



**CITY OF ANAHEIM  
WATER UTILITY FUND**

Financial Statements

June 30, 2011 and 2010

(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, 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 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 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 Water 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 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 14, 2011

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Management's Discussion and Analysis

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(Unaudited)

(In thousands)

As management of Anaheim Public Utilities, a department of the City of Anaheim, California (City), we offer the readers of the City of Anaheim Water Utility Fund (Water Utility) financial statements a narrative overview and analysis of the financial statements for the fiscal years ended June 30, 2011 and 2010. 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 2011 and 2010 by \$232,554 and \$233,244, respectively. Of these amounts, \$13,033 and \$13,057, 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 \$690 (0.3%) and increased by \$1,074 (0.5%) for the fiscal years ended June 30, 2011 and 2010, respectively. Unrestricted fund net assets represented 24.4% and 24.5% 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 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, 2011.

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

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

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

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

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

**Financial Analysis**

As noted earlier, fund net assets may serve over time as a useful indicator of the Water Utility's financial position. In the case of the Water Utility, assets exceed liabilities by \$232,554 and \$233,244 at June 30, 2011 and 2010, respectively.

A large portion of the Water Utility's fund net assets (92.8% as of June 30, 2011 and 2010) 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 (1.6% as of June 30, 2011 and 2010) represents resources that are subject to external restrictions on how they may be used. These restrictions are for items such as debt repayment and other legally restricted purposes. The unrestricted portion of the Water Utility's fund net assets (5.6% as of June 30, 2011 and 2010) may be used to meet the Water Utility's ongoing obligations to creditors and customers. The Water Utility's condensed balance sheets at June 30 are as follows:

**Condensed Balance Sheets**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 66,754	41,774	60,393
Net utility plant	282,893	273,853	258,456
Total assets	<u>349,647</u>	<u>315,627</u>	<u>318,849</u>
Long-term liabilities, net of current portion	95,913	62,455	64,141
Current liabilities	21,180	19,928	22,538
Total liabilities	<u>117,093</u>	<u>82,383</u>	<u>86,679</u>
Invested in capital assets, net of related debt	215,701	216,360	207,826
Restricted	3,820	3,827	4,115
Unrestricted	13,033	13,057	20,229
Total fund net assets	<u>\$ 232,554</u>	<u>233,244</u>	<u>232,170</u>

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(Unaudited)

(In thousands)

***As of June 30, 2011***

**Assets**

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

**Liabilities**

Total liabilities as of June 30, 2011 and 2010 were \$117,093 and \$82,383, respectively. The \$34,710 (42.1%) increase in total liabilities is due to a \$33,458 increase in long-term liabilities, and a \$1,252 increase in current liabilities. Long-term liabilities increased 53.6% primarily due to the October 2010 issuance of \$34,525 Water Revenue Bonds used to finance the capital projects program for improving and safeguarding the Water Utility's water supply infrastructure.

**Fund Net Assets**

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

***As of June 30, 2010***

**Assets**

Total assets as of June 30, 2010 and 2009 were \$315,627 and \$318,849, respectively. The \$3,222 (1.0%) decrease in total assets is due primarily to a \$9,782 decrease in current assets, partially offset by a \$6,560 increase in noncurrent assets. Current assets decreased 22.9% primarily because \$20,048 of cash and cash equivalents were used for current year capital purchases. See the statements of cash flows for additional information regarding changes in cash and cash equivalents. Noncurrent assets increased 2.4% primarily as a result of increases in net utility plant. The \$15,397 (6.0%) 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.

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(Unaudited)

(In thousands)

**Liabilities**

Total liabilities as of June 30, 2010 and 2009 were \$82,383 and \$86,679, respectively. The \$4,296 (5.0%) decrease in total liabilities is due to a \$1,911 decrease in current liabilities, a \$699 decrease in restricted current liabilities, and a \$1,686 decrease in long-term liabilities. Current liabilities decreased by 9.9% primarily because of a \$1,220 decrease in regulatory credits resulting from the recognition of rate stabilization account (RSA) revenue. See note 8 to the financial statements for additional information regarding the Utility's regulatory credits. Long-term liabilities decreased 2.6% primarily as a result of payments of principal on long-term debt.

**Fund Net Assets**

Total fund net assets as of June 30, 2010 and 2009 were \$233,244 and \$232,170, respectively. Total fund net assets increased by \$1,074 (0.5%) during fiscal year 2010. Fund net assets invested in capital assets, net of related debt increased \$8,534 (4.1%) due to the continued expansion and refurbishment of water transmission and distribution infrastructure. Unrestricted net assets decreased \$7,172 (35.5%) because available cash and investments were used to fund these ongoing capital construction projects.

