NEW ISSUE-FULL BOOK-ENTRY

RATINGS: Fitch Insured: "AAA"; S&P Insured: "AAA"
Fitch Underlying: "AA–"; S&P Underlying: "AA"

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based on an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

$47,710,000
ANAHEIM PUBLIC FINANCING AUTHORITY
SEWER REVENUE BONDS
SERIES 2007

Dated: Date of Delivery **Due: February 1, as shown below**

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth in Appendix C.

The Anaheim Public Financing Authority Sewer Revenue Bonds, Series 2007 (the "Bonds") are being issued by the Anaheim Public Financing Authority (the "Authority") pursuant to an Indenture of Trust (the "Indenture"), dated as of May 1, 2007, between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). The Bonds will be special obligations of the Authority payable solely from and secured by the Trust Estate pledged under the Indenture, which consists primarily of payments to be made by the City of Anaheim, California (the "City"), pursuant to the Installment Purchase Agreement (the "Agreement"), between the Authority and the City. Amounts to be paid by the City under the Agreement are special obligations payable solely from System Net Revenues of the City's sanitary sewer collection system (the "System"). See "SOURCES OF PAYMENT AND SECURITY."

The Bonds are being issued to provide funds to (i) finance certain capital improvements to the System, (ii) fund a deposit to a reserve fund for the Bonds and (iii) pay costs of issuance of the Bonds. See "PLAN OF FINANCE." Interest on the Bonds will be payable on February 1 and August 1 of each year, commencing August 1, 2007. The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS–Redemption of Bonds."

The Bonds will be issued in fully registered form, registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC") in the denomination of $5,000 or any integral multiple thereof, under the book-entry only system maintained by DTC. While DTC is the securities depository for the Bonds, principal and the Redemption Price of and interest on the Bonds will be payable by the Trustee to DTC, which is obligated in turn to remit such payments to its Direct Participants for subsequent disbursement to Beneficial Owners of the Bonds, as more fully described herein. See "APPENDIX D–DTC and the Book-Entry System."

The Bonds are subject to optional and mandatory sinking fund redemption as described herein.

MBIA Insurance Corporation (the "Bond Insurer") will issue on the date of issuance and delivery of the Bonds a financial guaranty insurance policy insuring the scheduled payments of principal of and interest on (but not premium on) the Bonds when due.

MBIA

The Bonds will not be payable from, or secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the Trust Estate, which pledge is subject to the provisions of the Indenture permitting application thereof for the purposes and on the terms and conditions set forth therein. Neither the faith and credit nor the taxing power of the Authority, the City, the State of California (the "State") or any other public agency is pledged to the payment of the principal or Redemption Price of, or the interest on, the Bonds. The issuance of the Bonds shall not directly, indirectly or contingently obligate the Authority, the State or any public agency thereof, including the City, to levy or pledge any form of taxation or to make any appropriation for the payment of the Bonds. The payment of the principal or Redemption Price of, or interest on, the Bonds does not constitute a debt, liability or obligation of the State or any public agency, including the City (other than the special obligation of the Authority as provided in the Indenture).

MATURITY SCHEDULE

Maturity Date (February 1)	Principal Amount	Interest Rate	Yield	CUSIP††	Maturity Date (February 1)	Principal Amount	Interest Rate	Yield	CUSIP††
2010	$ 775,000	4.000%	3.550%	03255RAA4	2019†	$ 500,000	4.500%	3.970%	03255RAK2
2011	805,000	4.000	3.570	03255RAB2	2020	190,000	4.000	4.120	03255RAX4
2012	835,000	5.000	3.600	03255RAC0	2020†	1,000,000	4.750	3.980	03255RAL0
2013	880,000	4.500	3.630	03255RAD8	2021†	1,245,000	5.000	4.000	03255RAM8
2014	920,000	4.000	3.650	03255RAE6	2022†	1,310,000	5.000	4.030	03255RAN6
2015	955,000	5.000	3.720	03255RAF3	2023†	1,375,000	5.000	4.060	03255RAP1
2016	1,005,000	4.000	3.770	03255RAG1	2024†	1,445,000	5.000	4.090	03255RAQ9
2017	1,045,000	5.000	3.800	03255RAH9	2025	1,515,000	4.250	4.420	03255RAR7
2018†	1,095,000	4.500	3.910	03255RAJ5	2026	1,580,000	4.250	4.450	03255RAS5
2019	645,000	3.875	4.040	03255RAW6	2027	1,645,000	4.250	4.470	03255RAT3

$11,610,000 4.750% Term Bonds due February 1, 2033† – Yield 4.350% - CUSIP†† 03255RAU0
$15,335,000 4.750% Term Bonds due February 1, 2039† – Yield 4.400% - CUSIP†† 03255RAV8

† Priced to call on February 1, 2017 at 100%.
†† CUSIP Copyright 2003, American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc.

