



**CITY OF ANAHEIM WATER UTILITY FUND**

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

# CITY OF ANAHEIM WATER UTILITY FUND

## Table of Contents

	<b>Page</b>
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	3
Financial Statements:	
Statements of Net Position	18
Statements of Revenues, Expenses, and Changes in Net Position	20
Statements of Cash Flows	21
Notes to Financial Statements	23



KPMG LLP  
Suite 700  
20 Pacifica  
Irvine, CA 92618-3391

## Independent Auditors' Report

The Honorable City Council  
City of Anaheim, California:

We have audited the accompanying financial statements of the Water Utility Fund of the City of Anaheim, California (the Fund), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Funds' basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Utility Fund of the City of Anaheim, California, as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

### **Emphasis of Matter**

As discussed in note 1 to the financial statements, the financial statements present only the Water Utility Fund of the City of Anaheim, California, and do not purport to, and do not, present fairly the financial position of the City of Anaheim, California (the City) as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

### **Other Matter**

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

**KPMG LLP**

December 10, 2014

## CITY OF ANAHEIM WATER UTILITY FUND

### Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

(In thousands)

As management of Anaheim Public Utilities, a department of the City of Anaheim, California (City), we offer the readers of the City of Anaheim Water Utility Fund (Water Utility) financial statements a narrative overview and analysis of the financial statements for the fiscal years ended June 30, 2014 and 2013. 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 net position for fiscal years 2014 and 2013 was \$238,540 and \$234,093 respectively. Of this amount, \$8,684 and \$7,117 represents unrestricted net position, which, if necessary, would cover 14.6% and 13.2% of annual operating expenses, respectively.
- Retail sales, net of uncollectible accounts were \$65,182 and \$60,145 for the years ended June 30, 2014 and 2013, respectively. The 8.4% increase in sales was primarily due to a June 1, 2013 water rate increase coupled with continuing dry weather conditions causing an increase in customer demands.
- Net additions to capital assets (before depreciation) were \$17,531, an increase of 4.1%. Major capital projects completed during the year include the following:
  - The new Water Sustainability Campus, which includes Southern California's first decentralized small-scale water recycling plant built in an urban environment.
  - The Linda Vista Complex, which includes a pump station and a new four million gallon water storage facility.
  - The Hidden Canyon Pump Station Expansion Project, which includes refurbishment of the existing pump station building and nearby water storage tank.

### 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, 2014.

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 three separate statements, which taken together indicate the overall financial condition of the Water Utility.

The *statements of net position* present total assets and deferred outflows of resources and total liabilities and deferred inflows of resources with the difference between the two totals reported as net

**CITY OF ANAHEIM WATER UTILITY FUND**

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

(In thousands)

position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the Water Utility is improving or deteriorating.

The *statements of revenues, expenses, and changes in net position* report the Water Utility's revenues and expenses on an accrual basis for the two most recent fiscal years. These statements provide information showing how and why the Water Utility's net position changed.

The *statements of cash flows* present the flows of cash and cash equivalents provided by and used for operating activities during the last two fiscal years. Other cash sources (such as investment income and debt financing), as well as other cash uses (such as payments for bond principal and capital additions) made during the last two fiscal years are also included in this statement.

The *notes to financial statements* provide additional information that is essential to the full understanding of the data provided in the financial statements. The notes can be found in this report immediately following the three financial statements previously described.

**Financial Analysis**

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

	<b>Condensed statements of net position</b>		
	<b>2014</b>	<b>2013</b>	<b>2012*</b>
Current and other assets	\$ 44,285	36,905	53,595
Net utility plant	319,010	309,508	293,993
Deferred outflows of resources	118	168	231
Total assets and deferred outflows of resources	<u>363,413</u>	<u>346,581</u>	<u>347,819</u>
Long-term liabilities, net of current portion	89,787	91,820	94,258
Current liabilities	28,878	14,634	15,994
Deferred inflows of resources	6,208	6,034	6,010
Total liabilities and deferred inflows of resources	<u>124,873</u>	<u>112,488</u>	<u>116,262</u>
Net investment in capital assets	225,520	223,032	215,335
Restricted	4,336	3,944	4,012
Unrestricted	8,684	7,117	12,210
Total net position	<u>\$ 238,540</u>	<u>234,093</u>	<u>231,557</u>

\* Restatement due to implementation of Governmental Accounting Standards Board (GASB) Statement No 65.

## CITY OF ANAHEIM WATER UTILITY FUND

### Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

(In thousands)

#### **As of June 30, 2014**

#### ***Assets and Deferred Outflows of Resources***

Total assets and deferred outflows of resources as of June 30, 2014 were \$363,413, reflecting an increase of \$16,832 (4.9%), which was primarily due to the following:

- Current and other assets, comprising restricted and unrestricted assets, had a net increase of \$7,380 (20.0%).
  - Unrestricted assets increased by \$6,767 (27.1%) primarily due to increases in cash and cash equivalents resulting from positive operating results.
  - Restricted assets had an increase of \$613 (5.1%) due to required increases in restricted assets for debt service and renewal and replacements.
- Net Utility Plant increased \$9,502 (3.1%) due to additions and upgrades of storage facilities at Linda Vista and Hidden Canyon, the completion of the Water Sustainability Campus for recycling water as well as ongoing projects to remove and replace water transmission and distribution mains throughout the City. The capital infrastructure building program for additional storage facilities, wells, and distribution facilities was adopted by the Water Utility in order to ensure that the water supply continues to be safe, reliable, and sufficient to meet future demands. For the year ended June 30, 2014, the Water Utility was in the top national quartile for infrastructure reliability as measured by the number of main breaks per 100 miles of distribution piping.
- Deferred outflows of resources, consisting of deferred charge on refunding bonds, decreased by \$50 (29.8%), due to annual amortization.

#### ***Liabilities and Deferred Inflows of Resources***

Total liabilities and deferred inflows of resources as of June 30, 2014 were \$124,873, which was an increase of \$12,385 (11.0%) over the prior year. Primary reasons for this increase were:

- Current liabilities increased by \$14,244 (97.3%) mostly because the Water Utility drew down \$9,100 of its \$14,000 Revolving Credit Agreement in order to provide funds to build the capital improvements mentioned above. The \$9,100 balance is expected to be paid in full during fiscal year 2015 with the issuance of new bond financing. In addition, accounts payable and accrued expenses increased \$5,002 as a result of greater amounts accrued for the cost of water pumped during the six months ended June 30, 2014.
- Long-term liabilities, net of current portion decreased by \$2,033 (2.2%) due to the payments of principal on long-term debt.

## CITY OF ANAHEIM WATER UTILITY FUND

### Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

(In thousands)

- Deferred inflows of resources, consisting of regulatory credits for water rate stabilization purposes, increased by \$174 (2.9%) due to various miscellaneous credits and refunds received during the fiscal year ended June 30, 2014.

#### ***Net Position***

The Water Utility's net position, which represents the difference between the Utility's total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, may serve over time as a useful indicator of the Water Utility's financial position. The Water Utility's net position at June 30, 2014 totaled \$238,540, an increase of \$4,447 (1.9%), primarily due to the following:

- A major portion, \$225,520 (94.5%), of the Water Utility's net position at June 30, 2014, represents the Water Utility's investment in capital assets, less any related outstanding debt used to acquire those assets. This portion increased by \$2,488 (1.1%) during fiscal year 2014. The Water Utility uses these capital assets to provide reliable and efficient services to customers, which, therefore, are not available for future spending. Resources needed to repay the related outstanding debt must come from other sources such as operations.
- An additional portion of the Water Utility's net position, amounting to \$4,336 (1.8%) as of June 30, 2014, represents resources that are subject to internal and external restrictions on how they may be used. These restricted amounts consist of \$1,308 for debt service repayments and \$3,028 for the Water Utility's required renewal and replacement reserve.
- The unrestricted portion of the Water Utility's net position, amounting to \$8,684 (3.6%) as of June 30, 2014, increased by \$1,567 (22.0%) primarily as a result of positive operating results. The unrestricted portion of net position may be used to meet the Water Utility's ongoing obligations to creditors and customers.