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(Unaudited)

(In thousands)

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

**Revenues, Expenses, and Changes in Fund Net Assets**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Revenues:</b>			
Sale of water, net	\$ 54,871	54,449	49,985
RSA Revenues	—	1,300	—
Other operating revenues	727	619	822
Interest income	840	1,111	2,218
Other nonoperating revenues	497	308	14
Capital contributions	2,365	713	1,199
Total revenues	<u>59,300</u>	<u>58,500</u>	<u>54,238</u>
<b>Expenses:</b>			
Purchased water	27,042	27,227	22,558
Treatment and pumping	6,166	6,448	6,747
Operations, maintenance, and administration	11,204	11,556	10,818
Depreciation	8,964	8,103	6,918
Interest expense	2,920	1,746	1,612
Total expenses	<u>56,296</u>	<u>55,080</u>	<u>48,653</u>
<b>Transfers:</b>			
Transfer to the General Fund of the City	(2,063)	(2,380)	(4,062)
Transfer of right-of-way fee to the City	(836)	(750)	(719)
Transfers from other funds of the City	—	963	407
Transfers to other funds of the City	(795)	(179)	(1,345)
Total transfers	<u>(3,694)</u>	<u>(2,346)</u>	<u>(5,719)</u>
Changes in fund net assets	(690)	1,074	(134)
Fund net assets at beginning of year	<u>233,244</u>	<u>232,170</u>	<u>232,304</u>
Fund net assets at end of year	<u>\$ 232,554</u>	<u>233,244</u>	<u>232,170</u>

**CITY OF ANAHEIM  
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June 30, 2011 and 2010

(Unaudited)

(In thousands)

**Revenues**

***Year ended June 30, 2011***

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

***Year ended June 30, 2010***

Total revenues for the fiscal year ended June 30, 2010 were \$58,500 as compared with \$54,238 in fiscal year 2009, an increase of \$4,262. This increase was primarily due to a \$4,464 increase in revenues from the sale of water. Revenues from the sale of water increased 8.9% primarily as a result of a 21.2% increase in the Water Commodity Adjustment (WCA) charge billed to customers beginning July 7, 2009. The WCA charge is a rate charged to all consumers that can be adjusted annually to recover the changes in the cost of water. In fiscal year 2010, the costs of purchased water increased substantially, primarily as a result of a 21.1% increase in the per unit cost of treated water and a 17.5% increase in the per unit cost of untreated water purchased from the Metropolitan Water District (MWD) of Southern California. In addition, effective July 7, 2009, the Utility began charging customers 7.5 cents per hundred cubic foot for the Water System Reliability Adjustment (WSRA) to recover projected capital costs, including rehabilitation and construction of water and reclaimed water system infrastructure, and related debt service payments.

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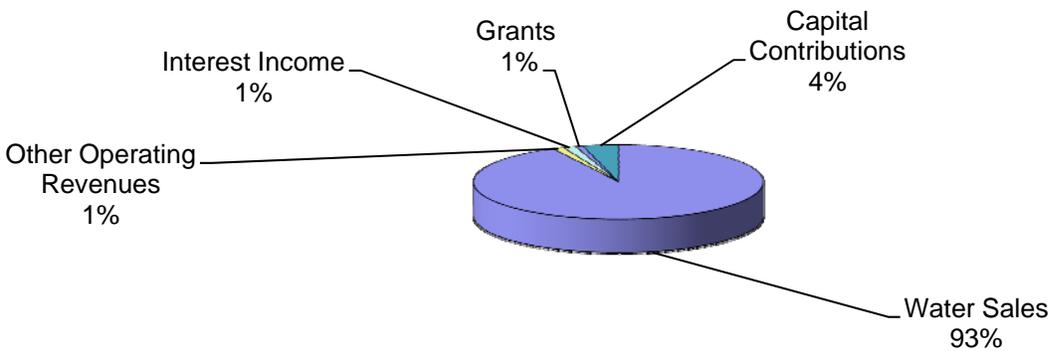
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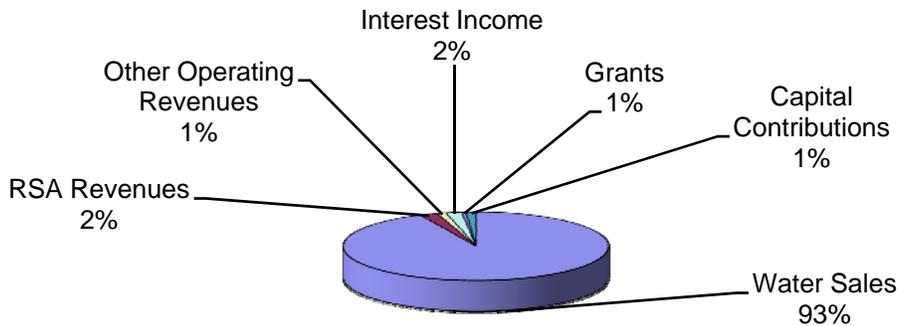
(In thousands)

