



**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Financial Statements

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	3
Financial Statements:	
Balance Sheets	17
Statements of Revenues, Expenses, and Changes in Fund Net Assets	19
Statements of Cash Flows	20
Notes to Financial Statements	22



KPMG LLP
Suite 700
600 Anton Boulevard
Costa Mesa, CA 92626-7651

Independent Auditors' Report

The Honorable City Council
City of Anaheim, California:

We have audited the accompanying financial statements of the Electric Utility Fund (Electric Utility) of the City of Anaheim, California (the City) as of and for the years ended June 30, 2008 and 2007, as listed in the accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Electric Utility's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1 to the financial statements, the financial statements present only the Electric Utility Fund and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2008 and 2007, and changes in its financial position and its cash flows, where applicable, for the years then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Utility Fund of the City of Anaheim, California, as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Management's discussion and analysis on pages 3 through 16 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Orange County, California
December 3, 2008

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis
(Unaudited)

June 30, 2008 and 2007

(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 this narrative overview and analysis of the financial statements for the fiscal years ended June 30, 2008 and 2007. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements.

Financial Highlights

The assets of the Electric Utility exceeded its liabilities at the close of the most recent two fiscal years by \$328,391 and \$320,429, respectively. Of these amounts, \$100,803 and \$128,731, respectively, may be used to meet the Electric Utility's ongoing obligations to creditors and customers (unrestricted fund net assets). The Electric Utility's total fund net assets increased by \$7,962 for the fiscal year ended June 30, 2008, but decreased by \$20,441 for the fiscal year ended June 30, 2007. Unrestricted fund net assets represented 30.8% and 40.8% of annual operating expenses for fiscal years 2008 and 2007, 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, 2008.

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

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

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

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

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis
(Unaudited)

June 30, 2008 and 2007

(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, fund net assets may serve over time as a useful indicator of the Electric Utility's financial position. In the case of the Electric Utility, assets exceeded liabilities by \$328,391 and \$320,429 at June 30, 2008 and 2007, respectively.

A portion of the Electric Utility's fund net assets (60.5% and 51.1% as of June 30, 2008 and 2007, respectively) reflects its investment in capital assets, such as land, production, transmission, distribution facilities, and general plant, less any related debt that remains outstanding used to acquire those assets. The Electric Utility uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt on the balance sheets must come from other sources such as operations.

An additional portion of the Electric Utility's fund net assets (8.8% and 8.7% as of June 30, 2008 and 2007, respectively) represents resources that are subject to external restrictions on how they may be used. These restrictions are for items such as debt repayment and other legally restricted purposes.

The unrestricted portion of the Electric Utility's fund net assets (30.7% and 40.2% as of June 30, 2008 and 2007, respectively) may be used to meet the Electric Utility's ongoing obligations to creditors and customers.

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

Condensed Statements of Fund Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 420,217	498,720	447,743
Net utility plant	754,923	672,452	574,621
Total assets	<u>1,175,140</u>	<u>1,171,172</u>	<u>1,022,364</u>
Long-term liabilities, net of current portion	706,325	714,515	585,719
Current liabilities	140,424	136,228	95,775
Total liabilities	<u>846,749</u>	<u>850,743</u>	<u>681,494</u>
Invested in capital assets, net of related debt	198,591	163,918	180,175
Restricted	28,997	27,780	24,937
Unrestricted	100,803	128,731	135,758
Total fund net assets	<u>\$ 328,391</u>	<u>320,429</u>	<u>340,870</u>

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis
(Unaudited)

June 30, 2008 and 2007

(In thousands)

As of June 30, 2008

Assets

Total assets as of June 30, 2008 and 2007 were \$1,175,140 and \$1,171,172, respectively. The \$3,968 (0.3%) increase in total assets is due to an \$82,471 increase in net utility plant, which was offset by a \$78,503 decrease in current and other assets. Net utility plant increased 12.3% primarily due to current year's net capital asset additions of \$110,662 related to land, production, transmission, distribution, and general utility plant, which was offset by current year's depreciation expense of \$28,191. Current and other assets decreased 15.7% primarily due to \$105,922 of cash and cash equivalents used for current year capital purchases, which were offset by an increase of \$10,892 in prepaid purchased power and an increase of \$10,887 in accounts receivable.

Liabilities

Total liabilities as of June 30, 2008 and 2007 were \$846,749 and \$850,743, respectively. The \$3,994 (0.5%) decrease in total liabilities was due to an \$8,190 decrease in long-term liabilities and a \$4,196 increase in current liabilities. Long-term liabilities decreased 1.1% primarily due to current year's principal reductions of \$14,839, which were offset by an increase of \$7,479 in the provision for decommissioning costs. Current liabilities increased 3.1% primarily due to an increase in accounts payable and accrued expenses of \$7,318, which were offset by a net decrease in regulatory credits of \$2,330 (see note 1 of the notes to financial statements for additional information regarding regulatory credits.)

Fund Net Assets

Total fund net assets as of June 30, 2008 and 2007 were \$328,391 and \$320,429, respectively. Total fund net assets increased by \$7,962 (2.5%) primarily due to an increase in amounts invested in capital assets, net of related debt of \$34,673, offset by a decrease in unrestricted amounts of \$27,928. Invested in capital assets, net of related debt increased 21.2% primarily due to increases in capital assets that exceeded increases in capital related debt during fiscal year 2008. Unrestricted net assets decreased 21.7% primarily due to the investment in capital assets in fiscal year 2008.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis
(Unaudited)

June 30, 2008 and 2007

(In thousands)

As of June 30, 2007

Assets

Total assets as of June 30, 2007 were \$1,171,172. The \$148,808 (14.6%) increase in total assets was due to a \$97,831 increase in net utility plant and a \$50,977 increase in current and other assets. Net utility plant increased 17.0% primarily due to current year net capital asset additions of \$147,758 related to land, production, transmission, distribution, and general utility plant, which were offset by current year depreciation expense of \$49,927. Current and other assets increased 11.4% due to a \$52,275 increase in cash and investments primarily due to cash provided by operating activities and an increase in bond funds due to the new 2007 bond issue.

Liabilities

Total liabilities as of June 30, 2007 and 2006 were \$850,743 and \$681,494, respectively. The \$169,249 (24.8%) increase in total liabilities was due to a \$128,796 increase in long-term liabilities and a \$40,453 increase in current liabilities. Long-term liabilities increased 22.0% primarily due to an increase of \$122,545 in long-term debt that was a net addition from the new 2007 bond issue after current year principal reductions, and an increase of \$6,251 in the provision for decommissioning costs. Current liabilities increased 42.2% primarily due to net additional regulatory credits of \$21,470 (42.0%) as a result of increased collections of regulatory fees (see note 1 of the notes to financial statements for additional information regarding regulatory credits), an increase in accounts payable and accrued expenses of \$13,140, and an increase in deposits of \$3,580.

Fund Net Assets

Total fund net assets as of June 30, 2007 and 2006 were \$320,429 and \$340,870, respectively. Total fund net assets decreased by \$20,441 (6.0%) primarily due to a decrease in amounts invested in capital assets, net of related debt of \$16,257 and a decrease in unrestricted amounts of \$7,027. Invested in capital assets, net of related debt decreased 9.0% primarily due to an increase in capital related debt that exceeded increases in capital assets during fiscal year 2007. Unrestricted net assets decreased 5.2% primarily due to the results of operations in fiscal year 2007.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis
(Unaudited)

June 30, 2008 and 2007

(In thousands)

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

Revenues, Expenses, and Changes in Fund Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues:			
Retail sales, net	\$ 262,352	238,656	235,231
Wholesale sales	22,228	28,835	41,454
PCRSA revenues	21,800	5,000	—
Surplus natural gas sales	8,328	6,162	16,601
Transmission revenues	33,690	28,797	25,903
Other revenues	2,889	2,674	3,866
Interest income	22,555	20,297	13,036
Capital contributions	8,594	2,908	3,293
Total revenues	<u>382,436</u>	<u>333,329</u>	<u>339,384</u>
Expenses:			
Purchased power	235,301	198,957	193,482
Fuel and generation	25,382	35,154	39,696
Operations, maintenance, and administration	38,851	31,229	35,096
Depreciation	28,191	29,387	31,831
Accelerated SONGS depreciation	—	20,540	42,002
Interest expense	25,091	22,188	23,342
Total expenses	<u>352,816</u>	<u>337,455</u>	<u>365,449</u>
Transfers:			
Transfer to the General Fund of the City	(12,393)	(12,331)	(11,472)
Transfer of right-of-way fee to the City	(3,655)	(3,528)	(3,528)
Transfers to other funds of the City	(5,610)	(456)	(449)
Total transfers	<u>(21,658)</u>	<u>(16,315)</u>	<u>(15,449)</u>
Changes in fund net assets	7,962	(20,441)	(41,514)
Fund net assets at beginning of year	<u>320,429</u>	<u>340,870</u>	<u>382,384</u>
Fund net assets at end of year	<u>\$ 328,391</u>	<u>320,429</u>	<u>340,870</u>

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis
(Unaudited)

June 30, 2008 and 2007

(In thousands)

Revenues

Year ended June 30, 2008

Total revenues for the year ended June 30, 2008 were \$382,436 as compared with \$333,329 in the prior year, an increase in total revenues of \$49,107 (14.7%). This increase was primarily due to an increase of \$23,696 in retail sales, an increase of \$16,800 in Power Cost Adjustment/Rate Stabilization Account (PCRSA) revenues, an increase of \$5,686 in capital contributions, and an increase of \$4,893 in transmission revenues.

