



**CITY OF ANAHEIM WATER UTILITY FUND**

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

# CITY OF ANAHEIM WATER UTILITY FUND

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## Independent Auditors' Report

The Honorable City Council  
City of Anaheim, California:

We have audited the accompanying financial statements of the Water 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 Water 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 Water Utility Fund of the City of Anaheim, California, and do not purport to, and do not, present fairly the financial position of the City as of June 30, 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 15 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 results 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 WATER UTILITY FUND

### Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

(In thousands)

As management of Anaheim Public Utilities, a department of the City of Anaheim, California (City), we offer the readers of the City of Anaheim Water Utility Fund (Water Utility) financial statements a narrative overview and analysis of the financial statements for the fiscal years ended June 30, 2013 and 2012. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### Financial Highlights

The assets and deferred outflows of resources of the Water Utility exceeded its liabilities and deferred inflows of resources at the close of fiscal years 2013 and 2012 by \$234,093 and \$231,557, respectively. Of these amounts, \$7,117 and \$12,210, respectively, were available to meet the Water Utility's ongoing obligations to creditors and customers (unrestricted net position). The Water Utility's total net position increased by \$2,536 (1.1%) and decreased by \$242 (0.1%) for the fiscal years ended June 30, 2013 and 2012, respectively. Unrestricted net position represented 13.2% and 22.5% 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 Water Utility's financial statements. Because the Water Utility is a business-type activity of the City, an enterprise fund is used to account for its operations. These financial statements include only the activities of the Water Utility and provide comparative information for the last two fiscal years. Information on citywide financial results is available in the City's Comprehensive Annual Financial Report as of June 30, 2013.

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

The statements of net position present total assets and deferred outflows of resources and total liabilities and deferred inflows of resources with the difference between the two totals 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 Water Utility is improving or deteriorating.

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

## CITY OF ANAHEIM WATER UTILITY FUND

### Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

(In thousands)

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

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

#### **Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of the Water Utility's financial position. In the case of the Water Utility, total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by \$234,093 and \$231,557 at June 30, 2013 and 2012, respectively.

A large portion of the Water Utility's net position (95.3% and 93.0% as of June 30, 2013 and 2012, respectively) reflects its investment in capital assets, such as production, transmission, distribution facilities, and general plant, less any related debt used to acquire those assets that remain outstanding. The Water Utility uses these capital assets to provide services to customers. Consequently, these assets are not available for future spending. Resources needed to repay the related outstanding debt on the statements of net position must come from other sources such as operations.

An additional portion of the Water Utility's net position (1.7% as of June 30, 2013 and 2012) represents resources that are subject to external restrictions on how they may be used. These restrictions are for items such as debt repayment and other legally restricted purposes.

The unrestricted portion of the Water Utility's net position (3.0% and 5.3% as of June 30, 2013 and 2012, respectively) may be used to meet the Water Utility's ongoing obligations to creditors and customers.

**CITY OF ANAHEIM WATER UTILITY FUND**

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

(In thousands)

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

	<b>Condensed statements of net position</b>		
	<b>2013</b>	<b>2012 as restated*</b>	<b>2011 as restated*</b>
Current and other assets	\$ 36,905	53,595	65,999
Net utility plant	309,508	293,993	282,893
Total assets	346,413	347,588	348,892
Deferred outflows of resources	168	231	312
Total assets and deferred outflows of resources	346,581	347,819	349,204
Long-term liabilities, net of current portion	91,820	94,258	96,225
Current liabilities	14,634	15,994	15,235
Total liabilities	106,454	110,252	111,460
Deferred inflows of resources	6,034	6,010	5,945
Total liabilities and deferred inflows of resources	112,488	116,262	117,405
Net investment in capital assets	223,032	215,335	214,946
Restricted	3,944	4,012	3,820
Unrestricted	7,117	12,210	13,033
Total net position	\$ 234,093	231,557	231,799

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

**As of June 30, 2013**

**Assets**

Total assets as of June 30, 2013 and 2012 were \$346,413 and \$347,588, respectively. The \$1,175 (0.3%) decrease in total assets is primarily due to a \$6,429 decrease in current assets offset by a \$5,254 increase in noncurrent assets. Noncurrent assets increased 1.7% primarily because the Water Utility continued to build additional capital infrastructure, thus increasing net utility plant by \$15,515. The Utility used the remainder of the bond proceeds received from the issuance of the 2010 Water Revenue Bonds for this building program and so decreased its restricted assets by \$10,243. Once the bond proceeds were depleted, the Water Utility next used its current assets to fund the infrastructure building program, decreasing cash and cash equivalents and investments by \$7,278. The capital infrastructure building program for additional storage facilities, wells, and distribution facilities was adopted by the Water Utility in order to ensure that the water supply continues to be safe, reliable, and sufficient to meet future demands.

## CITY OF ANAHEIM WATER UTILITY FUND

### Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

(In thousands)

#### **Deferred Outflows of Resources**

Deferred outflows of resources, consisting of deferred charge on refunding bonds, decreased by \$63 (27.3%), due to annual amortization.

#### **Liabilities**

Total liabilities as of June 30, 2013 and 2012 were \$106,454 and \$110,252, respectively. The \$3,798 (3.4%) decrease in total liabilities is primarily due to a \$2,438 decrease in long-term liabilities, and a \$1,360 decrease in current liabilities (restricted and unrestricted). Long-term liabilities decreased 2.6% primarily as a result of payments of principal on long-term debt.

#### **Deferred Inflows of Resources**

Deferred inflows of resources, consisting of regulatory credits for water rate stabilization purposes, increased by \$24 (0.4%) due to miscellaneous credits and refunds received during the fiscal year ending June 30, 2013.

#### **Net Position**

Total net position as of June 30, 2013 and 2012 was \$234,093 and \$231,557, respectively. Total net position increased by \$2,536 during fiscal year 2013. Net investment in capital assets increased \$7,697 (3.6%) primarily because of the construction additions to the water supply and transmission and distribution infrastructure. Unrestricted net position decreased \$5,093 (41.7%) because these resources were used to carry out the infrastructure building program.

#### ***As of June 30, 2012***

#### **Assets**

Total assets as of June 30, 2012 and 2011 were \$347,588 and \$348,892, respectively. The \$1,304 (0.4%) decrease in total assets is primarily due to a \$1,305 decrease in noncurrent assets. Noncurrent assets decreased 0.4% primarily because the Water Utility continued to spend down the bond proceeds received from the issuance of the 2010 Water Revenue Bonds, resulting in a decrease to restricted assets of \$12,387. This decrease was partially offset by an \$11,100 (3.9%) increase in net utility plant. The Water Utility continued to use the proceeds from the 2010 Water Revenue Bonds to build additional storage facilities, wells, and distribution facilities under a plan to ensure the water supply continues to be safe, reliable, and sufficient to meet future demands.

#### **Deferred Outflows of Resources**

Deferred outflows of resources, consisting of deferred charge on refunding bonds, decreased by \$81 (26.0%), due to annual amortization.