The Bonds are offered when, as and if delivered and received by the Underwriter, subject to the approval as to their legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Authority and for the City by the City Attorney. It is anticipated that the Bonds will be available for delivery through the facilities of DTC on or about May 23, 2007.

DE LA ROSA & CO.
INVESTMENT BANKERS

Dated: May 10, 2007

No dealer, broker, salesperson or other person has been authorized by the Authority, the City or the Underwriter to give any information or to make any representations in connection with the offer or sale of the Bonds other than those contained herein and if given or made, such other information or representation must not be relied upon as having been authorized by the City or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

Statements contained in this Official Statement that include forecasts, estimates or matters of opinion, whether or not expressly stated as such, are intended solely as such and are not to be construed as representations of fact. The information set forth herein has been furnished by the Authority, the City, the Bond Insurer and other sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter. With respect to the information set forth under "BOND INSURANCE," no representation is made by the Authority, the City or the Underwriter as to the accuracy or adequacy of such information, or that any information referred to therein as being incorporated in this Official Statement by reference is correct. Such information has not been independently verified or confirmed by the Authority, the City or the Underwriter.

The information and expressions of opinions herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall create, under any circumstances, any implication that there has been no change in the affairs of the Authority, the City, the City's sanitary sewer collection system or the Bond Insurer since the date hereof. This Official Statement, including any supplement or amendment thereto, is intended to be deposited with one or more repositories.

The Underwriter has submitted the following statement for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

In connection with the offering of the Bonds, the Underwriter may over-allot or effect transactions that stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers, institutional investors and others at prices lower than the public offering price stated on the cover page hereof and such public offering price may be changed from time to time by the Underwriter.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement and the Appendices hereto constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect" "estimate," "budget" or other similar words. Forward-looking statements in this Official Statement are subject to risks and uncertainties, which could cause actual results to differ materially from those contemplated in such forward-looking statements.

The achievement of any results or the realization of other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Neither the City nor the Authority plans to issue any updates or revisions to those forward-looking statements if or when expectations or events, conditions or circumstances on which such statements are based occur.

ANAHEIM PUBLIC FINANCING AUTHORITY

Anaheim City Council and Authority Board of Directors

Curt Pringle, Mayor and Chairman of the Authority
Robert Hernandez, Pro Tem and Vice-Chairman of the Authority
Lorri Galloway, Member
Lucille Kring, Member
Harry Sidhu, Member

City/Authority Staff

David M. Morgan, City Manager
Thomas J. Wood, Assistant City Manager
Elisa Stipkovich, Authority Executive Director
William G. Sweeney, City Finance Director and Authority Financial Advisor
Jack L. White, City Attorney and Authority Counsel
Linda Nguyen, City Clerk and Authority Secretary
Henry Stern, City Treasurer and Authority Treasurer

SPECIAL SERVICES

Bond Counsel
Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

Financial Advisor
Public Financial Management, Inc.
Newport Beach, California

Trustee
The Bank of New York Trust Company, National Association
Los Angeles, California

TABLE OF CONTENTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

OFFICIAL STATEMENT

$47,710,000
ANAHEIM PUBLIC FINANCING AUTHORITY
SEWER REVENUE BONDS
SERIES 2007

INTRODUCTION

This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the Bonds is made only by means of the entire Official Statement. Capitalized terms used in this Official Statement and not otherwise defined shall have the respective meanings assigned to them in Appendix C.

The purpose of this Official Statement (which includes the cover page and the appendices) is to provide information concerning the sale and delivery by the Anaheim Public Financing Authority (the "Authority") of $47,710,000 aggregate principal amount of its Sewer Revenue Bonds, Series 2007 (the "Bonds").