**Revenues by Source**

**Year ended June 30, 2011**



**Year ended June 30, 2010**



**Expenses**

***Year ended June 30, 2011***

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

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June 30, 2011 and 2010

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(In thousands)

***Year ended June 30, 2010***

Total expenses for the fiscal year ended June 30, 2010 were \$55,080 as compared with \$48,653 in fiscal year 2009. This \$6,427 (13.2%) increase in total expenses is primarily due to a \$4,669 increase in purchased water costs. The cost of purchased water increased 20.7%, primarily because of higher per unit costs imposed by the Metropolitan Water District (MWD), one of the two primary water supply sources for the Water Utility. During the fiscal year 2010, MWD's per unit costs increased by 19.6%. In addition, the Utility's other water supply source, the Orange County Water District (OCWD), reduced its allowable Basin Production Percentage (BPP) from 69% to 64%, thus requiring the Utility to purchase more water from MWD at the higher cost.

**Transfers**

***Year ended June 30, 2011***

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

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

***Year ended June 30, 2010***

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 \$2,380 for fiscal year 2010. The decrease of \$1,682 was mainly due to a one-time additional transfer of \$2,084 to the General Fund of the City in fiscal year 2009.

In addition, a right-of-way fee is transferred to the City's General Fund and is equal to 1.5% of net revenues of the prior fiscal year. Net revenues are defined as revenues from sale of water less uncollectible accounts. The right-of-way fee transferred to the City amounted to \$750 for fiscal year 2010. There were no significant changes in the amount of right-of-way fee transferred to the City during fiscal year 2010 when compared with fiscal year 2009.

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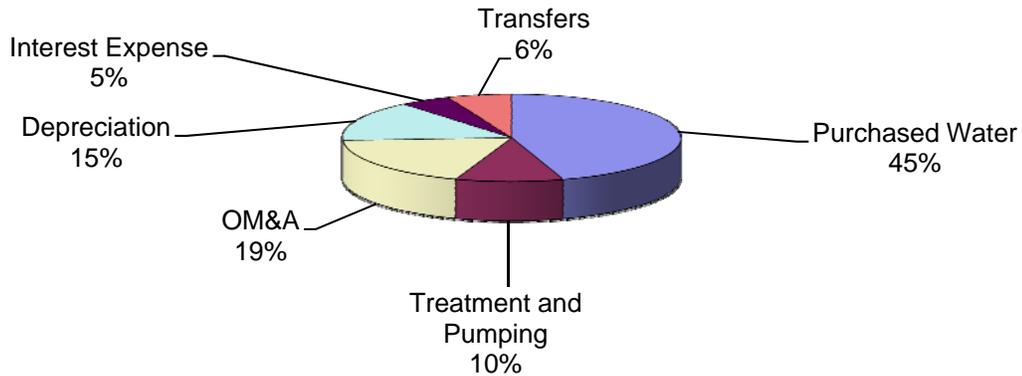
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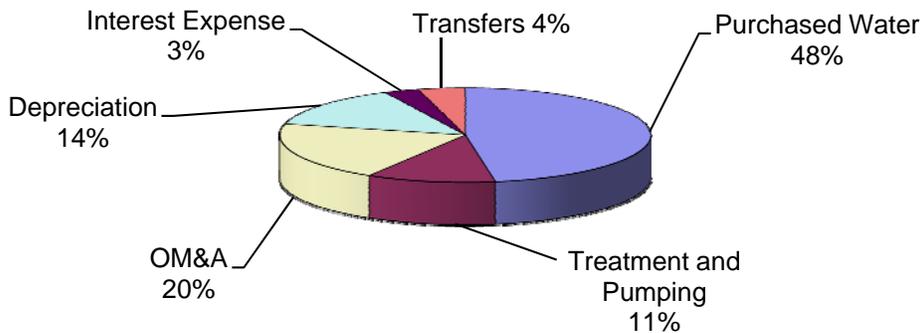
Transfers in from other funds amounted to \$963 in fiscal year 2010 and resulted from the transfer of vehicle capital assets at their net book value from the City to the Water Utility.

**Expenses and Transfers**

**Year ended June 30, 2011**



**Year ended June 30, 2010**



**Capital Assets and Debt Administration**

**Capital Assets**

The Water Utility's net investment in capital assets as of June 30, 2011 and 2010 was \$282,893 and \$273,853, 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

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general plant. The total net additions to investment in capital assets (before accumulated depreciation) for fiscal year 2011 were \$12,561 (3.4%).

