



**CITY OF ANAHEIM
WATER UTILITY FUND**

Financial Statements

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

**CITY OF ANAHEIM
WATER UTILITY FUND**

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	3
Financial Statements:	
Balance Sheets	13
Statements of Revenues, Expenses, and Changes in Fund Net Assets	15
Statements of Cash Flows	16
Notes to Financial Statements	18



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 Water Utility Fund (Water 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 Water Utility's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1 to the financial statements, the financial statements present only the Water Utility Fund 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 Water 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 2 through 12 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
WATER UTILITY FUND

Management's Discussion and Analysis

June 30, 2008 and 2007

(In thousands)

(Unaudited)

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, 2008 and 2007. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

The assets of the Water Utility exceeded its liabilities at the close of fiscal years 2008 and 2007 by \$232,304 and \$230,111, respectively. Of these amounts, \$12,733 and \$24,152, respectively, were available to meet the Water Utility's ongoing obligations to creditors and customers (unrestricted fund net assets). The Water Utility's total fund net assets increased by \$2,193 (1.0%) and \$193 (0.1%) for the fiscal years ended June 30, 2008 and 2007, respectively. Unrestricted fund net assets represented 26.1% and 48.2% 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 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, 2008.

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

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

The statements of revenues, expenses, and changes in fund net assets present information showing how the Water Utility's fund net assets have changed during the most recent two fiscal years. Results of operations are recorded using the accrual basis of accounting, whereby transactions are reported 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.

CITY OF ANAHEIM
WATER UTILITY FUND

Management's Discussion and Analysis

June 30, 2008 and 2007

(In thousands)

(Unaudited)

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 to the financial statements.

Financial Analysis

As noted earlier, fund net assets may serve over time as a useful indicator of the Water Utility's financial position. In the case of the Water Utility, assets exceed liabilities by \$232,304 and \$230,111 at June 30, 2008 and 2007, respectively.

A large portion of the Water Utility's fund net assets (92.9% and 87.9% as of June 30, 2008 and 2007, respectively) reflects its investment in capital assets, such as production, transmission, and distribution facilities, less any related debt used to acquire those assets that remain outstanding. The Water Utility uses these capital assets to provide services to customers. Consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt on the balance sheets must come from other sources such as operations.

An additional portion of the Water Utility's fund net assets (1.6% and 1.6% 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 Water Utility's fund net assets (5.5% and 10.5% as of June 30, 2008 and 2007, respectively) may be used to meet the Water Utility's ongoing obligations to creditors and customers. The Water 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	\$ 41,041	42,579	43,827
Net utility plant	233,674	222,556	220,490
Total assets	<u>274,715</u>	<u>265,135</u>	<u>264,317</u>
Long-term liabilities, net of current portion	17,951	20,225	22,414
Current liabilities	24,460	14,799	11,985
Total liabilities	<u>42,411</u>	<u>35,024</u>	<u>34,399</u>
Invested in capital assets, net of related debt	215,762	202,308	198,066
Restricted	3,809	3,651	3,581
Unrestricted	12,733	24,152	28,271
Total fund net assets	<u>\$ 232,304</u>	<u>230,111</u>	<u>229,918</u>

CITY OF ANAHEIM
WATER UTILITY FUND

Management's Discussion and Analysis

June 30, 2008 and 2007

(In thousands)

(Unaudited)

As of June 30, 2008

Assets

Total assets as of June 30, 2008 and 2007 were \$274,715 and \$265,135, respectively. The \$9,580 (3.6%) increase in total assets is due to a \$10,713 increase in noncurrent assets, which was offset by a \$1,133 decrease in current assets. Noncurrent assets increased 4.7% primarily because of the \$11,118 (5.0%) increase in net utility plant. The Water Utility is currently building additional storage facilities, wells and distribution facilities under a plan to ensure the water supply continues to be safe, reliable, and sufficient to meet future demands.

Liabilities

Total liabilities as of June 30, 2008 and 2007 were \$42,411 and \$35,024, respectively. The \$7,387 (21.1%) increase in total liabilities is due to a \$9,661 increase in current liabilities, which was offset by a \$2,274 decrease in long-term liabilities. Current liabilities increased 65.3% primarily due to an increase in regulatory credits of \$6,126 and an increase in accounts payable and accrued expenses of \$3,803. Long-term liabilities decreased 11.2% primarily as a result of current year payments of principal on long-term debt.

Fund Net Assets

Total fund net assets as of June 30, 2008 and 2007 were \$232,304 and \$230,111, respectively. Total fund net assets increased by \$2,193 (1.0%) during fiscal year 2008. Fund net assets invested in capital assets, net of related debt increased \$13,454 (6.7%) due to continued expansion and refurbishment of water transmission and distribution infrastructure and a new supply source placed in service in fiscal year 2008. Unrestricted net assets decreased \$11,419 (47.3%), because available cash and investments were used to fund ongoing capital construction projects.

As of June 30, 2007

Assets

Total assets as of June 30, 2007 and 2006 were \$265,135 and \$264,317, respectively. There were no significant or unusual changes.