Authority for Issuance of the Bonds

The Bonds are being issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California, and an Indenture of Trust, dated as of May 1, 2007 (the "Indenture"), between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee").

Use of Proceeds of the Bonds

The proceeds of the sale of the Bonds will be used to (i) finance certain capital improvements to the sanitary sewer collection system (the "System") of the City of Anaheim, California (the "City"), (ii) fund a Reserve Fund for the Bonds and (iii) pay costs of issuance of the Bonds.

The City

The City is a charter city of the State of California (the "State") consisting of approximately 50 square miles and located in Orange County, approximately 28 miles southeast of downtown Los Angeles and approximately 90 miles north of San Diego. There are approximately 9,000 business located in the City with an estimated resident population of 350,000 as of January 1, 2007. See "APPENDIX B–The City of Anaheim."

The System

The System, which began operation in 1911, is a gravity sanitary sewage and wastewater collection system consisting of approximately 510 miles of pipes together with related facilities and equipment. For the Fiscal Year ended June 30, 2006, the System served 94,846 customers. The City's Department of Public Works is responsible for the operation of the System.

The function of the System is to collect sewage and wastewater discharged by businesses, industries and residents of the City and a small adjacent unincorporated area of Orange County. The effluent collected by the System is transported to the trunk lines of the Orange County Sanitation District ("OCSD") which transports such effluent to its treatment plants and disposes of the treated effluent. See "THE SYSTEM."

Sources of Payment and Security

The Bonds will be special obligations of the Authority payable solely from, and secured by a pledge of, the Trust Estate pledged under the Indenture, including payments (the "Purchase Price Installments") to be made by the City pursuant to the Installment Purchase Agreement, dated as of May 1, 2007 (the "Agreement"), by and between the City and the Authority.

The Bonds will not be secured by a legal or equitable pledge of, or lien or charge upon, any property of the Authority or any of its income or receipts except the Trust Estate pledged therefor pursuant to the Indenture which pledge is subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein. Neither the faith and credit nor the taxing power of the State, the Authority, the City or any other public agency is pledged to the payment of the principal or Redemption Price of, or interest on, the Bonds. The issuance of the Bonds shall not directly, indirectly or contingently obligate the Authority, the State or any public agency thereof, including the City, to levy or pledge any form of taxation or to make any appropriation for the payment of the Bonds. The payment of the principal or Redemption Price of, or interest on, the Bonds will not constitute a debt, liability or obligation of the State or any public agency, including the City, other than the special obligation of the Authority as provided in the Indenture.

For a further description of the sources of payment and security for the Bonds, see "SOURCES OF PAYMENT AND SECURITY."

Installment Purchase Agreement

The Authority, through the City as its agent, is providing for certain additions, betterments, extensions, replacements and improvements to the System (collectively, the "Project") pursuant to the Agreement. The Authority's interest in the Project will be sold to the City. As consideration for such sale, the City has agreed to make the Purchase Price Installments. The City's payment obligations under the Agreement are special obligations payable solely from System Net Revenues.

For a further description of the City's obligations under the Agreement, see "SOURCES OF PAYMENT AND SECURITY."

Bond Insurance

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy (the "Bond Insurance Policy") to be issued by MBIA Insurance Corporation (the "Bond Insurer") simultaneously with the delivery of the Bonds. See "BOND INSURANCE."

Reserve Fund

Pursuant to the Indenture, a Reserve Fund is required to be maintained in an amount equal to the Reserve Fund Requirement. Amounts on deposit in the Reserve Fund will be applied to make up any deficiency in the Debt Service Fund for the payment when due of principal of and interest on the Bonds. The Reserve Fund Requirement will be met with a surety bond issued by the Bond Insurer. See "APPENDIX C–Summary of Certain Provisions of the Indenture and the Agreement."

Other Matters

The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety to each document statute, report or instrument.

Attached to this Official Statement as Appendix C are summaries of certain provisions of the Indenture and the Agreement. Copies of the Indenture and the Agreement are available for inspection at the offices of the Trustee, and copies of the Indenture and the Agreement will be provided by the Trustee upon request and payment of costs.

