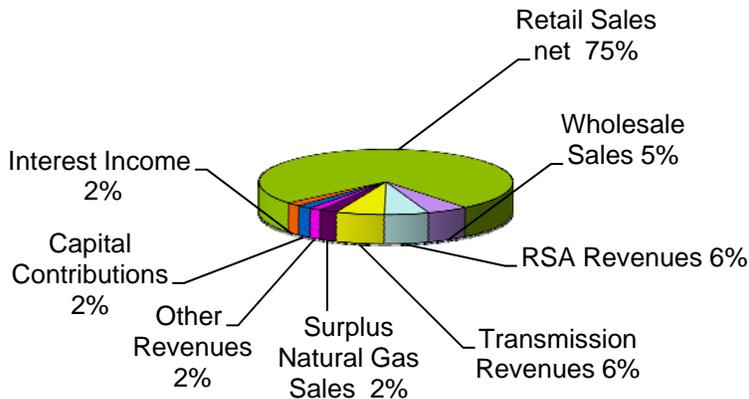
The increase of 27.3% in wholesale sales revenue was mainly due to more surplus power available to the wholesale market when the retail sales volumes were decreased and a planned maintenance schedule was delayed in the Intermountain Power Project in this fiscal year.

The decrease of 39.4% in surplus natural gas sales was mainly due to less natural gas available for resale in the market as more purchased gas was used for Magnolia and Combustion Turbine gas plants in this fiscal year.

Transmission revenues are based upon the Electric Utility providing use of its transmission entitlements to 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 12.4% in transmission revenues was mainly due to the decreased congestion transmission revenues caused by a better transmission congestion management system, which is the new Market Redesign and Technology Upgrade program (MRTU).

Revenues by Source

Year ended June 30, 2011



**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

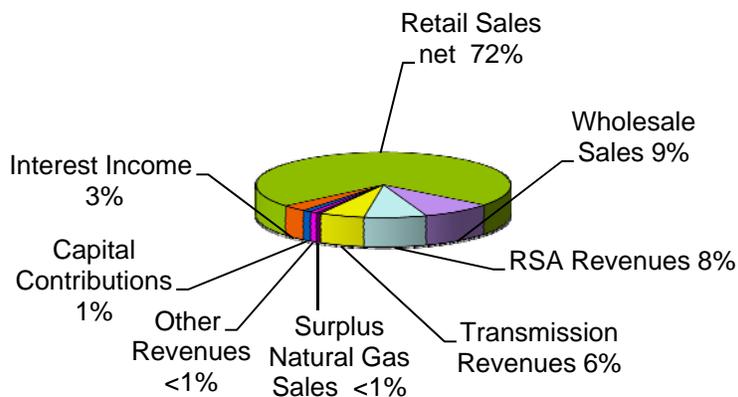
Management's Discussion and Analysis
(Unaudited)

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(In thousands)

Revenues by Source

Year ended June 30, 2010



Expenses

Year ended June 30, 2011

Total expenses for the year ended June 30, 2011 were \$371,818 as compared with \$374,281 in the prior year. This \$2,463 (0.7%) decrease in total expenses was mainly the result of a \$5,060 decrease in fuel and generation offset by an increase in purchased power costs of \$3,131.

The 18.8% decrease in fuel and generation expense was mainly due to the combination of a decrease of \$3,354 in decommissioning expenses for San Onofre Nuclear Generation Station unit 2 and 3 operations (SONGS) and \$1,957 in operation and maintenance expenses for the Combustion Turbine. The decrease in decommissioning expenses is due to less interest income available that is required to be contributed to the decommissioning reserve fund in the trustee account. Additional information on the decommissioning expenses can be found in the Decommissioning Costs of note 1 of the notes to the financial statement on page 24 of this report. The decrease in operation and maintenance expenses for the Combustion Turbine plant is due to less natural gas expenses due to unplanned outage in this fiscal year.

The 1.3% increase in purchased power costs was due primarily to the combination of increases of transmission and renewable costs, as the City Council has committed to increase the amount of renewable energy in the resource mix to 20.0% by 2015.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis
(Unaudited)

June 30, 2011 and 2010

(In thousands)

Year ended June 30, 2010

Total expenses for the year ended June 30, 2010 were \$374,281 as compared with \$361,569 in the prior year. This \$12,712 (3.5%) increase in total expenses was mainly the result of a \$6,613 increase in purchased power costs and a \$5,234 increase in depreciation.

The 2.9% increase in purchased power costs was due primarily to a \$6,559 increase in purchased power from the renewable market, as the City Council has committed to increase the amount of renewable energy in the resource mix to 20.0% by 2015.

The 17.1% increase in depreciation expense was due to \$46,602 of assets placed into service this fiscal year, which included upgrading the Lewis substation extension, improvement of the existing distribution system, two underground projects, and upgrading the Anaheim West Tower office building. Additionally, the Electric Utility recognized a full year depreciation of assets placed into service in prior fiscal year.

Transfers

Year ended June 30, 2011

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 \$16,042 for fiscal year 2011, which is based on the current year's total operating revenues. An increase of \$1,920 was mainly due to increased total operating revenues in the fiscal year 2011.

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 \$4,713 for fiscal year 2011. There were no significant changes in the amount of right-of-way fee transferred to the City during fiscal year 2011 when compared with fiscal year 2010.

Transfers from other funds in fiscal year 2011 were \$2,153 as compared with \$1,276 in the prior fiscal year. The increase of \$877 was mainly due to cash transfer from the City for certain capital improvements in the Platinum Triangle area.

