



**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

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KPMG LLP
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Independent Auditors' Report

The Honorable City Council
City of Anaheim, California:

We have audited the accompanying financial statements of the Electric Utility Fund of the City of Anaheim, California (the City), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matters

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, 2013 and 2012, and the changes in its financial position and its cash flows, where applicable, for the years then ended, in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

As discussed in note 1 to the financial statements, the City adopted Government Accounting Standard Board Statement No. 65, *Items previously reported as Assets and Liabilities*. Application of this statement was effective as of July 1, 2012.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 17, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

KPMG LLP

December 17, 2013

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis
(Unaudited)

June 30, 2013 and 2012

(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, 2013 and 2012. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements.

Financial Highlights

The assets and deferred outflows of resources of the Electric Utility exceeded its liabilities and deferred inflows of resources at the close of the most recent two fiscal years by \$349,991 and \$330,989, respectively. Of these amounts, unrestricted net position, \$75,719 and \$60,699, respectively, may be used to meet the Electric Utility's ongoing obligations to creditors and customers. The Electric Utility's total net position increased by \$19,002 and \$4,752 for the fiscal years ended June 30, 2013 and 2012, respectively. Unrestricted net position represented 19.7% and 17.2% of annual operating expenses for fiscal years 2013 and 2012, 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, 2013.

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 statement of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows.

The *statement of net position* present information on assets and deferred outflows of resources, and liabilities and deferred inflows of resources with the difference between the two reported as net position. Over time, increases or decreases in net position 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 net position* present information showing how the Electric Utility's net position changed during the most recent two fiscal years. Results of operations are recorded using the accrual basis of accounting, whereby transactions are reported as underlying events occur, regardless of the timing of cash flows. Thus, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods, such as accounts receivable and accounts payable. The accrual basis of accounting is more fully described in the accompanying notes to financial statements.

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

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Management's Discussion and Analysis
(Unaudited)

June 30, 2013 and 2012

(In thousands)

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, net position may serve over time as a useful indicator of the Electric Utility's financial position. In the case of the Electric Utility, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$349,991 and \$330,989 at June 30, 2013 and 2012, respectively.

A portion of the Electric Utility's net position (66.1% and 70.7% as of June 30, 2013 and 2012, respectively) reflects its net 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 statement of net position must come from other sources such as operations.

An additional portion of the Electric Utility's net position (12.3% and 11.0% as of June 30, 2013 and 2012, 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 net position (21.6% and 18.3% as of June 30, 2013 and 2012, respectively) may be used to meet the Electric Utility's ongoing obligations to creditors and customers.

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Management's Discussion and Analysis
(Unaudited)

June 30, 2013 and 2012

(In thousands)

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

Condensed statements of net position

	<u>2013</u>	<u>2012 as restated *</u>	<u>2011 as restated *</u>
Current and other assets	\$ 499,339	440,017	435,378
Net utility plant	<u>827,439</u>	<u>821,462</u>	<u>817,727</u>
Total assets	1,326,778	1,261,479	1,253,105
Deferred outflows of resources	<u>3,352</u>	<u>4,099</u>	<u>4,614</u>
Total assets and deferred outflows of resources	<u>1,330,130</u>	<u>1,265,578</u>	<u>1,257,719</u>
Long-term liabilities, net of current portion	794,608	822,714	838,977
Current liabilities	<u>117,568</u>	<u>52,483</u>	<u>46,200</u>
Total liabilities	912,176	875,197	885,177
Deferred inflows of resources	<u>67,963</u>	<u>59,392</u>	<u>46,305</u>
Total liabilities and deferred inflows of resources	<u>980,139</u>	<u>934,589</u>	<u>931,482</u>
Net investment in capital assets	231,291	233,903	231,167
Restricted	42,981	36,387	33,614
Unrestricted	<u>75,719</u>	<u>60,699</u>	<u>61,456</u>
Total net position	<u>\$ 349,991</u>	<u>330,989</u>	<u>326,237</u>

* Restatement due to implementation of GASB Statement No. 65. Refer to note 1 of the notes to the financial statements for additional information.

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ELECTRIC UTILITY FUND**

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(Unaudited)

June 30, 2013 and 2012

(In thousands)

As of June 30, 2013

Assets

Total assets as of June 30, 2013 and 2012 were \$1,326,778 and \$1,261,479, respectively. The \$65,299 increase in total assets was due to a \$59,322 increase in current and other assets and a \$5,977 increase in net utility plant. Current and other assets increased 13.5% primarily due to an increase of \$47,202 in cash and investments of which \$44,000 was unspent proceeds from the Revolving Credit Agreement (see statements of cash flows for additional information regarding changes in cash and cash equivalents), and an increase of \$10,026 in prepaid purchase power for various transmission projects, Magnolia power project in the Southern California Public Power Authority (SCPPA), new Cap and Trade Compliance, and Intermountain Power Agency (IPA) prepaid estimated power costs being higher than true-up costs. Net utility plant increased 0.7% due to current year's net capital asset additions of \$45,946 related to production, distribution, and general utility plant, which was offset by depreciation expense of \$39,969.

Deferred Outflows of Resources

Deferred outflows of resources, consisting of deferred charge on refunding bonds, decreased by \$747 (18.2%) due to current year amortization.

Liabilities

Total liabilities as of June 30, 2013 and 2012 were \$912,176 and \$875,197, respectively. The \$36,979 increase in total liabilities was due to a \$65,085 increase in current liabilities offset by a \$28,106 decrease in long-term liabilities. Current liabilities increased by \$65,085 was mainly due to a \$60,205 planned early retirement of 2002-B Revenue Bonds in July 2013, and an increase of \$6,151 in accounts payable and accrued expenses resulting from increased purchased power costs. Total long-term debt decreased by \$28,106 was primarily due to the issuance of note payable of \$46,600 under the Revolving Credit Agreement offset by a \$60,205 of long-term debt move to current liabilities for early retirement of 2002-B Revenue Bonds and \$18,995 of the current year principal payments.

Deferred Inflows of Resources

Deferred inflow of resource, consisting of regulatory credits increased by \$8,571 (14.4%) (see note 1 of the notes to financial statements for additional information regarding regulatory credits).

Net Position

Total net position as of June 30, 2013 and 2012 were \$349,991 and \$330,989, respectively. Total net position increased by \$19,002 primarily due to an increase in unrestricted net position of \$15,020, and an increase in restricted net position of \$6,549. Unrestricted net position increased 24.7% primarily due to an increase in unrestricted cash & investments from better operating result during this fiscal year. Restricted net position increased 18.1% primarily due to an increase of \$2,903 restricted for debt service and an increase of \$3,342 restricted for public benefit program during fiscal year 2013.

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June 30, 2013 and 2012

(In thousands)

As of June 30, 2012

Assets

Total assets as of June 30, 2012 and 2011 were \$1,261,479 and \$1,253,105, respectively. The \$8,374 increase in total assets was due to a \$3,735 increase in net utility plant and a \$4,639 increase in current and other assets. Net utility plant increased 0.5% due to current year's net capital asset additions of \$42,730 related to production, distribution, and general utility plant, which was offset by depreciation expense of \$38,995. Current and other assets increased 1.1% primarily due to an increase of \$10,561 in cash and investments (see statements of cash flows for additional information regarding changes in cash and cash equivalents), offset by a decrease of \$6,475 in prepaid purchase power resulting from less true-up of prepaid power costs as estimated billings approximate actual amount from IPA.