THE AUTHORITY

The Authority was created pursuant to the Act and a Joint Exercise of Powers Agreement, dated January 28, 1992 (the "Joint Powers Agreement"), between the City and the Redevelopment Agency of the City of Anaheim. Pursuant to the Joint Powers Act and the Joint Powers Agreement, the Authority may enter into contracts to acquire, construct, manage, maintain or operate certain real property, buildings, works and improvements and to acquire, maintain, lease and operate certain personal property and equipment. The Authority also has the authority to issue bonds and incur debts.

The Authority has assisted the City in financing various other projects through the issuance of bonds. No such other bonds are payable from or secured by the Trust Estate.

PLAN OF FINANCE

General

The City has adopted the Master Plan of Sanitary Sewers (the "MPSS"), which identifies certain necessary improvements to comply with its new operating permits (see "THE SYSTEM–Regulation"), and other future improvements determined to be undertaken for the System. The estimated cost of these improvements is approximately $100,000,000 and are to be completed over the next 6 years. The City expects to finance these improvements through two or more bond issues, the first of which is the Bonds.

The capital improvements identified for Fiscal Years ending June 30, 2007 through 2009 (the "Phase One Improvements") address the most immediate System updates and replacements and will be financed with the Bonds. The City expects construction of these improvements to begin in Spring 2007 and to be completed in Spring 2009. The Phase One Improvements are expected to cost approximately $45,000,000.

The City expects to begin additional capital improvement projects in 2010 (the "Phase Two Improvements"). The Phase Two Improvements are expected to cost approximately $55,000,000, which are expected to be funded with the proceeds of a future financing.

In addition to the estimated $100,000,000 in capital improvements to the System noted above, the MPSS also identifies approximately $72,000,000 in system improvements required to facilitate new development anticipated within the City over the next several years. The City expects to pay for these improvements with developer fees.

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the issuance of the Bonds are set forth in following table.

CITY OF ANAHEIM
SANITARY SEWER COLLECTION SYSTEM
Estimated Sources and Uses of Funds

SOURCES OF FUNDS:	
Par Amount of the Bonds	$ 47,710,000
Net Original Issue Premium	$ 1,519,612
TOTAL	$ 49,229,612
USES OF FUNDS:	
Improvement Fund	$ 48,700,414
Costs of Issuance[1]	$ 529,198
TOTAL USE OF FUNDS	$ 49,229,612

(1) Includes underwriter's discount of $141,698.70, rating agency and legal fees, financial and consulting fees, debt service reserve surety premiums, the Bond Insurance Policy premium, printing costs and other miscellaneous expenses for the Bonds.

THE BONDS

General

The Bonds will be dated the date of delivery and will bear interest at the rates per annum and will mature, subject to prior redemption as described herein under "Redemption of the Bonds," on February 1, in the years and in the principal amounts, set forth on the cover page hereof. Interest on the Bonds will be payable on February 1 and August 1 of each year, commencing on August 1, 2007 (each an "Interest Payment Date"). The Bonds will be issued in the form of fully registered bonds without coupons and in integral multiples of $5,000.

The Bonds will be issued in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee for DTC. So long as records of ownership of the Bonds are maintained through book-entry form only, all payments to the Beneficial Owners of the Bonds, including payments of principal and interest, will be made in accordance with the procedures described in Appendix D. See "APPENDIX D–DTC and the Book-Entry System."

In the event the Book-Entry System is discontinued, principal, or if applicable the Redemption Price, of the Bonds would be payable by the Trustee upon surrender at the Corporate Trust Office of the Trustee, and interest on the Bonds would be payable on each Interest Payment Date by the Trustee by check mailed on the date on which interest is due to the Owners of the Bonds at the addresses of the Owners as they appear on the Bond Register maintained by the Trustee.

Redemption of the Bonds

Optional Redemption. The Bonds maturing on and prior to February 1, 2017 are not subject to optional redemption prior to their stated maturity dates. The Bonds maturing on and after February 1, 2018 are subject to redemption at the option of the Authority (to be exercised as directed by the City) prior to their stated maturity dates on any date on and after February 1, 2017, as a whole or in part, from any source of available funds at a Redemption Price equal to the principal amount of the Bonds or portions thereof to be redeemed plus unpaid accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Redemption. The Bonds maturing on February 1, 2033 are subject to mandatory redemption prior to their stated maturity date, in part, on any February 1 on and after February 1, 2028, from Sinking Fund Installments established for such Bonds at a Redemption Price equal to the principal amount of the Bonds or portions thereof to be redeemed, without premium.