Year ended June 30, 2010

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 \$14,122 for fiscal year 2010, which is based on the current year's total operating revenues. A decrease of \$14,811 was mainly due to a one-time transfer of \$14,910 to the General Fund of the City in the 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 \$4,555 for fiscal year 2010. There were no significant changes in the amount of right-of-way fee transferred to the City during fiscal year 2010 when compared with fiscal year 2009.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis
(Unaudited)

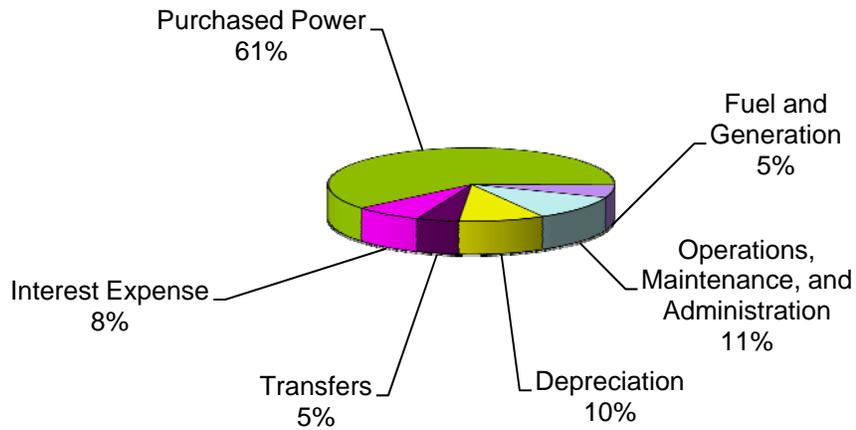
June 30, 2011 and 2010

(In thousands)

Transfers in from other funds in fiscal year 2010 were \$1,276 as compared with \$2,318 in the prior fiscal year. The \$1,276 transfer was mainly a \$1,097 vehicle capital assets transfer from other City funds.

Expenses and Transfers

Year ended June 30, 2011



**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

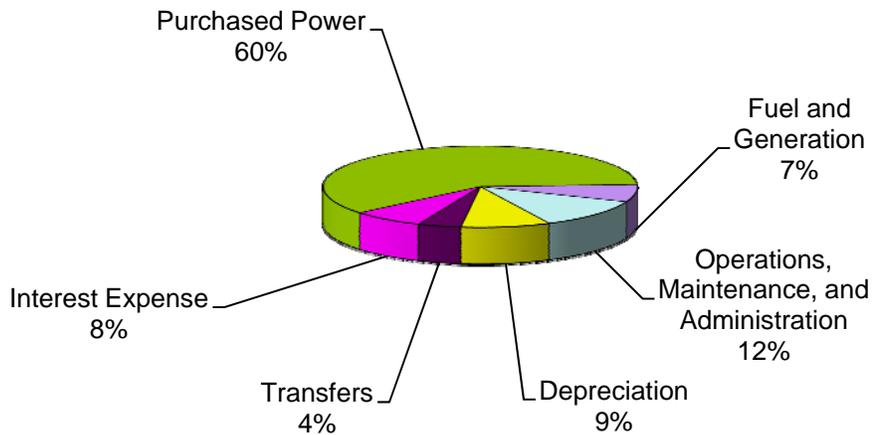
Management's Discussion and Analysis
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June 30, 2011 and 2010

(In thousands)

Expenses and Transfers

Year ended June 30, 2010



Capital Assets and Debt Administration

Capital Assets

The Electric Utility's investment in net utility plant as of June 30, 2011 and 2010 was \$817,727 and \$793,040, 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, 2011 was \$1,168,210, an increase of \$56,067 (5.0%) over the prior fiscal year.

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Management's Discussion and Analysis
(Unaudited)

June 30, 2011 and 2010

(In thousands)

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Production	\$ 117,978	115,477	112,697
Transmission	91,022	89,895	89,438
Distribution	780,122	725,878	702,331
General plant	107,919	104,714	85,694
Land	35,671	35,671	35,671
Construction in progress	35,498	40,508	35,988
	<u>1,168,210</u>	<u>1,112,143</u>	<u>1,061,819</u>
Total utility plant			
Less accumulated depreciation	<u>(350,483)</u>	<u>(319,103)</u>	<u>(284,690)</u>
Net utility plant	<u>\$ 817,727</u>	<u>793,040</u>	<u>777,129</u>

As of June 30, 2011

The Electric Utility experienced an increase in gross utility plant this fiscal year of \$56,067 (5.0%), which includes the expansion or improvement of existing substations, transmission and distribution systems improvements, the replacement of aging overhead electrical lines with state-of-the-art underground facilities, and upgrading equipment for San Juan and Combustion Turbine plants.

Accumulated depreciation increased \$31,380 (9.8%) mainly due to current year depreciation expense of \$37,772.

As of June 30, 2010

The Electric Utility experienced an increase in gross utility plant this fiscal year of \$50,324 (4.7%), which includes the expansion or improvement of existing substations, transmission and distribution systems improvements, the replacement of aging overhead electrical lines with state-of-the-art underground facilities, and upgrading the Anaheim West Tower office building.

Accumulated depreciation increased \$34,413 (12.1%) mainly due to current year depreciation expense of \$35,926.

Long-Term Debt

As of June 30, 2011 and 2010, the Electric Utility had total long-term debt outstanding of \$719,930 and \$647,365, respectively.