The increase of 9.9% in retail sale revenues was caused by two major factors. First, the overall average 5.0% rate increase for all class customers on November 1, 2007. The second factor was one cent of the variable PCRSA rate was moved to the fixed portion of retail base rates on November 1, 2007.

PCRSA revenues of \$21,800 were recognized in the fiscal year 2008 in order to maintain a debt service coverage ratio of 1.6. This coverage ratio is needed to retain the Electric Utility bond ratings. The increase in the recognition of PCRSA revenues of 336% was necessary due to higher purchase power costs in this fiscal year.

The increase of 195.5% in capital contributions was due to various development projects within the City.

Transmission revenues are based upon the Electric Utility providing use of its transmission entitlements to the California Independent System Operator (CAISO) as a participating transmission owner. These revenues are based upon the transmission rates charged by CAISO and the demand in the participants market. The increase of 17.0% in transmission revenues was mainly due to hotter than expected summer months, causing higher transmission demand across the state, and higher transmission rates charged by CAISO.

Revenues

Year ended June 30, 2007

Total revenues for the year ended June 30, 2007 were \$333,329 as compared with \$339,384 in the prior year, a decrease in total revenues of \$6,055 (1.8%). This decrease was the result of a \$12,619 decrease in wholesale energy revenues and a decrease of \$10,439 in sales of surplus natural gas, which were partially offset by an increase of \$3,425 in retail sales, an increase of \$5,000 in PCRSA revenues, and an increase of \$7,261 in interest income.

The decrease of 30.4% in wholesale energy revenues was caused by two major factors. First, the sales volume was lower due to the termination of San Onofre Nuclear Generating Station, Unit 2 and 3 (SONGS) participation in mid-year of fiscal year 2007, limiting the amount of surplus power available for the wholesale market. The second factor was the downward swing in wholesale market prices this year when the natural gas prices were dramatically higher caused by the hurricane damage in the prior

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis
(Unaudited)

June 30, 2008 and 2007

(In thousands)

year. With energy prices tied closely to the movement in the natural gas price market, average wholesale energy prices were 19% lower than last year's prices.

The decrease of 62.9% in surplus natural gas sales were also caused by two major factors. First, the prepurchase of gas for Magnolia and Combustion Turbine plants reduced unused gas sold back to the gas market during outages. The second factor was the lower natural gas price in this year as mentioned above.

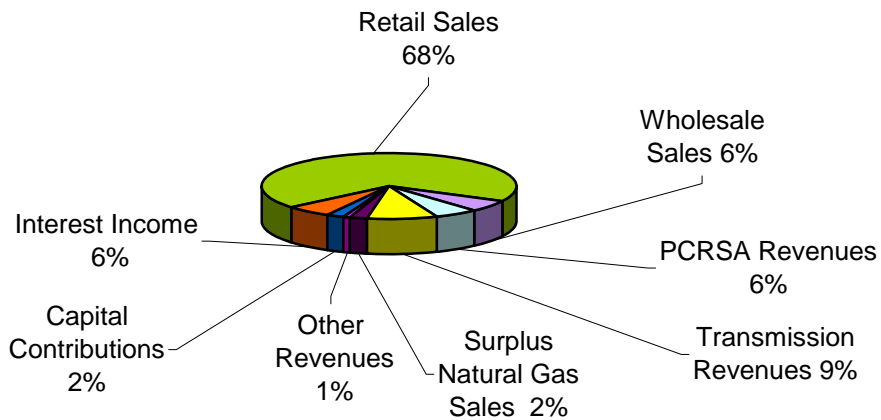
The increase of 1.5% in retail sales was due to an average 2.0% increase in the volume of sales when the weather was extremely hot during summer months of fiscal year 2007.

PCRSA revenues of \$5,000 were recognized in the fiscal year 2007 in order to maintain debt service coverage ratio of 1.60. This coverage ratio is needed to retain the Electric Utility bond ratings.

The increase of 55.7% in interest income was due to an increase of \$2,049 from a decrease in unrealized investment losses, an increase of \$2,242 interest income earned on decommissioning funds, and the rest from higher interest rates earned on increased cash balances in fiscal year 2007 compared with 2006.

Revenues by Source

Year ended June 30, 2008



**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

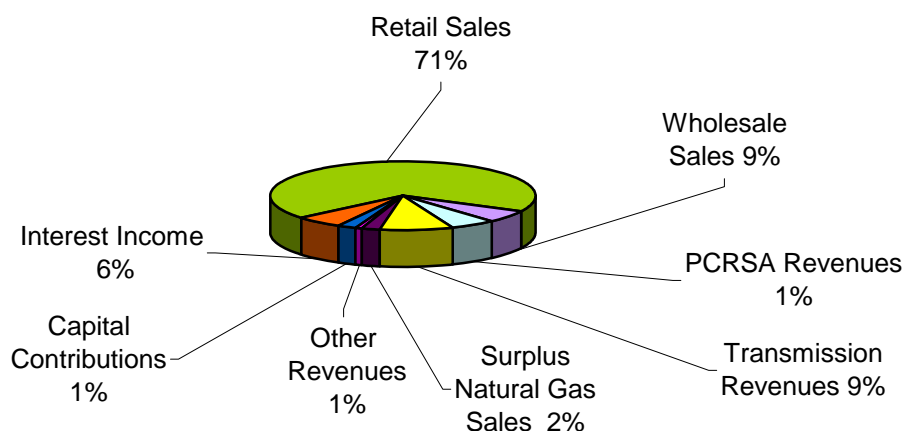
Management's Discussion and Analysis
(Unaudited)

June 30, 2008 and 2007

(In thousands)

Revenues by Source

Year ended June 30, 2007



Expenses

Year ended June 30, 2008

Total expenses for the year ended June 30, 2008 were \$352,816 as compared with \$337,455 in the prior year. This \$15,361 (4.6%) increase in total expenses was the result of a \$36,344 increase in purchased power costs, a \$7,622 increase in operations, maintenance and administration costs, and a \$2,903 increase in interest expense, which was offset by \$21,736 decrease in depreciation expense and a \$9,772 decrease in fuel and generation expense.

The 18.3% increase in purchased power costs was due primarily to the significant increase in natural gas prices coupled with an unplanned four-month outage at the Electric Utility's San Juan generation facility. As a result of this extended outage, the Electric Utility was forced to replace the power that would have been provided by San Juan by running its Magnolia facility more than originally planned at a higher variable cost due to the rise in natural gas prices. In addition, the Electric Utility was forced to purchase power from the wholesale market to make up the power needed that Magnolia could not provide. The outage at San Juan cost the Electric Utility an additional \$11 million. The Electric Utility has also begun to purchase more of its power from renewable supplies in order to reduce its carbon footprint. Renewable power currently costs more to produce than traditional fossil fuel-based power; therefore, the Electric Utility is incurring increased purchased power expenses as a result of this shift. Transmission costs also increased significantly as a result of higher than normal demand caused by the abnormally hot spring and early summer months.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis
(Unaudited)

June 30, 2008 and 2007

(In thousands)

Operations, maintenance and administrative expenses increased by \$7,622 or 24.4% as a result of several factors. The Electric Utility increased its conservation and energy efficiency programs in order to reduce overall demand in the long term. Over time, these increased expenditures will be returned through a reduction in future power supply costs as the need for additional power will be reduced. The Electric Utility also experienced significant increases in copper, aluminum, fuel, and other commodity prices. Because copper and aluminum are such an integral part of the electric distribution system maintenance and repair costs are particularly sensitive to price increases for these commodities. The Electric Utility has also embarked on several new internal efficiency programs that have increased administrative costs in 2008, but it is expected that these programs will have a significant return in the future through increased labor and process efficiency.