Liabilities

Total liabilities as of June 30, 2007 and 2006 were \$35,024 and \$34,399, respectively. The \$625 (1.8%) increase in total liabilities is due to a \$2,814 increase in current liabilities, which was offset by a \$2,189 decrease in long-term liabilities. Current liabilities increased 23.5% primarily due to an increase in accounts payable and accrued expenses of \$2,526. Long-term liabilities decreased 9.8% primarily as a result of current year payments of principal on long-term debt.

CITY OF ANAHEIM
WATER UTILITY FUND

Management's Discussion and Analysis

June 30, 2008 and 2007

(In thousands)

(Unaudited)

Fund Net Assets

Total fund net assets as of June 30, 2007 and 2006 were \$230,111 and \$229,918, respectively. Total fund net assets increased by \$193 (0.1%) during fiscal year 2007. Fund net assets invested in capital assets, net of related debt increased \$4,242 (2.1%) due to the continued expansion and refurbishment of the Water Utility's capital asset infrastructure and supply sources. Unrestricted net assets decreased \$4,119 (14.6%). This is due to a reduction in cash and investments resulting from ongoing capital assets construction.

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

Revenues, Expenses, and Changes in Fund Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues:			
Sale of water, net	\$ 47,938	48,062	45,608
Other operating revenues	1,187	1,538	1,318
Interest income	1,927	1,995	978
Capital contributions	3,005	1,980	3,261
Total revenues	<u>54,057</u>	<u>53,575</u>	<u>51,165</u>
Expenses:			
Purchased water	21,608	22,922	22,043
Treatment and pumping	6,650	5,605	4,625
Operations, maintenance, and administration	12,932	14,676	12,442
Depreciation	7,616	6,954	6,939
Interest expense	313	739	959
Total expenses	<u>49,119</u>	<u>50,896</u>	<u>47,008</u>
Transfers:			
Transfer to the General Fund of the City	\$ (2,008)	(1,882)	(1,756)
Transfer of right-of-way fee to the City	(721)	(684)	(635)
Transfers from other funds of the City	—	456	—
Transfers to other funds of the City	(16)	(376)	(137)
Total transfers	<u>(2,745)</u>	<u>(2,486)</u>	<u>(2,528)</u>
Changes in fund net assets	2,193	193	1,629
Fund net assets at beginning of year	<u>230,111</u>	<u>229,918</u>	<u>228,289</u>
Fund net assets at end of year	<u>\$ 232,304</u>	<u>230,111</u>	<u>229,918</u>

CITY OF ANAHEIM
WATER UTILITY FUND
Management's Discussion and Analysis
June 30, 2008 and 2007
(In thousands)
(Unaudited)

Revenues

Year ended June 30, 2008

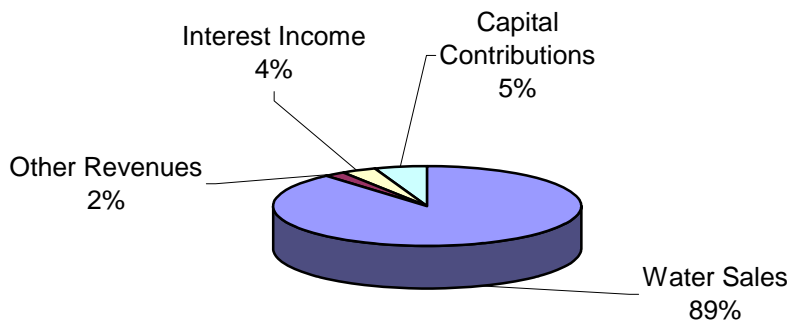
Total revenues for the fiscal year ended June 30, 2008 were \$54,057 as compared with \$53,575 in fiscal year 2007. There were no significant or unusual changes.

Year ended June 30, 2007

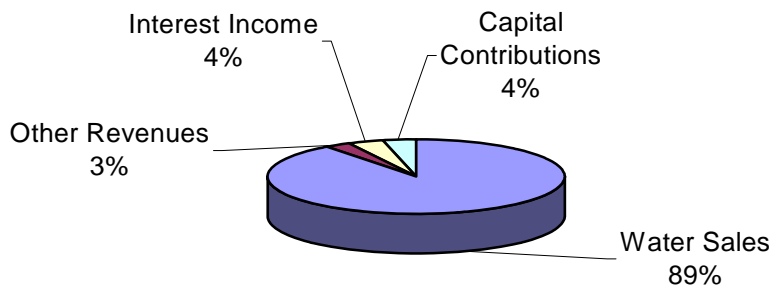
Total revenues for the fiscal year ended June 30, 2007 were \$53,575 as compared with \$51,165 in fiscal year 2006. There were no significant or unusual changes.