Deferred Outflows of Resources

Deferred outflows of resources, consisting of deferred charge on refunding bonds, decreased by \$515 (11.2%) due to current year amortization.

Liabilities

Total liabilities as of June 30, 2012 and 2011 were \$875,197 and \$885,177, respectively. The \$9,980 decrease in total liabilities was due to a \$16,263 decrease in long-term liabilities, offset by a \$6,283 increase in current liabilities. Long-term liabilities decrease of 1.9% primarily due to current year's principal payments of \$18,175 offset by an increase of \$3,598 in the provision for decommissioning costs. Current liabilities increased 13.6% primarily due to an increase of \$4,931 in accounts payable and accrued expenses resulting from increased purchased power costs.

Deferred Inflows of Resources

Deferred inflows of resources, consisting of regulatory credits, increased \$13,087 (28.3%) (see note 1 of the notes to financial statements for additional information regarding regulatory credits.)

Net Position

Total net position as of June 30, 2012 and 2011 were \$330,989 and \$326,237, respectively. Total net position increased by \$4,752 primarily due to an increase in net investment in capital assets of \$2,736, and an increase in restricted assets of \$2,773. Net investment in capital assets increased 1.2% primarily due to an increase of \$3,735 in net capital assets during fiscal year 2012. Restricted net position increased 8.2% primarily due to an increase of \$2,348 restricted for public benefit during this fiscal year.

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Management's Discussion and Analysis
(Unaudited)

June 30, 2013 and 2012

(In thousands)

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

**Condensed statements of
revenues, expenses, and changes in net position**

	2013	2012 as restated	2011 as restated
Revenues:			
Retail sales, net	\$ 329,311	313,921	300,522
Wholesale sales	26,322	19,506	21,039
Rate Stabilization Account revenues	41,000	24,000	22,500
Surplus natural gas sales	9,127	2,767	9,096
Transmission revenues	41,854	33,923	24,590
Other revenues	4,344	3,814	3,749
Interest income	1,991	7,662	7,438
Capital contributions	3,782	5,727	9,633
Total revenues	457,731	411,320	398,567
Expenses:			
Purchased power	279,842	245,442	239,339
Fuel and generation	21,987	21,884	21,921
Operations, maintenance, and administration	42,937	46,905	42,707
Depreciation	39,969	38,995	37,772
Interest expense	31,480	32,558	29,759
Total expenses	416,215	385,784	371,498
Transfers:			
Transfer to the General Fund of the City	(17,504)	(15,067)	(16,042)
Transfer of right-of-way fee to the City	(5,069)	(4,845)	(4,713)
Transfers from (to) other funds of the City	59	(872)	2,153
Total transfers	(22,514)	(20,784)	(18,602)
Changes in net position	19,002	4,752	8,467
Net position at beginning of year, as restated	330,989	326,237	317,770
Net position at end of year	\$ 349,991	330,989	326,237

Revenues

Year ended June 30, 2013

Total revenues for the year ended June 30, 2013 were \$457,731 as compared with \$411,320 in the prior year, an increase in total revenues of \$46,411 (11.3%). This increase was primarily due to an

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(Unaudited)

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increase of \$15,390 in retail sales, an increase of \$6,816 in wholesale sales, an increase of \$17,000 in Rate Stabilization Account (RSA) revenues and an increase of \$7,931 in transmission revenues.

The increase of 4.9% in retail sales revenue was due to higher sales volumes in the summer months with higher rate during fiscal year of 2013.

The increase of 34.9% in wholesale sales revenue was mainly due to higher wholesale price with more surplus power available from the increasing renewable resource purchased in this fiscal year.

The increase of 70.8% and \$41,000 in RSA revenues were recognized in this fiscal year in order to maintain approximately \$50 million reserve balance, to retain good debt service coverage ratio for the Electric Utility bond ratings, and to cover increasing purchase power costs.

The increase of 23.4% in transmission revenues was mainly due to a higher price for transmission Congestion Revenue Rights (CRR) in the market when SONGS plant was shut down causing heavy traffic congestion in this fiscal year. Transmission revenues are based upon the Electric Utility providing use of its transmission entitlements to the CAISO as a participating transmission owner. These revenues are based upon the transmission rates charged by CAISO and the demand in the participants market.

Year ended June 30, 2012

Total revenues for the year ended June 30, 2012 were \$411,320 as compared with \$398,567 in the prior year, an increase in total revenues of \$12,753 (3.2%). This increase was primarily due to an increase of \$13,399 in retail sales, and an increase of \$9,333 in transmission revenues, which were offset by a decrease of \$6,329 in surplus natural gas sales and a decrease of \$3,906 in capital contributions.

The increase of 4.5% in retail sales revenue was in response to the increasing power costs, for which a 5.0% base rate increase was effective on December 1, 2011.

The increase of 38.0% in transmission revenues was mainly due to a higher transmission rate applied since July 2011. Transmission revenues are based upon the Electric Utility providing use of its transmission entitlements to the CAISO as a participating transmission owner. These revenues are based upon the transmission rates charged by CAISO and the demand in the participants market.

The decrease of 69.6% in surplus natural gas sales was mainly due to less natural gas available for resale in the spot market, when more purchased gas was used for Magnolia, Canyon, and Kraemer Combustion Turbine plants in this fiscal year.

The decrease of 40.5% in capital contributions was due to a onetime capital asset contribution of \$3,499 (Colony Park Underground project) from the City in the prior fiscal year.

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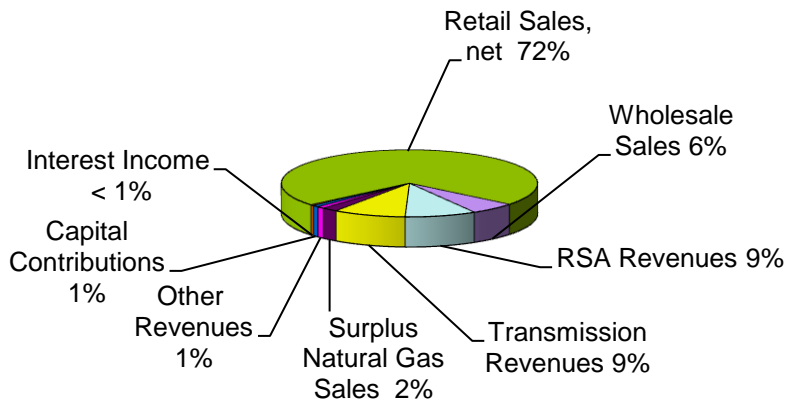
Management's Discussion and Analysis
(Unaudited)

June 30, 2013 and 2012

(In thousands)

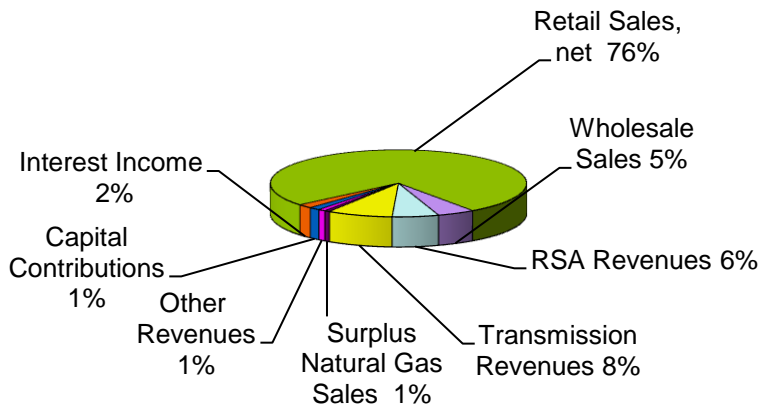
Revenues by Source

Year ended June 30, 2013



Revenues by Source

Year ended June 30, 2012



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Management's Discussion and Analysis
(Unaudited)

June 30, 2013 and 2012

(In thousands)

Expenses

Year ended June 30, 2013

Total expenses for the year ended June 30, 2013 were \$416,215 as compared with \$385,784 in the prior year. This \$30,431 (7.9%) increase in total expenses was mainly the result of an increase in purchased power costs of \$34,400, offset by a decrease in operations, maintenance, and administration of \$3,968.