The 13.1% increase in interest expenses was due to more interest expense paid for the 2007 bond issue because the Electric Utility paid interest on this particular issuance for a full 12 months.

The 43.5% decrease in depreciation expenses was attributable to SONGS depreciation expense. Because the Electric Utility ended its participation in SONGS in fiscal year 2007, all of the associated depreciation expenses ended as well.

The 27.8% decrease in fuel and generation expense from the prior year was primarily due to a decrease of \$9,825 in SONGS operation costs resulting from SONGS termination in the middle of fiscal year 2007.

Year ended June 30, 2007

Total expenses for the year ended June 30, 2007 were \$337,455 as compared with \$365,449 in the prior year. This \$27,994 (7.7%) decrease in total expenses was primarily due to a \$23,906 decrease in depreciation expenses and a \$4,542 decrease in fuel and generation expenses.

The 32.4% decrease in depreciation expenses was primarily attributable to SONGS depreciation expense. Because SONGS participation ended in the middle of fiscal year 2007, only a half-year of depreciation expense was recognized.

Fuel and generation expense decreased by 11.4% from the prior year, and was primarily due to a decrease of \$6,321 in SONGS operation costs resulting from SONGS termination in the middle of fiscal year 2007, partially offset by an increase of \$1,386 in Combustion Turbine fuel costs.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis
(Unaudited)

June 30, 2008 and 2007

(In thousands)

Transfers

Year ended June 30, 2008

Transfers to the City's General Fund, as defined by City Charter, are equal to a maximum of 4% of total operating revenues of the prior fiscal year. The transfer to the City's General Fund was \$12,393 for fiscal year 2008. 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 \$3,655 for fiscal year 2008. There were no significant changes in the amount of the General Fund and right-of-way fee transferred to the City during fiscal year 2008 when compared with fiscal year 2007.

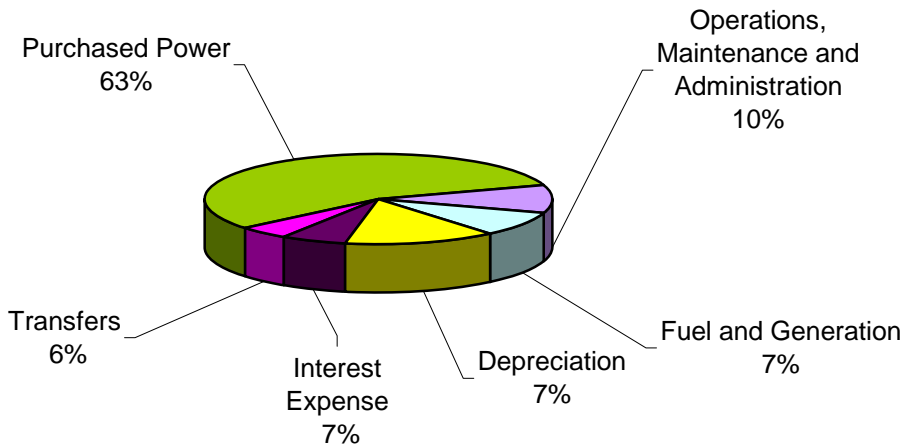
Transfers to other funds in fiscal year 2008 were \$5,610 as compared with \$456 in the prior fiscal year. This increase was mainly due to the transfer of a police heliport to the City in the amount of \$5,141.

Year ended June 30, 2007

Transfers to the City's General Fund, as defined by City Charter, are equal to a maximum of 4% of total operating revenues of the prior fiscal year. The transfer to the City's General Fund was \$12,331 for fiscal year 2007. 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 \$3,528 for fiscal year 2007. There were no significant changes in the amount of the General Fund and right-of-way fee transferred to the City during fiscal year 2007 when compared with fiscal year 2006.

Expenses and Transfers

Year ended June 30, 2008



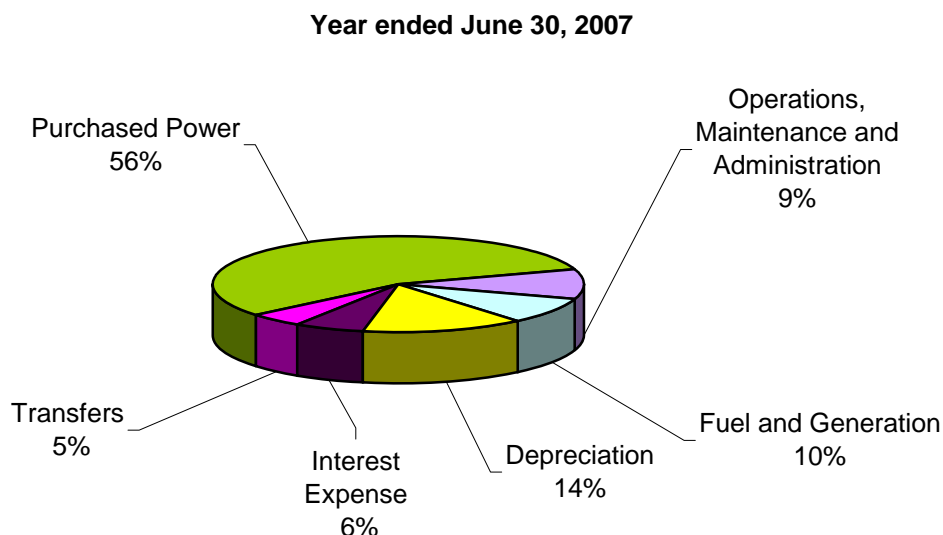
**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis
(Unaudited)

June 30, 2008 and 2007

(In thousands)

Expenses and Transfers



Capital Assets and Debt Administration

Capital Assets

The Electric Utility's investment in net utility plant as of June 30, 2008 and 2007 was \$754,923 and \$672,452, respectively, net of accumulated depreciation. This includes investments in land, 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, 2008 was \$1,016,324, an increase of \$108,513 (12%) over the prior fiscal year.

San Onofre Nuclear Generating Station

The Electric Utility continues to proactively manage its power portfolio to balance the need to supply Anaheim with reliable and cost-effective power, with the effects from rising fuel prices, costly changes in electric market operating regulations, and increasing legislative and regulatory environmental pressures to use more renewable resources and cut greenhouse gases.

Consequently, the City sold the Electric Utility's ownership share in SONGS to Southern California Edison (SCE) on December 29, 2006. The Electric Utility's decision to divest SONGS was largely based on the need for operating flexibility to provide both peak and base load power, ongoing cost concerns for environmental disposal of nuclear waste and marine mitigation, as well as escalating decommissioning costs.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis
(Unaudited)

June 30, 2008 and 2007

(In thousands)

Before this decision, the Electric Utility estimated the useful life of the SONGS capital assets to be through the year 2022, the expiration date of the SONGS operating license. When the ownership share was sold to SCE, the original useful life date of the SONGS capital assets changed from 2022 to mid-year of fiscal year 2007. See notes 1 and 5 of the notes to financial statements for additional information regarding SONGS.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Production	\$ 110,666	103,450	311,160
Transmission	88,489	59,757	43,330
Distribution	592,045	499,316	460,277
General plant	84,670	75,483	78,426
Land	35,009	33,974	15,347
Construction in progress	105,445	135,831	71,700
Nuclear fuel, at amortized cost	—	—	2,792
Total utility plant	<u>1,016,324</u>	<u>907,811</u>	<u>983,032</u>
Less accumulated depreciation	<u>(261,401)</u>	<u>(235,359)</u>	<u>(408,411)</u>
Net utility plant	<u>\$ 754,923</u>	<u>672,452</u>	<u>574,621</u>

As of June 30, 2008

This fiscal year experienced an increase in gross utility plant of \$108,513 (12%), which includes land purchases for a new Anaheim Substation, the expansion or improvement of existing substations, transmission and distribution system improvements, and the replacement of aging overhead electrical lines with state-of-the-art underground facilities.

The accumulated depreciation increased \$26,042 (11.1%) mainly due to current year depreciation expense of \$28,191.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis
(Unaudited)

June 30, 2008 and 2007

(In thousands)

As of June 30, 2007

This fiscal year experienced a decrease in gross utility plant of \$75,221 (7.7%) mainly due to the retirement of \$226,336 of fully depreciated assets, partially offset by an \$151,115 increase in additional capital assets, which includes land purchases for a gas turbine plant, the expansion or improvement of existing substations, transmission and distribution system improvements, and the replacement of aging overhead electrical lines with state-of-the-art underground facilities. The \$226,336 of retired assets largely resulted from SONGS and nuclear fuel assets when the SONGS operation terminated on December 29, 2006.

Accumulated depreciation decreased \$173,052 (42.4%) mainly due to the retirements of \$222,979 of fully depreciated assets offset by current year depreciation expense of \$49,927.