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(Unaudited)

June 30, 2011 and 2010

(In thousands)

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenue bonds	\$ 719,930	647,365	663,360
Less:			
Current portion	(18,175)	(17,825)	(15,995)
Unamortized bond premium	9,875	7,781	8,594
Unamortized refunding costs	<u>(4,614)</u>	<u>(5,148)</u>	<u>(5,708)</u>
Total noncurrent long-term debt outstanding	<u>\$ 707,016</u>	<u>632,173</u>	<u>650,251</u>

As of June 30, 2011, 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, 2011

Total long-term debt outstanding increased \$72,565 (11.2%) due to a new debt issue of \$90,390 offset by current year principal payments of \$17,825 on outstanding debts. The new debt was issued to finance additional distribution system assets to improve overall system reliability, public safety, and to provide sufficient capacity for anticipated electric load growth. The revenues of the Electric Utility have been pledged to pay the outstanding long-term debt.

As of June 30, 2010

Total long-term debt outstanding decreased \$15,995 (2.4%) due to current year principal payments on outstanding debts. The revenues of the Electric Utility have been pledged to pay the outstanding long-term debt.

Economic Factors and Rates

Electric base rates will be increased 5% for all customer classes effective December 1, 2011, which was approved by City Council on November 9, 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, 2011 and 2010

(In thousands)

Assets	2011	2010
Utility plant:		
Production	\$ 117,978	115,477
Transmission	91,022	89,895
Distribution	780,122	725,878
General plant	<u>107,919</u>	<u>104,714</u>
Total depreciable utility plant	1,097,041	1,035,964
Less accumulated depreciation	<u>(350,483)</u>	<u>(319,103)</u>
Net depreciable utility plant	746,558	716,861
Land	35,671	35,671
Construction in progress	<u>35,498</u>	<u>40,508</u>
Net utility plant	<u>817,727</u>	<u>793,040</u>
Restricted assets:		
Cash and cash equivalents	56,644	10,961
Investments	<u>227,178</u>	<u>195,423</u>
Total restricted assets	<u>283,822</u>	<u>206,384</u>
Other assets:		
Prepaid purchased power	50,823	45,155
Unamortized debt issuance costs	<u>6,569</u>	<u>6,284</u>
Total other assets	<u>57,392</u>	<u>51,439</u>
Total noncurrent assets	<u>1,158,941</u>	<u>1,050,863</u>
Current assets:		
Cash and cash equivalents	5,433	17,463
Investments	7,636	35,504
Restricted cash and cash equivalents	12,189	15,208
Restricted investments	10,652	8,394
Accounts receivable, net	39,918	35,780
Accrued interest receivable	1,527	1,873
Materials and supplies inventory	9,775	9,708
Prepaid purchased power	<u>12,095</u>	<u>134</u>
Total current assets	<u>99,225</u>	<u>124,064</u>
Total assets	<u>\$ 1,258,166</u>	<u>1,174,927</u>

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Balance Sheets

June 30, 2011 and 2010

(In thousands)

Fund Net Assets and Liabilities	2011	2010
Fund net assets:		
Invested in capital assets, net of related debt	\$ 236,228	214,858
Restricted for:		
Debt service	13,067	13,042
Renewal and replacement	15,644	15,051
Other purposes	4,903	2,917
Unrestricted	61,456	77,283
Total fund net assets	331,298	323,151
Long-term liabilities:		
Long-term debt obligation, less current portion	707,016	632,173
Provision for decommissioning costs	127,347	123,893
Total long-term liabilities	834,363	756,066
Current liabilities (payable from restricted assets):		
Current portion of long-term debt	13,631	13,369
Accounts payable	386	2,049
Wages payable	50	32
Arbitrage rebate liabilities	529	345
Accrued interest payable	8,245	7,806
Total current liabilities (payable from restricted assets)	22,841	23,601
Current liabilities (payable from unrestricted current assets):		
Current portion of long-term debt	4,544	4,456
Accounts payable and accrued expenses	14,800	18,503
Wages payable	885	896
Regulatory credits	46,305	44,930
Deposits	3,130	3,324
Total current liabilities (payable from unrestricted current assets)	69,664	72,109
Total liabilities	926,868	851,776
Total fund net assets and liabilities	\$ 1,258,166	1,174,927

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, 2011 and 2010

(In thousands)

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Retail sales of electricity, net	\$ 300,522	282,967
Wholesale sales of electricity	21,039	35,409
RSA revenues	22,500	31,200
Surplus natural gas sales	9,096	2,496
Transmission revenues	24,590	22,532
Other operating revenues	3,749	2,783
Total operating revenues	<u>381,496</u>	<u>377,387</u>
Operating expenses:		
Purchased power	239,339	236,208
Fuel and generation	21,921	26,981
Operations, maintenance, and administration	42,707	45,923
Depreciation	37,772	35,926
Total operating expenses	<u>341,739</u>	<u>345,038</u>
Operating income	<u>39,757</u>	<u>32,349</u>
Nonoperating revenues (expenses):		
Interest income	7,438	12,326
Interest expense	(30,079)	(29,243)
Grants	2,284	651
Total nonoperating expenses, net	<u>(20,357)</u>	<u>(16,266)</u>
Income before capital contributions and transfers	19,400	16,083
Capital contributions	7,349	4,351
Transfer to the General Fund of the City	(16,042)	(14,122)
Transfer of right-of-way fee to the City	(4,713)	(4,555)
Transfers from other funds of the City	2,153	1,276
Change in fund net assets	<u>8,147</u>	<u>3,033</u>
Fund net assets at beginning of year	<u>323,151</u>	<u>320,118</u>
Fund net assets at end of year	<u>\$ 331,298</u>	<u>323,151</u>