Revenues by Source

Year ended June 30, 2008



Year ended June 30, 2007



CITY OF ANAHEIM
WATER UTILITY FUND

Management's Discussion and Analysis

June 30, 2008 and 2007

(In thousands)

(Unaudited)

Expenses

Year ended June 30, 2008

Total expenses for the fiscal year ended June 30, 2008 were \$49,119 as compared with \$50,896 in fiscal year 2007. This \$1,777 (3.5%) decrease in total expenses is due to a \$1,314 decrease in purchased water costs, partially offset by a \$1,045 increase in treatment and pumping costs, and a \$1,744 decrease in operations, maintenance, and administrative expenses (OM&A).

The cost of purchased water decreased 5.7%. The amount of water the Water Utility pumped from the Orange Count Water District (OCWD) increased from 69.0% to 79.1% of the total water purchased for sale. Consequently, the amount of purchased water obtained from the Metropolitan Water District (MWD) of Southern California decreased from 31.0% to 20.9%. Because water purchased from (MWD) has a higher unit cost than the cost of water pumped from OCWD, this increase in the amount of water allowed to be pumped enabled the Water Utility to purchase less of the higher cost water from MWD. In addition, during fiscal year 2008, the Water Utility experienced approximately a 4.0% decrease in customer demand, resulting in a reduction in the total amount of water purchased. Treatment and pumping costs, however, increased 18.6% primarily as a result of the increased pump power (electricity) costs required for the greater OCWD well production volume.

OM&A decreased 11.9% from fiscal year 2007. Operating costs decreased by \$267 (1.8%), maintenance costs increased by \$1,188 (8.1%), and administrative costs decreased \$2,665 (18.2%) over the prior year. Maintenance costs have increased due to additional work being performed to ensure system reliability. Administrative costs decreased primarily because the allocation to the Water Utility of the common expenses shared with the Electric Utility was reduced by 10.0%, based on an updated analysis of the benefits provided by those shared expenses.

Year ended June 30, 2007

Total expenses for the fiscal year ended June 30, 2007 were \$50,896 as compared with \$47,008 in fiscal year 2006. This \$3,888 (8.3%) increase in total expenses is due to an \$879 increase in purchased water costs, a \$980 increase in treatment and pumping costs, and a \$2,234 increase in OM&A.

The cost of purchased water increased 4.0%. During fiscal year 2007, the Water Utility experienced a 4.0% increase in the commodity charge from the MWD and an 8.8% increase in the pump tax from OCWD, which resulted in increased purchased water costs. The record rainfall in fiscal year 2005 significantly enhanced the state of the groundwater basin, and therefore, OCWD increased the amount of water the Water Utility could pump from 64.0% to 69.0% of total water purchased for sale. Because water purchased from MWD has a higher unit cost than the cost of water pumped from OCWD, this increase in the amount of water allowed to be pumped enabled the Water Utility to purchase less of the higher cost water from MWD. Treatment and pumping costs increased 21.2% primarily as a result

CITY OF ANAHEIM
WATER UTILITY FUND

Management's Discussion and Analysis

June 30, 2008 and 2007

(In thousands)

(Unaudited)

of increased pump power (electricity) costs required for the increase in OCWD well production volume, as well as a modest increase in customer demand.

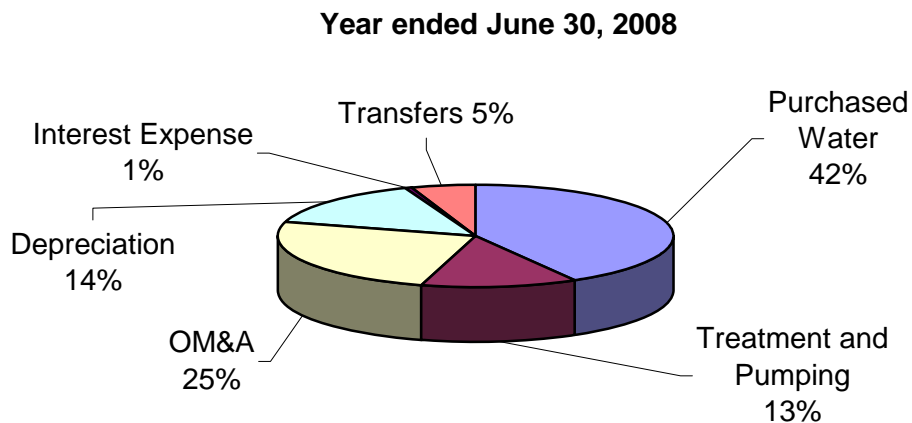
OM&A increased 17.9% from fiscal year 2006. Operating costs increased by \$260 (7.2%), maintenance costs increased by \$683 (14.7%), and administrative costs increased \$1,290 (30.7%) over the prior year. Maintenance costs have increased due to additional work being performed to ensure system reliability. The reduction of administrative overhead costs eligible for capitalization is the primary reason for the increase in administrative costs.

Transfers

Transfers to the City's General Fund, as defined by City Charter, are equal to a maximum of 4% of total revenue of the prior fiscal year. Total revenue is defined as revenues from the sale of water plus other revenues. In addition, a right-of-way fee is transferred to the City's General Fund equal to 1.5% of net revenues from the sale of water in the prior fiscal year. Net revenues are defined as revenues from sale of water less uncollectible accounts.