Long-Term Debt

As of June 30, 2008 and 2007, the Electric Utility had total long-term debt outstanding of \$608,730 and \$623,569, respectively.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenue bonds	\$ 608,730	623,420	480,230
Certificates of participation	—	—	21,110
Capital leases	—	149	167
Total long-term debt outstanding	<u>608,730</u>	<u>623,569</u>	<u>501,507</u>
Less:			
Current portion	(15,370)	(14,768)	(13,821)
Unamortized bond premium	8,331	9,173	9,026
Unamortized refunding costs	<u>(6,289)</u>	<u>(6,903)</u>	<u>(8,186)</u>
Total noncurrent long-term debt outstanding	<u>\$ 595,402</u>	<u>611,071</u>	<u>488,526</u>

During fiscal year 2008, the credit rating of the Electric Utility was rated AA- by Fitch Ratings, A1 by Moody's Investors Service, and AA- by Standard & Poor's Corporation. Additional information on the Electric Utility's long-term liabilities can be found in note 6 of the notes to financial statements.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis
(Unaudited)

June 30, 2008 and 2007

(In thousands)

As of June 30, 2008

Total long-term debt outstanding decreased \$14,839 (2.4%) mainly due to current year principal payments on outstanding debts of \$14,690. The revenues of the Electric Utility have been pledged to pay the outstanding long-term debt.

As of June 30, 2007

Total long-term debt outstanding increased \$122,062 (24.3%) mainly due to the new 2007 bond issue of \$206,035, partially offset by refunded amounts of \$70,735, and by \$13,314 payment of principal on outstanding debt. The revenues of the Electric Utility have been pledged to pay the outstanding long-term debt.

Economic Factors and Rates

The second phase 5% increase of the electric base rate change on all customer classes (approved in October 2007) became effective on November 1, 2008.

Requests for Information

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

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Balance Sheets

June 30, 2008 and 2007

(In thousands)

Assets	2008	2007
Utility plant:		
Production	\$ 110,666	103,450
Transmission	88,489	59,757
Distribution	592,045	499,316
General plant	84,670	75,483
Total depreciable utility plant	875,870	738,006
Less accumulated depreciation	(261,401)	(235,359)
Net depreciable utility plant	614,469	502,647
Land	35,009	33,974
Construction in progress	105,445	135,831
Net utility plant	754,923	672,452
Restricted assets:		
Cash and cash equivalents	14,347	13,540
Investments	181,166	234,643
Total restricted assets	195,513	248,183
Other assets:		
Prepaid purchased power	36,985	26,047
Unamortized debt issuance costs	6,508	6,992
Due from other funds of the City, less current portion	—	140
Total other assets	43,493	33,179
Total noncurrent assets	993,929	953,814
Current assets:		
Cash and cash equivalents	39,660	55,135
Investments	82,298	115,764
Accounts receivable, net	45,926	35,039
Current portion of due from other funds of the City	929	280
Accrued interest receivable	3,382	4,150
Materials and supplies inventory	8,919	6,847
Prepaid purchased power	97	143
Total current assets	181,211	217,358
Total assets	\$ 1,175,140	1,171,172

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Balance Sheets

June 30, 2008 and 2007

(In thousands)

Fund Net Assets and Liabilities	2008	2007
Fund net assets:		
Invested in capital assets, net of related debt	\$ 198,591	163,918
Restricted for:		
Debt service	11,706	10,690
Renewal and replacement	12,989	10,685
Other purposes	4,302	6,405
Unrestricted	<u>100,803</u>	<u>128,731</u>
Total fund net assets	<u>328,391</u>	<u>320,429</u>
Long-term liabilities:		
Long-term debt obligation, less current portion	595,402	611,000
Long-term capital lease	—	71
Provision for decommissioning costs	<u>110,923</u>	<u>103,444</u>
Total long-term liabilities	<u>706,325</u>	<u>714,515</u>
Current liabilities (payable from restricted assets):		
Current portion of long-term debt	11,528	11,018
Accounts payable	824	445
Wages payable	23	31
Arbitrage rebate liabilities	811	213
Accrued interest payable	<u>7,278</u>	<u>7,447</u>
Total current liabilities (payable from restricted assets)	<u>20,464</u>	<u>19,154</u>
Current liabilities (payable from unrestricted current assets):		
Current portion of long-term debt	3,842	3,672
Current portion of long-term capital lease	—	78
Accounts payable and accrued expenses	39,568	32,629
Wages payable	750	902
Regulatory credits	70,310	72,640
Deposits	<u>5,490</u>	<u>7,153</u>
Total current liabilities (payable from unrestricted current assets)	<u>119,960</u>	<u>117,074</u>
Total liabilities	<u>846,749</u>	<u>850,743</u>
Total fund net assets and liabilities	<u>\$ 1,175,140</u>	<u>1,171,172</u>

See accompanying notes to financial statements.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Statements of Revenues, Expenses, and Changes in Fund Net Assets

Years ended June 30, 2008 and 2007

(In thousands)

	2008	2007
Operating revenues:		
Retail sales of electricity, net	\$ 262,352	238,656
Wholesale sales of electricity	22,228	28,835
PCRSA revenues	21,800	5,000
Surplus natural gas sales	8,328	6,162
Transmission revenues	33,690	28,797
Other operating revenues	2,762	2,624
Total operating revenues	351,160	310,074
Operating expenses:		
Purchased power	235,301	198,957
Fuel and generation	25,382	35,154
Operations, maintenance, and administration	38,851	31,229
Depreciation	28,191	29,387
Accelerated SONGS depreciation	—	20,540
Total operating expenses	327,725	315,267
Operating income (loss)	23,435	(5,193)
Nonoperating revenues (expenses):		
Interest income	22,555	20,297
Interest expense	(25,091)	(22,188)
Grants	127	50
Total nonoperating expenses, net	(2,409)	(1,841)
Income (loss) before capital contributions and transfers	21,026	(7,034)
Capital contributions	8,594	2,908
Transfer to the General Fund of the City	(12,393)	(12,331)
Transfer of right-of-way fee to the City	(3,655)	(3,528)
Transfers to other funds of the City	(5,610)	(456)
Change in fund net assets	7,962	(20,441)
Fund net assets at beginning of year	320,429	340,870
Fund net assets at end of year	\$ 328,391	320,429

See accompanying notes to financial statements.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Statements of Cash Flows

Years ended June 30, 2008 and 2007

(In thousands)

	2008	2007
Cash flows from operating activities:		
Receipts from customers and users	\$ 335,484	338,666
Receipts from services provided to other funds of the City	796	695
Payments to suppliers	(252,076)	(204,909)
Payments to employees	(35,598)	(32,277)
Payments for services provided by other funds of the City	(10,187)	(8,640)
Net cash provided by operating activities	38,419	93,535
Cash flows from noncapital financing activities:		
Receipts of interfund balances	—	280
Payments to interfund balances	(509)	—
Transfers to the General Fund and other funds of the City	(16,048)	(15,859)
Grant receipts	127	50
Net cash used in noncapital financing activities	(16,430)	(15,529)
Cash flows from capital and related financing activities:		
Proceeds from borrowings, net of premium	—	209,453
Transfer to escrow agent	—	(72,178)
Principal payments on long-term debt	(14,690)	(13,314)
Capital purchases	(105,922)	(142,797)
Interest paid	(29,737)	(25,419)
Issuance costs	—	(2,418)
Transfers to other funds of the City for capital purposes	(426)	—
Capital contributions	3,852	1,916
Net cash used in capital and related financing activities	(146,923)	(44,757)
Cash flows from investing activities:		
Purchases of investment securities	(799,756)	(641,644)
Proceeds from sale and maturity of investment securities	888,558	646,514
Interest income received	21,464	19,867
Net cash provided by investing activities	110,266	24,737
Increase (decrease) in cash and cash equivalents	(14,668)	57,986
Cash and cash equivalents at beginning of year	68,675	10,689
Cash and cash equivalents at end of year	\$ 54,007	68,675

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Statements of Cash Flows

Years ended June 30, 2008 and 2007

(In thousands)

	<u>2008</u>	<u>2007</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ <u>23,435</u>	<u>(5,193)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	28,191	49,927
Amortization of nuclear fuel	—	548
Increase in provision for decommissioning costs	7,479	6,251
Changes in assets and liabilities:		
Accounts receivable, net	(10,887)	(8)
Materials and supplies inventory	(2,072)	1,632
Prepaid purchased power	(10,892)	2,132
Accounts payable and accrued expenses	7,318	13,140
Wages payable	(160)	56
Regulatory credits	(2,330)	21,470
Deposits	<u>(1,663)</u>	<u>3,580</u>
Total adjustments	<u>14,984</u>	<u>98,728</u>
Net cash provided by operating activities	<u>\$ <u>38,419</u></u>	<u><u>93,535</u></u>
Schedule of noncash investing, capital, and financing activities:		
Capital contributions	\$ 4,742	2
Transfers (to) from other funds of the City	(5,184)	1,496
Increase (decrease) in fair value of investments	1,859	(841)
Capital assets financed through capital leases	—	76

See accompanying notes to financial statements.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

(1) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

(b) Electric Utility Plant and Depreciation

The cost of additions to the Electric Utility plant and replacement of retired units is 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, net of proceeds, is recorded in accumulated depreciation.