## **CITY OF ANAHEIM WATER UTILITY FUND**

### Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

(In thousands)

#### **Liabilities**

Total liabilities as of June 30, 2012 and 2011 were \$110,252 and \$111,460, respectively. The \$1,208 (1.1%) decrease in total liabilities is due to a \$1,967 decrease in long-term liabilities, and a \$759 increase in current liabilities. Long-term liabilities decreased 2.0% primarily as a result of payments of principal on long-term debt.

#### **Deferred Inflows of Resources**

Deferred inflows of resources, consisting of regulatory credits for water rate stabilization purposes, increased by \$65 (1.1%) due to miscellaneous credits and refunds received during the fiscal year ending June 30, 2012.

#### **Net Position**

Total net position as of June 30, 2012 and 2011 was \$231,557 and \$231,799, respectively. Total net position decreased by \$242 (0.1%) during fiscal year 2012. Net investment in capital assets increased \$389 (0.2%) primarily because of the construction additions to the water supply and transmission and distribution infrastructure.

**CITY OF ANAHEIM WATER UTILITY FUND**

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

(In thousands)

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

	<b>Condensed statements of revenues, expenses, and changes in net position</b>		
	<b>2013</b>	<b>2012 as restated</b>	<b>2011 as restated</b>
Revenues:			
Sale of water, net	\$ 60,145	57,041	54,871
Other operating revenues	640	707	727
Interest income	788	1,119	840
Grants	276	463	497
Capital contributions	754	1,799	2,365
Total revenues	<u>62,603</u>	<u>61,129</u>	<u>59,300</u>
Expenses:			
Purchased water	27,729	28,088	27,042
Treatment and pumping	6,896	5,739	6,166
Operations, maintenance, and administration	9,357	10,788	11,204
Depreciation	9,742	9,739	8,964
Interest expense	3,031	3,753	3,279
Total expenses	<u>56,755</u>	<u>58,107</u>	<u>56,655</u>
Transfers:			
Transfer to the General Fund of the City	(2,408)	(2,374)	(2,063)
Transfer of right-of-way fee to the City	(855)	(823)	(836)
Transfers from other funds of the City	16	—	—
Transfers to other funds of the City	(65)	(67)	(795)
Total transfers	<u>(3,312)</u>	<u>(3,264)</u>	<u>(3,694)</u>
Changes in net position	2,536	(242)	(1,049)
Net position at beginning of year, as restated	<u>231,557</u>	<u>231,799</u>	<u>232,848</u>
Net position at end of year	<u>\$ 234,093</u>	<u>231,557</u>	<u>231,799</u>

**Revenues**

***Year ended June 30, 2013***

Total revenues for the fiscal year ended June 30, 2013 were \$62,603 as compared with \$61,129 in fiscal year 2012, an increase of \$1,474. This increase was primarily due to a \$3,104 increase in

## CITY OF ANAHEIM WATER UTILITY FUND

### Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

(In thousands)

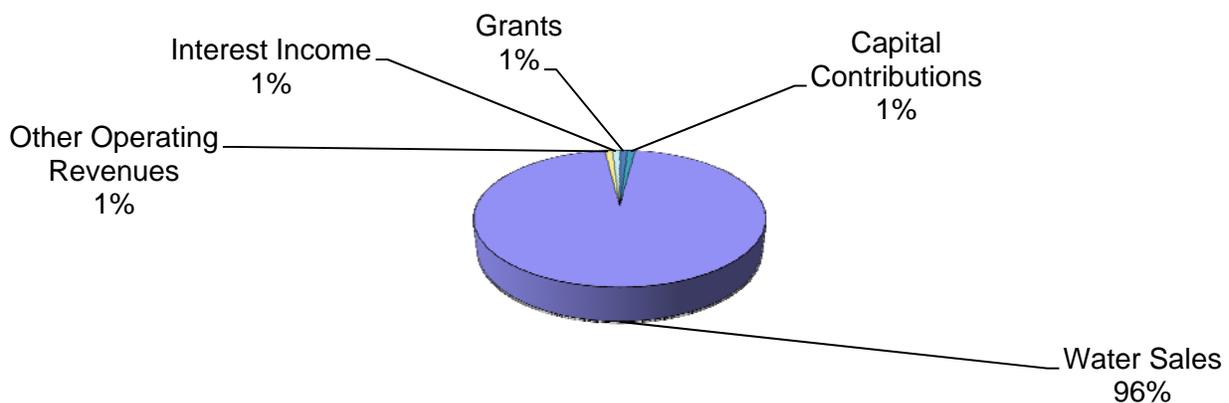
revenues from the sale of water, which was partially offset by a \$1,045 reduction in capital contributions. Revenues from the sale of water increased 5.4% primarily because of increased customer demands. During the fiscal year ended June 30, 2013, the Water Utility sold 62,804 acre feet of water as compared to 60,371 acre feet in fiscal year 2012, representing a 4.0% increase. Commercial and industrial sales increased 6.3% during this period, while residential sales increased by 2.8%.

#### ***Year ended June 30, 2012***

Total revenues for the fiscal year ended June 30, 2012 were \$61,129 as compared with \$59,300 in fiscal year 2011, an increase of \$1,829. This increase was primarily due to a \$2,170 increase in revenues from the sale of water, which was partially offset by a \$566 reduction in capital contributions. Revenues from the sale of water increased 4.0% primarily because the Water System Reliability Adjustment (WSRA) charge increased by 7.5 cents to a total of 22.5 cents per hundred cubic foot effective on July 1, 2011. The WSRA is charged to customers in order to recover projected capital costs, including rehabilitation and construction of water and reclaimed water system infrastructure, as well as the related debt service payments. In addition, the Water Utility experienced a small increase (0.7%) in customer demand, from 59,923 to 60,371 acre feet.

#### **Revenues by Source**

##### **Year ended June 30, 2013**



**CITY OF ANAHEIM WATER UTILITY FUND**

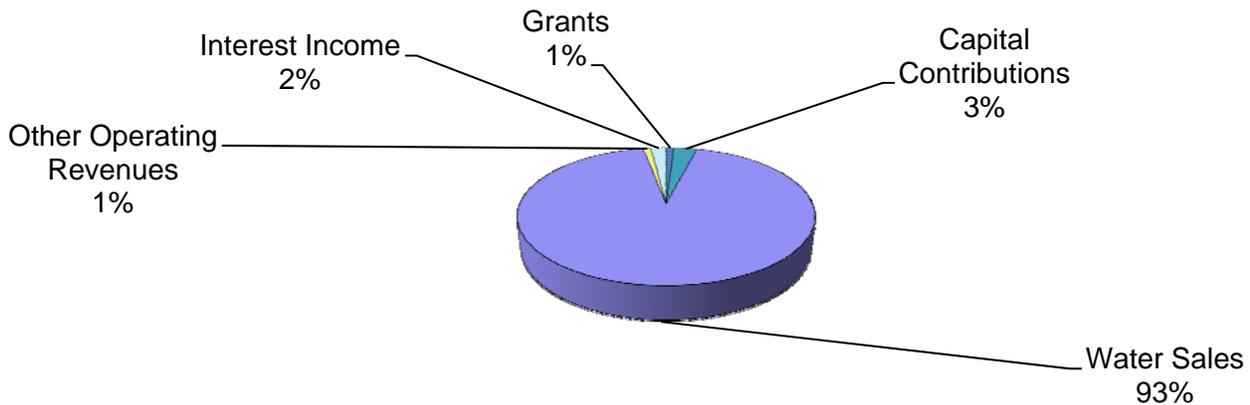
Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