## CITY OF ANAHEIM WATER UTILITY FUND

### Management's Discussion and Analysis

June 30, 2014 and 2013

(In thousands)

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

##### **Assets**

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

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

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

##### **Liabilities**

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

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

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

##### **Net Position**

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

**CITY OF ANAHEIM WATER UTILITY FUND**

Management's Discussion and Analysis

June 30, 2014 and 2013

(In thousands)

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

	<b>Condensed statements of revenues, expenses, and changes in net position</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Revenues:			
Sale of water, net	\$ 65,182	60,145	57,041
Other operating revenues	764	640	707
Interest income	988	788	1,119
Grants	45	276	463
Capital contributions	3,531	754	1,799
Total revenues	<u>70,510</u>	<u>62,603</u>	<u>61,129</u>
Expenses:			
Purchased water	28,769	27,729	28,088
Treatment and pumping	8,433	6,896	5,739
Operations, maintenance, and administration	11,942	9,357	10,788
Depreciation	10,534	9,742	9,739
Interest expense	3,167	3,031	3,753
Total expenses	<u>62,845</u>	<u>56,755</u>	<u>58,107</u>
Transfers:			
Transfer from the General Fund of the City	600	—	—
Transfer to the General Fund of the City	(2,619)	(2,408)	(2,374)
Transfer of right-of-way fee to the City	(902)	(855)	(823)
Net transfers to other funds of the City	(297)	(49)	(67)
Total transfers	<u>(3,218)</u>	<u>(3,312)</u>	<u>(3,264)</u>
Changes in net position	4,447	2,536	(242)
Net position at beginning of year, as restated	<u>234,093</u>	<u>231,557</u>	<u>231,799</u>
Net position at end of year	<u>\$ 238,540</u>	<u>234,093</u>	<u>231,557</u>

## CITY OF ANAHEIM WATER UTILITY FUND

### Management's Discussion and Analysis

June 30, 2014 and 2013

(In thousands)

#### Revenues

##### *Year ended June 30, 2014*

Total revenues for the fiscal year ended June 30, 2014 were \$70,510, which was an increase of \$7,907 (12.6%) over the prior year. Primary reasons for this increase are:

- Revenues from the sale of water increased by \$5,037 (8.4%). Water sales to retail customers continue to be the primary revenue source for the Water Utility, accounting for 92.4% of total revenues. The increase in this category of revenue is partly due to a 1.3% increase in customer demands during the year. In addition, the Water System Reliability Adjustment (WSRA) portion and the Water Commodity Adjustment (WCA) portion of the water rates increased by \$0.075 and \$0.09 per hundred cubic feet (HCF), respectively, effective June 1, 2013 for a total increase of \$0.165 per HCF. The WSRA is used to recover projected capital costs, including rehabilitation and construction of water and reclaimed water system infrastructure along with the related debt service payments. The WCA is a rate mechanism that increases or decreases with water supply, treatment, and pumping costs. In 2014, the Water Utility experienced increases to its wholesale water supply costs and to its treatment costs.
- Capital contributions (5.0% of total revenues) increased by \$2,777 over the prior year. Most of the increase is due to the completion of the state route 91 widening project at Tustin Avenue, which was funded by the California Department of Transportation per a 2012 Utility Agreement.

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

Total revenues for the fiscal year ended June 30, 2013 were \$62,603 as compared with \$61,129 in fiscal year 2012, an increase of \$1,474. This increase was primarily due to a \$3,104 increase in revenues from the sale of water, which was partially offset by a \$1,045 reduction in capital contributions. Revenues from the sale of water increased 5.4% primarily because of increased customer demands. During the fiscal year ended June 30, 2013, the Water Utility sold 62,804 acre-feet of water as compared to 60,371 acre-feet in fiscal year 2012, representing a 4.0% increase. Commercial and industrial sales increased 6.3% during this period, while residential sales increased by 2.8%.

**CITY OF ANAHEIM WATER UTILITY FUND**

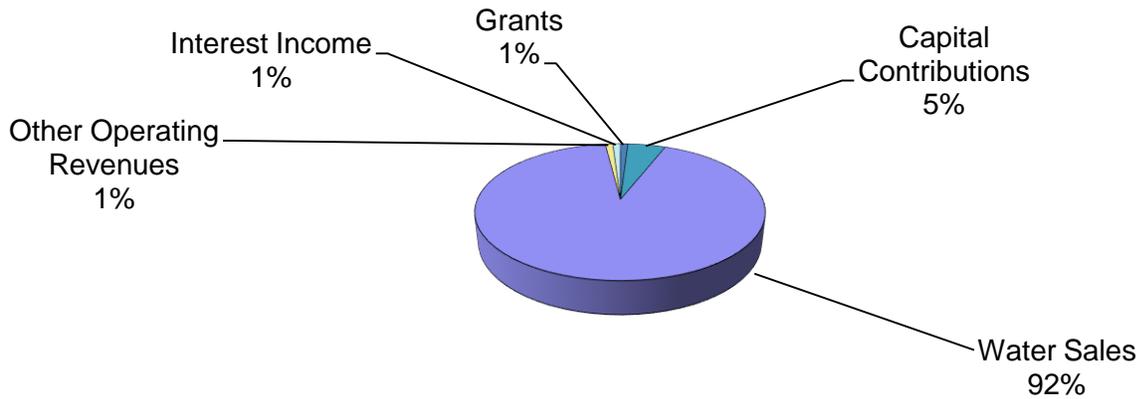
Management's Discussion and Analysis

June 30, 2014 and 2013

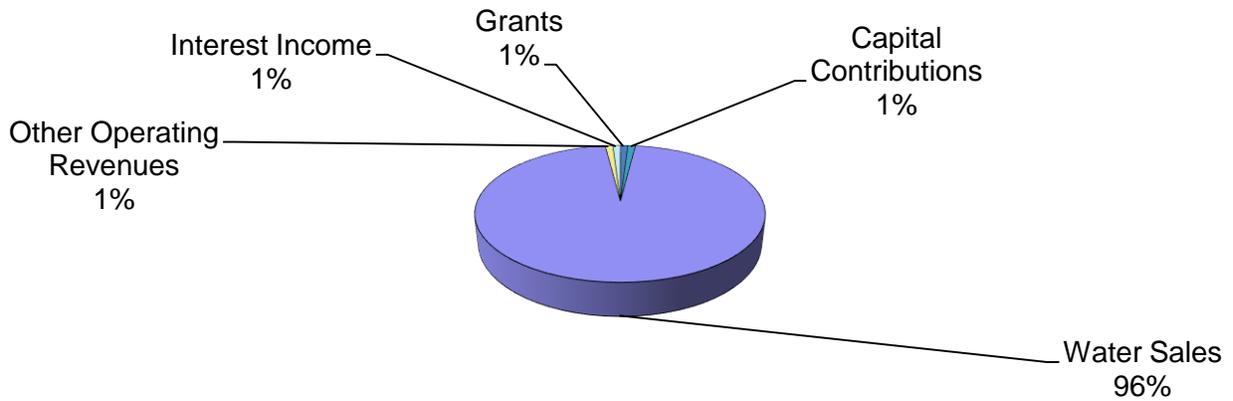
(In thousands)

**Revenues by Source**

**Year ended June 30, 2014**



**Year ended June 30, 2013**



## CITY OF ANAHEIM WATER UTILITY FUND

### Management's Discussion and Analysis

June 30, 2014 and 2013

(In thousands)

#### Expenses

##### *Year ended June 30, 2014*

Total expenses for the fiscal year ended June 30, 2014 were \$62,845, which was a \$6,090 (10.7%) increase over the prior fiscal year. Contributing factors of this increase were:

- Purchased water costs, which account for 45.8% of total expenses, increased by \$1,040 (3.8%) during the fiscal year, primarily as a result of increased commodity costs charged by the Water Utility's two sources of water supply, the Metropolitan Water District (MWD) and the Orange County Water District (OCWD). In addition, the total amount of water purchased and/or pumped increased about 2.3% in order to meet increased customer demand.
- Treatment and pumping costs increased \$1,537 (22.3%) directly as a result of pumping more water from OCWD. Pumped water accounted for 76.0% of the total water supply as compared to 68.1% in the prior year. The greater OCWD production volume increased the required pump power (electricity) costs as well as requiring additional chemical treatment costs.
- Operations, maintenance, and administration costs (OM&A) increased by \$2,585 (27.6%), with most of the increase (\$2,009) coming from administrative costs. These costs increased mainly because the amount of overhead capitalized during the year decreased as a result of the declining balance in the Construction in Progress (CIP) account. The Water Utility's CIP account decreased by \$26,377 (62.0%), primarily because several major capital projects were completed and placed in service during the year.