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

Production	30 years
Transmission and distribution	20 to 75 years
General plant	5 to 50 years

(c) Pooled Cash and Investments

The City pools available cash from all funds for the purpose of enhancing investment income through investment activities. Investments in U.S. Treasury obligations, U.S. agency securities, and corporate notes are carried at fair value based on quoted market prices. Participating guaranteed investment contracts and flexible repurchase agreements are carried at fair value based on net realizable 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

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

Government Code (Government Code) Section 16429 under the oversight of the Treasurer of the State of California. Commercial paper, nonparticipating guaranteed investment contracts, and negotiable certificates of deposit are carried at amortized cost (which approximates fair value). Interest income, which includes changes in fair value, on investments is allocated to all funds on the basis of average daily cash and investment balances. The Electric Utility's cash and investments pooled with the City Treasurer (Treasurer) are carried at fair value based on the value of each participating dollar. Additional information pertinent to the value of these investments is provided in note 2.

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

(d) Revenue Recognition

Revenue is recorded in the period earned. The Electric Utility accrues estimated unbilled revenues for energy sold but not billed at the end of a fiscal period. Most residential and some smaller commercial accounts are billed bimonthly, and all other customers are billed monthly.

Unbilled electric service charges are included in accounts receivable at year-end. Unbilled accounts receivable totaled \$18,076 and \$14,456 at June 30, 2008 and 2007, respectively.

Revenues are reported net of uncollectible amounts. Total uncollectible amounts written off are \$755 and \$352 for the years ended June 30, 2008 and 2007, respectively. The applicable allowance for uncollectible accounts is \$340 and \$108 at June 30, 2008 and 2007, respectively. See note 6 for discussion of pledged revenue.

(e) 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 San Onofre Nuclear Generating Station, Units 2 and 3 (SONGS), up to the sale of SONGS on December 29, 2006, San Juan Generating Station, Unit 4 (SJ), and the Combustion Turbine located in Anaheim. This includes the amortization of nuclear fuel and 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.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

(f) Regulatory Credits

The Electric Utility's Rates, Rules, and Regulations provide for a Power Cost Adjustment/Rate Stabilization Account (PCRSA) to reflect variations in the cost of power to the Electric Utility and to build a rate stabilization fund. The PCRSA provides increased flexibility by allowing the adjustment of revenues from the sale of electricity for differences between the Electric Utility's actual cost of power and other relevant operational costs, and the amount billed to customers through standard rates. As permitted by FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, and approved by the City Council, amounts collected for the PCRSA are deferred and recorded as regulatory credits in the balance sheets.

The Electric Utility obtained City Council approval to apply a PCRSA rate to all retail kilowatt/hour (kWh) sales of electricity, except residential lifeline usage, beginning April 1, 2001. In addition, the City Council granted the Electric Utility the authority to implement PCRSA adjustments subsequent to April 1, 2001 in accordance with the PCRSA, as defined in the Electric Utility's Rates, Rules, and Regulations. Since inception, the Electric Utility has collected \$103,110 in regulatory credits. As of November 1, 2007, the PCRSA rate was changed from \$0.0149 to \$0.0049 for all domestic retail customers and from \$0.0140 to \$0.0040 for all nondomestic retail customers, excluding residential lifeline customers. As of June 30, 2008 and 2007, the Electric Utility recorded a liability for regulatory credits of \$70,310 and \$72,640, respectively. During fiscal year 2008 and 2007, \$21,800 and \$5,000, respectively, was recognized as PCRSA revenues to mitigate the impact of energy costs.

(g) Nuclear Fuel

The Electric Utility amortizes the cost of nuclear fuel to expense using the "as burned" method. In accordance with the Nuclear Waste Disposal Act of 1982, the Electric Utility is charged a fee for the disposal of nuclear fuel at the rate of one million per kWh for the Electric Utility's share of electricity generated by SONGS. The Electric Utility pays the fee quarterly to Southern California Edison Company (SCE), which is acting as the agent for SONGS participants. On December 29, 2006, the Electric Utility sold its ownership share of SONGS to SCE.

(h) Provision for Decommissioning Costs

Federal regulations require the Electric Utility to provide for the future decommissioning costs of its ownership share of SONGS. The Electric Utility has established a provision for decommissioning costs of SONGS and restoration of the beachfront at San Onofre. The Electric Utility funded the reserve and recognized this expense over the useful life of the generating plant. A separate trust account was established for amounts funded and these amounts are classified as restricted assets in the accompanying balance sheets. As of June 30, 2008 and 2007, the Electric Utility has recorded a provision for decommissioning costs for SONGS of \$109,163 and \$102,124, respectively. For the years ended June 30,

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

2008 and 2007, the Electric Utility has recorded decommissioning costs incurred for SONGS of \$7,039 and \$5,811, respectively, which are included in the fuel and generation component in operating expenses.

The California Public Utilities Commission approved a cost estimate by SCE for the decommissioning costs of SONGS. At June 30, 2008, SCE's future cost estimate for the Electric Utility's share of decommissioning costs is \$109,445. The Electric Utility currently has \$109,163 in trust for the decommissioning costs. Based on an assumed 4% rate of return, it is estimated that the Electric Utility's current reserve of \$109,163 will grow to \$189,034 by 2022, which exceeds SCE's future cost estimate of \$158,984. Based on these estimates, the Electric Utility does not expect that it will need to further fund the provision for decommissioning with cash contributions for SONGS.

The Electric Utility has a 10.04% ownership interest of SJ. The Electric Utility is providing for the future demolition and reclamation costs of its ownership share of SJ. As of June 30, 2008 and 2007, the Electric Utility has recorded a provision for decommissioning costs for SJ of \$1,760 and \$1,320, respectively. For the years ended June 30, 2008 and 2007, the Electric Utility has recorded decommissioning costs incurred for SJ of \$440 for each year, which are included in the fuel and generation component of operating expenses. Based on cost projections, it is estimated that \$440 will be required per year until 2027 to fund this obligation.

(i) Debt Issuance Costs

Debt issuance costs are deferred and amortized over the lives of the related bond issues on a basis that approximates the effective-interest method.

(j) Bond Refunding Costs

Bond refunding costs are deferred and amortized over the life of the old debt or the life of the new debt, whichever is shorter on a basis that approximates the effective-interest method. Bond refunding costs are recorded as a reduction of the long-term debt obligation on the accompanying financial statements.

(k) Vacation and Sick Pay

Vacation and sick pay for all City employees are paid by the General Benefits and Insurance Fund of the City. The General Benefits and Insurance Fund is reimbursed through payroll charges to the Electric Utility based on estimates of benefits to be earned during the year. Vested vacation and sick pay benefits are accrued in the General Benefits and Insurance Fund and amounted to \$1,684 and \$1,640 for the Electric Utility at June 30, 2008 and 2007, respectively.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

(l) Transfers (to) from Other Funds of the City

Article XII of the City Charter provides that transfers to the General Fund of the City shall not exceed 4% of total operating revenues, as defined by City Charter, of the prior fiscal year. Such transfers are not in lieu of taxes and amounted to \$12,393 and \$12,331 for the years ended June 30, 2008 and 2007, respectively.

The transfer of right-of-way fee 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 \$3,655 and \$3,528 for the years ended June 30, 2008 and 2007.

(m) Use of Estimates

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

(2) Deposits and Investments

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

The City's investment policy further limits the permitted investments in California Government Code (Government Code) Sections 53600, 16429.1, and 53684 et seq. to the following: obligations of the U.S. government, federal agencies, and government-sponsored enterprises; medium-term corporate notes; certificates of deposit; bankers' acceptances; commercial paper rated A-1 by Standard & Poor's Corporation (S&P); P-1 by Moody's Investors Service (Moody's); or F-1 by Fitch Ratings (Fitch); Local Agency Investment Fund (LAIF); repurchase agreements; reverse repurchase agreements; and money market mutual funds.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

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

	2008	2007
Cash equivalents and investments pooled with the Treasurer	\$ 160,203	206,935
Investments held with trustee	157,268	212,147
	\$ 317,471	419,082

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

	2008	2007
Restricted assets – cash equivalents and investments	\$ 195,513	248,183
Unrestricted assets – cash equivalents and investments	121,958	170,899
	\$ 317,471	419,082

Investments

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

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

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.