The 14.0% increase in purchased power costs was due primarily to the combination of increases in the renewable power purchase of \$17,751 to reach the resource mix of 25% by 2016, higher market power purchase of \$10,810 and higher Canyon Power costs of \$5,195 due to the outages from Magnolia and San Juan plants.

The 8.5% decrease in operations, maintenance, and administrative expenses was mainly due to various reductions in administrative expenses, and larger amount of overhead costs being eligible for capitalization. During fiscal year 2013, the Electric Utility added construction work in progress of \$45,717.

Year ended June 30, 2012

Total expenses for the year ended June 30, 2012 were \$385,784 as compared with \$371,498 in the prior year. This \$14,286 (3.8%) increase in total expenses was mainly the result of an increase in purchased power costs of \$6,103, an increase in operations, maintenance, and administration of \$4,198, an increase in interest expenses of \$2,799, and an increase in depreciation of \$1,223.

The 2.5% increase in purchased power costs was due primarily to the new Canyon power costs of \$14,494, offset by a decrease in natural gas costs of \$7,755 when more purchased gas was used for Magnolia and Combustion Turbine plant in this fiscal year.

The 9.8% increase in operations, maintenance, and administrative expenses, which was mainly caused by \$6,073 less overhead from operations, maintenance, and administration, applied to capital assets as less capital construction was performed during the year, offset by decrease in maintenance expenses of \$1,935 due to certain delayed maintenance projects. The reduction of overhead costs eligible for capitalization is the primary reason for the increase in operation and maintenance costs.

The 9.4% increase in interest expense was mainly due to a full year interest expense of \$4,599 for the 2011 Electric Revenue Bonds issued in May 2011.

The 3.2% increase in depreciation expense was due to a total of \$31,381 of assets, which included the two underground projects, upgrading Hannum and Lewis substations, and improvement of the existing distribution system and automation equipment that were placed in service during this fiscal year.

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Management's Discussion and Analysis
(Unaudited)

June 30, 2013 and 2012

(In thousands)

Transfers

Year ended June 30, 2013

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 \$17,504 for fiscal year 2013, which is based on the current year's total operating revenues and true-up adjustments on prior year's total operating revenues. An increase of \$2,437 was mainly due to the increased operating revenue in the fiscal year 2013.

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 \$5,069 for fiscal year 2013. There were no significant changes in the amount of right-of-way fee transferred to the City during fiscal year 2013 when compared with fiscal year 2012.

Transfers from other funds of the City in fiscal year 2013 were \$59 as compared with transfers to other funds of \$872 in the prior fiscal year. There was no significant amount in this fiscal year. The \$872 was capital assets of facility lighting enhancement and Arena Box Office Green Roof construction transferred to the Convention Center in the prior year.

Year ended June 30, 2012

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 \$15,067 for fiscal year 2012, which is based on the current year's total operating revenues and true-up adjustments on prior year's total operating revenues. A decrease of \$975 was mainly due to a reduced true-up adjustment in the fiscal year 2012.

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 \$4,845 for fiscal year 2012. There were no significant changes in the amount of right-of-way fee transferred to the City during fiscal year 2012 when compared with fiscal year 2011.

Transfers to other funds of the City in fiscal year 2012 were \$872 as compared with transfers from other funds of \$2,153 in the prior fiscal year. Capital assets of facility lighting enhancement and Arena Box Office Green Roof construction were transferred to the Convention Center, offset by the \$67 of cash transfer in from Water Utilities for capital purposes in this fiscal year. The \$2,153 was a cash transfer from the City for capital improvements in the Platinum Triangle area in the prior year.

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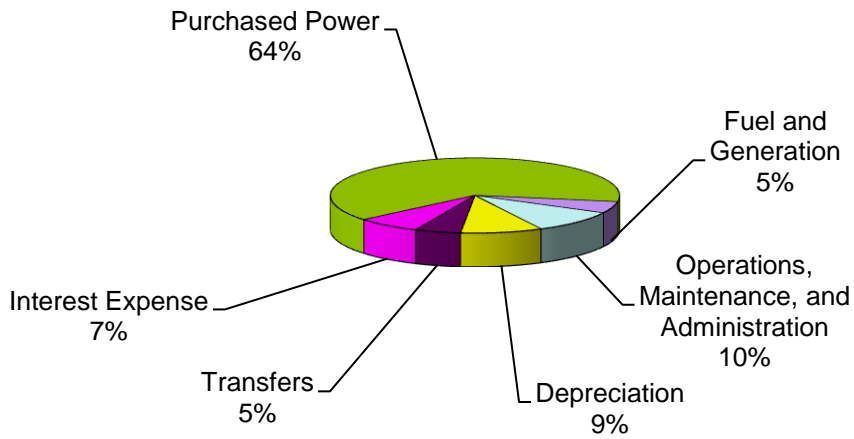
Management's Discussion and Analysis
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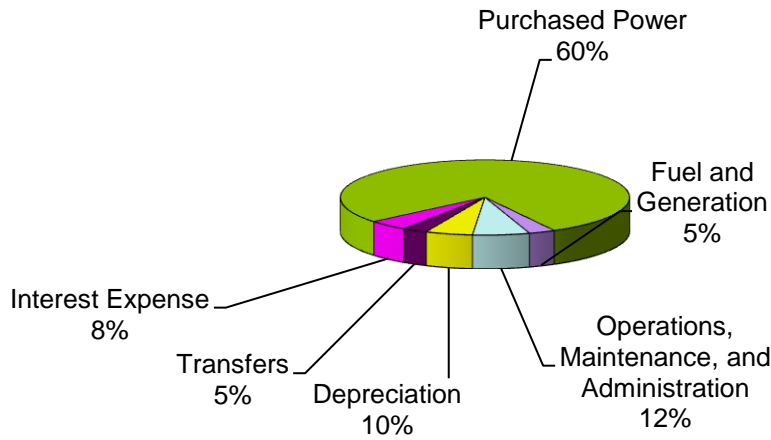
Expenses and Transfers

Year ended June 30, 2013



Expenses and Transfers

Year ended June 30, 2012



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Capital Assets and Debt Administration

Capital Assets

The Electric Utility's investment in net utility plant as of June 30, 2013 and 2012 was \$827,439 and \$821,462, 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, 2013 was \$1,250,107 an increase of \$41,813 (3.5%) over the prior fiscal year.

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Production	\$ 123,412	119,144	117,978
Transmission	92,323	92,229	91,022
Distribution	851,842	805,703	780,122
General plant	112,045	109,346	107,919
Land	35,671	35,671	35,671
Construction in progress	<u>34,814</u>	<u>46,201</u>	<u>35,498</u>
Total utility plant	1,250,107	1,208,294	1,168,210
Less accumulated depreciation	<u>(422,668)</u>	<u>(386,832)</u>	<u>(350,483)</u>
Net utility plant	<u>\$ 827,439</u>	<u>821,462</u>	<u>817,727</u>

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

As of June 30, 2013

The Electric Utility experienced an increase in gross utility plant this fiscal year of \$41,813 (3.5%), 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 projects on Brookhurst street, La Palma street, and between Lincoln and Magnolia streets, and upgrading equipment for San Juan plant.