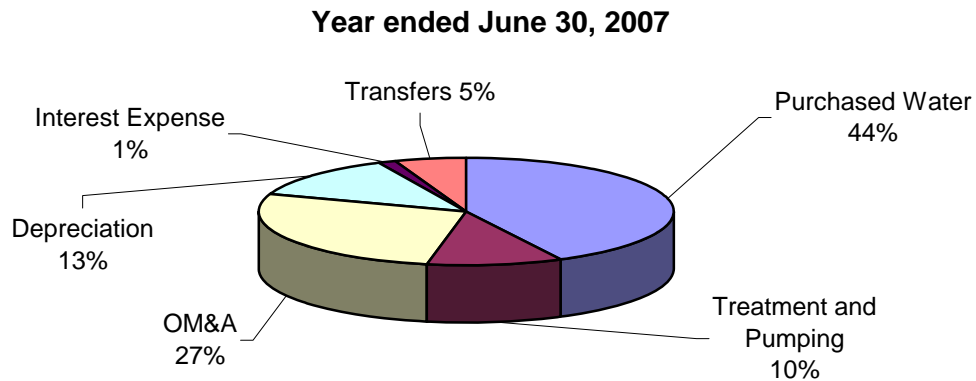
In fiscal year 2007, the Water Utility purchased a parcel of land from the City to be used for a new well site. The Water Utility transferred \$376 to the City's Redevelopment Agency for this parcel.

Expenses and Transfers



CITY OF ANAHEIM
WATER UTILITY FUND
Management's Discussion and Analysis
June 30, 2008 and 2007
(In thousands)
(Unaudited)

Expenses and Transfers



Capital Assets and Debt Administration

Capital Assets

The Water Utility's net investment in capital assets as of June 30, 2008 and 2007 was \$233,674 and \$222,556, 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 2008 were \$13,228 (4.1%).

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Source of water supply	\$ 35,900	31,764	31,001
Pumping plant	40,482	39,118	39,145
Transmission and distribution	217,356	223,037	219,924
General plant	4,908	4,941	5,875
Land	2,130	2,113	1,846
Construction in progress	21,409	7,984	3,913
	<u>322,185</u>	<u>308,957</u>	<u>301,704</u>
Total utility plant			
Less accumulated depreciation	<u>(88,511)</u>	<u>(86,401)</u>	<u>(81,214)</u>
Net utility plant	<u>\$ 233,674</u>	<u>222,556</u>	<u>220,490</u>

CITY OF ANAHEIM
WATER UTILITY FUND

Management's Discussion and Analysis

June 30, 2008 and 2007

(In thousands)

(Unaudited)

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

As of June 30, 2008

Fiscal year 2008 showed a net increase of \$11,118 (5.0%) in the investment in capital assets (net utility plant) due mainly to ongoing projects to expand and refurbish the water transmission and distribution infrastructure and source of supply. In 1999, the Water Utility made the decision to increase its pumping capacity by building one new well per year for each of the subsequent 10 years. As of June 30, 2008, the Water Utility has completed approximately 70% of the planned new well pumping capacity.

As of June 30, 2007

Fiscal year 2007 showed a net increase of \$2,066 (0.9%) in the investment in capital assets (net utility plant) due mainly to expansion and refurbishment of the water transmission and distribution infrastructure and improvements in the communications and security systems of the water system. In 1999, the Water Utility made the decision to increase its pumping capacity by building one new well per year for each of the subsequent 10 years. As of June 30, 2007, the Water Utility has completed approximately 60% of the planned new well pumping capacity.

Long-Term Debt

As of June 30, 2008 and 2007, the Water Utility had total long-term debt outstanding of \$20,870 and \$23,248, respectively.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Water revenue bonds	\$ 7,355	8,730	10,055
Notes payable and advances	13,515	14,456	15,402
Capital lease obligations	—	62	66
Total long-term debt outstanding	<u>20,870</u>	<u>23,248</u>	<u>25,523</u>
Less:			
Current portion	(2,370)	(2,348)	(2,292)
Unamortized bond premium	122	165	214
Unamortized refunding costs	<u>(671)</u>	<u>(840)</u>	<u>(1,031)</u>
Total noncurrent long-term debt outstanding	<u>\$ 17,951</u>	<u>20,225</u>	<u>22,414</u>

CITY OF ANAHEIM
WATER UTILITY FUND
Management's Discussion and Analysis
June 30, 2008 and 2007
(In thousands)
(Unaudited)

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

As of June 30, 2008

Long-term debt decreased \$2,378 primarily due to the repayment of principal on outstanding bonds and notes payable and advances. The revenues of the Water Utility have been pledged to pay the outstanding long-term debt.

As of June 30, 2007

Long-term debt decreased \$2,275 primarily due to the repayment of principal on outstanding bonds and notes payable and advances. The revenues of the Water Utility have been pledged to pay the outstanding long-term debt.