(In thousands)

**Year ended June 30, 2012**



**Expenses**

***Year ended June 30, 2013***

Total expenses for the fiscal year ended June 30, 2013 were \$56,755 as compared with \$58,107 in fiscal year 2012. This \$1,352 (2.3%) decrease in total expenses is primarily due to a \$1,431 decrease in operations, maintenance, and administration (OM&A) costs and a \$722 decrease in interest expense, which was partially offset by a \$1,157 increase in the treatment and pumping costs of purchased water.

OM&A costs decreased 13.3% from fiscal year 2012. Operating costs decreased by \$183 (4.8%), maintenance costs decreased by \$149 (2.4%), and administrative costs decreased by \$1,099 (157.9%), as compared to the prior year. The reduction in administrative costs resulted primarily from the large increase in the amount of administrative overhead costs eligible for capitalization. During fiscal year 2013, the Construction in Progress account increased by \$19,688 (86%) because of the Utility's ongoing infrastructure building program.

Treatment and pumping costs increased 20.2% compared to fiscal year 2012. These costs were more because the Water Utility increased the amount of water pumped from Orange County Water District (OCWD) to 68.2% of its supply.

***Year ended June 30, 2012***

Total expenses for the fiscal year ended June 30, 2012 were \$58,107 as compared with \$56,655 in fiscal year 2011. This \$1,452 (2.6%) increase in total expenses is primarily due to a \$1,046 increase in purchased water costs and a \$474 increase in interest expense. The 3.9% increase in purchased

## CITY OF ANAHEIM WATER UTILITY FUND

### Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

(In thousands)

water costs was primarily the result of increased commodity costs charged by the Water Utility's two sources of water supply, the Metropolitan Water District (MWD) and the Orange County Water District (OCWD). The 14.5% increase in interest expense resulted from paying a full year of interest expense for the \$34,525 Water Revenue Bonds, which were issued in October 2010.

#### **Transfers**

##### ***Year ended June 30, 2013***

Transfers to the City's General Fund, as defined by City Charter, are equal to a maximum of 4.0% of total operating revenues. Transfers to the City's General Fund were \$2,408 and \$2,374 for fiscal years 2013 and 2012, respectively. In addition, a right-of-way fee is transferred to the City's General Fund and is equal to 1.5% of net revenues of the prior fiscal year. Net revenues are defined as revenues from sale of water less uncollectible accounts. The right-of-way fee transferred to the City amounted to \$855 for fiscal year 2013 and \$823 for fiscal year 2012. 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.

Upon completion of several joint capital projects, the Water Utility transferred ownership of its share of these projects, valued at \$65, to the Electric Utility.

##### ***Year ended June 30, 2012***

Transfers to the City's General Fund, as defined by City Charter, are equal to a maximum of 4.0% of total operating revenues. Transfers to the City's General Fund were \$2,374 and \$2,063 for fiscal years 2012 and 2011, respectively. In addition, a right-of-way fee is transferred to the City's General Fund and is equal to 1.5% of net revenues of the prior fiscal year. Net revenues are defined as revenues from sale of water less uncollectible accounts. The right-of-way fee transferred to the City amounted to \$823 for fiscal year 2012 and \$836 for fiscal year 2011. 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.

Upon completion of several joint capital projects, the Water Utility transferred ownership of its share of these projects, valued at \$67, to the Electric Utility.

**CITY OF ANAHEIM WATER UTILITY FUND**

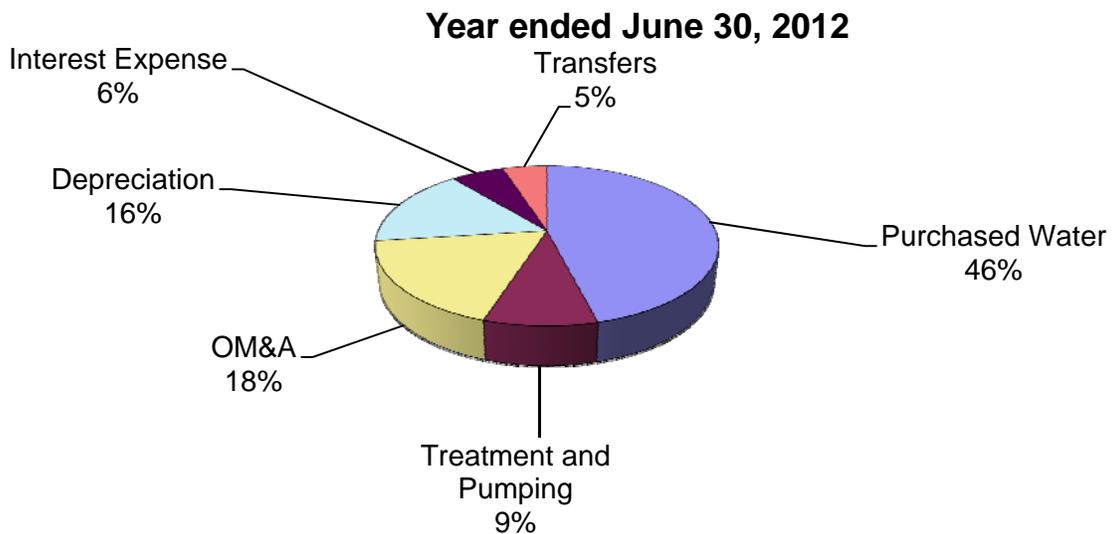
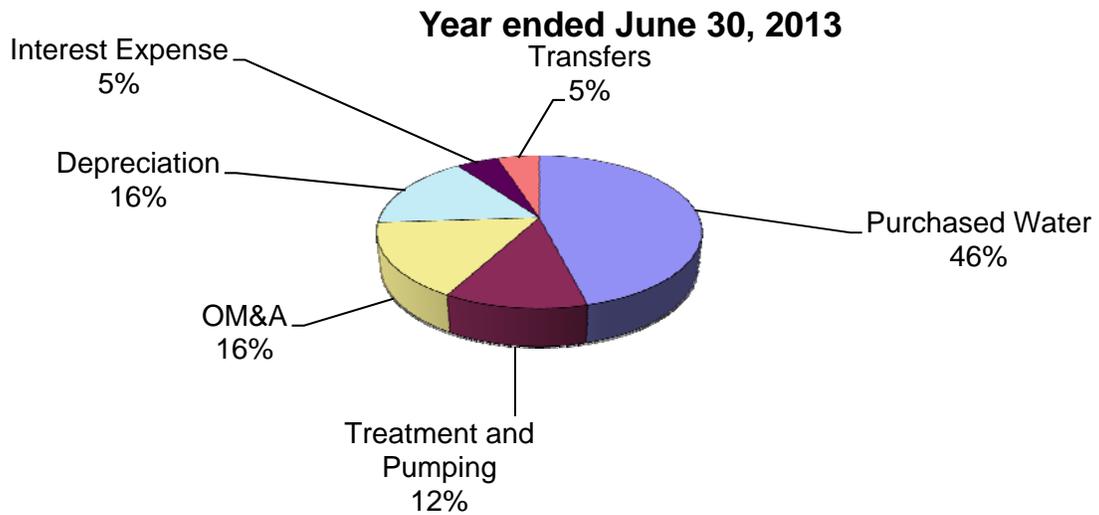
Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