Authorized investment type	Maximum maturity	Maximum percentage of portfolio*	Maximum investment in one issuer
U.S. Treasury obligations	5 years	None	None
U.S. agency securities	5 years	75%	20%
Bankers' acceptances	180 days	25	5
Commercial paper	270 days	25	5
Negotiable certificates of deposit	3 years	15	5
Repurchase agreements	90 days	75	None
Reverse repurchase agreements	92 days	20	None
Medium-term corporate notes	5 years	15	5%
Money market mutual funds	N/A	20	10
LAIF	N/A	\$80,000	None
Time certificates of deposit (TCD)	5 years	30%	5%

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

At June 30, 2008, the City exceeded 5% concentration in the following federal agency securities: Federal National Mortgage Association \$67,245 (15%), Federal Home Loan Bank \$61,647 (13%), Federal Farm Credit Bank \$50,027 (11%), and Federal Home Loan Mortgage Corporation \$43,621 (9%).

At June 30, 2007, the City exceeded 5% concentration in the following federal agency securities: Federal Home Loan Bank \$74,162 (13%), Federal Farm Credit Bank \$47,143 (8%), Federal National Mortgage Association \$41,516 (7%), and Federal Home Loan Mortgage Corporation \$33,341 (6%).

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

Investments Authorized by Debt Agreements

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

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

At June 30, 2008, the City's investments controlled by fiscal agents exceeded 5% concentration in the following U.S. agency securities, guaranteed investment contracts, collateralized investments contracts, and money market mutual funds: Federal Home Loan Mortgage Corporation \$43,406 (15%), Federal Home Loan Bank \$33,736 (12%), Federal Farm Credit Bank \$23,177 (8%), Morgan Stanley \$23,775 (8%), Bank of America \$16,645 (6%), and Dreyfus Institutional Reserve Treasury Fund \$14,270 (5%). All guaranteed investment securities have downgrade language that requires collateral should credit ratings drop below certain levels.

At June 2007, the City's investments controlled by fiscal agent exceeded 5% concentration in the following federal agency securities, guaranteed investment securities, and collateralized investments: Federal Home Loan Bank \$58,312 (18%), Federal Home Loan Mortgage Corporation \$26,928 (8%), XL Asset Funding Corporation \$47,412 (15%), and Rabobank Nederland \$62,244 (19%). All guaranteed investment securities have downgrade language that requires collateral should credit ratings drop below certain levels.

Custodial Credit Risk

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

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

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

Interest Rate Risk

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

Interest rate risk for investments held by bond trustees is offset by the fact that the long-term investments are for the reserve funds with the semiannual interest payments used to pay a portion of the debt service. These are long-term securities, which are not adversely affected by interest rate changes. Investment contracts for construction funds are usually limited to three years or less. Money market mutual funds are used to accumulate monthly or semiannual debt service payments.

Information about the sensitivity of the fair values of the Electric Utility's investments (including investments held by bond trustees) to market interest rate fluctuations for the fiscal years 2008 and 2007 is provided by the following tables.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

The distribution of the Electric Utility's investments by maturity at June 30, 2008 and 2007 is as follows:

<u>Investments</u>	<u>Credit rating</u>	<u>Fair value June 30, 2008</u>	<u>12 months or less</u>	<u>13 to 24 months</u>	<u>25 to 36 months</u>	<u>37 to 60 months</u>	<u>More than 60 months</u>
Treasurer's pooled investments:							
U.S. Treasury obligations	Exempt	\$ 21,666	21,666	—	—	—	—
U.S. agency securities	AAA	77,492	16,315	2,500	25,645	33,032	—
Medium-term notes	Aa2-AA-	7,069	1,777	3,590	—	1,702	—
Commercial paper	P1-A1+	17,381	17,381	—	—	—	—
Money market mutual funds	AAA	10,819	10,819	—	—	—	—
LAIF	Unrated	25,776	25,776	—	—	—	—
Total Treasurer's pooled investments		<u>160,203</u>	<u>93,734</u>	<u>6,090</u>	<u>25,645</u>	<u>34,734</u>	<u>—</u>
Investments controlled by fiscal agents:							
U.S. agency securities	AAA	107,427	—	15,200	20,789	71,438	—
Guaranteed investment agreements	Unrated	22,751	—	—	—	—	22,751
Collateralized investment contracts	Unrated	16,114	—	—	—	—	16,114
Flexible repurchase agreements	Unrated	9,066	—	—	—	9,066	—
Money market mutual funds	AAA	1,910	1,910	—	—	—	—
Total investments controlled by fiscal agents		<u>157,268</u>	<u>1,910</u>	<u>15,200</u>	<u>20,789</u>	<u>80,504</u>	<u>38,865</u>
Total Electric Utility investments		<u>\$ 317,471</u>	<u>95,644</u>	<u>21,290</u>	<u>46,434</u>	<u>115,238</u>	<u>38,865</u>

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

<u>Investments</u>	<u>Credit rating</u>	<u>Fair value June 30, 2007</u>	<u>12 months or less</u>	<u>13 to 24 months</u>	<u>25 to 36 months</u>	<u>37 to 60 months</u>	<u>More than 60 months</u>
Treasurer's pooled investments:							
U.S. Treasury obligations	Exempt	\$ 58,800	36,787	22,013	—	—	—
U.S. agency securities	AAA	72,924	20,912	18,472	2,542	30,998	—
Medium-term notes	Aa2-AA-	8,070	2,556	1,813	3,701	—	—
Commercial paper	P1-A1+	38,153	38,153	—	—	—	—
Money market mutual funds	AAA	12,269	12,269	—	—	—	—
LAIF	Unrated	16,719	16,719	—	—	—	—
Total Treasurer's pooled investments		<u>206,935</u>	<u>127,396</u>	<u>42,298</u>	<u>6,243</u>	<u>30,998</u>	<u>—</u>
Investments controlled by fiscal agents:							
U.S. agency securities	AAA	100,058	—	—	28,411	24,859	46,788
Guaranteed investment agreements	Unrated	6,106	—	—	—	—	6,106
Collateralized investment contracts	Unrated	95,003	31,122	31,122	—	—	32,759
Flexible repurchase agreements	Unrated	9,066	—	—	—	—	9,066
Money market mutual funds	AAA	1,914	1,914	—	—	—	—
Total investments controlled by fiscal agents		<u>212,147</u>	<u>33,036</u>	<u>31,122</u>	<u>28,411</u>	<u>24,859</u>	<u>94,719</u>
Total Electric Utility investments		<u>\$ 419,082</u>	<u>160,432</u>	<u>73,420</u>	<u>34,654</u>	<u>55,857</u>	<u>94,719</u>

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

(3) Electric Utility Plant

The following is a summary of changes in capital assets:

	<u>Balance as of June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance as of June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance as of June 30, 2008</u>
Production	\$ 311,160	6,424	(214,134)	103,450	7,216	—	110,666
Transmission	43,330	16,513	(86)	59,757	28,810	(78)	88,489
Distribution	460,277	39,861	(822)	499,316	93,148	(419)	592,045
General plant	<u>78,426</u>	<u>5,028</u>	<u>(7,971)</u>	<u>75,483</u>	<u>9,187</u>	<u>—</u>	<u>84,670</u>
Depreciable utility plant	893,193	67,826	(223,013)	738,006	138,361	(497)	875,870
Less accumulated depreciation	<u>(408,411)</u>	<u>(49,927)</u>	<u>222,979</u>	<u>(235,359)</u>	<u>(28,191)</u>	<u>2,149</u>	<u>(261,401)</u>
Net depreciable utility plant	<u>484,782</u>	<u>17,899</u>	<u>(34)</u>	<u>502,647</u>	<u>110,170</u>	<u>1,652</u>	<u>614,469</u>
Land	15,347	18,627	—	33,974	1,035	—	35,009
Construction in progress	71,700	148,286	(84,155)	135,831	138,648	(169,034)	105,445
Nuclear fuel, at amortized cost	<u>2,792</u>	<u>531</u>	<u>(3,323)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Nondepreciable utility plant	<u>89,839</u>	<u>167,444</u>	<u>(87,478)</u>	<u>169,805</u>	<u>139,683</u>	<u>(169,034)</u>	<u>140,454</u>
Net utility plant	<u>\$ 574,621</u>	<u>185,343</u>	<u>(87,512)</u>	<u>672,452</u>	<u>249,853</u>	<u>(167,382)</u>	<u>754,923</u>

(4) Operating Expenses

Total operating expenses shared with the City's Water Utility Fund amounted to \$26,164 and \$23,727 for the years ended June 30, 2008 and 2007, respectively, of which \$20,931 and \$16,609, 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

Pursuant to a settlement agreement with SCE dated August 4, 1972, the City was granted the right to acquire a 1.66% ownership interest in SONGS, and subsequently, ownership was later increased to 3.16% by agreement of the parties. In the settlement agreement, SCE agreed to provide the necessary transmission service to deliver the output of SONGS to the City. As a result of a restructuring agreement between SCE and the City, these transmission services were subsequently provided by California Independent System

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

Operator (CAISO). SCE and the City entered into the SONGS Operating Agreement that sets forth the terms and conditions under which the City, through the Electric Utility, participated in the ownership and output of SONGS. Other participants in the project include SCE, 75.05%; San Diego Gas & Electric Company, 20.00%; and the City of Riverside, 1.79%. Maintenance and operation of SONGS remained the responsibility of SCE, as operating agent for the participants under various agreements, including an operating agreement. There are no separate financial statements for this venture, as each participant's interest is reflected in its respective financial statements.