Accumulated depreciation increased \$35,836 (9.3%) mainly due to current year depreciation expense of \$39,969.

As of June 30, 2012

The Electric Utility experienced an increase in gross utility plant this fiscal year of \$40,084 (3.4%), which includes the expansion or improvement of existing substations, transmission and distribution

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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 \$36,349 (10.4%) mainly due to current year depreciation expense of \$38,995.

Long-Term Debt

As of June 30, 2013 and 2012, the Electric Utility had total long-term debt outstanding of \$725,280 and \$701,755, respectively.

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenue bonds	\$ 678,680	701,755	719,930
Electric system notes	<u>46,600</u>	<u>—</u>	<u>—</u>
Long-term debt	725,280	701,755	719,930
Less:			
Current portion	(78,395)	(18,995)	(18,175)
Unamortized bond premium	<u>16,390</u>	<u>9,009</u>	<u>9,875</u>
Total noncurrent long-term debt outstanding	<u>\$ 663,275</u>	<u>691,769</u>	<u>711,630</u>

As of June 30, 2013, the credit rating of the Electric Utility was AA- by Fitch Ratings, 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, 2013

Total long-term debt outstanding increased \$23,525 (3.4%) due to new debt from revolving credit agreement of \$46,600 offset by current year principal payments of \$18,995 and pay-down of \$4,080 on the refunded 2002-A Revenue Bonds by the 2012-A Revenue Bonds. The revenues of the Electric Utility have been pledged to pay the outstanding long-term debt.

As of June 30, 2012

Total long-term debt outstanding decreased \$18,175 (2.5%) due to current year principal payments of \$18,175 on outstanding debts. The revenues of the Electric Utility have been pledged to pay the outstanding long-term debt.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis
(Unaudited)

June 30, 2013 and 2012

(In thousands)

Economic Factors and Rates

California Senate Bill 1X 2 signed into law in April 2011 mandated that all California utilities are required to reach 25% renewable power in their power portfolios by 2016, and 33% by 2020. The higher renewable power costs will raise future power supply costs in fiscal year 2014.

There are no budgeted rate increases in fiscal year 2013.

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**

Statements of Net Position

June 30, 2013 and 2012

(In thousands)

Assets and Deferred Outflows of Resources	2013	2012 as restated
Utility plant:		
Production	\$ 123,412	119,144
Transmission	92,323	92,229
Distribution	851,842	805,703
General plant	112,045	109,346
Total depreciable utility plant	1,179,622	1,126,422
Less accumulated depreciation	(422,668)	(386,832)
Net depreciable utility plant	756,954	739,590
Land	35,671	35,671
Construction in progress	34,814	46,201
Net utility plant	827,439	821,462
Restricted assets:		
Cash and cash equivalents	33,688	47,807
Investments	209,461	222,388
Total restricted assets	243,149	270,195
Other assets:		
Prepaid purchased power	56,519	51,072
Unamortized prepaid bond insurance	1,254	1,364
Total other assets	57,773	52,436
Total noncurrent assets	1,128,361	1,144,093
Current assets:		
Cash and cash equivalents	17,538	12,999
Investments	36,354	20,794
Restricted cash and cash equivalents	62,515	11,007
Restricted investments	17,939	15,298
Accounts receivable, net	43,220	42,269
Accrued interest receivable	1,218	1,343
Materials and supplies inventory	9,683	8,305
Prepaid purchased power	9,950	5,371
Total current assets	198,417	117,386
Total assets	1,326,778	1,261,479
Deferred outflows of resources:		
Deferred charge of refunding bonds	3,352	4,099
Total deferred outflows of resources	3,352	4,099
Total assets and deferred outflows of resources	\$ 1,330,130	1,265,578

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Statements of Net Position

June 30, 2013 and 2012

(In thousands)

Liabilities and Deferred Inflows of Resources	2013	2012 as restated
Long-term liabilities:		
Long-term debt obligation, less current portion	\$ 663,275	691,769
Provision for decommissioning costs	<u>131,333</u>	<u>130,945</u>
Total long-term liabilities	<u>794,608</u>	<u>822,714</u>
Current liabilities (payable from restricted assets):		
Current portion of long-term debt	68,898	14,246
Accounts payable	3,133	3,199
Wages payable	134	103
Arbitrage rebate liabilities	158	206
Accrued interest payable	<u>8,131</u>	<u>8,551</u>
Total current liabilities (payable from restricted assets)	<u>80,454</u>	<u>26,305</u>
Current liabilities (payable from unrestricted current assets):		
Current portion of long-term debt	9,497	4,749
Accounts payable and accrued expenses	23,031	16,918
Interfund payable	104	—
Wages payable	391	406
Deposits	<u>4,091</u>	<u>4,105</u>
Total current liabilities (payable from unrestricted current assets)	<u>37,114</u>	<u>26,178</u>
Total liabilities	<u>912,176</u>	<u>875,197</u>
Deferred inflows of resources:		
Deferred regulatory credits	<u>67,963</u>	<u>59,392</u>
Total deferred inflows of resources	<u>67,963</u>	<u>59,392</u>
Total liabilities and deferred inflows of resources	<u>980,139</u>	<u>934,589</u>
Net position:		
Net investment in capital assets	231,291	233,903
Restricted for:		
Debt service	16,536	13,633
Renewal and replacement	15,852	15,503
Other purposes	10,593	7,251
Unrestricted	<u>75,719</u>	<u>60,699</u>
Total net position	<u>349,991</u>	<u>330,989</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 1,330,130</u>	<u>1,265,578</u>

See accompanying notes to financial statements.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

(In thousands)

	2013	2012 as restated
Operating revenues:		
Retail sales of electricity, net	\$ 329,311	313,921
Wholesale sales of electricity	26,322	19,506
Rate Stabilization Account revenues	41,000	24,000
Surplus natural gas sales	9,127	2,767
Transmission revenues	41,854	33,923
Other operating revenues	4,344	3,814
Total operating revenues	451,958	397,931
Operating expenses:		
Purchased power	279,842	245,442
Fuel and generation	21,987	21,884
Operations, maintenance, and administration	42,937	46,905
Depreciation	39,969	38,995
Total operating expenses	384,735	353,226
Operating income	67,223	44,705
Nonoperating revenues (expenses):		
Interest income	1,991	7,662
Interest expense	(31,480)	(32,558)
Net nonoperating expenses	(29,489)	(24,896)
Income before capital contributions and transfers	37,734	19,809
Capital contributions	3,782	5,727
Transfer to the General Fund of the City	(17,504)	(15,067)
Transfer of right-of-way fee to the City	(5,069)	(4,845)
Transfers from (to) other funds of the City	59	(872)
Change in net position	19,002	4,752
Net position at beginning of year, as restated	330,989	326,237
Net position at end of year	\$ 349,991	330,989

See accompanying notes to financial statements.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Statements of Cash Flows
Years ended June 30, 2013 and 2012
(In thousands)