(In thousands)

**Expenses and Transfers**



**CITY OF ANAHEIM WATER UTILITY FUND**

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

(In thousands)

**Capital Assets and Debt Administration**

***Capital Assets***

The Water Utility's net investment in capital assets as of June 30, 2013 and 2012 was \$309,508 and \$293,993, respectively, net of accumulated depreciation. The Water Utility's net investment in capital assets includes land, production wells and treatment plant, transmission and distribution facilities, and general plant. The total net additions to investment in capital assets (before accumulated depreciation) for fiscal year 2013 were \$23,993 (5.9%). The Water Utility's investments in capital assets as of June 30 are as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Source of water supply	\$ 43,350	43,350	39,172
Pumping plant	50,003	50,008	48,508
Transmission and distribution	283,984	280,609	276,390
General plant	7,985	7,030	6,950
Land	2,339	2,339	2,298
Construction in progress	<u>42,539</u>	<u>22,871</u>	<u>13,348</u>
Total utility plant	430,200	406,207	386,666
Less accumulated depreciation	<u>(120,692)</u>	<u>(112,214)</u>	<u>(103,773)</u>
Net utility plant	<u>\$ 309,508</u>	<u>293,993</u>	<u>282,893</u>

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

***As of June 30, 2013***

The Water Utility showed a net increase of \$15,515 (5.3%) in the investment in capital assets (net utility plant) this fiscal year, due mainly to ongoing projects to expand and refurbish the water transmission and distribution infrastructure, pumping plant, and source of supply. The Water Utility capital program continues its focus on improving the water infrastructure reliability by rehabilitating and replacing its aging infrastructure, improving service levels and delivery capabilities, and extending and diversifying its water supply portfolio.

***As of June 30, 2012***

The Water Utility showed a net increase of \$11,100 (3.9%) in the investment in capital assets (net utility plant) this fiscal year, due mainly to ongoing projects to expand and refurbish the water transmission and distribution infrastructure, pumping plant, and source of supply. In 1999, the Water Utility made the decision to increase its pumping capacity by building ten new wells over the next ten years or so. As of June 30, 2012, the Water Utility has completed approximately 86% of the planned new well pumping capacity.

**CITY OF ANAHEIM WATER UTILITY FUND**

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

(In thousands)

**Long-Term Debt**

As of June 30, 2013 and 2012, the Water Utility had total long-term debt outstanding of \$93,232 and \$95,112, respectively.

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Water revenue bonds	\$ 84,790	85,740	86,655
Notes payable and advances	8,442	9,372	10,719
Total long-term debt outstanding	<u>93,232</u>	<u>95,112</u>	<u>97,374</u>
Less:			
Current portion	(1,876)	(1,412)	(1,807)
Unamortized bond premium	464	558	658
Total noncurrent long-term debt outstanding	<u>\$ 91,820</u>	<u>94,258</u>	<u>96,225</u>

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

**As of June 30, 2013**

Long-term debt decreased \$2,438 (2.6%) primarily due to the repayments of principal on outstanding bonds and notes payable in accordance with the applicable payment terms. The revenues of the Water Utility have been pledged to pay the outstanding long-term debt.

**As of June 30, 2012**

Long-term debt decreased \$1,967 (2.0%) primarily due to the repayments of principal on outstanding bonds and notes payable in accordance with the applicable payment terms. The revenues of the Water Utility have been pledged to pay the outstanding long-term debt.

## **CITY OF ANAHEIM WATER UTILITY FUND**

### Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

(In thousands)

#### **Economic Factors and Rates**

For fiscal year 2014, OCWD set the Basin Production Percentage (BPP) for all cities and water districts they serve (including Anaheim) at 70.0%, up from the 68.0% fiscal year 2013 limit. Consequently, the Water Utility will be able to pump 2.0% more ground water from OCWD without incurring a penalty and purchase 2.0% less from MWD in order to fulfill its water supply requirements. Water purchased from MWD is priced higher than ground water pumped from OCWD, so increasing the BPP lessens the impacts of MWD cost increases. The Water Utility's Water Rates, Rules, and Regulations provide for an automatic adjustment of its commodity adjustment when OCWD and MWD increase or decrease the cost per acre foot of water.

As approved on March 18, 2008, the Water Utility instituted a charge to all customers for a Water System Reliability Adjustment (WSRA). The WSRA is set to \$0.300 per 100 cubic foot, effective June 1, 2013. The purpose of this charge is to recover projected capital costs, including rehabilitation and construction of water and reclaimed water system infrastructure and the related debt service payments.

#### **Requests for Information**

This financial report is designed to provide a general overview of the Water Utility's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Assistant General Manager – Finance and Administration, Anaheim Public Utilities, 201 South Anaheim Boulevard, Suite 1101, Anaheim, CA 92805.

**CITY OF ANAHEIM WATER UTILITY FUND**

Statements of Net Position

June 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012 as restated</u>
Assets:		
Utility plant:		
Source of water supply	\$ 43,350	43,350
Pumping plant	50,003	50,008
Transmission and distribution	283,984	280,609
General plant	<u>7,985</u>	<u>7,030</u>
Total depreciable utility plant	385,322	380,997
Less accumulated depreciation	<u>(120,692)</u>	<u>(112,214)</u>
Net depreciable utility plant	264,630	268,783
Land	2,339	2,339
Construction in progress	<u>42,539</u>	<u>22,871</u>
Net utility plant	<u>309,508</u>	<u>293,993</u>
Restricted assets:		
Cash and cash equivalents	1,860	11,571
Investments	<u>7,175</u>	<u>7,707</u>
Total restricted assets	<u>9,035</u>	<u>19,278</u>
Other assets:		
Metropolitan Water District Orange County pipeline receivable	84	101
Unamortized prepaid bond insurance	<u>1</u>	<u>2</u>
Total other assets	<u>85</u>	<u>103</u>
Total noncurrent assets	<u>318,628</u>	<u>313,374</u>
Current assets:		
Cash and cash equivalents	5,073	12,407
Investments	10,515	10,918
Restricted cash and cash equivalents	1,632	1,957
Restricted investments	1,312	528
Accounts receivable, net	7,422	6,701
Accrued interest receivable	75	122
Materials and supplies inventory	602	567
Purchased water in storage	<u>1,154</u>	<u>1,014</u>
Total current assets	<u>27,785</u>	<u>34,214</u>
Total assets	<u>346,413</u>	<u>347,588</u>
Deferred outflows of resources:		
Deferred charge on refunding bonds	<u>168</u>	<u>231</u>
Total deferred outflows of resources	<u>168</u>	<u>231</u>
Total assets and deferred outflows of resources	\$ <u><u>346,581</u></u>	\$ <u><u>347,819</u></u>