Economic Factors and Rates

For fiscal year 2009, the OCWD decreased the Basin Production Percentage (BPP) for all cities and water districts they serve (including Anaheim) from 74.0% to 69.0%. As a result, the Water Utility may need to purchase a larger quantity of MWD water that is priced higher than ground water pumped from OCWD. The decrease in the BPP was attributed to lower groundwater basin storage available. It should be noted that in fiscal year 2008, the BPP increased from 69.0% to 74.0%.

In addition, OCWD raised the replenishment assessment charge, or the cost of pumping groundwater in 2009, from \$237 per acre-foot to \$249 per acre-foot.

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, California 92805.

**CITY OF ANAHEIM
WATER UTILITY FUND**

Balance Sheets

June 30, 2008 and 2007

(In thousands)

Assets	2008	2007
Utility plant:		
Source of water supply	\$ 35,900	31,764
Pumping plant	40,482	39,118
Transmission and distribution	217,356	223,037
General plant	4,908	4,941
	298,646	298,860
Total depreciable utility plant		
Less accumulated depreciation	(88,511)	(86,401)
	210,135	212,459
Net depreciable utility plant		
Land	2,130	2,113
Construction in progress	21,409	7,984
	233,674	222,556
Net utility plant		
Restricted assets:		
Cash and cash equivalents	1,328	1,271
Investments	4,819	5,218
	6,147	6,489
Total restricted assets		
Other assets:		
MWDOC pipeline receivable	234	264
Unamortized debt issuance costs	109	142
	343	406
Total other assets		
Total noncurrent assets	240,164	229,451
Current assets:		
Cash and cash equivalents	8,976	9,245
Investments	18,625	19,410
Accounts receivable, net	6,338	6,120
Accrued interest receivable	296	347
Materials and supplies inventory	284	281
Purchased water in storage	32	281
	34,551	35,684
Total current assets		
Total assets	\$ 274,715	265,135

**CITY OF ANAHEIM
WATER 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	\$ 215,762	202,308
Restricted for:		
Debt service	1,472	1,425
Renewal and replacement	2,337	2,226
Unrestricted	12,733	24,152
Total fund net assets	232,304	230,111
Long-term liabilities:		
Long-term debt obligations, less current portion	17,951	20,225
Total long-term liabilities	17,951	20,225
Current liabilities (payable from restricted assets):		
Current portion of long-term debt	2,370	2,316
Arbitrage rebate liability	12	2
Accrued interest payable	259	285
Total current liabilities (payable from restricted assets)	2,641	2,603
Current liabilities (payable from unrestricted current assets):		
Current portion of capital leases	—	32
Accounts payable and accrued expenses	13,043	9,240
Wages payable	245	337
Regulatory credits	6,954	828
Customer deposits	1,577	1,759
Total current liabilities (payable from unrestricted current assets)	21,819	12,196
Total liabilities	42,411	35,024
Total fund net assets and liabilities	\$ 274,715	265,135

See accompanying notes to financial statements.

**CITY OF ANAHEIM
WATER UTILITY FUND**

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

Years ended June 30, 2008 and 2007

(In thousands)

	2008	2007
Operating revenues:		
Sales of water, net	\$ 47,938	48,062
Other operating revenues	1,187	1,538
Total operating revenues	49,125	49,600
Operating expenses:		
Purchased water	21,608	22,922
Treatment and pumping	6,650	5,605
Operations, maintenance, and administration	12,932	14,676
Depreciation	7,616	6,954
Total operating expenses	48,806	50,157
Operating income (loss)	319	(557)
Nonoperating revenues (expenses):		
Interest income	1,927	1,995
Interest expense	(313)	(739)
Total net nonoperating revenues	1,614	1,256
Income before capital contributions and transfers	1,933	699
Capital contributions	3,005	1,980
Transfer to the General Fund of the City	(2,008)	(1,882)
Transfer of right-of-way fee to the City	(721)	(684)
Transfers from other funds of the City	—	456
Transfers to other funds of the City	(16)	(376)
Change in fund net assets	2,193	193
Fund net assets at beginning of year	230,111	229,918
Fund net assets at end of year	\$ 232,304	230,111

See accompanying notes to financial statements.

**CITY OF ANAHEIM
WATER 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	\$ 49,112	48,770
Receipts from services provided to other funds of the City	198	294
Payments to suppliers	(22,740)	(25,481)
Payments to employees	(10,812)	(10,557)
Payments for services provided by other funds of the City	(3,681)	(4,333)
Net cash provided by operating activities	12,077	8,693
Cash flows from noncapital financing activities:		
Transfers to the General Fund and other funds of the City	(2,729)	(2,566)
Net cash used in noncapital financing activities	(2,729)	(2,566)
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	5,642	—
Capital contributions	—	746
Capital purchases	(15,346)	(7,066)
Principal payments on long-term debt and capital leases	(2,316)	(2,308)
Interest paid	(732)	(816)
Transfers to other funds of the City for capital purposes	—	(376)
Net cash used in capital and related financing activities	(12,752)	(9,820)
Cash flows from investing activities:		
Purchases of investment securities	(77,502)	(35,728)
Proceeds from sale and maturity of investment securities	78,776	45,566
Collection of pipeline receivable	30	68
Interest income received	1,888	2,124
Net cash provided by investing activities	3,192	12,030
Increase (decrease) in cash and cash equivalents	(212)	8,337
Cash and cash equivalents at beginning of year	10,516	2,179
Cash and cash equivalents at end of year	\$ 10,304	10,516