On June 22, 2004, SCE, as operating agent for the SONGS, gave notice that SCE had, pursuant to Section 16 of the Second San Onofre Operating Agreement (Agreement), declared an Operating Impairment. As a result of SCE's action, on October 11, 2004, the City exercised its option, pursuant to Section 16 of the Agreement, not to participate in the restoration work related to the impairment and to have its ownership share reduced per provisions of the Agreement. On December 20, 2005, the City and SCE entered into an agreement for the City to transfer its interest in SONGS to SCE as soon as SCE obtained approval from the California Public Utilities Commission, California State Lands Commission, and U.S. Nuclear Regulatory Commission. SCE obtained all such approvals prior to the sale date.

The City sold its 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. The original useful life (through 2022) of the SONGS utility plant assets was decreased and depreciation was accelerated in fiscal year 2007. 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.

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 10.040% ownership interest in the existing coal-fired San Juan Generating Station, 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, 2008 and 2007 amounted to \$74,144 and \$66,929, respectively. There are no separate financial statements for this venture, as each participant's interest is reflected in its respective financial statements.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

(6) Long-Term Liabilities

The following is a summary of changes in long-term liabilities:

<u>June 30, 2008</u>	<u>Beginning of year</u>	<u>Additions</u>	<u>Retirements</u>	<u>End of year</u>	<u>Due within one year</u>
Electric Revenue Bonds	\$ 6,615	—	(6,615)	—	—
Anaheim Public Financing Authority Revenue Bonds	616,805	—	(8,075)	608,730	15,370
Capital leases	149	—	(149)	—	—
Provision for decommissioning costs	103,444	7,479	—	110,923	—
	727,013	<u>\$ 7,479</u>	<u>(14,839)</u>	719,653	<u>15,370</u>
Less current portion	(14,768)			(15,370)	
Add unamortized bond premium	9,173			8,331	
Less unamortized refunding costs	(6,903)			(6,289)	
Total long-term liabilities	<u>\$ 714,515</u>			<u>706,325</u>	
<u>June 30, 2007</u>	<u>Beginning of year</u>	<u>Additions</u>	<u>Retirements</u>	<u>End of year</u>	<u>Due within one year</u>
Electric Revenue Bonds	\$ 12,945	—	(6,330)	6,615	6,615
Anaheim Public Financing Authority Revenue Bonds	467,285	206,035	(56,515)	616,805	8,075
Electric System Certificates of Participation	21,110	—	(21,110)	—	—
Capital leases	167	76	(94)	149	78
Provision for decommissioning costs	97,193	6,251	—	103,444	—
	598,700	<u>\$ 212,362</u>	<u>(84,049)</u>	727,013	<u>14,768</u>
Less current portion	(13,821)			(14,768)	
Add unamortized bond premium	9,026			9,173	
Less unamortized refunding costs	(8,186)			(6,903)	
Total long-term liabilities	<u>\$ 585,719</u>			<u>714,515</u>	

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**
Notes to Financial Statements
June 30, 2008 and 2007
(In thousands)

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

	<u>2008</u>	<u>2007</u>
Electric Revenue Bonds, issue of 1993, true interest cost (TIC) 5.07%, dated June 1, 1993, sold on June 23, 1993 in the amount of \$60,700, of which \$1,690 was advance refunded on September 29, 1999. The final principal of \$6,615 was matured on October 1, 2007.	\$ —	6,615
Total Electric Revenue Bonds	<u>\$ —</u>	<u>6,615</u>
Anaheim Public Financing Authority Revenue Bonds, issue of 1998, TIC 5.08%, dated May 1, 1998, sold on June 2, 1998 in the amount of \$65,000 of which \$49,625 was advance refunded on February 7, 2007. The remaining principal of \$6,585, at a rate of 5.00%, is maturing from October 1, 2008 through 2011 in annual principal installments ranging from \$1,525 to \$1,770. The total debt service is \$7,264 to maturity.	\$ 6,585	8,035
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 that conversion date, October 2, 2005, the 1999 bond was remarked in the amount of \$43,010. The remaining principal of \$40,555 at rates ranging from 3.00% to 5.00% is maturing from October 1, 2008 through 2027 in annual principal installments ranging from \$1,075 to \$2,795. The total debt service is \$60,119 to maturity.	40,555	41,805
Anaheim Public Financing Authority Revenue Bonds, issue of 2002, TIC 4.97%, dated February 15, 2002, sold on March 12, 2002 in the amount of \$178,705. The Series 2002-A was issued in the amount of \$96,210, of which (1) \$3,025 was issued as serial bonds at a rate of 4.90%, maturing from October 1, 2021 to 2022 in annual principal installments ranging from \$1,390 to bonds at \$1,635 and (2) \$93,185 was issued as term bonds at a rate of 5.00%, maturing from October 1, 2023 through 2031 in annual principal installments from \$5,210 to \$18,045. The Series 2002-B was issued as \$82,495 of serial bonds at rates ranging from 3.30% to 5.25%, maturing from October 1, 2008 through 2020 in principal installments ranging from \$2,210 to \$10,450. The total debt service is \$305,846 to maturity.	178,705	178,705

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**
Notes to Financial Statements
June 30, 2008 and 2007
(In thousands)

	2008	2007
<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 bonds at rates ranging from 4.00% to 5.00%, maturing from October 1, 2010 to 2022 in annual principal installments ranging from \$1,915 to \$5,600. The Series 2003-B was issued in the amount of \$22,680. The remaining principal of \$16,445 at rates ranging from 4.00% through to 5.00%, is maturing from October 1, 2008 through 2010 in principal installments ranging from \$4,115 to \$6,295. The total debt service is \$71,492 to maturity.</p>	\$ 54,180	55,990
<p>Anaheim Public Financing Authority Revenue Bonds, issue of 2004, TIC 4.99%, dated June 1, 2004, sold on June 30, 2004 in the amount of \$131,265, of which: (1) \$97,060 was issued as serial bonds. The remaining principal of \$89,385 at rates ranging from 4.00% to 5.25% is maturing from October 1, 2008 through 2025 in annual principal installments ranging from \$2,310 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 \$215,998 to maturity.</p>	123,590	126,235
<p>Anaheim Public Financing Authority Revenue Bonds, issue of 2007, TIC 4.49%, dated February 1, 2007, 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 \$72,080 at rates ranging from 4.00% to 5.00% is maturing from October 1, 2008 through 2028 in annual principal installments ranging from \$960 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 \$12,550 to \$47,665; and (4) \$71,950 was issued as term bonds at a rate of 4.50% maturing from October 1, 2033 through 2037 in annual principal installments ranging from \$13,125 to \$15,715. The total debt service is \$396,515 to maturity.</p>	205,115	206,035
<p>Total Anaheim Public Financing Authority Revenue Bonds</p>	\$ 608,730	616,805

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

Annual debt service requirements, excluding amounts for decommissioning costs, at June 30, 2008 to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending June 30:			
2009	\$ 15,370	28,798	44,168
2010	15,995	28,123	44,118
2011	16,725	27,379	44,104
2012	17,040	26,609	43,649
2013	17,810	25,856	43,666
2014 – 2018	102,080	115,605	217,685
2019 – 2023	98,635	89,935	188,570
2024 – 2028	114,080	64,117	178,197
2029 – 2033	130,060	33,242	163,302
2034 – 2038	80,935	8,840	89,775
	<u>\$ 608,730</u>	<u>448,504</u>	<u>1,057,234</u>

Interest costs of \$5,331 and \$4,897 have been capitalized to utility plant for the years ended June 30, 2008 and 2007, 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 6 months, and one-twelfth of the principal amount, which will mature and be payable on the outstanding bonds within the next 12 months. Those amounts have been recorded in net assets restricted for debt service on the accompanying balance sheets.