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Source of water supply	\$ 39,172	37,446	37,446
Pumping plant	48,508	41,934	41,874
Transmission and distribution	276,390	249,713	244,018
General plant	6,950	6,301	4,030
Land	2,298	2,298	2,298
Construction in progress	<u>13,348</u>	<u>36,413</u>	<u>21,342</u>
Total utility plant	386,666	374,105	351,008
Less accumulated depreciation	<u>(103,773)</u>	<u>(100,252)</u>	<u>(92,552)</u>
Net utility plant	<u>\$ 282,893</u>	<u>273,853</u>	<u>258,456</u>

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

***As of June 30, 2011***

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

***As of June 30, 2010***

The Water Utility showed a net increase of \$15,397 (6.0%) 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 ten new wells over the next decade. As of June 30, 2010, the Water Utility has completed approximately 80% of the planned new well pumping capacity.

***Long-Term Debt***

As of June 30, 2011 and 2010, the Water Utility had total long-term debt outstanding of \$97,374 and \$64,628, respectively.

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(Unaudited)

(In thousands)

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Water revenue bonds	\$ 86,655	53,010	54,500
Notes payable and advances	<u>10,719</u>	<u>11,618</u>	<u>12,580</u>
Total long-term debt outstanding	97,374	64,628	67,080
Less:			
Current portion	(1,807)	(1,779)	(2,452)
Unamortized bond premium	658	17	41
Unamortized refunding costs	<u>(312)</u>	<u>(411)</u>	<u>(528)</u>
Total noncurrent long-term debt outstanding	<u>\$ 95,913</u>	<u>62,455</u>	<u>64,141</u>

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

***As of June 30, 2011***

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

***As of June 30, 2010***

Long-term debt decreased \$1,686 (2.6%) 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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**Economic Factors and Rates**

For fiscal year 2012, the Orange County Water District (OCWD) set the Basin Production Percentage (BPP) for all cities and water districts they serve (including Anaheim) at 65.0%, up from the 62.0% fiscal year 2011 limit. Consequently, the Water Utility will be able to pump 3.0% more ground water from OCWD without incurring a penalty and purchase 3.0% less from MWD in order to fulfill its water supply requirements. Water purchased from MWD is priced higher than ground water pumped from OCWD, so increasing the BPP lessens the impacts of MWD cost increases. The Water Utility's Water Rates, Rules, and Regulations provide for an automatic adjustment of its commodity adjustment when OCWD and MWD increase or decrease the cost per acre foot of water. As a result of the increase in the BPP for fiscal year 2012, the Water Utility determined that the Water Commodity Adjustment will remain at the fiscal year 2011 rate of \$1.22 per 100 cubic foot.

As approved on March 18, 2008, the Water Utility instituted a charge to all customers for a Water System Reliability Adjustment (WSRA). The WSRA is set to \$0.225 per 100 cubic foot, effective July 1, 2011. 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, CA 92805.

**CITY OF ANAHEIM  
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Balance Sheets

June 30, 2011 and 2010

(In thousands)

<b>Assets</b>	<b>2011</b>	<b>2010</b>
Utility plant:		
Source of water supply	\$ 39,172	37,446
Pumping plant	48,508	41,934
Transmission and distribution	276,390	249,713
General plant	6,950	6,301
Total depreciable utility plant	<u>371,020</u>	<u>335,394</u>
Less accumulated depreciation	<u>(103,773)</u>	<u>(100,252)</u>
Net depreciable utility plant	267,247	235,142
Land	2,298	2,298
Construction in progress	13,348	36,413
Net utility plant	<u>282,893</u>	<u>273,853</u>
Restricted assets:		
Cash and cash equivalents	24,544	1,099
Investments	7,121	7,155
Total restricted assets	<u>31,665</u>	<u>8,254</u>
Other assets:		
MWDOC pipeline receivable	117	133
Unamortized debt issuance costs	759	402
Total other assets	<u>876</u>	<u>535</u>
Total noncurrent assets	<u>315,434</u>	<u>282,642</u>
Current assets:		
Cash and cash equivalents	9,480	7,227
Investments	13,323	14,692
Restricted cash and cash equivalents	2,101	1,524
Restricted investments	938	1,048
Accounts receivable, net	6,850	6,747
Accrued interest receivable	162	180
Interfund receivable	—	15
Materials and supplies inventory	370	371
Purchased water in storage	989	1,181
Total current assets	<u>34,213</u>	<u>32,985</u>
Total assets	<u>\$ 349,647</u>	<u>315,627</u>

**CITY OF ANAHEIM  
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Balance Sheets

June 30, 2011 and 2010

(In thousands)

<b>Fund Net Assets and Liabilities</b>	<b>2011</b>	<b>2010</b>
Fund net assets:		
Invested in capital assets, net of related debt	\$ 215,701	216,360
Restricted for:		
Debt service	1,125	1,088
Renewal and replacement	2,695	2,739
Unrestricted	13,033	13,057
Total fund net assets	232,554	233,244
Long-term liabilities:		
Long-term debt obligations, less current portion	95,913	62,455
Total long-term liabilities	95,913	62,455
Current liabilities (payable from restricted assets):		
Current portion of long-term debt	1,807	1,779
Arbitrage rebate liability	5	3
Accrued interest payable	1,227	790
Total current liabilities (payable from restricted assets)	3,039	2,572
Current liabilities (payable from unrestricted current assets):		
Accounts payable and accrued expenses	11,083	10,285
Wages payable	349	321
Regulatory credits	5,945	5,937
Customer deposits	764	813
Total current liabilities (payable from unrestricted current assets)	18,141	17,356
Total liabilities	117,093	82,383
Total fund net assets and liabilities	\$ 349,647	315,627