**CITY OF ANAHEIM
WATER UTILITY FUND**

Statements of Cash Flows

Years ended June 30, 2008 and 2007

(In thousands)

	2008	2007
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 319	(557)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	7,616	6,954
Changes in assets and liabilities:		
Accounts receivable, net	(218)	(529)
Materials and supplies inventory	(3)	(69)
Purchased water in storage	249	111
Accounts payable and accrued expenses	3,803	2,526
Wages payable	(92)	84
Customer deposits	(182)	18
Regulatory credits	585	155
Total adjustments	11,758	9,250
Net cash provided by operating activities	\$ 12,077	8,693
Schedule of noncash investing, capital, and financing activities:		
Capital contributions	\$ 3,005	967
Transfers out of capital assets	(16)	(240)
Capital assets financed through capital leases	—	33
Increase (decrease) in fair value of investments	90	(128)

See accompanying notes to financial statements.

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

(1) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

(b) Utility Plant and Depreciation

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

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

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

(c) Pooled Cash and Investments

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

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

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.

(d) Revenue Recognition

Revenue is recorded in the period earned. The Water Utility accrues estimated unbilled revenues for water sold but not billed at the end of a fiscal period, which amounted to approximately \$3,641 and \$3,428 for fiscal years 2008 and 2007, respectively. Residential and smaller commercial accounts are billed bimonthly, and all other customers are billed monthly.

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

Revenues are reported net of uncollectible amounts. Total uncollectible amounts written off are \$63 and \$19 for the fiscal years ended June 30, 2008 and 2007, respectively. The applicable allowances for uncollectible amounts are \$68 and \$3 at June 30, 2008 and 2007, respectively. See note 5 for discussion of pledged revenue.

(e) 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, 2008 and 2007

(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.

(f) 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.

(g) Bond Refunding Costs

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

(h) 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 \$630 and \$601 for the Water Utility at June 30, 2008 and 2007, respectively.

(i) 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 revenue, as defined by the City Charter, of the prior year. Such transfers are not in lieu of taxes and amounted to \$2,008 and \$1,882 for the fiscal 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 net water revenues of the prior fiscal year to the General Fund of the City. Net revenues are 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 \$721 and \$684 for the fiscal years ended June 30, 2008 and 2007, respectively.

(j) 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

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

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.

(k) Reclassifications

Certain 2007 amounts have been reclassified to conform to the 2008 presentation. Such reclassifications had no effect on the previously reported change in net assets.

(2) Deposits and Investments

The City maintains a cash and investment pool, which includes the cash balance of all City funds, including the Water Utility 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 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); LAIF; repurchase agreements; reverse repurchase agreements; and money market mutual funds.

The Water Utility maintains cash equivalents and investments at June 30, 2008 and 2007 with the following carrying amounts:

	2008	2007
Cash equivalents and investments pooled with the Treasurer	\$ 31,682	32,593
Investments held with trustee	2,066	2,551
	\$ 33,748	35,144

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

	2008	2007
Restricted assets – cash equivalents and investments	\$ 6,147	6,489
Current assets – cash equivalents and investments	27,601	28,655
	\$ 33,748	35,144

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

(a) 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 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, 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. The City did not have any violations of its policy during the current fiscal year. Section 53607 of the Government Code allows the City Council to delegate its investment authority to the Treasurer and requires that the Treasurer provide a monthly report to City Council of investment transactions. The annual delegation of authority is incorporated in the investment policy. The Treasurer's report meets the requirements for monthly investment reporting.

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

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

<u>Authorized investment type</u>	<u>Maximum maturity</u>	<u>Maximum percentage of portfolio*</u>	<u>Maximum investment in one issuer</u>
U.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 million	None
Time certificates of deposit (TCD)	5 years	30%	5%

* 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, 2008 and 2007

(In thousands)

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

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

(c) Investments Authorized by Debt Agreements

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

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

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

At June 30, 2007, the City's investments controlled by fiscal agents exceeded 5% concentration in the following U.S. agency securities, guaranteed investment, and collateralized investment contracts: Federal Home Loan Bank \$58,312 (18%), Federal Home Loan Mortgage Corporation \$26,928 (8%), XL Asset Funding Corporation \$47,412

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

(15%), and Rabobank Nederland \$62,244 (19%). 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 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 Water Utility's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table.