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

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

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

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

## CITY OF ANAHEIM WATER UTILITY FUND

### Management's Discussion and Analysis

June 30, 2014 and 2013

(In thousands)

#### Transfers

##### *Year ended June 30, 2014*

- Transfers to the City's General Fund, as defined by City Charter, are equal to a maximum of 4% of total operating revenues. The transfer to the City's General Fund was \$2,619 for fiscal year 2014. It is based on the current year's total operating revenues, with true-up adjustments from prior year's total operating revenues. The City uses these funds to help provide needed public services to the residents of the City, including police, fire, parks, and libraries.
- The right-of-way fee transferred to the City's General Fund equal to 1.5% of net revenues of the prior fiscal year. Net revenues are defined as revenues from sale of water less uncollectible accounts. The right-of-way fee transferred to the City amounted to \$902 for fiscal year 2014.
- Upon completion of several joint capital projects, the Water Utility transferred ownership of its share of these projects, valued at \$297, to the Electric Utility.

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

Transfers to the City's General Fund, as defined by City Charter, are equal to a maximum of 4.0% of total operating revenues. Transfers to the City's General Fund were \$2,408 and \$2,374 for fiscal years 2013 and 2012, respectively. In addition, a right-of-way fee is transferred to the City's General Fund and is equal to 1.5% of net revenues of the prior fiscal year. Net revenues are defined as revenues from sale of water less uncollectible accounts. The right-of-way fee transferred to the City amounted to \$855 for fiscal year 2013 and \$823 for fiscal year 2012. There were no significant changes in the amount of right-of-way fee transferred to the City during fiscal year 2013 when compared with fiscal year 2012.

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

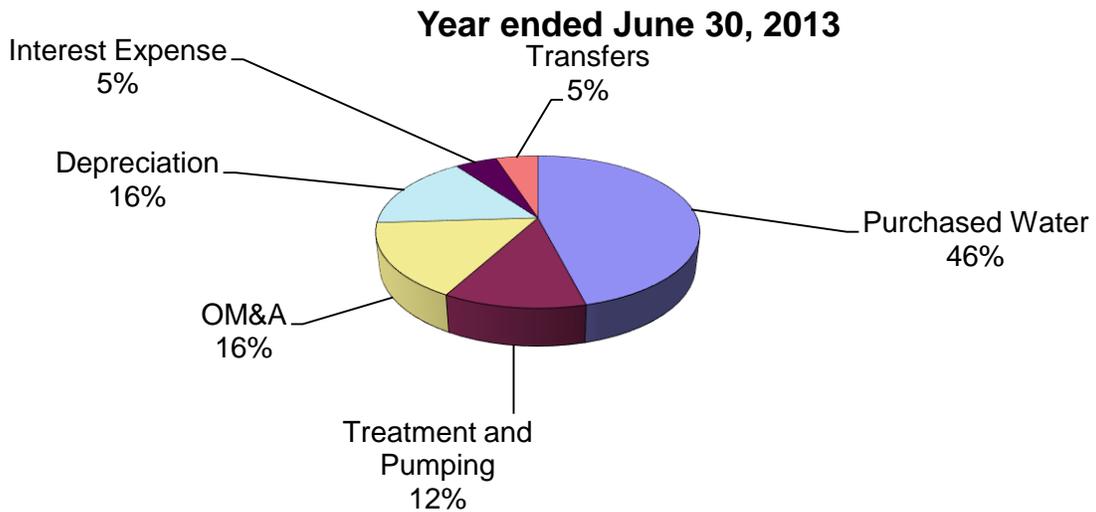
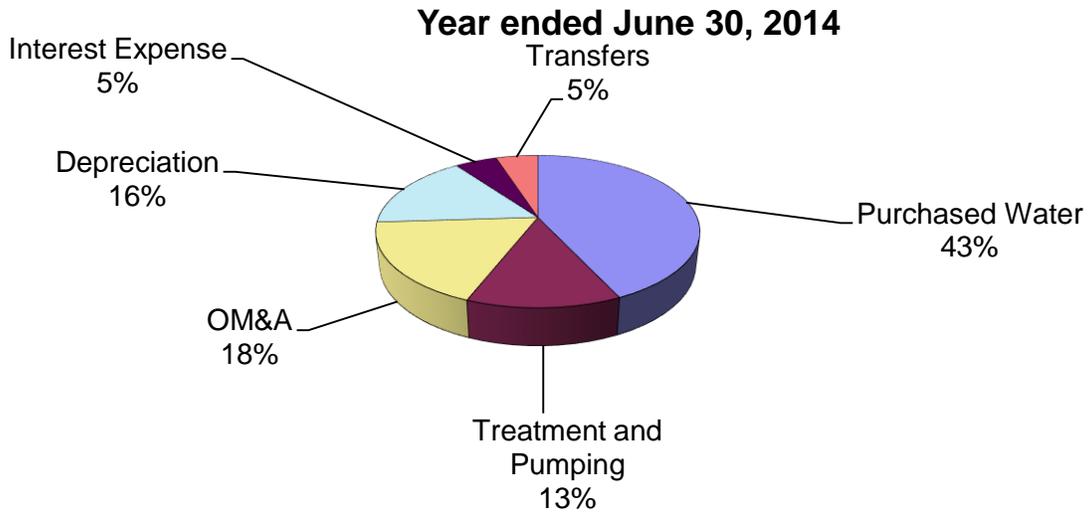
**CITY OF ANAHEIM WATER UTILITY FUND**

Management's Discussion and Analysis

June 30, 2014 and 2013

(In thousands)

**Expenses and Transfers**



**CITY OF ANAHEIM WATER UTILITY FUND**

Management's Discussion and Analysis

June 30, 2014 and 2013

(In thousands)

**Capital Assets and Debt Administration**

***Capital Assets***

The Water Utility's net investment in capital assets includes land, production wells and treatment plant, transmission and distribution facilities, CIP and general plant items such as office equipment, furniture, etc. The Water Utility's investments in capital assets as of June 30 are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Source of water supply	\$ 44,142	43,350	43,350
Pumping plant	75,236	50,003	50,008
Transmission and distribution	301,791	283,984	280,609
General plant	8,061	7,985	7,030
Land	2,339	2,339	2,339
Construction in progress	<u>16,162</u>	<u>42,539</u>	<u>22,871</u>
Total utility plant	447,731	430,200	406,207
Less accumulated depreciation	<u>(128,721)</u>	<u>(120,692)</u>	<u>(112,214)</u>
Net utility plant	<u>\$ 319,010</u>	<u>309,508</u>	<u>293,993</u>

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

***As of June 30, 2014***

The Water Utility's investment in capital assets net of accumulated depreciation was \$319,010, an increase of \$9,502 (3.1%). The change resulted primarily from the following significant capital items plus current year depreciation:

- Pumping plant increase of \$25,233 (50.5%) resulting from the completion of the following capital projects:
  - \$14,736 for the Water Sustainability Campus (Water Recycling Demonstration Plant). This project includes the first decentralized small-scale water recycling plant built in an urban environment in Southern California. And, it showcases other important water management strategies: a water-wise garden, rainwater capture for irrigation, and porous pavement. All of these elements are presented in a way to educate visitors about innovative water solutions that can help address the region's challenges in maintaining sufficient water supplies and reducing dependence on imported water.
  - \$4,446 for the Hidden Canyon Pump Station Expansion. The work included the refurbishment of existing pump station building, replacement of pumps and motors, and replacement of electrical and instrumentation systems. The project increases water supply capacities in east Anaheim, increases overall system reliability, and beautifies the pump station site.