	2013	2012
Cash flows from operating activities:		
Receipts from customers and users	\$ 457,545	408,260
Receipts from services provided to other funds of the City	2,019	1,590
Payments to suppliers	(305,121)	(254,277)
Payments to employees	(35,790)	(35,808)
Payments for services provided by other funds of the City	(8,808)	(8,098)
Net cash provided by operating activities	109,845	111,667
Cash flows from noncapital financing activities:		
Transfers to the General Fund and other funds of the City	(22,573)	(19,912)
Net cash used for noncapital financing activities	(22,573)	(19,912)
Cash flows from capital and related financing activities:		
Proceeds from borrowings	147,984	—
Principal payments on long-term debt	(18,995)	(18,175)
Transfer to escrow account	(96,603)	—
Capital purchases	(43,501)	(40,781)
Interest paid, net of amounts capitalized	(33,880)	(34,684)
Issuance costs	(470)	—
Transfers from other funds of the City for capital purposes	110	39
Capital contributions	3,169	4,561
Net cash used for capital and related financing activities	(42,186)	(89,040)
Cash flows from investing activities:		
Purchases of investment securities	(93,116)	(100,745)
Proceeds from sale and maturity of investment securities	83,249	87,745
Interest income received	6,709	7,832
Net cash used for investing activities	(3,158)	(5,168)
Increase (decrease) in cash and cash equivalents	41,928	(2,453)
Cash and cash equivalents at beginning of year	71,813	74,266
Cash and cash equivalents at end of year	\$ 113,741	71,813

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Statements of Cash Flows

Years ended June 30, 2013 and 2012

(In thousands)

	2013	2012
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 67,223	44,705
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	39,969	38,995
Increase in provision for decommissioning costs	388	3,598
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable, net	(951)	(2,143)
Materials and supplies inventory	(1,378)	1,470
Prepaid purchased power	(10,026)	6,475
Accounts payable and accrued expenses	6,047	4,931
Wages payable	16	(426)
Regulatory credits	8,571	13,087
Deposits	(14)	975
Total adjustments	42,622	66,962
Net cash provided by operating activities	\$ 109,845	111,667
Schedule of noncash investing, capital, and financing activities:		
Capital contributions	\$ 613	958
Transfers from (to) other funds of the City	51	(911)
(Decrease) increase in fair value of investments	(4,593)	14
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 17,538	12,999
Restricted cash and cash equivalents, current portion	62,515	11,007
Restricted cash and cash equivalents, noncurrent portion	33,688	47,807
Total cash and cash equivalents	\$ 113,741	71,813

See accompanying notes to financial statements.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(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 position 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.

(b) New Accounting Pronouncements; Changes in Accounting Principles and Restatements

On July 1, 2012, the Electric Utility adopted the following new accounting pronouncements issued by the GASB:

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance from all sources of generally accepted accounting principles for state and local governments so that they derive from a single source.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides guidance for deferred outflows of resources and deferred inflows of resources. Deferred outflows and deferred inflows of resources are defined as a consumption of net position by the government that is applicable to a future reporting period and the acquisition of net position by the government that is applicable to a future reporting period. Net position is defined as the residual of all other elements presented in a statement of financial position.
- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources, and recognize certain items that were previously reported as assets and liabilities as outflows of resources or inflows of resources.

Accounting changes adopted to conform to the provisions of these pronouncements should be applied retroactively. Except for GASB Statement No. 65, the implementation of these pronouncements had no material effect on amounts reported in the Electric Utility's financial statements for the fiscal year ended June 30, 2013. The requirements of GASB Statement

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

No. 65 caused the Electric Utility to restate certain prior year net positions by the amount of the unamortized debt issuance costs, as these costs should now be recognized as an expense in the period incurred.

The following table provides a reconciliation of net positions at June 30, 2012 and 2011 as previously reported to net positions at June 30, 2012 and 2011 as restated:

	2012	2011
Net position at June 30, as previously reported	\$ 335,709	331,298
Reduction of unamortized debt issuance costs	(4,720)	(5,061)
Net position at June 30, as restated	\$ 330,989	326,237

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

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27. This Statement provides guidance for employers offering defined benefit pensions through plans administered as trusts or equivalent arrangements. It replaces certain requirements related to plan trusts in Statement No. 27, *Accounting for Pension by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This Statement is effective for periods beginning after June 15, 2014. The impact to the Electric Utility in conforming to this standard has yet to be determined.

(c) 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.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

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

(d) Pooled Cash and Investments

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

(e) 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 position 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 position. Generally, the Electric Utility would first apply restricted resources when expenses incurred for which both restricted and unrestricted resources are available.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

(f) *Deferred Outflows of Resources*

Deferred outflows of resources represent consumptions of net position that apply to future periods and so will not be recognized as an outflow of resources (expense) until then. In the statements of net position as of June 30, 2013 and 2012, the Electric Utility reported deferred charges on refunding bonds in this category of \$3,352 and \$4,099, respectively. A deferred charge on refunding results from the difference in the carrying value of debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

(g) *Deferred Inflows of Resources*

Deferred inflows of resources represent acquisitions of net position that apply to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Electric Utility included its regulatory credits in this category. Regulatory credits represent amounts accumulated from collections, which provide recovery in the current period for costs to be incurred in future periods. At June 30, 2013 and 2012, the amounts recorded for regulatory credits totaled \$67,963 and \$59,392, respectively. See note 1 (j) for further discussion of regulatory credits.

(h) *Operating Revenues*

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

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 \$20,923 and \$18,517 at June 30, 2013 and 2012, respectively.

Revenues are reported net of uncollectible amounts. Total uncollectible amounts written off are \$771 and \$581 for the years ended June 30, 2013 and 2012, respectively. The applicable allowances for uncollectible accounts are \$366 and \$424 at June 30, 2013 and 2012, respectively. See note 6 for discussion of pledged revenue.

(i) *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

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

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.

(j) 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 GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and approved by the City Council, amounts collected for the RSA are deferred and recorded as regulatory credits in the statement of net position.

Since inception, the Electric Utility has collected \$189,125 in regulatory credits related to PCA. As of September 12, 2012, the PCA rates were changed from \$0.0190 to \$0.0150 per kWh for all domestic retail customers, excluding residential lifeline customers, and from \$0.0145 to \$0.0100 per kWh for all commercial, industrial, and municipal customers. As of June 30, 2013 and 2012, the Electric Utility recorded a liability for regulatory credits of \$40,707 and \$56,996, respectively. During fiscal years 2013 and 2012, \$40,756 and \$9,076, respectively, was recognized as RSA revenues to mitigate the impact of energy costs and operation costs.

Since inception, the Electric Utility has collected \$60,329 in regulatory credits related to EMA. As of September 12, 2012, the EMA rate was changed from \$0.0100 to \$0.0150 per kWh for all domestic customers and from \$0.0050 to \$0.0100 per kWh for all other customers. As of June 30, 2013 and 2012, the Electric Utility recorded a liability for regulatory credits of \$27,256 and \$2,396, respectively. During fiscal years 2013 and 2012, \$244 and \$14,924, respectively, was recognized as RSA revenues to mitigate the impact of environmental mitigation costs.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

(k) 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. A separate irrevocable trust account was established for amounts funded, and these amounts are classified as restricted assets in the accompanying statement of net position. As of June 30, 2013 and 2012, the Electric Utility has recorded a provision for decommissioning costs for SONGS of \$127,373 and \$127,425, respectively. For the years ended June 30, 2013 and 2012, the Electric Utility has recorded decommissioning costs incurred for SONGS of \$52 and \$3,158, 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, 2013, SCE's future cost estimate for the Electric Utility's share of decommissioning costs is \$112,879. The Electric Utility currently has \$127,373 in irrevocable trust for the decommissioning costs. Based on a lower assumed 1.2% rate of return and SONGS operation shutting down in January 2012, it is estimated that the Electric Utility's current reserve of \$127,373 will grow to \$133,597, which will be funded its future decommission cost estimate of \$132,053 in fiscal year of 2017. On June 7, 2013, the SCE announced the permanent retirement of the SONGS plant. The Electric Utility will continue to fund the reserve and recognize the expense until the new decommissioning study approves by the Nuclear Regulatory Commission.