There are various limitations and restrictions contained in the Electric Utility's bonds and certificates of participation. 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 \$1,057,234 and \$1,101,375 outstanding long-term obligations, principal and interest for the years ended June 30, 2008 and 2007, 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 2038. As of June 30, 2008 and 2007, the annual principal and interest payments on the bonds are 59.4% and 59.1% of net revenues, respectively. Debt service paid and total net revenues were \$44,140 and \$74,308, and \$38,491 and \$65,081 for the years ended June 30, 2008 and 2007, respectively.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

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

	2008	2007
Held by fiscal agent:		
Bond reserve fund	\$ 47,932	48,069
Bond service fund	1,448	1,201
Bond construction fund	—	62,244
Decommissioning reserve	107,888	100,634
Held by Treasurer:		
Bond service account	17,536	16,936
Renewal and replacement account	12,989	10,685
Decommissioning and fuel reserves	1,760	1,320
Public benefit program fees	5,149	6,881
Restricted rebate	811	213
	\$ 195,513	248,183

The Electric Utility's interest and other finance charges, excluding capitalized interest, for the years ended June 30, 2008 and 2007 were \$25,091 and \$22,188, 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.

In February 2007, the Electric Utility issued revenue bonds in total principal amount of \$206,035. The proceeds totaled \$209,453, of which \$73,467 was deposited in escrow funds to defease \$21,110 in Electric System Certificates of Participation, Issue of 1997 and \$49,625 in Anaheim Public Financing Authority Revenue Bonds, Series 1998. The Electric Utility reduced its total debt service payments over the life of the bonds by \$9,236, and obtained an economic gain (difference between net present value of the debt service payments on the old debts and new debts) of \$4,315.

The outstanding amount of the refunded bonds totaled \$52,290 and \$52,865 at June 30, 2008 and 2007, respectively.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

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

<u>Issue</u>	<u>2008</u>	<u>2007</u>
1997 FARECal Certificates of Participation	\$ 2,665	3,240
1998 Anaheim Public Financing Authority Revenue Bonds	49,625	49,625
	<u>\$ 52,290</u>	<u>52,865</u>

(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, 2008 and 2007, as a condition of participation, employees are required to contribute 8% of their annual covered salary to PERS. The City pays 7% of the employees' required contributions and the employees pay the remaining 1%. The City is required to contribute the remaining amounts necessary to fund PERS, using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The Electric Utility is allocated its portion of the City's required contribution, as determined by PERS actuaries. This allocation is based on eligible employee wages.

The Electric Utility contributed 100% of its allocated required contributions of \$3,646, \$3,198, and \$2,742 to PERS for the years ended June 30, 2008, 2007, and 2006, 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, 2008 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 \$501 and \$418 for the years ended June 30, 2008 and 2007, respectively.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

At June 30, 2008, the City was fully funded for self-insured workers' compensation and general liability claims (self-insured retention levels of \$1,000 per occurrence for workers' compensation claims and \$1,000 per occurrence for general liability claims). Above these self-insured retention levels, the City's potential liability is covered through various commercial insurance and intergovernmental risk pooling programs. Settled claims have not exceeded insurance coverage in any of the past three years, nor does management believe that there are any pending claims that will exceed insurance coverage.

(10) Commitments and Contingencies

(a) Take-or-Pay Contracts

Intermountain Power Agency

The Electric Utility has entered into a power purchases contract with the Intermountain Power Agency (IPA) for delivery of electric power. The share of IPA power is equal to 13.225% of the generation output of IPA's two recently uprated coal-fueled generating units located in Delta, Utah (Unit 1 and 2 net output is 900 mega watts each). The Electric Utility is obligated for the following percentage of electrical facilities at IPA:

	<u>Entitlement</u>	<u>Expiration</u>
Generation:		
Intermountain Power Project	13.225%	2027

The contract constitutes an obligation of the Electric Utility to make payments from revenues and requires payment of certain minimum charges. These minimum charges include debt service requirements on the financial obligations used to construct the plant. These requirements are considered a cost of purchased power.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

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:

	Entitlement	Expiration
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
SCPPA Natural Gas Project-Pinedale	62.5	2033
SCPPA Natural Gas Project-Barnett	55.6	2033
SCPPA Natural Gas Prepaid	16.5	2040

Take-or-Pay Commitments

As part of the take-or-pay commitments with IPA and SCPPA, the Electric Utility has agreed to pay its share of current and long-term obligations. Payment for these obligations will be made from the operating revenues received during the year that the payment is due. A long-term obligation has not been recorded on the accompanying financial statements for these commitments. The following schedule details the amount of debt service that is due and payable by the Electric Utility for each project and the final maturity date.

Fiscal year	IPA	STS	MAP	MPP	Hoover	Magnolia	Natural Gas	Natural Gas Prepaid	Total
2009	\$ 35,373	12,239	2,196	1,209	782	5,935	5,392	—	63,126
2010	39,561	12,327	2,858	1,586	956	8,990	7,461	4,221	77,960
2011	40,190	12,462	2,928	1,822	957	8,988	9,175	5,126	81,648
2012	42,113	15,366	2,918	1,815	956	8,989	9,836	5,094	87,087
2013	39,028	13,894	2,916	1,813	958	8,987	8,096	4,979	80,671
2014 – 2018	167,990	68,710	14,500	7,973	4,785	43,045	34,519	23,457	364,979
2019 – 2023	118,200	70,221	8,717	4,667	—	35,418	23,210	24,406	284,839
2024 – 2028	—	—	—	—	—	35,526	15,692	27,483	78,701
2029 – 2033	—	—	—	—	—	35,700	10,774	31,256	77,730
2034 – 2038	—	—	—	—	—	44,425	—	34,885	79,310
2039 – 2040	—	—	—	—	—	—	—	16,477	16,477
Total	\$ 482,455	205,219	37,033	20,885	9,394	236,003	124,155	177,384	1,292,528

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

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 2008 and 2007 billings for fuel, O&M, A&G, and other costs at these projects are as follows:

Fiscal year	IPA	STS	MAP	MPP	Hoover	Magnolia	Natural Gas	Total
2008	\$ 46,305	1,642	340	464	225	36,577	916	86,469
2007	44,739	2,680	213	304	263	37,964	365	86,528

(b) Prepaid Purchased Power

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

	<u>2008</u>	<u>2007</u>
SCPPA – Stabilization fund prepayment	\$ 27,621	20,454
SCPPA – Magnolia power prepayment	6,940	5,593
SCPPA – Hoover required prepayment	—	63
SCPPA – Canyon prepayment	2,424	—
SJ – Fuel acquisition prepayment	97	80
Prepaid purchased power	<u>\$ 37,082</u>	<u>26,190</u>

(c) Litigation

A number of claims and suits are pending against the City for alleged damages to persons and property and for other alleged capital expenditures liabilities arising out of matters usually incidental to the operation of a utility such as the electric system of the City. In the opinion of management, the exposure under these claims and suits would not materially affect the financial position of the Electric Utility as of June 30, 2008 and 2007.

**CITY OF ANAHEIM
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

(d) Construction Commitments

At June 30, 2008, 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 No. 48 Harbor Street	\$ 3,820	2011
Underground District No. 49 Sunkist Street	5,200	2011
Underground District No. 50 Euclid Street	6,350	2012
Underground District No. 51 Lincoln Street	3,500	2011
Underground District No. 53 La Palma/Brookhurst Street	5,500	2012
Underground District No. 56 Magnolia Street	7,500	2012
Harbor Substation	45,000	2012

(11) Subsequent Events

Canyon Power Project

The City is currently in the licensing process to build a 200 megawatt peaking facility within the City limits. The new Combustion Turbine Generation (CTG) facility will be owned by SCPPA but operated by Anaheim.

Scheduled to come online in the summer of 2011, the Canyon Power Project (CPP) will increase City's local electric resources. The CPP will lower the City's dependence on wholesale purchases to meet peak demand, reduce the need to purchase additional local capacity, reduce potential CAISO fees for back stop resource procurement, and allow the City to meet reliability requirements. Construction of internal generation will enable the City to more reliably meet retail load and satisfy a large portion of the City's generation reserve requirement.

In December 2008, \$104 million of revenue anticipation notes were sold through SCPPA to cover the cost of the turbines. These are 12-month notes that will be paid for with long-term financing that will be issued next fiscal year for approximately \$320 million to finance the entire project.