See accompanying notes to financial statements.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Statements of Cash Flows

Years ended June 30, 2011 and 2010

(In thousands)

	2011	2010
Cash flows from operating activities:		
Receipts from customers and users	\$ 377,492	368,136
Receipts from services provided to other funds of the City	1,047	991
Payments to suppliers	(278,419)	(252,550)
Payments to employees	(35,956)	(37,013)
Payments for services provided by other funds of the City	(9,193)	(10,826)
Net cash provided by operating activities	54,971	68,738
Cash flows from noncapital financing activities:		
Receipts of interfund balances	—	200
Transfers to the General Fund and other funds of the City	(20,755)	(18,677)
Grant receipts	2,284	651
Net cash used in noncapital financing activities	(18,471)	(17,826)
Cash flows from capital and related financing activities:		
Proceeds from borrowings, net of premium	93,262	—
Principal payments on long-term debt	(17,825)	(15,995)
Capital purchases	(55,333)	(47,483)
Interest paid	(30,906)	(31,840)
Issuance costs	(754)	—
Transfers from other funds of the City for capital purposes	2,146	50
Capital contributions	1,905	2,981
Net cash used in capital and related financing activities	(7,505)	(92,287)
Cash flows from investing activities:		
Purchases of investment securities	(108,176)	(76,645)
Proceeds from sale and maturity of investment securities	101,642	117,121
Interest income received	8,173	9,940
Net cash provided by investing activities	1,639	50,416
Increase in cash and cash equivalents	30,634	9,041
Cash and cash equivalents at beginning of year	43,632	34,591
Cash and cash equivalents at end of year	\$ 74,266	43,632

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Statements of Cash Flows

Years ended June 30, 2011 and 2010

(In thousands)

	2011	2010
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 39,757	32,349
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	37,772	35,926
Increase in provision for decommissioning costs	3,454	6,808
Changes in assets and liabilities:		
Accounts receivable, net	(4,138)	1,721
Materials and supplies inventory	(67)	393
Prepaid purchased power	(17,629)	(4,076)
Accounts payable and accrued expenses	(5,366)	5,537
Wages payable	7	61
Regulatory credits	1,375	(9,545)
Deposits	(194)	(436)
Total adjustments	15,214	36,389
Net cash provided by operating activities	\$ 54,971	68,738
Schedule of noncash investing, capital, and financing activities:		
Capital contributions	\$ 5,444	1,370
Transfers from other funds of the City	7	1,226
Increase (decrease) in fair value of investments	(389)	3,097
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 5,433	17,463
Restricted cash and cash equivalents, current portion	12,189	15,208
Restricted cash and cash equivalents, noncurrent portion	56,644	10,961
Total cash and cash equivalents	\$ 74,266	43,632

See accompanying notes to financial statements.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2011 and 2010

(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. 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 costs of additions to the Electric Utility plant in service and replacement of property units are 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, related salvage value, and cost of removal are 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. 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

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2011 and 2010

(In thousands)

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). 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) Restricted Assets

Certain proceeds of the Electric Utility bonds, as well as certain resources set aside for their repayment are classified as restricted on the Statement of Net Assets, Balance Sheet, or Statement of Fund Net Assets, because they are maintained in separate bank accounts and their use is limited by applicable debt covenants. Additionally, resources set aside by the Electric Utility for future decommissioning of its former ownership share of the San Onofre Nuclear Generating Station, Units 2 and 3 (SONGS) and the San Juan Generating Station, Unit 4 (SJ), are classified as restricted on the Statement of Net Assets and Statement of Fund Net Assets.

(e) 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 \$18,981 and \$17,754 at June 30, 2011 and 2010, respectively.

Revenues are reported net of uncollectible amounts. Total uncollectible amounts written off are \$653 and \$904 for the years ended June 30, 2011 and 2010, respectively. The applicable allowances for uncollectible accounts are \$497 and \$402 at June 30, 2011 and 2010, respectively. See note 6 for discussion of pledged revenue.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2011 and 2010

(In thousands)

(f) 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 SJ, the Combustion Turbine located in Anaheim, and the City's portion of 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.

(g) Regulatory Credits

The Electric Utility's Rates, Rules, and Regulations provide for the Rate Stabilization Account (RSA), 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 \$142,352 in regulatory credits related to PCA. As of August 4, 2010, the PCA rate was changed from \$0.000 to \$0.005 per kWh for all domestic retail customers, excluding residential lifeline customers, and all commercial, industrial, and municipal customers. As of June 30, 2011 and 2010, the Electric Utility recorded a liability for regulatory credits of \$43,767 and \$38,483, respectively. During fiscal years 2011 and 2010, \$3,885 and \$31,200, respectively, was recognized as RSA revenues to mitigate the impact of energy costs and operation costs.

Since inception, the Electric Utility has collected \$21,152 in regulatory credits related to EMA. As of April 20, 2010, the EMA rate was changed from \$0.0050 to \$0.0100 per kWh for all domestic customers and \$0.0050 per kWh for all other customers. As of June 30, 2011 and 2010, the Electric Utility recorded a liability for regulatory credits of \$2,538 and

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2011 and 2010

(In thousands)

\$6,447, respectively. During fiscal year 2011, \$18,615 was recognized as RSA revenues to mitigate the impact of environmental mitigation costs.