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, 2011 and 2010

(In thousands)

	<b>2011</b>	<b>2010</b>
Operating revenues:		
Sales of water, net	\$ 54,871	54,449
RSA Revenues	—	1,300
Other operating revenues	727	619
Total operating revenues	55,598	56,368
Operating expenses:		
Purchased water	27,042	27,227
Treatment and pumping	6,166	6,448
Operations, maintenance, and administration	11,204	11,556
Depreciation	8,964	8,103
Total operating expenses	53,376	53,334
Operating income	2,222	3,034
Nonoperating revenues (expenses):		
Interest income	840	1,111
Interest expense	(2,920)	(1,746)
Grants	497	308
Total net nonoperating expenses	(1,583)	(327)
Income before capital contributions and transfers	639	2,707
Capital contributions	2,365	713
Transfer to the General Fund of the City	(2,063)	(2,380)
Transfer of right-of-way fee to the City	(836)	(750)
Transfers from other funds of the City	—	963
Transfers to other funds of the City	(795)	(179)
Change in fund net assets	(690)	1,074
Fund net assets at beginning of year	233,244	232,170
Fund net assets at end of year	\$ 232,554	233,244

See accompanying notes to financial statements.

**CITY OF ANAHEIM  
WATER UTILITY FUND**

Statements of Cash Flows

Years ended June 30, 2011 and 2010

(In thousands)

	<b>2011</b>	<b>2010</b>
Cash flows from operating activities:		
Receipts from customers and users	\$ 55,143	54,545
Receipts from services provided to other funds of the City	311	311
Payments to suppliers	(25,963)	(28,974)
Payments to employees	(12,643)	(12,616)
Payments for services provided by other funds of the City	(4,787)	(4,412)
Net cash provided by operating activities	12,061	8,854
Cash flows from noncapital financing activities:		
Transfers to the General Fund and other funds of the City	(2,899)	(3,130)
Receipts from grants	497	308
Net cash used in noncapital financing activities	(2,402)	(2,822)
Cash flows from capital and related financing activities:		
Proceeds from borrowings, net of premium	35,243	—
Issuance costs	(405)	—
Capital purchases	(14,456)	(20,948)
Principal payments on long-term debt	(1,779)	(2,452)
Interest paid	(3,601)	(2,900)
Transfers to other funds of the City for capital purposes	(788)	(50)
Capital contributions	15	239
Net cash provided by (used in) capital and related financing activities	14,229	(26,111)
Cash flows from investing activities:		
Purchases of investment securities	(5,596)	(1,188)
Proceeds from sale and maturity of investment securities	7,015	21,031
Collection of pipeline receivable	16	77
Interest income received	952	984
Net cash provided by investing activities	2,387	20,904
Increase in cash and cash equivalents	26,275	825
Cash and cash equivalents at beginning of year	9,850	9,025
Cash and cash equivalents at end of year	\$ 36,125	9,850

**CITY OF ANAHEIM  
WATER UTILITY FUND**

Statements of Cash Flows

Years ended June 30, 2011 and 2010

(In thousands)

	<b>2011</b>	<b>2010</b>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,222	3,034
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	8,964	8,103
Changes in assets and liabilities:		
Accounts receivable, net	(103)	(259)
Materials and supplies inventory	1	(51)
Purchased water in storage	192	(62)
Accounts payable and accrued expenses	798	(702)
Wages payable	28	44
Customer deposits	(49)	(33)
Regulatory credits	8	(1,220)
Total adjustments	9,839	5,820
Net cash provided by operating activities	\$ 12,061	8,854
Schedule of noncash investing, capital, and financing activities:		
Capital contributions	\$ 2,365	459
Transfers in capital assets	—	963
Transfers out of capital assets	(7)	(129)
Increase (decrease) in fair value of investments	(94)	160
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 9,480	7,227
Restricted cash and cash equivalents, current portion	2,101	1,524
Restricted cash and cash equivalents, noncurrent portion	24,544	1,099
Total cash and cash equivalents	\$ 36,125	9,850

See accompanying notes to financial statements.

**CITY OF ANAHEIM  
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2011 and 2010

(In thousands)

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

**(a) Basis of Accounting**

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

**(b) Utility Plant and Depreciation**

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

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

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

**(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

**CITY OF ANAHEIM  
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2011 and 2010

(In thousands)

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) Restricted Asset**

Certain proceeds of the Water Utility's bonds, as well as certain resources set aside for their repayments, are classified as restricted on the Statement of 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.