## CITY OF ANAHEIM WATER UTILITY FUND

### Management's Discussion and Analysis

June 30, 2014 and 2013

(In thousands)

- \$5,922 for the Linda Vista Pump Station. The pump station serves groundwater to West, Central, and East Anaheim and is capable of supplying about one-third of the City's water supply to customers each day.
- Transmission and Distribution capital asset increase of \$17,807 (6.3%) resulting from the completion of the following capital projects:
  - \$8,173 for the Linda Vista Reservoir and distribution system. The Linda Vista Complex includes a new four million gallon water storage facility and related transmission and distribution mains. This project improves system reliability for this important water source by replacing its aging infrastructure.
  - \$1,212 for the Peridot Place, Twin Peak Circle and Coral Circle Water Mains Replacement Project, which replaced approximately 2,800 linear feet of 8-inch and 12-inch iron pipes with polyvinyl chloride (PVC) pipes. These improvements will increase the service reliability and reduce maintenance expenses of the water system.
  - \$878 for the Olive Street 16-inch Water Main Replacement Project, which replaced an existing 10-inch cast iron pipe with a 16-inch ductile iron water main pipe. The project will meet current and future water demand for industrial uses in the area.
  - \$2,306 for the replacement of various transmission and distribution water mains throughout the City. These various projects increase the water system reliability by replacing aging infrastructure to minimize the risk of system failures and also to improve fire flow requirements.
- CIP decrease of \$26,377 resulting from the completion of the numerous large projects described above.

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

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

**CITY OF ANAHEIM WATER UTILITY FUND**

Management's Discussion and Analysis

June 30, 2014 and 2013

(In thousands)

***Long-Term Debt***

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Water revenue bonds	\$ 83,870	84,790	85,740
Notes payable and advances	<u>7,486</u>	<u>8,442</u>	<u>9,372</u>
Total long-term debt outstanding	91,356	93,232	95,112
Less:			
Current portion	(1,943)	(1,876)	(1,412)
Unamortized bond premium	<u>374</u>	<u>464</u>	<u>558</u>
Total noncurrent long-term debt outstanding	<u>\$ 89,787</u>	<u>91,820</u>	<u>94,258</u>

***As of June 30, 2014***

- The Water Utility's bond indentures require a minimum debt service coverage ratio of 1.0. The Water Utility's debt service coverage ratio was 2.7 as of June 30, 2014.
- The Water Utility maintains an AAA credit rating from both Standard & Poor's and Fitch Ratings. These ratings reflect the Water Utility's strong financial performance, favorable rate structure, and the Water Utility's favorable supply mix along with its stable customer base.
- Total long-term debt decreased by \$2,033 primarily due to principal payments and amortization of premiums. The revenues of the Water Utility have been pledged to pay the outstanding long-term debt.

Additional information on the Water Utility's long-term debt can be found in note 6 of the accompanying financial statements.

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

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

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

### Management's Discussion and Analysis

June 30, 2014 and 2013

(In thousands)

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

For fiscal year 2015, OCWD set the Basin Production Percentage (BPP) for all cities and water districts they serve (including Anaheim) at 72.0%, up from the 70.0% fiscal year 2014 limit. Consequently, the Water Utility will be able to pump 2.0% more ground water from OCWD without incurring a penalty and purchase 2.0% less from MWD in order to fulfill its water supply requirements. Water purchased from MWD is priced higher than ground water pumped from OCWD, so increasing the BPP lessens the impacts of MWD cost increases. The Water Utility's Water Rates, Rules, and Regulations provide for an automatic adjustment of its commodity adjustment when OCWD and MWD increase or decrease the cost per acre foot of water.

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

#### **Requests for Information**

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

**CITY OF ANAHEIM WATER UTILITY FUND**

Statements of Net Position

June 30, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
Assets:		
Utility plant:		
Source of water supply	\$ 44,142	43,350
Pumping plant	75,236	50,003
Transmission and distribution	301,791	283,984
General plant	<u>8,061</u>	<u>7,985</u>
Total depreciable utility plant	429,230	385,322
Less accumulated depreciation	<u>(128,721)</u>	<u>(120,692)</u>
Net depreciable utility plant	300,509	264,630
Land	2,339	2,339
Construction in progress	<u>16,162</u>	<u>42,539</u>
Net utility plant	<u>319,010</u>	<u>309,508</u>
Restricted assets:		
Cash and cash equivalents	2,093	1,860
Investments	<u>7,501</u>	<u>7,175</u>
Total restricted assets	<u>9,594</u>	<u>9,035</u>
Other assets:		
Metropolitan Water District Orange County pipeline receivable	20	84
Unamortized prepaid bond insurance	<u>1</u>	<u>1</u>
Total other assets	<u>21</u>	<u>85</u>
Total noncurrent assets	<u>328,625</u>	<u>318,628</u>
Current assets:		
Cash and cash equivalents	5,807	5,073
Investments	16,566	10,515
Restricted cash and cash equivalents	1,399	1,632
Restricted investments	1,599	1,312
Accounts receivable, net	7,420	7,422
Accrued interest receivable	88	75
Materials and supplies inventory	576	602
Purchased water in storage	<u>1,215</u>	<u>1,154</u>
Total current assets	<u>34,670</u>	<u>27,785</u>
Total assets	<u>363,295</u>	<u>346,413</u>
Deferred outflows of resources:		
Deferred charge on refunding bonds	<u>118</u>	<u>168</u>
Total deferred outflows of resources	<u>118</u>	<u>168</u>
Total assets and deferred outflows of resources	\$ <u><u>363,413</u></u>	\$ <u><u>346,581</u></u>

**CITY OF ANAHEIM WATER UTILITY FUND**

Statements of Net Position

June 30, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
Liabilities:		
Long-term liabilities:		
Long-term debt obligations, less current portion	\$ 89,787	91,820
Total long-term liabilities	<u>89,787</u>	<u>91,820</u>
Current liabilities (payable from restricted assets):		
Current portion of long-term debt	1,943	1,876
Arbitrage rebate liability	6	9
Accrued interest payable	<u>1,049</u>	<u>1,059</u>
Total current liabilities (payable from restricted assets)	<u>2,998</u>	<u>2,944</u>
Current liabilities (payable from unrestricted current assets):		
Accounts payable and accrued expenses	15,759	10,757
Wages payable	212	183
Line-of-credit payable	9,100	—
Customer deposits	<u>809</u>	<u>750</u>
Total current liabilities (payable from unrestricted current assets)	<u>25,880</u>	<u>11,690</u>
Total liabilities	<u>118,665</u>	<u>106,454</u>
Deferred inflows of resources:		
Regulatory credits	<u>6,208</u>	<u>6,034</u>
Total deferred inflows of resources	<u>6,208</u>	<u>6,034</u>
Net position:		
Net investment in capital assets	225,520	223,032
Restricted for:		
Debt service	1,308	1,274
Renewal and replacement	3,028	2,670
Unrestricted	<u>8,684</u>	<u>7,117</u>
Total net position	<u>238,540</u>	<u>234,093</u>
Total liabilities, deferred inflows of resources, and net position	\$ <u>363,413</u>	\$ <u>346,581</u>

See accompanying notes to financial statements.