**CITY OF ANAHEIM WATER UTILITY FUND**

Statements of Net Position

June 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012 as restated</u>
Liabilities:		
Long-term liabilities:		
Long-term debt obligations, less current portion	\$ 91,820	94,258
Total long-term liabilities	<u>91,820</u>	<u>94,258</u>
Current liabilities (payable from restricted assets):		
Current portion of long-term debt	1,876	1,412
Arbitrage rebate liability	9	5
Accrued interest payable	1,059	1,068
Total current liabilities (payable from restricted assets)	<u>2,944</u>	<u>2,485</u>
Current liabilities (payable from unrestricted current assets):		
Accounts payable and accrued expenses	10,757	12,567
Wages payable	183	184
Customer deposits	750	758
Total current liabilities (payable from unrestricted current assets)	<u>11,690</u>	<u>13,509</u>
Total liabilities	<u>106,454</u>	<u>110,252</u>
Deferred inflows of resources:		
Regulatory credits	6,034	6,010
Total deferred inflows of resources	<u>6,034</u>	<u>6,010</u>
Net position:		
Net investment in capital assets	223,032	215,335
Restricted for:		
Debt service	1,274	1,301
Renewal and replacement	2,670	2,711
Unrestricted	7,117	12,210
Total net position	<u>234,093</u>	<u>231,557</u>
Total liabilities, deferred inflows of resources and net position	\$ <u>346,581</u>	<u>347,819</u>

See accompanying notes to financial statements.

**CITY OF ANAHEIM WATER UTILITY FUND**

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012 as restated</u>
Operating revenues:		
Sales of water, net	\$ 60,145	57,041
Other operating revenues	640	707
Total operating revenues	<u>60,785</u>	<u>57,748</u>
Operating expenses:		
Purchased water	27,729	28,088
Treatment and pumping	6,896	5,739
Operations, maintenance, and administration	9,357	10,788
Depreciation	9,742	9,739
Total operating expenses	<u>53,724</u>	<u>54,354</u>
Operating income	<u>7,061</u>	<u>3,394</u>
Nonoperating revenues (expenses):		
Interest income	788	1,119
Interest expense	(3,031)	(3,753)
Grants	276	463
Total net nonoperating expenses	<u>(1,967)</u>	<u>(2,171)</u>
Income before capital contributions and transfers	5,094	1,223
Capital contributions	754	1,799
Transfer to the General Fund of the City	(2,408)	(2,374)
Transfer of right-of-way fee to the City	(855)	(823)
Transfers from other funds of the City	16	—
Transfers to other funds of the City	(65)	(67)
Change in net position	2,536	(242)
Net position at beginning of year, as restated	<u>231,557</u>	<u>231,799</u>
Net position at end of year	<u>\$ 234,093</u>	<u>231,557</u>

See accompanying notes to financial statements.

**CITY OF ANAHEIM WATER UTILITY FUND**

Statements of Cash Flows

Years ended June 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 59,728	57,656
Receipts from services provided to other funds of the City	330	322
Payments to suppliers	(28,616)	(26,245)
Payments to employees	(13,028)	(12,964)
Payments for services provided by other funds of the City	<u>(4,324)</u>	<u>(4,309)</u>
Net cash provided by operating activities	<u>14,090</u>	<u>14,460</u>
Cash flows from noncapital financing activities:		
Transfers to the General Fund and other funds of the City	(3,263)	(3,197)
Transfers from other funds of the City	16	
Receipts from grants	<u>298</u>	<u>441</u>
Net cash used for noncapital financing activities	<u>(2,949)</u>	<u>(2,756)</u>
Cash flows from capital and related financing activities:		
Capital purchases	(23,355)	(18,264)
Principal payments on long-term debt	(1,880)	(2,262)
Interest paid	(4,532)	(4,736)
Transfers to other funds of the City for capital purposes	(65)	(39)
Capital contributions	<u>318</u>	<u>3</u>
Net cash used for capital and related financing activities	<u>(29,514)</u>	<u>(25,298)</u>
Cash flows from investing activities:		
Purchases of investment securities	(5,897)	(6,429)
Proceeds from sale and maturity of investment securities	5,793	8,600
Collection of pipeline receivable	17	16
Interest income received	<u>1,090</u>	<u>1,217</u>
Net cash provided by investing activities	<u>1,003</u>	<u>3,404</u>
Decrease in cash and cash equivalents	(17,370)	(10,190)
Cash and cash equivalents at beginning of year	<u>25,935</u>	<u>36,125</u>
Cash and cash equivalents at end of year	<u>\$ 8,565</u>	<u>25,935</u>

**CITY OF ANAHEIM WATER UTILITY FUND**

Statements of Cash Flows

Years ended June 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 7,061	3,394
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	9,742	9,739
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable, net	(743)	171
Materials and supplies inventory	(35)	(197)
Purchased water in storage	(140)	(25)
Accounts payable and accrued expenses	(1,810)	1,484
Wages payable	(1)	(165)
Customer deposits	(8)	(6)
Regulatory credits	24	65
Total adjustments	<u>7,029</u>	<u>11,066</u>
Net cash provided by operating activities	\$ <u>14,090</u>	<u>14,460</u>
Schedule of noncash investing, capital, and financing activities:		
Capital contributions	\$ 436	1,796
Transfers out of capital assets	—	(28)
Decrease in fair value of investments	(255)	(58)
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 5,073	12,407
Restricted cash and cash equivalents, current portion	1,632	1,957
Restricted cash and cash equivalents, noncurrent portion	1,860	11,571
Total cash and cash equivalents	\$ <u>8,565</u>	<u>25,935</u>

See accompanying notes to financial statements.

## CITY OF ANAHEIM WATER UTILITY FUND

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

### (1) Summary of Significant Accounting Policies

#### (a) Basis of Accounting

The Water Utility Fund (Water Utility) of the City of Anaheim, California (City) was established on June 30, 1971, at which time the portion of the City's General Fund net position related to water system operations was transferred to Water Utility net position. The financial statements of the Water Utility, an enterprise fund, are presented on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles and accounting principles and methods prescribed by the California Public Utilities Commission (CPUC). The Water Utility is not subject to the regulations of the CPUC.