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

The distribution of the Water Utility's cash and 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	\$ 4,285	4,285	—	—	—	—
U.S. agency securities	AAA	15,325	3,226	494	5,072	6,533	—
Medium-term notes	Aa2-AA-	1,398	351	710	—	337	—
Commercial paper	P1-A1+	3,437	3,437	—	—	—	—
Money market mutual funds	AAA	2,140	2,140	—	—	—	—
LAIF	Unrated	5,097	5,097	—	—	—	—
Total Treasurer's pooled investments		<u>31,682</u>	<u>18,536</u>	<u>1,204</u>	<u>5,072</u>	<u>6,870</u>	<u>—</u>
Investments controlled by fiscal agents:							
Guaranteed investment agreement	Unrated	1,211	—	—	—	—	1,211
Money market mutual funds	AAA	855	855	—	—	—	—
Total investments controlled by fiscal agents		<u>2,066</u>	<u>855</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,211</u>
Total investments		<u>\$ 33,748</u>	<u>19,391</u>	<u>1,204</u>	<u>5,072</u>	<u>6,870</u>	<u>1,211</u>

<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	\$ 9,261	5,794	3,467	—	—	—
U.S. agency securities	AAA	11,486	3,295	2,909	400	4,882	—
Medium-term notes	Aa2-AA-	1,272	402	286	584	—	—
Commercial paper	P1-A1+	6,009	6,009	—	—	—	—
Money market mutual funds	AAA	1,932	1,932	—	—	—	—
LAIF	Unrated	2,633	2,633	—	—	—	—
Total Treasurer's pooled investments		<u>32,593</u>	<u>20,065</u>	<u>6,662</u>	<u>984</u>	<u>4,882</u>	<u>—</u>
Investments controlled by fiscal agents:							
Guaranteed investment agreement	Unrated	1,841	—	—	—	—	1,841
Money market mutual funds	AAA	710	710	—	—	—	—
Total investments controlled by fiscal agents		<u>2,551</u>	<u>710</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,841</u>
Total investments		<u>\$ 35,144</u>	<u>20,775</u>	<u>6,662</u>	<u>984</u>	<u>4,882</u>	<u>1,841</u>

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

(3) 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>
Source of water supply	\$ 31,001	1,108	(345)	31,764	4,136	—	35,900
Pumping plant	39,145	44	(71)	39,118	1,526	(162)	40,482
Transmission and distribution	219,924	3,817	(704)	223,037	2,935	(8,616)	217,356
General plant	<u>5,875</u>	<u>32</u>	<u>(966)</u>	<u>4,941</u>	<u>223</u>	<u>(256)</u>	<u>4,908</u>
Depreciable utility plant	295,945	5,001	(2,086)	298,860	8,820	(9,034)	298,646
Less accumulated depreciation	<u>(81,214)</u>	<u>(6,954)</u>	<u>1,767</u>	<u>(86,401)</u>	<u>(7,616)</u>	<u>5,506</u>	<u>(88,511)</u>
Net depreciable utility plant	<u>214,731</u>	<u>(1,953)</u>	<u>(319)</u>	<u>212,459</u>	<u>1,204</u>	<u>(3,528)</u>	<u>210,135</u>
Land	1,846	267	—	2,113	304	(287)	2,130
Construction in progress	<u>3,913</u>	<u>8,793</u>	<u>(4,722)</u>	<u>7,984</u>	<u>16,076</u>	<u>(2,651)</u>	<u>21,409</u>
Nondepreciable utility plant	<u>5,759</u>	<u>9,060</u>	<u>(4,722)</u>	<u>10,097</u>	<u>16,380</u>	<u>(2,938)</u>	<u>23,539</u>
Net utility plant	<u>\$ 220,490</u>	<u>7,107</u>	<u>(5,041)</u>	<u>222,556</u>	<u>17,584</u>	<u>(6,466)</u>	<u>233,674</u>

(4) Operating Expenses

Total operating expenses shared with the City's Electric Utility amounted to \$26,164 and \$23,727 for the fiscal years ended June 30, 2008 and 2007, respectively, of which \$5,233 and \$7,118, 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, 2008 and 2007

(In thousands)

(5) 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>
Water revenue bonds	\$ 8,730	—	(1,375)	7,355	1,435
Notes payable and advances	14,456	—	(941)	13,515	935
Capital lease obligations	62	—	(62)	—	—
	<u>23,248</u>	<u>\$ —</u>	<u>(2,378)</u>	<u>20,870</u>	<u>2,370</u>
Less current portion	(2,348)			(2,370)	
Add unamortized bond premium	165			122	
Less unamortized refunding costs	<u>(840)</u>			<u>(671)</u>	
Total long-term liabilities	<u>\$ 20,225</u>			<u>17,951</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>
Water revenue bonds	\$ 10,055	—	(1,325)	8,730	1,375
Notes payable and advances	15,402	—	(946)	14,456	941
Capital lease obligations	66	33	(37)	62	32
	<u>25,523</u>	<u>\$ 33</u>	<u>(2,308)</u>	<u>23,248</u>	<u>2,348</u>
Less current portion	(2,292)			(2,348)	
Add unamortized bond premium	214			165	
Less unamortized refunding costs	<u>(1,031)</u>			<u>(840)</u>	
Total long-term liabilities	<u>\$ 22,414</u>			<u>20,225</u>	