**(e) 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 \$3,954 and \$3,816 for fiscal years 2011 and 2010, 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 \$93 and \$91 for the fiscal years ended June 30, 2011 and 2010, respectively. The applicable allowances for uncollectible amounts are \$68 and \$45 at June 30, 2011 and 2010, respectively. See note 5 for discussion of pledged revenue.

**CITY OF ANAHEIM  
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2011 and 2010

(In thousands)

**(f) Operating Expenses**

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

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

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

**(g) 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.

**(h) 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.

**(i) 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 \$719 and \$736 for the Water Utility at June 30, 2011 and 2010, respectively.

**(j) Transfers (to) from Other Funds of the City**

The City Charter provides that transfers to the General Fund of the City shall not exceed 4% of total revenue. Such transfers are not in lieu of taxes and amounted to \$2,063 and \$2,380 for the fiscal 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 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

**CITY OF ANAHEIM  
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2011 and 2010

(In thousands)

the calculation of bond coverage. The transfer of right-of-way fee to the City amounted to \$836 and \$750 for the fiscal years ended June 30, 2011 and 2010, respectively.

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

During the fiscal years ended June 30, 2011 and 2010, the Water Utility participated in several joint projects with the Electric Utility. The Water Utility was responsible for its share of the costs while the projects were ongoing. Upon completion, the Water Utility transferred ownership of its share of the projects to the Electric Utility, valued at \$769 and \$179 for fiscal years 2011 and 2010, respectively. In addition, the Water Utility transferred \$26 to the City's Redevelopment Agency for its share of improvements.

In fiscal year 2010, the City transferred to the Water Utility certain vehicle capital assets with a net book value of \$963.

**(k) 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 AA Af in July 2008, which was reaffirmed in June 2010.

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.

**CITY OF ANAHEIM  
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2011 and 2010

(In thousands)

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

	<b>2011</b>	<b>2010</b>
Cash equivalents and investments pooled with the Treasurer	\$ 27,855	26,539
Cash equivalents and investments held with trustee	29,652	6,206
	\$ 57,507	32,745

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

	<b>2011</b>	<b>2010</b>
Restricted assets – cash equivalents and investments	\$ 34,704	10,826
Unrestricted assets – cash equivalents and investments	22,803	21,919
	\$ 57,507	32,745

**(a) Investments**

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

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

**CITY OF ANAHEIM  
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2011 and 2010

(In thousands)

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

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

<u>Authorized investment type</u>	<u>Maximum maturity</u>	<u>Maximum percentage of portfolio*</u>	<u>Maximum investment in one issue(r)</u>	<u>Minimum Rating (S&amp;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 five 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%).

**CITY OF ANAHEIM  
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2011 and 2010

(In thousands)

**(c) Investments Authorized by Debt Agreements**

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

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

At June 30, 2011, the City's investments controlled by bond trustees exceeded 5% concentration in the following U.S. agency securities, guaranteed investment contracts, flexible repurchase agreements, and money market mutual funds: Federal Home Loan Bank \$55,077 (15%), Federal National Mortgage Association \$34,979 (9%), Federal Farm Credit Bank \$32,290 (9%), Bank of America \$16,645 (5%), Credit Agricole \$19,365 (5%), Morgan Stanley \$29,290 (8%), Dreyfus Treasury \$16,988 (5%), US 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 National Mortgage Association \$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.

**CITY OF ANAHEIM  
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2011 and 2010

(In thousands)

**(d) Custodial Credit Risk**

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

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

**(e) Interest Rate Risk**

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

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

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

**CITY OF ANAHEIM  
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2011 and 2010

(In thousands)

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

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

**CITY OF ANAHEIM  
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2011 and 2010

(In thousands)

Investments	Credit rating (S&P/Moody's)	Fair value June 30, 2010	12 months or less	13 to 24 months	25 to 36 months	37 to 60 months	More than 60 months
Treasurer's pooled investments:							
U.S. agency securities	AAA/Aaa	\$ 14,420	3,127	2,911	3,596	4,786	—
Medium-term corporate notes	AA/Aa	367	—	367	—	—	—
Medium-term corporate notes	A/A	1,785	—	658	1,127	—	—
Medium-term corporate notes	A-1/P-1	1,167	583	—	584	—	—
Commercial paper	A-1/P-1	4,007	4,007	—	—	—	—
Money market mutual funds	AAA/Aaa	775	775	—	—	—	—
LAIF	Unrated	4,018	4,018	—	—	—	—
Total investments controlled by City Treasurer		26,539	12,510	3,936	5,307	4,786	—
Investments controlled by bond trustees:							
Guaranteed investment agreements	Unrated	3,897	—	—	—	—	3,897
Collateralized investment contracts	Unrated	1,210	—	—	—	—	1,210
Money market mutual funds	AAA/Aaa	1,099	1,099	—	—	—	—
Total investments controlled by bond trustees		6,206	1,099	—	—	—	5,107
Total investments		\$ 32,745	13,609	3,936	5,307	4,786	5,107