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, 2013 and 2012, the Electric Utility has recorded a provision for decommissioning costs for SJ of \$3,960 and \$3,520, respectively. Electric Utility currently has \$452 in irrevocable trust and \$3,508 in the City restricted cash account. For the years ended June 30, 2013 and 2012, 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.

(l) Debt Issuance Costs

Debt issuance costs, with the exception of prepaid insurance costs, are recognized as an expense in the period when the debt is issued, in accordance with the provisions of GASB 62. Prepaid insurance costs are capitalized and amortized over the lives of the related bond issues on a basis that approximates the effective-interest method.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

(m) Bond Refunding Costs

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

(n) 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 \$1,801 and \$1,738 for the Electric Utility at June 30, 2013 and 2012, respectively.

(o) 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 \$17,504 and \$15,067 for the years ended June 30, 2013 and 2012, 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 \$5,069 and \$4,845 for the years ended June 30, 2013 and 2012, 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 from was \$59 and transfers to was \$872 for the years ended June 30, 2013 and 2012, respectively.

(p) Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. Such reclassifications had no effects on the previously reported changes in net position except for the amount discussed in Note 1(b) as required by GASB Statement No. 65.

(q) 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

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

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 funds, and is invested by the City 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/S1 in August 2012.

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

	2013	2012
Cash equivalents and investments pooled with the Treasurer	\$ 137,913	143,805
Investments held with trustee	239,582	186,488
	\$ 377,495	330,293

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

	2013	2012
Restricted assets – cash equivalents and investments	\$ 323,603	296,500
Unrestricted assets – cash equivalents and investments	53,892	33,793
	\$ 377,495	330,293

(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.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

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 City Treasurer's policy is more restrictive than Government Code.

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

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

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

The City's pooled investments comply with the requirements of the investment policy. GAAP requires disclosure of certain investments in any one issuer that exceeds five percent concentration of the total investments.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

At June 30, the following investments represent five percent or more of the City's total pooled investments:

Issuer	Investment type	2013		2012	
		Fair value	Percentage	Fair value	Percentage
Federal National Mortgage Association	U.S. agency securities	\$ 113,988	26%	\$ 65,178	15%
LAIF	LAIF	60,256	14	83,849	20
Federal Farm Credit Bank	U.S. agency securities	55,981	13	57,844	14
Mortgage Corporation	U.S. agency securities	29,760	7	38,637	9
Federal Home Loan Bank	U.S. agency securities	26,161	6	36,398	9

(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.

Authorized investment type	Maximum maturity	Maximum percentage of portfolio	Maximum investment in one issuer
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 portfolio	None	None	None

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

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June 30, 2013 and 2012

(In thousands)

At June 30, 2013, the following investments represent five percent or more of the City's total investments controlled by bond trustees:

Issuer	Investment type	2013		2012	
		Fair value	percentage	Fair value	percentage
Blackrock #61	Money market mutual fund \$	54,904	14%	\$ —	—%
Federal Home Loan Bank	U.S. agency securities	51,620	13	51,272	13
LAIF	LAIF	45,352	11	63,903	16
Federal National Mortgage Association	U.S. agency securities	35,926	9	41,939	11
Morgan Stanley	Flexible repurchase agreeme	32,257	8	26,299	7
Federal Farm Credit Bank	U.S. agency securities	23,382	6	29,301	7
Dreyfus Treas 521	Money market mutual fund	23,029	6	—	—
US Bank Money Market	Money market mutual fund	21,342	5	39,484	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.

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 City 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 City Treasurer uses the segmented-time distribution method to identify and manage interest rate risk. In accordance with the City investment policy, the City 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. Guaranteed investment contracts for construction funds are usually limited to three years or less. Information about the sensitivity of the fair values of the City's investments (including investments held by bond

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

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(In thousands)

trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity at June 30, 2013. 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 2013 and 2012 is provided by the following tables.

The distribution of the Electric Utility's investments by maturity at June 30, 2013 and 2012 is as follows:

Investments	Credit rating (S&P/Moody's)	Fair value, June 30, 2013	12 months or less	13 to 24 months	25 to 36 months	37 to 60 months	More than 60 months
Treasurer's pooled investments:							
U.S. agency securities	AA+/Aaa	\$ 70,672	12,171	13,682	15,093	29,726	—
Medium term notes	A-/A3	1,633	—	—	1,633	—	—
Medium term notes	A/A2	3,504	—	1,950	1,554	—	—
Medium term notes	A+/A1	923	—	—	—	923	—
Medium term notes	A+/A2	1,842	—	316	—	1,526	—
Medium term notes	AA/Aa1	1,556	—	—	626	930	—
Medium term notes	AA/Aa2	943	—	—	943	—	—
Medium term notes	AA+/A1	4,825	—	3,178	—	1,647	—
Medium term notes	AA+/Aa3	934	—	—	934	—	—
Medium term notes	AAA/Aaa	6,757	946	—	5,811	—	—
Commercial paper	A-1/P-1	17,745	17,745	—	—	—	—
Money market mutual funds	AAA/Aaa	7,727	7,727	—	—	—	—
LAIF	Unrated	18,852	18,852	—	—	—	—
Total investments controlled by City Treasurer		137,913	57,441	19,126	26,594	34,752	—
Investments controlled by bond trustees:							
U.S. agency securities	AA+/Aaa	126,652	49,190	8,492	27,437	41,533	—
Guaranteed investment contracts	Unrated	30,320	—	—	7,500	—	22,820
Collateralized investment contracts	Unrated	3,669	—	—	—	—	3,669
Flexible repurchase agreements	Unrated	10,082	—	10,082	—	—	—
Money market mutual funds	AAA/Aaa	68,859	68,859	—	—	—	—
Total investments controlled by bond trustees		239,582	118,049	18,574	34,937	41,533	26,489
Total Electric Utility investments		\$ 377,495	175,490	37,700	61,531	76,285	26,489

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

<u>Investments</u>	<u>Credit rating (S&P/Moody's)</u>	<u>Fair value, June 30, 2012</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	AA+/Aaa	\$ 67,677	12,041	19,107	20,212	16,317	—
Medium term notes	A-/A3	2,492	783	—	—	1,709	—
Medium term notes	A-/Baa2	2,860	2,860	—	—	—	—
Medium term notes	A/A2	2,138	—	—	2,138	—	—
Medium term notes	A+/A1	1,761	1,761	—	—	—	—
Medium term notes	A+/A2	3,135	2,793	—	342	—	—
Medium term notes	AA/Aa2	1,033	—	—	—	1,033	—
Medium term notes	AA+/A1	3,537	—	—	1,737	1,800	—
Medium term notes	AAA/Aaa	3,879	—	1,039	—	2,840	—
Commercial paper	A-1/P-1	17,766	17,766	—	—	—	—
Money market mutual funds	AAA/Aaa	8,875	8,875	—	—	—	—
LAIF	Unrated	28,652	28,652	—	—	—	—
Total investments controlled by City Treasurer		143,805	75,531	20,146	24,429	23,699	—
Investments controlled by bond trustees:							
U.S. agency securities	AA+/Aaa	125,822	10,175	50,431	18,715	46,501	—
Guaranteed investment contracts	Unrated	30,420	—	—	—	7,500	22,920
Collateralized investment contracts	Unrated	3,669	—	—	—	—	3,669
Flexible repurchase agreements	Unrated	10,082	—	—	10,082	—	—
Money market mutual funds	AAA/Aaa	16,495	16,495	—	—	—	—
Total investments controlled by bond trustees		186,488	26,670	50,431	28,797	54,001	26,589
Total Electric Utility investments		\$ 330,293	102,201	70,577	53,226	77,700	26,589