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

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

	2008	2007
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 \$1,490 at rates ranging from 4.0% to 4.5%. Total remaining debt service is \$8,324 to maturity.	\$ 7,355	8,730
Total Water Revenue Bonds	\$ 7,355	8,730
Note payable to State of California Revolving Fund, 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 \$15,997 to maturity.	\$ 13,250	14,048
Advances from the OCWD, 3.5%, a partial installment under terms of a \$750 per Well Construction Program Agreement, dated April 18, 1990, for the construction of Wells 46, 47, and 49, semiannual principal and interest installment payments of \$94 through July 31, 2010; total remaining debt service is \$278 to maturity.	265	408
Total notes payable and advances	\$ 13,515	14,456

Annual debt service requirements for the Water Utility's revenue bonds, notes payable, and advances at June 30, 2008 to maturity are as follows:

	Principal	Interest	Total
Fiscal years ending June 30:			
2009	\$ 2,370	642	3,012
2010	2,452	556	3,008
2011	1,779	482	2,261
2012	1,807	420	2,227
2013	1,867	358	2,225
2014 – 2018	6,670	1,049	7,719
2019 – 2023	3,925	222	4,147
	\$ 20,870	3,729	24,599

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

Interest costs of \$562 and \$231 have been capitalized for the fiscal 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 renewal and replacement is being accumulated in an amount equal to a maximum of 1% of the depreciated book value of the utility plant in service.

The bond resolutions 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 six months, and by one-twelfth of the principal amount, which will mature and be payable on the outstanding bonds within the next 12 months. Those amounts have been recorded in net assets restricted for debt service on the accompanying balance sheets.

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

The Water Utility has pledged future revenues to repay a total of \$8,324 and \$10,024 of 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 Water Utility's bonds are payable solely from water net revenues and are payable through fiscal year 2018. As of June 30, 2008 and 2007, the annual principal and interest payments on the bonds are 17.2% and 20.3% of net revenues, respectively. Debt service paid and total net revenues were \$1,700 and \$9,862 and \$1,704 and \$8,392 for the years ended June 30, 2008 and 2007, respectively.

Restricted cash and investments include reserve amounts at June 30 as follows:

	2008	2007
Held by fiscal agent:		
Bond reserve fund	\$ 2,066	2,551
Held by Treasurer:		
Bond service account	1,744	1,712
Renewal and replacement account	2,337	2,226
	\$ 6,147	6,489

The Water Utility's interest and other finance charges, excluding capitalized interest, for the fiscal years ended June 30, 2008 and 2007 were \$313 and \$739, 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.

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

For both fiscal 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 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 \$911, \$1,371, and \$1,175 to PERS for the fiscal years ended June 30, 2008, 2007, and 2006, 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, 2008 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 \$125 and \$179 for the fiscal years ended June 30, 2008 and 2007, respectively.

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 claims pending that will exceed 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 stabilization account 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. In fiscal year 2008, funding for this account consisted primarily of proceeds of

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

\$5,642 from the sale of land previously held for use as a future well site. In fiscal year 2007, the Water Utility funded this account through a variety of miscellaneous credits. As permitted by FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, and approved by the City Council, revenues from amounts collected are deferred and recorded as regulatory credits in the balance sheets. At June 30, 2008 and 2007, the liability recorded for regulatory credits totaled \$6,954 and \$828, respectively.

(9) Commitment 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, 2008 and 2007.

(b) Construction Commitments

At June 30, 2008, 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>
Well 48 at Dad Miller Golf Course	\$ 15	2009
Pressure Regulating Station 69	536	2009
Walnut Canyon Reservoir	4,785	2009
Nohl Canyon Tank	15,834	2011
Santa Ana Canyon Road 30" Transmission Main	2,197	2009
Maple Tree Water Main Replacement	323	2009
Meadowridge Main Replacement	719	2009
Anaheim Hills Road 30" Transmission Main	418	2009
A-4 Vault	7	2009
	<u>\$ 24,834</u>	

At June 30, 2007, the Water Utility had construction commitments totaling \$4,628.

**CITY OF ANAHEIM
WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(In thousands)

(10) Subsequent Events

On July 9, 2008, the Water Utility received the proceeds from the sale of the Anaheim Public Financing Authority (Authority) Revenue Bonds, 2008 Series, TIC 4.86%, dated July 1, 2008 in the amount of \$48,580, maturing serially through October 1, 2038. The annual principal installments, which begin October 1, 2013, range from \$260 to \$3,750 at rates ranging from 4.0% to 5.0%. The bonds were issued by the Authority for the purpose of providing financing for the acquisition and construction of new storage facilities, wells, pumping facilities, and various other capital projects of the Water Utility. The revenues of the Water Utility have been pledged to pay this long-term obligation.