**(3) Water Utility Plant**

The following is a summary of changes in capital assets:

	Balance as of June 30, 2009	Additions	Deletions	Balance as of June 30, 2010	Additions	Deletions	Balance as of June 30, 2011
Source of water supply	\$ 37,446	—	—	37,446	2,358	(632)	39,172
Pumping plant	41,874	60	—	41,934	6,828	(254)	48,508
Transmission and distribution	244,018	5,936	(241)	249,713	30,772	(4,095)	276,390
General plant	4,030	2,271	—	6,301	649	—	6,950
Depreciable utility plant	327,368	8,267	(241)	335,394	40,607	(4,981)	371,020
Less accumulated depreciation	(92,552)	(8,103)	403	(100,252)	(8,964)	5,443	(103,773)
Net depreciable utility plant	234,816	164	162	235,142	31,643	462	267,247
Land	2,298	—	—	2,298	—	—	2,298
Construction in progress	21,342	22,045	(6,974)	36,413	15,185	(38,250)	13,348
Nondepreciable utility plant	23,640	22,045	(6,974)	38,711	15,185	(38,250)	15,646
Net utility plant	\$ 258,456	22,209	(6,812)	273,853	46,828	(37,788)	282,893

**CITY OF ANAHEIM  
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2011 and 2010

(In thousands)

**(4) Operating Expenses**

Total operating expenses shared with the City's Electric Utility amounted to \$26,684 and \$27,065 for the fiscal years ended June 30, 2011 and 2010, respectively, of which \$6,404 and \$6,496, 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.

**(5) 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>
Water revenue bonds	\$ 53,010	34,525	(880)	86,655	915
Notes payable and advances	11,618	—	(899)	10,719	892
	<u>64,628</u>	<u>34,525</u>	<u>(1,779)</u>	<u>97,374</u>	<u>\$ 1,807</u>
Less current portion	(1,779)	(1,807)	1,779	(1,807)	
Add unamortized bond premium	17	718	(77)	658	
Less unamortized refunding costs	<u>(411)</u>	<u>—</u>	<u>99</u>	<u>(312)</u>	
Total long-term liabilities	<u>\$ 62,455</u>	<u>33,436</u>	<u>22</u>	<u>95,913</u>	

<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>
Water revenue bonds	\$ 54,500	—	(1,490)	53,010	880
Notes payable and advances	12,580	—	(962)	11,618	899
	<u>67,080</u>	<u>—</u>	<u>(2,452)</u>	<u>64,628</u>	<u>\$ 1,779</u>
Less current portion	(2,452)	(1,779)	2,452	(1,779)	
Add unamortized bond premium	41	—	(24)	17	
Less unamortized refunding costs	<u>(528)</u>	<u>—</u>	<u>117</u>	<u>(411)</u>	
Total long-term liabilities	<u>\$ 64,141</u>	<u>(1,779)</u>	<u>93</u>	<u>62,455</u>	

**CITY OF ANAHEIM  
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2011 and 2010

(In thousands)

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

	2011	2010
<p>Water Revenue Bonds, 2010 Series, true interest cost (TIC) 3.5361%, dated and sold on October 28, 2010, in the amount of \$34,525 of which: (1) \$4,835 was issued as serial bonds at rates ranging from 2.00% to 4.75%, maturing from October 1, 2013 through 2021 in annual principal installments ranging from \$120 to \$815; (2) \$1,690 was issued as term bonds at a rate of 4.346%, maturing on October 1, 2022 and 2023 in annual principal installments of \$840 and \$850 respectively; (3) \$1,750 was issued as term bonds at a rate of 4.866%, maturing on October 1, 2024 and 2025 in annual principal installments of \$865 and \$885 respectively; (4) \$9,925 was issued as term bonds at a rate of 5.525% maturing from October 1, 2026 through 2034 in annual principal installments ranging from \$910 to \$1,245; and (5) \$16,625 was issued as term bonds at a rate of 5.685%, maturing from October 1, 2035 through 2040 in annual principal installments ranging from \$1,300 to \$5,645. The total debt service is \$75,149 to maturity.</p>	\$ 34,525	—
<p>Water Revenue Bonds, 2008 Series, 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 4.0000% to 5.0000%. Total remaining debt service is \$94,829 to maturity.</p>	48,580	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 \$950 at rates ranging from 4.0000% to 4.50000%. Total remaining debt service is \$3,877 to maturity.</p>	3,550	4,430
<p>Total water revenue bonds</p>	\$ 86,655	53,010

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(In thousands)

	<b>2011</b>	<b>2010</b>
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 \$12,442 to maturity.	\$ 10,719	11,586
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. There are no debt service payments remaining at June 30, 2011.	—	32
Total notes payable and advances	\$ 10,719	11,618