(h) 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, 2011 and 2010, the Electric Utility has recorded a provision for decommissioning costs for SONGS of \$124,267 and \$121,253, respectively. For the years ended June 30, 2011 and 2010, the Electric Utility has recorded decommissioning costs incurred for SONGS of \$3,014 and \$6,368, 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, 2011, SCE's future cost estimate for the Electric Utility's share of decommissioning costs is \$111,421. The Electric Utility currently has \$124,267 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 \$124,267 will grow to \$191,303 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, 2011 and 2010, the Electric Utility has recorded a provision for decommissioning costs for SJ of \$3,080 and \$2,640, respectively. For the years ended June 30, 2011 and 2010, the Electric Utility has recorded decommissioning costs incurred for SJ of \$440 and \$440, respectively, 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.

(i) 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.

(j) 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

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2011 and 2010

(In thousands)

method. Bond refunding costs are recorded as a reduction of the long-term debt obligation on the accompanying financial statements.

(k) 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 \$1,824 and \$1,915 for the Electric Utility at June 30, 2011 and 2010, respectively.

(l) 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 \$16,042 and \$14,122 for the years ended June 30, 2011 and 2010, respectively.

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 \$4,713 and \$4,555 for the years ended June 30, 2011 and 2010, respectively.

Other transfers to or from other funds of the City are either cash transfers or capital asset transfers between City funds. The net amount of transfers was \$2,153 and \$1,276 for the years ended June 30, 2011 and 2010, respectively.

(m) Use of Estimates

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

(2) Deposits and Investments

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

The City's pooled investment fund has been reviewed by Standard and Poor's Corporation (S&P) and received a credit rating of AAf in July 2008, which was reaffirmed in June 2010.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2011 and 2010

(In thousands)

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; certificates of deposit; bankers' acceptances; commercial paper; 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:

	2011	2010
Cash equivalents and investments pooled with the Treasurer	\$ 138,560	95,750
Investments held with trustee	181,172	187,203
	\$ 319,732	282,953

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

	2011	2010
Restricted assets – cash equivalents and investments	\$ 306,663	229,986
Unrestricted assets – cash equivalents and investments	13,069	52,967
	\$ 319,732	282,953

(a) Investments

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

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

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

The 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

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2011 and 2010

(In thousands)

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>Minimum rating (S&P/Moody's/Fitch)</u>
U.S. Treasury obligations	5 years	100%	30%	None
U.S. agency securities	5 years	100	40	None
Bankers' acceptances	180 days	40	5	None
Commercial paper	270 days	25	5	A-1/P-1/F-1
Negotiable certificates of deposit	360 days	25	5	None
Repurchase agreements	360 days	30	None	None
Reverse repurchase agreements	90 days	20	None	None
Medium-term corporate notes	5 years	30	5%	A/A/A
Money market mutual funds	N/A	20	10	None
LAIF	N/A	\$100 million	None	None
Time certificates of deposit (TCD)	1 year	20%	5%	None

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

At June 30, 2011, the City exceeded 5% concentration in the following U.S. agency securities: Federal Farm Credit Bank \$57,549 (13%), Federal Home Loan Bank \$50,787 (11%), and Federal National Mortgage Association \$76,347 (17%).

At June 30, 2010, the City exceeded 5% concentration in the following U.S. agency securities: Federal Farm Credit Bank \$52,689 (14%), Federal Home Loan Bank \$54,830 (14%), Federal Home Loan Mortgage Corporation \$33,306 (9%), and Federal National Mortgage Association \$67,857 (18%).

(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

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2011 and 2010

(In thousands)

investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

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

At June 30, 2011, the City's investments controlled by bond trustees exceeded 5% concentration in the following U.S. agency securities, guaranteed investment contracts, flexible repurchase agreements, and money market mutual funds: Federal Home Loan Bank \$55,077 (15%), Federal Home Loan Mortgage Association \$34,979 (9%), Federal Farm Credit Bank \$32,609 (9%), Bank of America \$16,645 (5%), Credit Agricole \$19,365 (5%), Morgan Stanley \$29,290 (8%), Dreyfus Treasury \$16,988 (5%), U.S. Bank money market \$32,290 (9%), and wells Fargo 100% Treasury \$19,355 (5%). All guaranteed investment contracts have downgrade language that requires collateral should credit ratings drop below certain levels.

At June 30, 2010, 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 \$49,886 (17%), Federal Home Loan Mortgage Corporation \$23,439 (8%), Federal Farm Credit Bank \$40,479 (13%), Bank of America \$16,645 (6%), Trinity Plus \$17,597 (6%), and Morgan Stanley \$29,931 (10%). All guaranteed investment contracts have downgrade language that requires collateral should credit ratings drop below certain levels.

(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.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2011 and 2010

(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.