**CITY OF ANAHEIM WATER UTILITY FUND**

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Sales of water, net	\$ 65,182	60,145
Other operating revenues	764	640
Total operating revenues	<u>65,946</u>	<u>60,785</u>
Operating expenses:		
Purchased water	28,769	27,729
Treatment and pumping	8,433	6,896
Operations, maintenance, and administration	11,942	9,357
Depreciation	10,534	9,742
Total operating expenses	<u>59,678</u>	<u>53,724</u>
Operating income	<u>6,268</u>	<u>7,061</u>
Nonoperating revenues (expenses):		
Interest income	988	788
Interest expense	(3,167)	(3,031)
Grants	45	276
Total net nonoperating expenses	<u>(2,134)</u>	<u>(1,967)</u>
Income before capital contributions and transfers	4,134	5,094
Capital contributions	3,531	754
Transfer from the General Fund of the City	600	—
Transfer to the General Fund of the City	(2,619)	(2,408)
Transfer of right-of-way fee to the City	(902)	(855)
Transfers from other funds of the City	—	16
Transfers to other funds of the City	(297)	(65)
Change in net position	4,447	2,536
Net position at beginning of year	<u>234,093</u>	<u>231,557</u>
Net position at end of year	<u>\$ 238,540</u>	<u>234,093</u>

See accompanying notes to financial statements.

**CITY OF ANAHEIM WATER UTILITY FUND**

Statements of Cash Flows

Years ended June 30, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 65,840	59,728
Receipts from services provided to other funds of the City	341	330
Payments to suppliers	(26,204)	(28,616)
Payments to employees	(13,441)	(13,028)
Payments for services provided by other funds of the City	(4,503)	(4,324)
Net cash provided by operating activities	<u>22,033</u>	<u>14,090</u>
Cash flows from noncapital financing activities:		
Transfers to the General Fund and other funds of the City	(3,521)	(3,263)
Transfers from the General Fund and other funds of the City	600	16
Receipts from grants	45	298
Net cash used for noncapital financing activities	<u>(2,876)</u>	<u>(2,949)</u>
Cash flows from capital and related financing activities:		
Proceeds from short-term borrowings from line of credit	9,100	—
Capital purchases, net capitalized interest	(17,919)	(23,355)
Principal payments on long-term debt	(1,876)	(1,880)
Interest paid	(4,556)	(4,532)
Transfers to other funds of the City for capital purposes	(32)	(65)
Capital contributions	2,485	318
Net cash used for capital and related financing activities	<u>(12,798)</u>	<u>(29,514)</u>
Cash flows from investing activities:		
Purchases of investment securities	(12,846)	(5,897)
Proceeds from sale and maturity of investment securities	6,223	5,793
Collection of pipeline receivable	64	17
Interest income received	934	1,090
Net cash provided by (used for) investing activities	<u>(5,625)</u>	<u>1,003</u>
Increase (decrease) in cash and cash equivalents	734	(17,370)
Cash and cash equivalents at beginning of year	<u>8,565</u>	<u>25,935</u>
Cash and cash equivalents at end of year	<u>\$ 9,299</u>	<u>8,565</u>

**CITY OF ANAHEIM WATER UTILITY FUND**

Statements of Cash Flows

Years ended June 30, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 6,268	7,061
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	10,534	9,742
Changes in assets, liabilities and deferred inflows of resources that provided by (used for) cash:		
Accounts receivable, net	2	(743)
Materials and supplies inventory	26	(35)
Purchased water in storage	(61)	(140)
Accounts payable and accrued expenses	5,002	(1,810)
Wages payable	29	(1)
Customer deposits	59	(8)
Regulatory credits	174	24
Total adjustments	<u>15,765</u>	<u>7,029</u>
Net cash provided by operating activities	\$ <u>22,033</u>	<u>14,090</u>
Schedule of noncash investing, capital, and financing activities:		
Capital contributions	\$ 1,046	436
Increase (decrease) in fair value of investments	41	(255)
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 5,807	5,073
Restricted cash and cash equivalents, current portion	1,399	1,632
Restricted cash and cash equivalents, noncurrent portion	2,093	1,860
Total cash and cash equivalents	\$ <u>9,299</u>	<u>8,565</u>

See accompanying notes to financial statements.

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

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

##### (a) Basis of Accounting

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

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

On July 1, 2013, the Water Utility adopted the following new accounting pronouncements issued by the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 66, *Technical Corrections—2012—an Amendment of GASB Statement No. 10 and No. 62*. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement establishes accounting and financial reporting standards for situations where a state or local government, as a guarantor, agrees to indemnify a third-party obligation holder under specified conditions (i.e., nonexchange financial guarantees). The issuer of the guaranteed obligation can be a legally separate entity or individual, including a blended or discretely presented component unit. Guidance is provided for situations where a state or local government extends or receives a nonexchange financial guarantee. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2013.

Implementation of these pronouncements has no material effect on amounts reported in the Water Utility's financial statements for the fiscal year ended June 30, 2014.

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

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This Statement replaces the requirements of Statement No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014.

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards for mergers, acquisitions, and transfers of operations (i.e., government combinations). The Statement also provides guidance on how to determine the gain or loss on a disposal of government operations. This Statement applies to all state and local governmental entities. The requirements of this Statement should be applied prospectively and are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013.
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*—an amendment of GASB Statement No. 68. This Statement should be applied simultaneously with GASB Statement No. 68.

#### **(c) Utility Plant and Depreciation**

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

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

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

#### **(d) Pooled Cash and Investments**

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

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

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

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

**(e) *Restricted Assets***

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

**(f) *Deferred Outflows of Resources***

Deferred outflows of resources represent consumptions of net position that apply to future periods and so will not be recognized as an outflow of resources (expense) until then. In the statements of net position as of June 30, 2014 and 2013, the Water Utility reported deferred charges on refunding bonds in this category of \$118 and \$168, respectively. A deferred charge on refunding bonds results from the difference in the carrying value of debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**(g) *Deferred Inflows of Resources***

Deferred inflows of resources represent acquisitions of net position that apply to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Utility included its regulatory credits in this category. Regulatory credits represent amounts accumulated from collections, which provide recovery in the current period for costs to be incurred in future periods. At June 30, 2014 and 2013, the amounts recorded for regulatory credits totaled \$6,208 and \$6,034, respectively. See note 9 for further discussion of regulatory credits.

**(h) *Operating Revenues***

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

The City Council must be notified for all changes in base water rates. Rates have been structured to recover the Water Utility's costs for providing water services. The Water

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

Utility's Rates, Rules, and Regulations include a Water Commodity Adjustment formula by which billings to customers are subject to adjustment, up or down, to reflect variations in the cost of water production and water quality measures to the Water Utility.

Revenue is recorded in the period earned. The Water Utility accrues estimated unbilled revenues for water sold but not billed at the end of a fiscal period, which amounted to approximately \$5,096 and \$4,327 for fiscal years 2014 and 2013, respectively. Residential and smaller commercial accounts are billed bimonthly, and all other customers are billed monthly.

Revenues are reported net of uncollectible amounts. Total uncollectible amounts written off are \$94 and \$72 for the fiscal years ended June 30, 2014 and 2013, respectively. The applicable allowances for uncollectible amounts are \$88 and \$40 at June 30, 2014 and 2013, respectively. See note 6 for discussion of pledged revenue.

**(i) Operating Expenses**

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

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

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

**(j) Debt Issuance Costs**

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

**(k) Bond Refunding Costs**

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

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

**(l) Vacation and Sick Pay**

Vacation and sick pay for all City employees are paid by the General Benefits and Insurance Fund of the City. The General Benefits and Insurance Fund is reimbursed through payroll charges to the Water Utility based on estimates of benefits to be earned during the year. Vested vacation and sick pay benefits are accrued in the General Benefits and Insurance Fund and amounted to \$634 and \$647 for the Water Utility at June 30, 2014 and 2013, respectively.