Annual debt service requirements for the Water Utility's revenue bonds, notes payable, and advances at June 30, 2011 to maturity are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Fiscal year ending June 30:			
2012	\$ 1,807	4,585	6,392
2013	1,867	4,523	6,390
2014	1,863	4,459	6,322
2015	1,929	4,394	6,323
2016	1,996	4,324	6,320
2017 – 2021	11,098	20,519	31,617
2022 – 2026	13,414	18,092	31,506
2027 – 2031	16,585	14,510	31,095
2032 – 2036	20,770	9,801	30,571
2037 – 2041	26,045	3,716	29,761
	\$ 97,374	88,923	186,297

Interest costs of \$1,190 and \$1,259 have been capitalized for the fiscal years ended June 30, 2011 and 2010, respectively.

In October 2010, the Water Utility issued revenue bonds Series 2010-A and 2010-B in an aggregate principal amount of \$34,525. The aggregate proceeds totaled \$35,243, of which \$34,827 was deposited in project acquisition funds to finance capital improvements to the Utility's infrastructure and \$416 was deposited in the cost of issuance fund. There is no required reserve

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fund for these bonds. The total debt service payments over the life of the bonds until fiscal year 2041 will be \$75,927.

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

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

The bond resolutions for the Water Revenue Bonds, the 2008 Series and the 2004 Series, require the establishment of a bond service account accumulating monthly one-sixth of the interest, which will become due and payable on the outstanding bonds within the next 6 months, and by one-twelfth of the principal amount, which will mature and be payable on the outstanding bonds within the next 12 months. Those amounts have been recorded in net assets restricted for debt service on the accompanying balance sheets.

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

The Water Utility has pledged future revenues to repay a total of \$173,855 and \$102,083 of 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 Water Utility's bonds are payable solely from water net revenues and are payable through fiscal year 2041. As of June 30, 2011 and 2010, the annual principal and interest payments on the bonds are 33.2% and 32.1% of net revenues, respectively. Debt service paid and total net revenues were \$4,155 and \$12,523, and \$4,034 and \$12,556 for the years ended June 30, 2011 and 2010, respectively.

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

	<b>2011</b>	<b>2010</b>
Held by fiscal agent:		
Bond reserve fund	\$ 6,442	6,206
Bond construction fund	23,210	—
Held by treasurer:		
Bond service account	2,356	1,881
Renewal and replacement account	2,696	2,739
	\$ 34,704	10,826

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The Water Utility's interest and other finance charges, excluding capitalized interest, for the fiscal years ended June 30, 2011 and 2010 were \$2,920 and \$1,746, 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, 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 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 \$1,271, \$1,298, and \$1,011, to PERS for the fiscal years ended June 30, 2011, 2010, and 2009, respectively, which represented 100% of its required contributions.

Information is not available separately for the Water Utility as to the cost of benefits funded, the actuarially computed present value of vested and nonvested accumulated plan benefits, the related assumed rates of return used, and the actuarially computed value of vested benefits over the related pension fund assets. Refer to the City's Comprehensive Annual Financial Report as of June 30, 2011 for further information.

**(7) Self-Insurance Program**

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

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**(8) Regulatory Credits**

The Water Utility's Rates, Rules, and Regulations provide for a water regulatory credits account to reflect variations in the cost of water to the Water Utility and provide more stable retail water rates to the customers of the City's Water Utility. This rate stabilization account (RSA) provides increased flexibility by allowing the Water Utility to maintain financial performance indicators and goals specified in bond covenants. The account is funded through expense reimbursements such as water supply cost refunds received from the MWD and OCWD and other miscellaneous credits and revenue. As permitted by FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, and approved by the City Council, revenues from amounts collected are deferred and recorded as regulatory credits in the balance sheets. At June 30, 2011 and 2010, the liability recorded for regulatory credits totaled \$5,945 and \$5,937, respectively. In fiscal years 2011 and 2010, the Water Utility funded this account through a variety of miscellaneous credits. During fiscal year 2011, no RSA revenue was recognized. \$1,300 was recognized as RSA revenue to mitigate the impact of water supply costs during fiscal year 2010.

**(9) Commitments and Contingencies**

**(a) Litigation**

A number of claims and suits are pending against the City for alleged damages to persons and property and for other alleged liabilities arising out of matters usually incidental to the operation of a utility such as the water system of the City. In the opinion of management, the exposure under these claims and suits would not materially affect the financial position of the Water Utility as of June 30, 2011 and 2010.

**(b) Construction Commitments**

At June 30, 2011, 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>
Linda Vista Reservoir & Pump Station Replacement	\$ 8,357	2013
Water Recycling Demonstration Project	5,877	2012
	<u>\$ 14,234</u>	

At June 30, 2010, the Water Utility had construction commitments totaling \$2,311.

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**(10) 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.