The Bonds maturing on February 1, 2033, are to be redeemed from Sinking Fund Installments for such Bonds in each of the years, and in the principal amounts, set forth below:

Date (February 1)	Principal Amount To Be Redeemed
2028	$1,715,000
2029	1,800,000
2030	1,885,000
2031	1,975,000
2032	2,070,000
2033*	2,165,000

* Maturity date

The Bonds maturing on February 1, 2039 are subject to mandatory redemption prior to their stated maturity date, in part, on any February 1 on and after February 1, 2034, from Sinking Fund Installments established for such Bonds at a Redemption Price equal to the principal amount of the Bonds or portions thereof to be redeemed, without premium.

The Bonds maturing on February 1, 2039, are to be redeemed from Sinking Fund Installments for such Bonds in each of the years, and in the principal amounts, set forth below:

Date (February 1)	Principal Amount To Be Redeemed
2034	$2,270,000
2035	2,375,000
2036	2,490,000
2037	2,610,000
2038	2,730,000
2039*	2,860,000

* Maturity date

Notice of Redemption

Redemption Notice. The Trustee shall give notice, of the redemption of Bonds by first-class mail, postage prepaid, not less than 30 days and not more than 60 days prior to the redemption date to the Owner of each Bond being redeemed, at its address as it appears on the Bond Register or at such address as such Owner may have filed with the Trustee for that purpose. The notice shall identify the Bonds to be redeemed and shall state (i) the redemption date, (ii) the Redemption Price, (iii) that the Bonds called for redemption must be surrendered to collect the Redemption Price, (iv) the address at which the Bonds must be surrendered, and (v) in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice will further state that if, on the redemption date the Trustee holds sufficient funds for the payment of the Redemption Price of the Bonds to be redeemed, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal amount thereof to be redeemed in the case of Bonds to be redeemed in part only, and that from and after such date interest on such Bond or the portion of such Bond to be redeemed will cease to accrue and be payable.

Receipt of such notice is not be a condition precedent to the redemption of Bonds and failure of any Owner of a Bond to receive any such notice or any insubstantial defect in such notice will not affect the validity of the proceedings for the redemption of Bonds. Any defect in such notice given to the Owners of less than all of the Bonds to be redeemed will not affect the validity of the proceedings for the redemption of the Bonds as to which the notice of redemption did not contain such defect.

SO LONG AS THE BONDS ARE HELD IN BOOK-ENTRY SYSTEM, ALL REDEMPTION NOTICES WILL BE GIVEN TO DTC.

Conditional Redemption Notice. In the event that funds required to pay the Redemption Price of the Bonds are not on deposit with the Trustee at the time the notice with respect to any redemption of Bonds at the option of the Authority is given, such notice will state that such redemption is conditional upon the receipt by the Trustee, on or prior to the date fixed for such redemption, of moneys sufficient to pay the Redemption Price of the Bonds to be redeemed, and that if such moneys shall not have been so received said notice shall be of no force and effect and the City will not be required to redeem such Bonds. In the event a notice of redemption of Bonds contains such a condition and such moneys are not so received, the redemption of Bonds as described in the conditional notice of redemption will not be made and the Trustee will, within a reasonable time after the date on which such redemption was to occur, give notice to the persons and in the manner in which the notice of redemption was given that such moneys were not so received and that there will be no redemption of Bonds pursuant to the conditional notice of redemption.

Partial Redemption. If less than all of the Bonds of like maturity shall be called for redemption, the particular Bonds or portions of Bonds to be redeemed shall be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate, from Bonds not previously called for redemption; *provided, however*, that the portion of any Bond of a denomination of more than the minimum Authorized Denomination to be redeemed shall be in the principal amount of such minimum Authorized Denomination or a multiple thereof. In selecting Bonds for redemption, the Trustee shall treat each Bond of a denomination of more than the minimum Authorized Denomination as representing that number of Bonds of the minimum Authorized Denomination which is obtained by dividing by such minimum Authorized Denomination the principal amount of such Bond.

SO LONG AS THE BONDS ARE HELD IN THE BOOK-ENTRY SYSTEM, SUCH SELECTION WILL, HOWEVER BE MADE BY DTC.