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

(3) Electric Utility Plant

The following is a summary of changes in capital assets:

	Balance as of June 30, 2011	Additions	Deletions	Balance as of June 30, 2012	Additions	Deletions	Balance as of June 30, 2013
Production	\$ 117,978	1,166	—	119,144	4,268	—	123,412
Transmission	91,022	1,240	(33)	92,229	129	(35)	92,323
Distribution	780,122	27,548	(1,967)	805,703	48,644	(2,505)	851,842
General plant	107,919	1,427	—	109,346	2,699	—	112,045
Depreciable utility plant	1,097,041	31,381	(2,000)	1,126,422	55,740	(2,540)	1,179,622
Less accumulated depreciation	(350,483)	(38,995)	2,646	(386,832)	(39,969)	4,133	(422,668)
Net depreciable utility plant	746,558	(7,614)	646	739,590	15,771	1,593	756,954
Land	35,671	—	—	35,671	—	—	35,671
Construction in progress	35,498	42,964	(32,261)	46,201	45,717	(57,104)	34,814
Nondepreciable utility plant	71,169	42,964	(32,261)	81,872	45,717	(57,104)	70,485
Net utility plant	\$ 817,727	35,350	(31,615)	821,462	61,488	(55,511)	827,439

(4) Operating Expenses

Total operating expenses shared with the City's Water Utility Fund amounted to \$28,788 and \$26,524 for the years ended June 30, 2013 and 2012, respectively, of which \$21,879 and \$20,158, 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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(In thousands)

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, 2013 and 2012 amounted to \$84,407 and \$80,139, 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, 2013</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	\$ 701,755	92,130	(115,205)	678,680	71,795
Electric system note	—	46,600	—	46,600	6,600
Provision for decommissioning costs	130,945	388	—	131,333	—
	832,700	139,118	(115,205)	856,613	\$ 78,395
Less current portion	(18,995)	(78,395)	18,995	(78,395)	
Add unamortized bond premium	9,009	9,254	(1,873)	16,390	
Total long-term liabilities	\$ 822,714	69,977	(98,083)	794,608	

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(In thousands)

<u>June 30, 2012</u>	<u>Beginning of year</u>	<u>Additions</u>	<u>Retirements</u>	<u>End of year</u>	<u>Due within one year</u>
Anaheim Public Financing Authority Revenue Bonds	\$ 719,930	—	(18,175)	701,755	18,995
Provision for decommissioning costs	<u>127,347</u>	<u>3,598</u>	<u>—</u>	<u>130,945</u>	<u>—</u>
	847,277	3,598	(18,175)	832,700	<u>\$ 18,995</u>
Less current portion	(18,175)	(18,995)	18,175	(18,995)	
Add unamortized bond premium	<u>9,875</u>	<u>—</u>	<u>(866)</u>	<u>9,009</u>	
Total long-term liabilities	<u>\$ 838,977</u>	<u>(15,397)</u>	<u>(866)</u>	<u>822,714</u>	

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

	<u>2013</u>	<u>2012</u>
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 \$32,315 at rates ranging from 4.00% to 5.00% is maturing from October 1, 2013 through 2027 in annual principal installments ranging from \$1,535 to \$2,795. The total debt service is \$43,248 to maturity.	\$ 32,315	34,650
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, which was advance refunded by Anaheim Public Financing Authority Revenue Bonds, issue of 2012. There is no remaining principal. The Series 2002-B was issued in the amount of \$82,495 as serial bonds. The remaining principal of \$60,205 at rates ranging from 4.80% to 5.25% is maturing on July 13, 2013. The total debt service is \$61,082 to maturity.	60,205	164,310

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ELECTRIC UTILITY FUND**

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June 30, 2013 and 2012

(In thousands)

	2013	2012
<p>Anaheim Public Financing Authority Revenue Bonds, issue of 2003, TIC 3.99%, dated April 1, 2003, sold on April 9, 2003 in the amount of \$60,415. The Series 2003-A was issued in the amount of \$37,735 as serial bond. The remaining principal of \$27,725 at rate of 5% maturing from October 1, 2013 to 2022 in annual principal installments ranging from \$2,045 to \$3,590. The Series 2003-B was issued in the amount of \$22,680. There is no remaining principal. The total debt service is \$35,362 to maturity.</p>	\$ 27,725	29,640
<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 \$77,065 at rates ranging from 4.00% to 5.25% is maturing from October 1, 2013 to 2025 in annual principal installments ranging from \$2,830 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 \$173,792 to maturity.</p>	111,270	113,960
<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 \$65,030 at rates ranging from 4.00% to 5.00% is maturing from October 1, 2013 through 2028 in annual principal installments ranging from \$3,100 to \$11,530; (2) \$24,410 was issued as term bonds at a rate of 4.75% maturing on October 1, 2026 and 2027 in annual principal installments from \$11,685 to \$12,725; (3) \$36,675 was issued as term bonds at a rate of 4.50% maturing from October 1, 2029 through 2032 in annual principal installments from \$7,665 to \$12,550; and (4) \$71,950 was issued as term bonds at a rare of 4.50% maturing from October 1, 2033 through 2037 in annual principal installments ranging from \$13,125 to \$15,715. The total debt service is \$343,566 to maturity.</p>	198,065	201,040

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Notes to Financial Statements
June 30, 2013 and 2012
(In thousands)

	2013	2012
<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 \$33,985 at rates ranging from 4.00% to 5.00% is maturing from October 1, 2013 through 2030 in annual principal installments ranging from \$1,230 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; and (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 \$122,679 to maturity.</p>	\$ 66,580	67,765
<p>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; and (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 \$161,683 to maturity.</p>	90,390	90,390
<p>Anaheim Public Financing Authority Revenue Bonds, issue of 2012, TIC 3.38%, dated and sold on September 19, 2012 in the amount of \$92,130, issued as serial bonds at rates ranging from 3.125% to 5.00% is maturing from October 1, 2021 through 2031 in annual principal installments ranging from \$1,455 to \$17,080. The total debt service is \$151,733 to maturity.</p>	\$ 92,130	—
<p>Total Anaheim Public Financing Authority Revenue Bonds</p>	\$ <u>678,680</u>	<u>701,755</u>

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(In thousands)

Annual debt service requirements, excluding amounts for decommissioning costs, at June 30, 2013 to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal years ending June 30:			
2014	\$ 71,795	30,038	101,833
2015	12,155	28,633	40,788
2016	12,690	28,078	40,768
2017	15,115	27,438	42,553
2018	15,810	26,735	42,545
2019 – 2023	107,630	119,491	227,121
2024 – 2027	145,455	87,559	233,014
2028 – 2033	167,995	49,970	217,965
2033 – 2038	121,405	16,064	137,469
2039 – 2041	8,630	459	9,089
	<u>\$ 678,680</u>	<u>414,465</u>	<u>1,093,145</u>

On March 1, 2013, the Electric Utility entered into a Revolving Credit Agreement with Wells Fargo Bank, National Association at a maximum loan amount not to exceed \$100,000 of which \$86,000 is made available for Electric Utility and \$14,000 for Water Utility. The note has three year term at a variable interest rate based on LIBOR Daily Index Rate and a spread. The annual commitment fee is based on 0.175% on the total note amount of \$100,000.