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

On July 1, 2012, the Water Utility adopted the following new accounting pronouncements issued by the Governmental Accounting Standards Board (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 Water Utility's financial statements for the fiscal year ended June 30, 2013. The requirements of GASB Statement No. 65 caused the Water Utility to restate certain prior year net positions by the amount of

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

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:

	<u>2012</u>	<u>2011</u>
Net position at June 30, as previously reported	\$ 232,262	232,554
Reduction of unamortized debt issuance costs	<u>(705)</u>	<u>(755)</u>
Net position at June 30, as restated	<u>\$ 231,557</u>	<u>231,799</u>

The Water 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 Water Utility in conforming to this standard has yet to be determined.

**(c) Utility Plant and Depreciation**

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

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

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

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

**(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). Investment income, which includes changes in fair value, is allocated to all funds on the basis of average daily cash and investment balances. The Water Utility's cash and investments pooled with the City Treasurer (Treasurer) are carried at fair value based on the value of each participating dollar. See note 2 for further discussion.

For the purpose of the statements of cash flows, the Water Utility considers cash equivalents to be highly liquid short-term investments that are readily convertible to known amounts of cash and mature within three months from the date they are acquired. Cash and cash equivalents are included in the City's cash and investments pool and in accounts held by fiscal agents.

**(e) Restricted Assets**

Certain proceeds of the Water Utility's bonds, as well as certain resources set aside for their repayments, are classified as restricted on the statement of net position, because they are maintained in separate bank accounts and their use is limited by applicable debt covenants. Generally, the Water Utility would first apply restricted resources when expenses incurred for which both restricted and unrestricted resources are available.

**(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 Water Utility reported deferred

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

charges on refunding bonds in this category of \$168 and \$231, respectively. A deferred charge on refunding bonds 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 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 \$6,034 and \$6,010, respectively. See note 8 for further discussion of regulatory credits.

**(h) *Operating Revenues***

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

The City Council must be notified for all changes in base water rates. Rates have been structured to recover the Water Utility's costs for providing water services. The Water Utility's Rates, Rules, and Regulations include a Water Commodity Adjustment formula by which billings to customers are subject to adjustment, up or down, to reflect variations in the cost of water production and water quality measures to the Water Utility.

Revenue is recorded in the period earned. The Water Utility accrues estimated unbilled revenues for water sold but not billed at the end of a fiscal period, which amounted to approximately \$4,327 and \$3,840 for fiscal years 2013 and 2012, respectively. Residential and smaller commercial accounts are billed bimonthly, and all other customers are billed monthly.

Revenues are reported net of uncollectible amounts. Total uncollectible amounts written off are \$72 and \$65 for the fiscal years ended June 30, 2013 and 2012, respectively. The applicable allowances for uncollectible amounts are \$40 and \$61 at June 30, 2013 and 2012, respectively. See note 5 for discussion of pledged revenue.

**(i) *Operating Expenses***

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

Treatment and pumping charges include all costs associated with the Water Utility's Lenain Filtration Plant and all costs associated with pumping the water throughout the Water

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

Utility's water distribution system. This includes the energy costs associated with the pumps.

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

**(j) 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. Prepaid insurance costs are capitalized and amortized over the lives of the related bond issues on a basis that approximates the effective-interest method.

**(k) Bond Refunding Costs**

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

**(l) Vacation and Sick Pay**

Vacation and sick pay for all City employees are paid by the General Benefits and Insurance Fund of the City. The General Benefits and Insurance Fund is reimbursed through payroll charges to the Water Utility based on estimates of benefits to be earned during the year. Vested vacation and sick pay benefits are accrued in the General Benefits and Insurance Fund and amounted to \$647 and \$685 for the Water Utility at June 30, 2013 and 2012, respectively.

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

The City Charter provides that transfers to the General Fund of the City shall not exceed 4% of total revenue. Such transfers are not in lieu of taxes and amounted to \$2,408 and \$2,374 for the fiscal 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 net water revenues of the prior fiscal year to the General Fund of the City. Net revenues are defined as revenues from the sale of water, less uncollectible amounts. Bond disclosure requirements designate that this transfer must be recognized as an expense in the calculation of bond coverage. The transfer of right-of-way fee to the City amounted to \$855 and \$823 for the fiscal years ended June 30, 2013 and 2012, respectively.

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

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

During the fiscal years ended June 30, 2013 and 2012, the Water Utility participated in several joint projects with the Electric Utility. The Water Utility was responsible for its share of the costs while the projects were ongoing. Upon completion, the Water Utility transferred ownership of its share of the projects to the Electric Utility, valued at \$65 and \$67 for fiscal years 2013 and 2012, respectively.

**(n) Use of Estimates**

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

**(o) 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 change in net position except for the amounts discussed in Note 1(b) as required per GASB Statement No. 65.

**(2) Deposits and Investments**

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

The City's pooled investment fund has been reviewed by Standard and Poor's Corporation (S&P) and received a credit rating of AAf/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.

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

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

	<u>2013</u>	<u>2012</u>
Cash equivalents and investments pooled with the Treasurer	\$ 20,600	22,828
Cash equivalents and investments held with trustee	<u>6,967</u>	<u>22,260</u>
	<u>\$ 27,567</u>	<u>45,088</u>

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

	<u>2013</u>	<u>2012</u>
Restricted assets – cash equivalents and investments	\$ 11,979	21,763
Unrestricted assets – cash equivalents and investments	<u>15,588</u>	<u>23,325</u>
	<u>\$ 27,567</u>	<u>45,088</u>

**(a) Investments**

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

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

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

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

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

<b>Authorized investment type</b>	<b>Maximum maturity</b>	<b>Maximum percentage of portfolio*</b>	<b>Maximum investment in one issuer</b>	<b>Minimum Rating (S&amp;P/ Moody's/ Fitch)</b>
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%	None	None
Reverse repurchase agreements	90 days	20%	None	None
Medium-term corporate notes	5 years	30%	5	A/A/A
Money market mutual funds	N/A	20%	10	None
LAIF (2 accounts)	N/A	\$50 million per account	None	None
Time certificates of deposit (TCD)	1 year	20%	5	None

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

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

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. At June 30, the following investments represent five percent or more of the City's total 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
Federal Home Loan 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's investment portfolio	None	None	None

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

**(e) Interest Rate Risk**

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

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

monitors the segmented time distribution of its investment portfolio and analysis of cash flow demand.