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

The City Charter provides that transfers to the General Fund of the City shall not exceed 4% of total revenue. Such transfers are not in lieu of taxes and amounted to \$2,619 and \$2,408 for the fiscal years ended June 30, 2014 and 2013, respectively.

The transfer of right-of-way fees to the City represents the City Council approved transfer of 1.5% of net water revenues of the prior fiscal year to the General Fund of the City. Net revenues are defined as revenues from the sale of water, less uncollectible amounts. Bond disclosure requirements designate that this transfer must be recognized as an expense in the calculation of bond coverage. The transfer of right-of-way fee to the City amounted to \$902 and \$855 for the fiscal years ended June 30, 2014 and 2013, respectively.

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

During the fiscal years ended June 30, 2014 and 2013, the Water Utility participated in several joint projects with the Electric Utility. The Water Utility was responsible for its share of the costs while the projects were ongoing. Upon completion, the Water Utility transferred ownership of its share of the projects to the Electric Utility, valued at \$297 and \$65 for fiscal years 2014 and 2013, respectively.

During the fiscal year ended June 30, 2014, \$600 was transferred from the City's general fund to the Water Utility pursuant to a Water Transfer settlement. See note 11 of the notes to the financial statement for additional information regarding the Water Transfer settlement.

**(n) Use of Estimates**

The preparation of financial statements in conformity with GAAP 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.

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

**(2) Deposits and Investments**

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

The City's pooled investment fund has been reviewed by Standard and Poor's Corporation (S&P) and received a credit rating of AAf/S1 in August 2012.

The City's investment policy further limits the permitted investments in Government Code Sections 53600 et al, 16429.1, and 53684 to the following: obligations of the U.S. government, federal agencies, and government-sponsored enterprises; medium-term corporate notes; certificates of deposit; bankers' acceptances; commercial paper; LAIF; repurchase agreements; reverse repurchase agreements; and money market mutual funds.

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

	<u>2014</u>	<u>2013</u>
Cash equivalents and investments pooled with the Treasurer	\$ 27,764	20,600
Cash equivalents and investments held with trustee	<u>7,201</u>	<u>6,967</u>
	<u>\$ 34,965</u>	<u>27,567</u>

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

	<u>2014</u>	<u>2013</u>
Restricted assets – cash equivalents and investments	\$ 12,592	11,979
Unrestricted assets – cash equivalents and investments	<u>22,373</u>	<u>15,588</u>
	<u>\$ 34,965</u>	<u>27,567</u>

**(a) Investments**

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

The policy provides the basis for the management of a prudent, conservative investment program. Public funds are invested for the maximum security of principal and to meet daily cash flow needs, while providing a return. All investments are made in accordance with the

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

Government Code, and in general, the Treasurer's policy is more restrictive than Government Code.

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

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

<b>Authorized investment type</b>	<b>Maximum maturity</b>	<b>Maximum percentage of portfolio*</b>	<b>Maximum investment in one issuer</b>	<b>Minimum Rating (S&amp;P/Moody's/Fitch)</b>
U.S. Treasury obligations	5 years	100%	100%	None
U.S. agency securities	5 years	100%	40%	None
Bankers' acceptances	180 days	40%	5%	None
Commercial paper	270 days	25%	5%	A-1/P-1/F-1
Negotiable certificates of deposit	360 days	25%	5%	None
Repurchase agreements	1 year	30%	None	None
Reverse repurchase agreements	90 days	20%	None	None
Medium-term corporate notes	5 years	30%	5%	A/A/A
Money market mutual funds	N/A	20%	10%	None
LAIF (2 accounts)	N/A	\$50 million per account	\$50 million per account	None
Time certificates of deposit (TCD)	1 year	20%	5%	None

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

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

The City's pooled investments comply with the requirements of the investment policy. GAAP requires disclosure of certain investments in any one issuer that exceeds five percent concentration of the total investments. At June 30, the following investments represent five percent or more of the City's total investments:

Issuer	Investment type	2014		2013	
		Fair value	Percentage	Fair value	Percentage
Federal National Mortgage Association	U.S. agency securities	\$ 101,816	24%	\$ 113,988	26%
LAIF	LAIF	61,290	14%	60,256	14%
Federal Home Loan Bank	U.S. agency securities	44,701	10%	26,161	6%
Federal Home Loan Mortgage Corporation	U.S. agency securities	38,443	9%	29,760	7%
Federal Farm Credit Bank	U.S. agency securities	34,142	8%	55,981	13%

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

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

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

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

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

Issuer	Investment type	2014		2013	
		Fair value	Percentage	Fair value	Percentage
Federal National Mortgage Association Morgan Stanley	U.S. agency securities Flexible repurchase agreement	\$ 61,682	19%	\$ 35,926	9%
Federal Home Loan Bank	U.S. agency securities	42,000	13%	32,257	8%
LAIF	LAIF	31,712	10%	51,620	13%
Dreyfus Treas 521	Money market mutual fund	31,230	9%	45,352	11%
Federal Home Loan Mortgage Corporation	U.S. agency securities	24,471	7%	23,029	6%
Federal Farm Credit Bank	U.S. agency securities	17,712	5%	—	—%
U.S. Bank Money Market	Money market mutual fund	17,059	5%	23,382	6%
Bank of America	Investment guarantee contract	17,037	5%	21,342	5%
Blackrock #61	Money market mutual fund	—	—%	—	—%
		16,645	5%	23,382	6%
		—	—%	21,342	5%
		—	—%	—	—%
		—	—%	54,904	14%

All guaranteed investment contracts have downgrade language that requires collateral should credit ratings drop below certain levels.

**(d) Custodial Credit Risk**

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

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

**(e) Interest Rate Risk**

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

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

manage interest rate risk. In accordance with the City's investment policy, the Treasurer monitors the segmented time distribution of its investment portfolio and analysis of cash flow demand.

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

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

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

The distribution of the Water Utility's proportionate share of cash and investments by maturity at June 30, 2014 and 2013 is as follows:

<u>Investments</u>	<u>Credit rating (S&amp;P/ Moody's)</u>	<u>Fair value, June 30, 2014</u>	<u>12 months or less</u>	<u>13 to 24 months</u>	<u>25 to 36 months</u>	<u>37 to 60 months</u>	<u>More than 60 months</u>
Treasurer's pooled investments:							
U.S. agency securities	AA+/Aaa	\$ 14,277	2,166	1,157	2,928	8,026	—
Medium-term corporate notes	AAA/Aaa	1,674	—	1,204	326	144	—
Medium-term corporate notes	AA+/Aaa	326	—	—	326	—	—
Medium-term corporate notes	A+/A1	1,003	329	330	344	—	—
Medium-term corporate notes	AA-/Aa3	197	—	197	—	—	—
Medium-term corporate notes	AA/Aa2	196	—	196	—	—	—
Medium-term corporate notes	AA/Aa1	736	—	131	408	197	—
Medium-term corporate notes	A+/A2	391	66	—	—	325	—
Medium-term corporate notes	A+/A1	196	—	—	—	196	—
Medium-term corporate notes	A-/Baa1	340	—	340	—	—	—
Medium-term corporate notes	A-/A3	457	—	457	—	—	—
Medium-term corporate notes	A/A3	725	398	327	—	—	—
Commercial paper	A-1/P-1	2,827	2,827	—	—	—	—
Money market mutual funds	AAA/Aaa	425	425	—	—	—	—
LAIF	Unrated	3,994	3,994	—	—	—	—
Total investments controlled by City Treasurer		<u>27,764</u>	<u>10,205</u>	<u>4,339</u>	<u>4,332</u>	<u>8,888</u>	<u>—</u>
Investments controlled by bond trustees:							
Guaranteed investment agreements	Unrated	3,897	—	—	—	—	3,897
Collateralized investment contracts	Unrated	1,211	—	1,211	—	—	—
Money market mutual funds	AAA/Aaa	2,093	2,093	—	—	—	—
Total investments controlled by bond trustees		<u>7,201</u>	<u>2,093</u>	<u>1,211</u>	<u>—</u>	<u>—</u>	<u>3,897</u>
Total investments		<u>\$ 34,965</u>	<u>12,298</u>	<u>5,550</u>	<u>4,332</u>	<u>8,888</u>	<u>3,897</u>