(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 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 2011 and 2010 is provided by the following tables.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2011 and 2010

(In thousands)

The distribution of the Electric Utility's investments by maturity at June 30, 2011 and 2010 is as follows:

<u>Investments</u>	<u>Credit rating (S&P/Moody's)</u>	<u>Fair value, June 30, 2011</u>	<u>12 months or less</u>	<u>13 to 24 months</u>	<u>25 to 36 months</u>	<u>37 to 60 months</u>	<u>More than 60 months</u>
Treasurer's pooled investments:							
U.S. agency securities	AAA/Aaa	\$ 63,803	8,917	11,316	15,279	28,291	—
Medium-term corporate notes	AA/Aaa	3,433	—	—	942	2,491	—
Medium-term corporate notes	AA/Aa	2,533	1,619	—	—	914	—
Medium-term corporate notes	A/A	9,608	2,907	5,118	—	1,583	—
Medium-term corporate notes	A-1/P-1	2,630	—	2,630	—	—	—
Commercial paper	A-1/P-1	32,570	32,570	—	—	—	—
Money market mutual funds	AAA/Aaa	3,607	3,607	—	—	—	—
LAIF	Unrated	20,376	20,376	—	—	—	—
Total investments controlled by City Treasurer		<u>138,560</u>	<u>69,996</u>	<u>19,064</u>	<u>16,221</u>	<u>33,279</u>	<u>—</u>
Investments controlled by bond trustees:							
U.S. agency securities	AAA/Aaa	122,664	6,560	10,528	56,154	49,422	—
Guaranteed investment contracts	Unrated	30,318	—	—	—	—	30,318
Collateralized investment contracts	Unrated	3,669	—	—	—	—	3,669
Flexible repurchase agreements	Unrated	7,864	7,864	—	—	—	—
Money market mutual funds	AAA/Aaa	16,657	16,657	—	—	—	—
Total investments controlled by bond trustees		<u>181,172</u>	<u>31,081</u>	<u>10,528</u>	<u>56,154</u>	<u>49,422</u>	<u>33,987</u>
Total Electric Utility investments		<u>\$ 319,732</u>	<u>101,077</u>	<u>29,592</u>	<u>72,375</u>	<u>82,701</u>	<u>33,987</u>

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2011 and 2010

(In thousands)

<u>Investments</u>	<u>Credit rating (S&P/Moody's)</u>	<u>Fair value, June 30, 2010</u>	<u>12 months or less</u>	<u>13 to 24 months</u>	<u>25 to 36 months</u>	<u>37 to 60 months</u>	<u>More than 60 months</u>
Treasurer's pooled investments:							
U.S. agency securities	AAA/Aaa	\$ 52,024	11,282	10,501	12,972	17,269	—
Medium-term corporate notes	AA/Aa	1,325	—	1,325	—	—	—
Medium-term corporate notes	A/A	6,439	—	2,374	4,065	—	—
Medium-term corporate notes	A-1/P-1	4,210	2,102	—	2,108	—	—
Commercial paper	A-1/P-1	14,458	14,458	—	—	—	—
Money market mutual funds	AAA/Aaa	2,797	2,797	—	—	—	—
LAIF	Unrated	14,497	14,497	—	—	—	—
Total investments controlled by City Treasurer		95,750	45,136	14,200	19,145	17,269	—
Investments controlled by bond trustees:							
U.S. agency securities	AAA/Aaa	119,851	1,992	6,861	18,334	92,664	—
Guaranteed investment contracts	Unrated	40,349	17,597	—	—	—	22,752
Collateralized investment contracts	Unrated	5,874	—	—	—	—	5,874
Flexible repurchase agreements	Unrated	9,066	9,066	—	—	—	—
Money market mutual funds	AAA/Aaa	12,063	12,063	—	—	—	—
Total investments controlled by bond trustees		187,203	40,718	6,861	18,334	92,664	28,626
Total Electric Utility investments		\$ 282,953	85,854	21,061	37,479	109,933	28,626

**CITY OF ANAHEIM
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(In thousands)

(3) Electric Utility Plant

The following is a summary of changes in capital assets:

	<u>Balance as of June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance as of June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance as of June 30, 2011</u>
Production	\$ 112,697	2,780	—	115,477	2,501	—	117,978
Transmission	89,438	470	(13)	89,895	1,130	(3)	91,022
Distribution	702,331	24,332	(785)	725,878	59,388	(5,144)	780,122
General plant	<u>85,694</u>	<u>19,020</u>	<u>—</u>	<u>104,714</u>	<u>3,205</u>	<u>—</u>	<u>107,919</u>
Depreciable utility plant	990,160	46,602	(798)	1,035,964	66,224	(5,147)	1,097,041
Less accumulated depreciation	<u>(284,690)</u>	<u>(35,926)</u>	<u>1,513</u>	<u>(319,103)</u>	<u>(37,772)</u>	<u>6,392</u>	<u>(350,483)</u>
Net depreciable utility plant	<u>705,470</u>	<u>10,676</u>	<u>715</u>	<u>716,861</u>	<u>28,452</u>	<u>1,245</u>	<u>746,558</u>
Land	35,671	—	—	35,671	—	—	35,671
Construction in progress	<u>35,988</u>	<u>49,317</u>	<u>(44,797)</u>	<u>40,508</u>	<u>60,940</u>	<u>(65,950)</u>	<u>35,498</u>
Nondepreciable utility plant	<u>71,659</u>	<u>49,317</u>	<u>(44,797)</u>	<u>76,179</u>	<u>60,940</u>	<u>(65,950)</u>	<u>71,169</u>
Net utility plant	<u>\$ 777,129</u>	<u>59,993</u>	<u>(44,082)</u>	<u>793,040</u>	<u>89,392</u>	<u>(64,705)</u>	<u>817,727</u>