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

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

The distribution of the Water Utility's proportionate share of cash and 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	\$ 10,557	1,818	2,044	2,255	4,440	—
Medium-term corporate notes	A-/A3	244	—	—	244	—	—
Medium-term corporate notes	A/A2	523	—	291	232	—	—
Medium-term corporate notes	A+/A1	138	—	—	—	138	—
Medium-term corporate notes	A+/A2	275	—	47	—	228	—
Medium-term corporate notes	AA/Aa1	232	—	—	94	138	—
Medium-term corporate notes	AA/Aa2	141	—	—	141	—	—
Medium-term corporate notes	AA+/A1	721	—	475	—	246	—
Medium-term corporate notes	AA-/Aa3	139	—	—	139	—	—
Medium-term corporate notes	AAA/Aaa	1,009	141	—	868	—	—
Commercial paper	A-1/P-1	2,650	2,650	—	—	—	—
Money market mutual funds	AAA/Aaa	1,154	1,154	—	—	—	—
LAIF	Unrated	2,817	2,817	—	—	—	—
Total investments controlled by City Treasurer		<u>20,600</u>	<u>8,580</u>	<u>2,857</u>	<u>3,973</u>	<u>5,190</u>	<u>—</u>
Investments controlled by bond trustees:							
Guaranteed investment agreements	Unrated	3,897	—	—	—	—	3,897
Collateralized investment contracts	Unrated	1,210	—	—	—	—	1,210
Money market mutual funds	AAA/Aaa	1,860	1,860	—	—	—	—
Total investments controlled by bond trustees		<u>6,967</u>	<u>1,860</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,107</u>
Total investments		<u>\$ 27,567</u>	<u>10,440</u>	<u>2,857</u>	<u>3,973</u>	<u>5,190</u>	<u>5,107</u>

# CITY OF ANAHEIM WATER UTILITY FUND

## Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

Investments	Credit rating (S&P/ Moody's)	Fair value, June 30, 2012	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	\$ 10,743	1,911	3,033	3,208	2,591	—
Medium-term notes	A-/A3	396	124	—	—	272	—
Medium-term notes	A-/Baa2	454	454	—	—	—	—
Medium-term notes	A/A2	339	—	—	339	—	—
Medium-term notes	A+/A1	280	280	—	—	—	—
Medium-term notes	A+/A2	497	443	—	54	—	—
Medium-term notes	AA/Aa2	164	—	—	—	164	—
Medium-term notes	AA+/A1	561	—	—	276	285	—
Medium-term notes	AAA/Aaa	616	—	165	—	451	—
Commercial paper	A-1/P-1	2,820	2,820	—	—	—	—
Money market mutual funds	AAA/Aaa	1,409	1,409	—	—	—	—
LAIF	Unrated	4,549	4,549	—	—	—	—
Total investments controlled by City Treasurer		<u>22,828</u>	<u>11,990</u>	<u>3,198</u>	<u>3,877</u>	<u>3,763</u>	<u>—</u>
Investments controlled by bond trustees:							
Guaranteed investment agreements	Unrated	3,897	—	—	—	—	3,897
Collateralized investment contracts	Unrated	1,210	—	—	—	—	1,210
Money market mutual funds	AAA/Aaa	17,153	17,153	—	—	—	—
Total investments controlled by bond trustees		<u>22,260</u>	<u>17,153</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,107</u>
Total investments		<u>\$ 45,088</u>	<u>29,143</u>	<u>3,198</u>	<u>3,877</u>	<u>3,763</u>	<u>5,107</u>

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

**(3) Water Utility Plant**

The following is a summary of changes in capital assets:

	<b>Balance as of June 30, 2011</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance as of June 30, 2012</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance as of June 30, 2013</b>
Source of water supply	\$ 39,172	4,181	(3)	43,350	—	—	43,350
Pumping plant	48,508	1,625	(125)	50,008	—	(5)	50,003
Transmission and distribution	276,390	5,210	(991)	280,609	4,313	(938)	283,984
General plant	6,950	80	—	7,030	1,031	(76)	7,985
Depreciable utility plant	371,020	11,096	(1,119)	380,997	5,344	(1,019)	385,322
Less accumulated depreciation	(103,773)	(9,739)	1,298	(112,214)	(9,742)	1,264	(120,692)
Net depreciable utility plant	267,247	1,357	179	268,783	(4,398)	245	264,630
Land	2,298	41	—	2,339	—	—	2,339
Construction in progress	13,348	18,894	(9,371)	22,871	24,576	(4,908)	42,539
Nondepreciable utility plant	15,646	18,935	(9,371)	25,210	24,576	(4,908)	44,878
Net utility plant	\$ 282,893	20,292	(9,192)	293,993	20,178	(4,663)	309,508

**(4) Operating Expenses**

Total operating expenses shared with the City's Electric Utility amounted to \$28,788 and \$26,524 for the fiscal years ended June 30, 2013 and 2012, respectively, of which \$6,909 and \$6,366, respectively, of shared operating expenses were allocated to the Water Utility.

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

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

**(5) 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>
Water revenue bonds	\$ 85,740	—	(950)	84,790	920
Notes payable	9,372	—	(930)	8,442	956
	95,112	—	(1,880)	93,232	\$ 1,876
Less current portion	(1,412)	(1,876)	1,412	(1,876)	
Add unamortized bond premium	558	—	(94)	464	
Total long-term liabilities	\$ 94,258	(1,876)	(562)	91,820	
<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>
Water revenue bonds	\$ 86,655	—	(915)	85,740	950
Notes payable	10,719	—	(1,347)	9,372	462
	97,374	—	(2,262)	95,112	\$ 1,412
Less current portion	(1,807)	(1,867)	2,262	(1,412)	
Add unamortized bond premium	658	—	(100)	558	
Total long-term liabilities	\$ 96,225	(1,867)	(100)	94,258	

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

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

	<u>2013</u>	<u>2012</u>
Water Revenue Bonds, 2010 Series, true interest cost (TIC) 3.5361%, dated and sold on October 28, 2010, in the amount of \$34,525, of which: (1) \$4,835 was issued as serial bonds at rates ranging from 2.00% to 4.75%, maturing from October 1, 2013 through 2021 in annual principal installments ranging from \$120 to \$815; (2) \$1,690 was issued as term bonds at a rate of 4.346%, maturing on October 1, 2022 and 2023 in annual principal installments of \$840 and \$850, respectively; (3) \$1,750 was issued as term bonds at a rate of 4.866%, maturing on October 1, 2024 and 2025 in annual principal installments of \$865 and \$885, respectively; (4) \$9,925 was issued as term bonds at a rate of 5.525% maturing from October 1, 2026 through 2034 in annual principal installments ranging from \$910 to \$1,245; and (5) \$16,625 was issued as term bonds at a rate of 5.685%, maturing from October 1, 2035 through 2040 in annual principal installments ranging from \$1,300 to \$5,645. The total debt service is \$71,486 to maturity.	\$ 34,525	34,525
Water Revenue Bonds, 2008 Series, TIC 4.8594%, dated July 1, 2008, sold on July 9, 2008 in the amount of \$48,580, maturing serially beginning October 1, 2013 through October 1, 2038. The annual principal installments range from \$260 to \$3,750 at rates ranging from 4.0000% to 5.0000%. Total remaining debt service is \$90,162 to maturity.	48,580	48,580
Water Revenue Bonds, 2004 Series, TIC 3.5629%, dated May 1, 2004, sold on May 26, 2004 in the amount of \$12,105, maturing serially through October 1, 2016. The annual principal installments range from \$5 to \$950 at rates ranging from 4.0000% to 4.50000%. Total remaining debt service is \$1,795 to maturity.	<u>1,685</u>	<u>2,635</u>
Total water revenue bonds	<u>\$ 84,790</u>	<u>85,740</u>