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

<u>Investments</u>	<u>Credit rating (S&amp;P/ Moody's)</u>	<u>Fair value, June 30, 2013</u>	<u>12 months or less</u>	<u>13 to 24 months</u>	<u>25 to 36 months</u>	<u>37 to 60 months</u>	<u>More than 60 months</u>
Treasurer's pooled investments:							
U.S. agency securities	AA+/Aaa	\$ 10,557	1,818	2,044	2,255	4,440	—
Medium-term corporate notes	A-/A3	244	—	—	244	—	—
Medium-term corporate notes	A/A2	523	—	291	232	—	—
Medium-term corporate notes	A+/A1	138	—	—	—	138	—
Medium-term corporate notes	A+/A2	275	—	47	—	228	—
Medium-term corporate notes	AA/Aa1	232	—	—	94	138	—
Medium-term corporate notes	AA/Aa2	141	—	—	141	—	—
Medium-term corporate notes	AA+/A1	721	—	475	—	246	—
Medium-term corporate notes	AA-/Aa3	139	—	—	139	—	—
Medium-term corporate notes	AAA/Aaa	1,009	141	—	868	—	—
Commercial paper	A-1/P-1	2,650	2,650	—	—	—	—
Money market mutual funds	AAA/Aaa	1,154	1,154	—	—	—	—
LAIF	Unrated	2,817	2,817	—	—	—	—
Total investments controlled by City Treasurer		<u>20,600</u>	<u>8,580</u>	<u>2,857</u>	<u>3,973</u>	<u>5,190</u>	<u>—</u>
Investments controlled by bond trustees:							
Guaranteed investment agreements	Unrated	3,897	—	—	—	—	3,897
Collateralized investment contracts	Unrated	1,210	—	—	1,210	—	—
Money market mutual funds	AAA/Aaa	1,860	1,860	—	—	—	—
Total investments controlled by bond trustees		<u>6,967</u>	<u>1,860</u>	<u>—</u>	<u>1,210</u>	<u>—</u>	<u>3,897</u>
Total investments		<u>\$ 27,567</u>	<u>10,440</u>	<u>2,857</u>	<u>5,183</u>	<u>5,190</u>	<u>3,897</u>

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

**(3) Water Utility Plant**

The following is a summary of changes in capital assets:

	<u>Balance as of June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance as of June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance as of June 30, 2014</u>
Source of water supply	\$ 43,350	—	—	43,350	798	(6)	44,142
Pumping plant	50,008	—	(5)	50,003	25,313	(80)	75,236
Transmission and distribution	280,609	4,313	(938)	283,984	20,226	(2,419)	301,791
General plant	<u>7,030</u>	<u>1,031</u>	<u>(76)</u>	<u>7,985</u>	<u>76</u>	<u>—</u>	<u>8,061</u>
Depreciable utility plant	380,997	5,344	(1,019)	385,322	46,413	(2,505)	429,230
Less accumulated depreciation	<u>(112,214)</u>	<u>(9,742)</u>	<u>1,264</u>	<u>(120,692)</u>	<u>(10,534)</u>	<u>2,505</u>	<u>(128,721)</u>
Net depreciable utility plant	<u>268,783</u>	<u>(4,398)</u>	<u>245</u>	<u>264,630</u>	<u>35,879</u>	<u>—</u>	<u>300,509</u>
Land	2,339	—	—	2,339	—	—	2,339
Construction in progress	<u>22,871</u>	<u>24,576</u>	<u>(4,908)</u>	<u>42,539</u>	<u>17,978</u>	<u>(44,355)</u>	<u>16,162</u>
Nondepreciable utility plant	<u>25,210</u>	<u>24,576</u>	<u>(4,908)</u>	<u>44,878</u>	<u>17,978</u>	<u>(44,355)</u>	<u>18,501</u>
Net utility plant	\$ <u>293,993</u>	<u>20,178</u>	<u>(4,663)</u>	<u>309,508</u>	<u>53,857</u>	<u>(44,355)</u>	<u>319,010</u>

**(4) Operating Expenses**

Total operating expenses shared with the City's Electric Utility amounted to \$29,679 and \$28,788 for the fiscal years ended June 30, 2014 and 2013, respectively, of which \$7,123 and \$6,909, respectively, of shared operating expenses were allocated to the Water Utility.

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

**(5) Short-term Borrowings**

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

For the Water Utility, the purpose of this agreement is to provide temporary financing for the costs of acquisition and construction of additions to and improvements of the Utility's water system, which qualify for reimbursement under the City Council's Resolution No. 2012-111 "Official Intent to Reimburse Certain Water Utility Fund Expenditures from the Proceeds of Bonds or Other Obligations." During fiscal year 2014, the Utility made three draws totaling \$9,100 for

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

such qualifying capital expenditures. The \$9,100 balance is expected to be paid in full during fiscal year 2015 with the issuance of new bond financing.

**(6) Long-Term Liabilities**

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

<u>June 30, 2014</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	\$ 84,790	—	(920)	83,870	960
Notes payable	<u>8,442</u>	<u>—</u>	<u>(956)</u>	<u>7,486</u>	<u>983</u>
	93,232	—	(1,876)	91,356	\$ <u><u>1,943</u></u>
Less current portion	(1,876)	(1,943)	1,876	(1,943)	
Add unamortized bond premium	<u>464</u>	<u>—</u>	<u>(90)</u>	<u>374</u>	
Total long-term liabilities	\$ <u><u>91,820</u></u>	<u><u>(1,943)</u></u>	<u><u>(90)</u></u>	<u><u>89,787</u></u>	
<u>June 30, 2013</u>	<u>Beginning of year</u>	<u>Additions</u>	<u>Retirements</u>	<u>End of year</u>	<u>Due within one year</u>
Water revenue bonds	\$ 85,740	—	(950)	84,790	920
Notes payable	<u>9,372</u>	<u>—</u>	<u>(930)</u>	<u>8,442</u>	<u>956</u>
	95,112	—	(1,880)	93,232	\$ <u><u>1,876</u></u>
Less current portion	(1,412)	(1,876)	1,412	(1,876)	
Add unamortized bond premium	<u>558</u>	<u>—</u>	<u>(94)</u>	<u>464</u>	
Total long-term liabilities	\$ <u><u>94,258</u></u>	<u><u>(1,876)</u></u>	<u><u>(562)</u></u>	<u><u>91,820</u></u>	