(4) Operating Expenses

Total operating expenses shared with the City's Water Utility Fund amounted to \$26,684 and \$27,065 for the years ended June 30, 2011 and 2010, respectively, of which \$20,280 and \$20,569, 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 10.04% ownership interest in the existing coal-fired 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, 2011 and 2010 amounted to \$78,973 and \$78,244, 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, 2011</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	\$ 647,365	90,390	(17,825)	719,930	18,175
Provision for decommissioning costs	123,893	3,454	—	127,347	—
	<u>771,258</u>	<u>93,844</u>	<u>(17,825)</u>	<u>847,277</u>	<u>\$ 18,175</u>
Less current portion	(17,825)	(18,175)	17,825	(18,175)	
Add unamortized bond premium	7,781	2,872	(778)	9,875	
Less unamortized refunding costs	<u>(5,148)</u>	<u>—</u>	<u>534</u>	<u>(4,614)</u>	
Total long-term liabilities	<u>\$ 756,066</u>	<u>78,541</u>	<u>(244)</u>	<u>834,363</u>	

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(In thousands)

<u>June 30, 2010</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	\$ 663,360	—	(15,995)	647,365	17,825
Provision for decommissioning costs	<u>117,085</u>	<u>6,808</u>	<u>—</u>	<u>123,893</u>	<u>—</u>
	780,445	6,808	(15,995)	771,258	\$ <u><u>17,825</u></u>
Less current portion	(15,995)	(17,825)	15,995	(17,825)	
Add unamortized bond premium	8,594	—	(813)	7,781	
Less unamortized refunding costs	<u>(5,708)</u>	<u>—</u>	<u>560</u>	<u>(5,148)</u>	
Total long-term liabilities	\$ <u><u>767,336</u></u>	<u><u>(11,017)</u></u>	<u><u>(253)</u></u>	<u><u>756,066</u></u>	

**CITY OF ANAHEIM
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Long-term debt consists of the following at June 30:

	<u>2011</u>	<u>2010</u>
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 \$1,770, at a rate of 5.00%, is maturing on October 1, 2011 in an annual principal installments of \$1,770. The total debt service is \$1,814 to maturity.	\$ 1,770	3,455
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 \$36,925 at rates ranging from 4.00% to 5.00% is maturing from October 1, 2011 through 2027 in annual principal installments ranging from \$1,535 to \$2,795. The total debt service is \$51,117 to maturity.	36,925	38,235
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 \$71,855 at rates ranging from 3.80% to 5.25% is maturing from October 1, 2011 through 2020 in principal installments ranging from \$2,210 to \$10,450. The total debt service is \$269,553 to maturity.	168,065	171,710

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	2011	2010
<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 \$35,240 as serial bonds at rates ranging from 4.00% to 5.00%, maturing from October 1, 2011 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. There is no remaining principal. The total debt service is \$45,904 to maturity.</p>	\$ 35,240	41,850
<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 \$82,315 at rates ranging from 4.00% to 5.25% is maturing from October 1, 2011 to 2025 in annual principal installments ranging from \$2,560 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 \$190,623 to maturity.</p>	116,520	118,955

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	2011	2010
<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 \$69,085 at rates ranging from 4.00% to 5.00% is maturing from October 1, 2011 through 2028 in annual principal installments ranging from \$1,080 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 rate 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 \$365,833 to maturity.</p>	\$	202,120
<p>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. The remaining principal of \$36,305 at rates ranging from 3.00% to 5.00% is maturing from October 1, 2011 through 2030 in annual principal installments ranging from \$330 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 \$131,767 to maturity.</p>		68,900
		203,160
		70,000

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	2011	2010
Anaheim Public Financing Authority Revenue Bonds, issue of 2011, TIC 4.91%, dated and sold on May 11, 2011 in the amount of \$90,390, of which: (1) \$63,005 was issued as serial bonds. The remaining principal of \$63,005 at rates ranging from 3.00% to 5.25% is maturing from October 1, 2016 through 2031 in annual principal installments ranging from \$1,825 to \$5,880; (2) \$27,385 was issued as term bonds at a rate of 5.375% maturing on October 1, 2032 and 2036 in annual principal installments from \$4,905 to \$6,080: The total debt service is \$170,369 to maturity.	\$ 90,390	—
Total Anaheim Public Financing Authority Revenue Bonds	\$ 719,930	647,365

Annual debt service requirements, excluding amounts for decommissioning costs, at June 30, 2011 to maturity are as follows:

	Principal	Interest	Total
Fiscal year ending June 30:			
2012	\$ 18,175	34,104	52,279
2013	18,995	33,816	52,811
2014	19,765	32,944	52,709
2015	20,745	31,975	52,720
2016	21,725	30,969	52,694
2017 – 2021	123,800	136,984	260,784
2022 – 2026	133,085	105,742	238,827
2027 – 2031	169,700	68,650	238,350
2032 – 2036	140,730	28,527	169,257
2037 – 2040	53,210	3,340	56,550
	\$ 719,930	507,051	1,226,981

Interest costs of \$1,675 and \$1,758 have been capitalized to utility plant for the years ended June 30, 2011 and 2010, 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 six 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 \$1,226,981 and \$1,105,261 outstanding long-term obligations, principal, and interest for the years ended June 30, 2011 and 2010, 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, 2011 and 2010, the annual principal and interest payments on the bonds are 55.8% and 58.8% of net revenues, respectively. Debt service paid and total net revenues were \$48,650 and \$ 87,251, and \$47,783 and \$81,252 for the years ended June 30, 2011 and 2010, respectively.