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>
Note payable to State of California Revolving Fund, interest rate of 2.8%, issued June 12, 2001, in the amount of \$18,063, semiannual principal and interest payments of \$592 through July 31, 2021; total remaining debt service is \$9,480 to maturity.	\$ 8,442	9,372
Total notes payable	<u>\$ 8,442</u>	<u>9,372</u>

Annual debt service requirements for the Water Utility's revenue bonds and notes payable at June 30, 2013 to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal years ending June 30:			
2014	\$ 1,876	4,446	6,322
2015	1,942	4,380	6,322
2016	2,010	4,310	6,320
2017	2,084	4,238	6,322
2018	2,158	4,166	6,324
2019 – 2023	11,397	19,624	31,021
2024 – 2028	14,560	16,799	31,359
2029 – 2033	18,140	12,760	30,900
2034 – 2038	22,760	7,566	30,326
2039 – 2042	16,305	1,402	17,707
	<u>\$ 93,232</u>	<u>79,691</u>	<u>172,923</u>

On March 1, 2013, the Utility entered into a Revolving Credit Agreement with Wells Fargo Bank, National Association for a maximum loan amount not to exceed \$100,000, of which \$86,000 is designated for the Electric Utility and \$14,000 for the Water Utility. The loans under this agreement have a three year term at variable interest rates based on the LIBOR Daily Index Rate and a spread. The annual commitment fee is 0.175% of the total note amount of \$100,000. As of June 30, 2013, the Water Utility had not made any draws on this Credit Agreement and no balance was outstanding.

Interest costs of \$1,466 and \$807 have been capitalized for the fiscal 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 renewal and replacement is being accumulated in an amount equal to a maximum of 1% of the depreciated book value of the utility plant in service.

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

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

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

The Water Utility has pledged future revenues to repay a total of \$163,443 and \$168,648 of 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 Water Utility's bonds are payable solely from water net revenues and are payable through fiscal year 2041. As of June 30, 2013 and 2012, the annual principal and interest payments on the bonds are 29.1% and 35.4% of net revenues, respectively. Debt service paid and total net revenues were \$5,205 and \$17,867, and \$5,207 and \$14,175 for the years ended June 30, 2013 and 2012, respectively.

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

	<u>2013</u>	<u>2012</u>
Held by fiscal agent:		
Bond reserve fund	\$ 6,967	6,734
Bond construction fund	—	9,944
Held by treasurer:		
Bond service account	2,342	2,374
Renewal and replacement account	<u>2,670</u>	<u>2,711</u>
	<u>\$ 11,979</u>	<u>21,763</u>

The Water Utility's interest and other finance charges, excluding capitalized interest, for the fiscal years ended June 30, 2013 and 2012 were \$3,031 and \$3,753, respectively.

**(6) Pension Plan**

The City contributes to the State of California Public Employees' Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for California cities that participate in this retirement plan.

For both fiscal years ended June 30, 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 the employees. The City is

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

required to contribute the remaining amounts necessary to fund PERS, using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The Water Utility is allocated their portion of the City's required contribution, as determined by PERS actuaries. This allocation is based on eligible employee wages.

The Water Utility contributed \$2,243, \$2,116, and \$1,917, to PERS for the fiscal years ended June 30, 2013, 2012, and 2011, respectively, which represented 100% of its required contributions.

Information is not available separately for the Water Utility as to the cost of benefits funded, the actuarially computed present value of vested and nonvested accumulated plan benefits, the related assumed rates of return used, and the actuarially computed value of vested benefits over the related pension fund assets. Refer to the City's Comprehensive Annual Financial Report as of June 30, 2013 for further information.

#### **(7) Self-Insurance Program**

The Water Utility participates in the City's self-insured workers' compensation and general liability program. The liability for such claims, including claims incurred but not reported, is transferred to the City in consideration of self-insurance premiums paid by the Water Utility. Premiums for workers' compensation and general liability programs are charged to the Water Utility by the City based on various allocation methods that include actual cost, claims experience, exposure base, and number of participants. Premiums charged and paid were \$150 for each of the fiscal years ended June 30, 2013 and 2012.

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 claims pending that will exceed total insurance coverage.

#### **(8) Regulatory Credits**

The Water Utility's Rates, Rules, and Regulations provide for a water regulatory credits account to reflect variations in the cost of water to the Water Utility and provide more stable retail water rates to the customers of the City's Water Utility. This rate stabilization account (RSA) provides increased flexibility by allowing the Water Utility to maintain financial performance indicators and goals specified in bond covenants. The account is funded through expense reimbursements such as water supply cost refunds received from the MWD and OCWD and other miscellaneous credits and revenue. As permitted by GASB Statements No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and No. 65, *Items Previously Reported as Assets and Liabilities*, and as approved by the City Council, revenues from amounts collected are deferred and recorded as regulatory credits under deferred inflows of resources in the statements of net position. At

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

June 30, 2013 and 2012, the amounts recorded for regulatory credits totaled \$6,034 and \$6,010, respectively. In fiscal years 2013 and 2012, the Water Utility funded this account through a variety of miscellaneous credits. During fiscal years 2013 and 2012, no RSA revenue was recognized.

**(9) Commitments and Contingencies**

**(a) Litigation**

A number of claims and suits are pending against the City for alleged damages to persons and property and for other alleged liabilities arising out of matters usually incidental to the operation of a utility such as the water system of the City. In the opinion of management, the exposure under these claims and suits would not materially affect the financial position of the Water Utility as of June 30, 2013 and 2012.

**(b) Construction Commitments**

At June 30, 2013, the Water Utility had the following commitments with respect to unfinished capital projects:

<u>Capital project</u>	<u>Construction commitment</u>	<u>Estimated completion date</u>
Linda Vista Reservoir & Pump Station Replacement	\$ 593	2014
Water Recycling Demonstration Project	274	2014
Water Main Relocation – State Route 91	1,953	2014
Water Main Relocation – Tustin Avenue	858	2014
Pressure Regulating Stations Rehabilitation	593	2014
Well #58 at Anaheim Lake – Drilling	210	2013
	<u>\$ 4,481</u>	

## **CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

At June 30, 2012, the Water Utility had construction commitments totaling \$10,942.

### **(10) Subsequent Events**

On October 15, 2013, the Water Utility used \$5,200 from the proceeds of the Revolving Credit Agreement with Wells Fargo Bank, National Association, for the purposes of paying for the costs of acquisition and construction of additions to and improvements of its Water System. None of the proceeds will be used to fund operating expenses. The current interest rate on the outstanding balance is 0.83% per annum.