At June 30, 2013, the Electric Utility has drawn \$46,600 from this note to provide financing for the followings: (1) \$44,000 Electric System Tax-exempt Note to retire the 2002-B Electric Revenue Bonds and (2) \$2,600 Electric System Taxable Note to pay Cap and Trade Program draw.

Interest costs of \$1,779 and \$1,902 have been capitalized to utility plant for the years ended June 30, 2013 and 2012, 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.

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 position restricted for debt service on the accompanying statement of net position.

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(In thousands)

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 \$1,093,145 and \$1,174,702 outstanding long-term obligations, principal, and interest for the years ended June 30, 2013 and 2012, 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, 2013 and 2012, the annual principal and interest payments on the bonds are 47.9% and 57.2% of net revenues, respectively. Debt service paid and total net revenues were \$52,331 and \$109,183, and \$52,279 and \$91,362 for the years ended June 30, 2013 and 2012, respectively.

On September 19, 2012, the Electric Utility issued 2012-A Electric Revenue Refunding Bonds in the principal amount of \$92,130 at a premium of \$9,254. The proceeds totaled \$101,384 together with balance of the 2002-A Electric Revenue Bonds Reserve fund of \$6,047 and Bond Service fund of \$2,003 were deposited in escrow funds to refund the outstanding balance of \$96,210 on the 2002-A Electric Revenue Bonds and to fund the 2012-A required reserve fund of \$10,102. The true interest cost is 3.38% maturing serially from October 1, 2021 to 2023. The total debt service payments over the life of the bonds until fiscal year 2032 will be \$153,817. The Electric Utility obtained an economic gain of \$17,815.

In May 2011, the Electric Utility issued revenue bonds of 2011 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.

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(In thousands)

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

	2013	2012
Held by fiscal agent:		
Bond reserve fund	\$ 48,468	58,121
Bond service fund	63,878	1,575
Bond construction fund	38,496	61,727
Decommissioning reserve	127,236	126,792
Held by Treasurer:		
Bond service account	14,819	20,609
Renewal and replacement account	15,852	15,503
Decommissioning and fuel reserves	3,508	3,520
Public benefit program fees	11,188	8,447
Restricted rebate	158	206
	\$ 323,603	296,500

The Electric Utility's interest and other finance charges, excluding capitalized interest, for the years ended June 30, 2013 and 2012 were \$31,480 and \$32,558, 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. Amount of defeased debt still outstanding at June 30, 2013 and 2012 was zero.

(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, 2013 and 2012, as a condition of participation, employees are required to contribute 8% of their annual covered salary to PERS. The City pays 7% of the employees' required contributions and the employees pay the remaining 1%. For management employees hired after January 10, 2012, the entire 8% is paid by employees. The City is required

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(In thousands)

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 \$7,104, \$6,700, and \$6,071 to PERS for the years ended June 30, 2013, 2012, and 2011, 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 the related pension fund assets. Refer to the City's Comprehensive Annual Financial Report as of June 30, 2013 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, 2013 and 2012, respectively.

At June 30, 2013, 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.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

(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.

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

**CITY OF ANAHEIM
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June 30, 2013 and 2012

(In thousands)

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 as these commitments do not represent an obligation of the Electric Utility until the year the power is available to be delivered to the Electric Utility. 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 years</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>
2014	\$ 35,915	11,221	2,874	1,817	852	8,410	5,857	6,385	73,331
2015	37,201	14,582	3,198	1,704	958	8,547	7,147	12,770	86,107
2016	30,101	14,579	3,015	1,611	957	8,549	7,090	12,769	78,671
2017	27,584	14,313	2,994	1,606	957	8,550	6,831	19,504	82,339
2018	24,741	14,108	2,971	1,596	956	6,658	6,081	19,505	76,616
2019 – 2023	117,889	70,637	8,054	4,314	—	32,683	23,211	97,508	354,296
2024 – 2028	—	39,183	—	—	—	37,574	15,692	97,514	189,963
2029 – 2033	—	—	—	—	—	38,781	10,774	97,515	147,070
2034 – 2038	—	—	—	—	—	50,241	—	97,514	147,755
2039 – 2041	—	—	—	—	—	—	—	58,511	58,511
Total \$	<u>273,431</u>	<u>178,623</u>	<u>23,106</u>	<u>12,648</u>	<u>4,680</u>	<u>199,993</u>	<u>82,683</u>	<u>519,495</u>	<u>1,294,659</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 2013 and 2012 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>Canyon</u>	<u>Total</u>
2013	\$ 48,886	5,681	351	319	519	17,297	1,207	7,461	81,721
2012	45,936	6,075	276	227	489	25,221	1,172	4,450	83,846

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

(b) Prepaid Purchased Power

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

	2013	2012
SCPPA – Stabilization fund prepayment	\$ 36,482	33,699
SCPPA – Magnolia power prepayment	19,060	16,395
SCPPA – Ormat prepayment	450	450
SCPPA – Canyon prepayment	2,225	2,225
SCPPA – building fund	528	528
SJ – fuel acquisition prepayment	—	287
Cap and Trade Compliance	2,697	—
IPA – power prepayment	5,027	2,859
Prepaid purchased power	\$ 66,469	56,443

(c) Cap-and-Trade Program

California Senate Bill (AB) 32 requires that Utilities in California reduce their greenhouse gas (GHG) emissions to 1990 level by the year 2020. It directed the California Air Resources Board (CARB) to develop regulations of GHG that became effective January 2012. Emission compliance obligations under the Cap-and-Trade regulation began in January 2013.

The Cap-and-Trade program (Program) is implemented in the first phases beginning January 1, 2013 to December 31, 2014. This Program requires Electric Utilities to have GHG allowances on an annual basis to offset GHG emissions associated with generating electricity. CARB will provide a free allocation of GHG allowance to each electric utility to mitigate retail rate impacts. This free allocation of GHG allowance is expected to be sufficient to meet Electric Utility's GHG compliance obligations for retail sales. The compliance obligation for the wholesale sales requires the allowance to be obtained through the auction or in the secondary market quarterly. At June 30, 2013, the value of prepaid Cap and Trade allowance is \$2,697, and the value of the Cap and Trade obligation is \$2,303.

(d) 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, 2013 and 2012.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

(e) Construction Commitments

At June 30, 2013, 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 # 57 PH1, Lincoln Avenue	\$ 7,831	2014
Underground District # 59 PH1, Brookhurst	968	2014
Underground District # 59 PH2, Brookhurst/Orange	2,796	2014
Hannum substation B-bank Transformers	933	2014
Direct Buried Cable Project	1,516	2014

At June 30, 2012, the Electric Utility has construction commitments totaling \$6,801.

(11) Subsequent Event

On July 13, 2013, the Electric Utility used \$44,000 from the proceeds of the Revolving Credit Agreement with Wells Fargo Bank, National Association, together with funds from the 2002-B Electric Revenue Bonds reserve and debt service balances of \$10,030 and funds of \$7,053 from the City, to retire the outstanding principal balance of \$60,205 and interest balance of \$878 on the 2002-B Electric Revenue Bonds. In July 2013, the Wells Fargo note interest rate is 0.85% per annum.