In May 2011, the Electric Utility issued revenue bonds in the principal amount of \$90,390. The proceeds totaled \$93,262, of which \$85,004 was deposited in construction funds to finance capital electric distribution system and Customer Information System; \$758 was deposited in the cost of issuance funds and \$7,500 was deposited in the required bond reserve fund. The total debt service payments over the life of the bonds until fiscal year 2037 will be \$170,369.

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

	2011	2010
Held by fiscal agent:		
Bond reserve fund	\$ 55,964	47,931
Bond service fund	1,572	1,099
Bond construction fund	81,228	17,601
Decommissioning reserve	123,636	120,572
Held by Treasurer:		
Bond service account	19,740	19,749
Renewal and replacement account	15,644	15,051
Decommissioning and fuel reserves	3,080	2,640
Public benefit program fees	5,270	4,998
Restricted rebate	529	345
	\$ 306,663	229,986

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The Electric Utility's interest and other finance charges, excluding capitalized interest, for the years ended June 30, 2011 and 2010 were \$30,079 and \$29,243, respectively.

(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 \$725 and \$1,410 at June 30, 2011 and 2010, respectively.

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

<u>Issue</u>	<u>2011</u>	<u>2010</u>
1997 FARECal Certificates of participation	\$ 725	1,410

(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, 2011 and 2010, 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 \$4,025, \$4,109, and \$4,044 to PERS for the years ended June 30, 2011, 2010, and 2009, 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, 2011 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 \$476 and \$476 for the years ended June 30, 2011 and 2010, respectively.

At June 30, 2011, the City was fully funded for self-insured workers' compensation and general liability claims (self-insured retention levels of \$750 per occurrence for workers' compensation claims and \$1,000 per occurrence for general liability claims). Above these self-insured retention levels, the City's potential liability is covered through various commercial insurance and intergovernmental risk pooling programs. Settled claims have not exceeded total insurance coverage in any of the past three years, nor does management believe that there are any pending claims that will exceed total 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:

	<u>Entitlement</u>	<u>Expiration</u>
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:

	<u>Entitlement</u>	<u>Expiration</u>
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
Canyon Power Project (Canyon)	100.0	2040
Natural gas reserves project (Natural Gas):		
SCPPA Natural gas project-Pinedale, Wyoming	35.7%	2033
SCPPA Natural gas project-Barnett, Texas	45.5	2033

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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.

<u>Fiscal year</u>	<u>IPA</u>	<u>STS</u>	<u>MAP</u>	<u>MPP</u>	<u>Hoover</u>	<u>Magnolia</u>	<u>Natural gas</u>	<u>Canyon</u>	<u>Total</u>
2012	\$ 41,645	8,096	3,072	1,589	956	6,195	8,105	12,770	82,428
2013	38,874	16,398	3,086	1,922	958	8,759	8,096	12,770	90,863
2014	38,541	14,782	3,091	1,925	957	8,766	7,369	12,770	88,201
2015	39,268	14,819	3,063	1,611	958	8,766	7,147	12,770	88,402
2016	33,374	14,870	3,060	1,651	957	8,768	7,094	19,501	89,275
2017 – 2021	156,613	70,931	14,525	7,785	1,913	36,289	27,949	97,511	413,516
2022 – 2026	25,546	56,885	—	—	—	36,193	18,288	97,510	234,422
2027 – 2031	—	12,728	—	—	—	38,268	12,536	97,518	161,050
2032 – 2036	—	—	—	—	—	39,634	3,815	97,512	140,961
2037 – 2040	—	—	—	—	—	26,282	—	78,014	104,296
Total \$	<u>373,861</u>	<u>209,509</u>	<u>29,897</u>	<u>16,483</u>	<u>6,699</u>	<u>217,920</u>	<u>100,399</u>	<u>538,646</u>	<u>1,493,414</u>

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 2011 and 2010 billings for fuel, O&M, A&G, and other costs at these projects are as follows:

<u>Fiscal year</u>	<u>IPA</u>	<u>STS</u>	<u>MAP</u>	<u>MPP</u>	<u>Hoover</u>	<u>Magnolia</u>	<u>Natural gas</u>	<u>Total</u>
2011	\$ 43,270	5,046	229	290	428	20,758	1,143	71,164
2010	51,489	3,219	286	150	369	30,259	764	86,536

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(b) Prepaid Purchased Power

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

	<u>2011</u>	<u>2010</u>
SCPPA – Stabilization fund prepayment	\$ 33,918	33,766
SCPPA – Magnolia power prepayment	15,928	10,939
SCPPA – Ormat prepayment	450	450
SCPPA – Canyon prepayment	3,014	134
SCPPA – building fund	528	—
IPA power prepayment	9,080	—
Prepaid purchased power	<u>\$ 62,918</u>	<u>45,289</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, 2011 and 2010.

(d) Construction Commitments

At June 30, 2011, 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>
Underground District #51/#56, Lincoln/Magnolia	\$ 5,180	2012
Underground District #48, Harbor	589	2011
Direct Buried Cable Replacement-Phase VIII	1,450	2012
Underground District #53, La Palma	4,556	2013
Underground District #58, Imperial Hwy	1,519	2013

At June 30, 2010, the Electric Utility has construction commitments totaling \$22,670.

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(In thousands)

(11) Subsequent Event

Effective August 8, 2011, the City Treasurer's Investment Portfolio has a rating of "AAf" from Standard and Poor's (S&P). This rating was from the action of S&P to downgrading the debt issues of the United States Treasury and federal agencies from a credit rating of "AAA" to "AA+." The credit rating reflects the investment holdings of the City's Investment Portfolio and not the management of the investment fund.