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

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

	<u>2014</u>	<u>2013</u>
Water Revenue Bonds, 2010 Series, true interest cost (TIC) 3.5361%, dated and sold on October 28, 2010, in the amount of \$34,525, of which: (1) \$4,835 was issued as serial bonds at rates ranging from 2.0000% to 4.7500%, maturing from October 1, 2013 through 2021 in annual principal installments ranging from \$120 to \$815; (2) \$1,690 was issued as term bonds at a rate of 4.3460%, maturing on October 1, 2022 and 2023 in annual principal installments of \$840 and \$850, respectively; (3) \$1,750 was issued as term bonds at a rate of 4.8660%, maturing on October 1, 2024 and 2025 in annual principal installments of \$865 and \$885, respectively; (4) \$9,925 was issued as term bonds at a rate of 5.5250% maturing from October 1, 2026 through 2034 in annual principal installments ranging from \$910 to \$1,245; and (5) \$16,625 was issued as term bonds at a rate of 5.6850%, maturing from October 1, 2035 through 2040 in annual principal installments ranging from \$1,300 to \$5,645. The total debt service is \$69,536 to maturity	\$ 34,405	34,525
Water Revenue Bonds, 2008 Series, TIC 4.8594%, dated July 1, 2008, sold on July 9, 2008 in the amount of \$48,580, maturing serially beginning October 1, 2013 through October 1, 2038. The annual principal installments range from \$260 to \$3,750 at rates ranging from 4.0000% to 5.0000%. Total remaining debt service is \$87,575 to maturity	48,320	48,580
Water Revenue Bonds, 2004 Series, TIC 3.5629%, dated May 1, 2004, sold on May 26, 2004 in the amount of \$12,105, maturing serially through October 1, 2016. The annual principal installments range from \$5 to \$950 at rates ranging from 4.0000% to 4.50000%. Total remaining debt service is \$1,195 to maturity	<u>1,145</u>	<u>1,685</u>
Total water revenue bonds	<u>\$ 83,870</u>	<u>84,790</u>

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
Note payable to State of California Revolving Fund, interest rate of 2.8%, issued June 12, 2001, in the amount of \$18,063, semiannual principal and interest payments of \$592 through July 31, 2021; total remaining debt service is \$8,294 to maturity	\$ 7,486	8,442
Total notes payable	<u>\$ 7,486</u>	<u>8,442</u>

Annual debt service requirements for the Water Utility's revenue bonds and notes payable at June 30, 2014 to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year(s) ending June 30:			
2015	\$ 1,943	4,380	6,323
2016	2,010	4,310	6,320
2017	2,083	4,238	6,321
2018	2,158	4,166	6,324
2019	2,233	4,091	6,324
2020–2024	11,839	19,159	30,998
2025–2029	15,195	16,083	31,278
2030–2034	18,975	11,821	30,796
2035–2039	23,835	6,360	30,195
2040–2043	11,085	636	11,721
	<u>\$ 91,356</u>	<u>75,244</u>	<u>166,600</u>

Interest costs of \$1,335 and \$1,466 have been capitalized for the fiscal years ended June 30, 2014 and 2013, 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 for the Water Revenue Bonds, the 2008 Series and the 2004 Series, require the establishment of a bond service account accumulating monthly one-sixth of the interest, which will become due and payable on the outstanding bonds within the next 6 months, and by one-twelfth of the principal amount, which will mature and be payable on the outstanding bonds within the next 12 months. Those amounts have been recorded as restricted for debt service on the accompanying statement of net position.

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

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

The Water Utility has pledged future revenues to repay a total of \$158,306 and \$163,443 of outstanding long-term obligations, principal, and interest for the years ended June 30, 2014 and 2013, respectively. Proceeds from bonds provide financing for various capital improvements, primarily distribution assets. The Water Utility's bonds are payable solely from water net revenues and are payable through fiscal year 2041. As of June 30, 2014 and 2013, the annual principal and interest payments on the bonds are 28.8% and 29.1% of net revenues, respectively. Debt service paid and total net revenues were \$5,137 and \$17,835, and \$5,205 and \$17,867 for the years ended June 30, 2014 and 2013, respectively.

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

	<u>2014</u>	<u>2013</u>
Held by fiscal agent:		
Bond reserve fund	\$ 7,201	6,967
Held by Treasurer:		
Bond service account	2,363	2,342
Renewal and replacement account	<u>3,028</u>	<u>2,670</u>
	<u>\$ 12,592</u>	<u>11,979</u>

The Water Utility's interest and other finance charges, excluding capitalized interest, for the fiscal years ended June 30, 2014 and 2013 were \$3,167 and \$3,031, respectively.

**(7) Pension Plan**

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

For both fiscal years ended June 30, 2014 and 2013, as a condition of participation, employees are required to contribute 8% of their annual covered salary to PERS. The City pays 7% of the employees' required contributions and the employees pay the remaining 1%. For management employees hired after January 10, 2012, the entire 8% is paid by the employees. Management and I.B.E.W. employees who are hired on or after January 1, 2013 and who have no prior membership in any California public retirement system, are required to contribute employee rate of 6.75% of their annual covered salary to PERS. The entire 6.75% is paid by employees. 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.

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

The Water Utility contributed \$2,262, \$2,243, and \$2,116, to PERS for the fiscal years ended June 30, 2014, 2013, and 2012, 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, 2014 for further information.

#### **(8) 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 \$551 and \$561 for the fiscal years ended June 30, 2014 and 2013, respectively.

At June 30, 2014, the City was fully funded for self-insured workers' compensation and general liability claims (self-insured retention levels of \$750 per occurrence for workers' compensation claims and \$1,000 per occurrence for general liability claims). Above these self-insured retention levels, the City's potential liability is covered through various commercial insurance and intergovernmental risk pooling programs. Settled claims have not exceeded total insurance coverage in any of the past three years, nor does management believe that there are any claims pending that will exceed total insurance coverage.

#### **(9) Regulatory Credits**

The Water Utility's Rates, Rules, and Regulations provide for a water regulatory credits account to reflect variations in the cost of water to the Water Utility and provide more stable retail water rates to the customers of the City's Water Utility. This rate stabilization account (RSA) provides increased flexibility by allowing the Water Utility to maintain financial performance indicators and goals specified in bond covenants. The account is funded through expense reimbursements such as water supply cost refunds received from the MWD and OCWD and other miscellaneous credits and revenue. As permitted by GASB Statements No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and No. 65, *Items Previously Reported as Assets and Liabilities*, and as approved by the City Council, revenues from amounts collected are deferred and recorded as regulatory credits under deferred inflows of resources in the statements of net position. At June 30, 2014 and 2013, the amounts recorded for regulatory credits totaled \$6,208 and \$6,034, respectively. In fiscal years 2014 and 2013, the Water Utility funded this account through a variety of miscellaneous credits. During fiscal years 2014 and 2013, no RSA revenue was recognized.

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

**(10) Commitments and Contingencies**

**(a) Litigation**

A number of claims and suits are pending against the City for alleged damages to persons and property and for other alleged liabilities arising out of matters usually incidental to the operation of a utility such as the water system of the City. In the opinion of management, the exposure under these claims and suits would not materially affect the financial position of the Water Utility as of June 30, 2014 and 2013.

**(b) Construction Commitments**

At June 30, 2014, the Water Utility had the following commitments with respect to unfinished capital projects:

<b>Capital project</b>	<b>Construction commitment</b>	<b>Estimated completion date</b>
Water Main Relocation – Tustin Avenue	\$ 267	2014
Pressure Regulating Stations Rehabilitation	392	2015
Well #58 at Anaheim Lake – Equipping	1,432	2015
	<u>\$ 2,091</u>	

At June 30, 2013, the Water Utility had construction commitments totaling \$4,481.

**(11) Subsequent Events**

On December 9, 2014, the Anaheim City Council certified the official results of the California General Election held on November 4, 2014. Measure N, Anaheim Local Services Measure, which among other things, was to ratify and amend subdivision (e) of Charter Section 1221 to clarify the City of Anaheim’s (City) authority to transfer up to 4% of the “operating revenue” earned by the Water and Electric Utilities to the City’s General Fund instead of the “gross revenue” was not approved by a majority of voters so it did not pass.

The Measure N election results coupled with settled litigation require the Water Utility to cease making the up to 4% transfer to the City’s General Fund and the City to reimburse the Water Utility \$3 million plus the transferred funds held by the City for fiscal years ending June 30, 2013 and 2014, in equal installments of no less than \$600 beginning January 1, 2014 and by June 30th of each fiscal end for approximately nine years or sooner depending upon when the funds have been fully reimbursed.