Payment of Redeemed Bonds. Notice having been given in accordance with the Indenture, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the applicable Redemption Price, and, upon presentation and surrender thereof at the office specified in such notice, such Bonds, or portions thereof, shall be paid at the Redemption Price. If, on the redemption date, moneys for the redemption of all the Bonds or portions thereof of any like maturity to be redeemed, together with unpaid accrued interest to the redemption date, shall be held by the Trustee so as to be available therefor on said date and if notice of redemption shall have been given, then, from and after the redemption date interest on the Bonds or portions thereof so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

SOURCES OF PAYMENT AND SECURITY

Pledge Effected by the Indenture

Trust Estate. The Bonds will be special obligations of the Authority payable solely from and secured solely by a lien on and security interest in the Trust Estate. The Trust Estate consists of: (a) all right, title and interest of the Authority in, to and under the Agreement (other than the Authority's rights to receive Additional Payments pursuant to the Agreement and indemnification payments pursuant to the Agreement) and (b) subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture: (i) the Purchase Price Installments; (ii) all income derived from the investment of money in the Funds (other than the Rebate Fund) established by the Indenture and held by the Trustee; and (iii) the amounts in the Funds (other than the Rebate Fund) established by the Indenture and held by the Trustee, including the investments thereof.

For a summary of certain provision of the Indenture, see "APPENDIX C–Summary of Certain Provisions of the Indenture and the Agreement."

The Bonds are not secured by a legal or equitable pledge of, or lien or charge upon, any property of the Authority or any of its income or receipts except the Trust Estate pledged pursuant to the Indenture, which pledge is subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. Neither the faith and credit nor the taxing power of the State, the Authority or any other public agency, including the City, is pledged to the payment of the Bonds or the interest thereon. The issuance of the Bonds does not directly, indirectly or contingently obligate the Authority or the City to levy or pledge any form of taxation or to make any appropriation for the payment of the Bonds. The payment of the Bonds does not constitute a debt, liability or obligation of the State or any public agency, including the City, other than the special obligation of the Authority as provided in the Indenture.

The Agreement

The main source of payments for the Bonds are the Purchase Price Installments to be paid by the City pursuant to the Agreement. Under the Agreement the City is to make Purchase Price Installments from System Net Revenues at the times and in the amounts necessary to pay the principal and Redemption Price of, and interest on, the Bonds when due. The Authority will assign to the Trustee the Authority's rights (other than its rights to Additional Payments and indemnification) to receive the Purchase Price Installments under the Agreement as required therein.

The City's obligations to make payments under the Agreement shall not constitute a charge against the general credit of the City but shall constitute and evidence special obligations of the City for which the City is obligated to make payments only from the System Net Revenues. The City's payment obligations under the Agreement will not be secured by a legal or equitable pledge of, or lien or charge upon, any property of the City or any of its income or receipts other than the System Revenues. Neither the faith and credit nor the taxing power of the State, the City or any other public agency is pledged to the payment of amounts due under the Agreement and the execution and delivery of the Agreement shall not directly, indirectly or contingently obligate the City, the State or any political subdivision thereof, to levy or pledge any form of taxation or to make any appropriation for the payments due thereunder. The obligation of the City to make payments under the Agreement does not constitute a debt, liability or obligation of the State or any public agency, including the City (other than the special obligation of the City as provided in the Agreement). Neither the members of the City Council of the City, nor any person executing the Agreement, nor any officer or employee of the City shall be liable personally for any payments to be made by the City under the Agreement or be subject to any personal liability or accountability by reason of the execution and delivery of the Agreement or in respect of any undertakings by the City under the Agreement.

Allocation of System Revenues

The City agrees and covenants in the Agreement that all System Revenues it receives (except for Net Proceeds) will be deposited when and as received in a special fund designated as the "System Revenue Fund," which fund the City agrees to maintain and to hold separate and apart from other funds until no Bonds remain Outstanding under the Indenture. Moneys in the System Revenue Fund will be used and applied only as provided in the Agreement. The Agreement provides that the City is to apply the moneys in the System Revenue Fund at the following times for the transfer to the following respective special funds and accounts in the following order of priority:

(1) *Operation and Maintenance Expenses.* Not later than the third day before the end of each month (or if such day is not a Business Day, the next preceding Business Day), the City is to transfer to the Operation and Maintenance Account the amount contained in the Annual Budget for Operation and Maintenance Expenses for the following month and such additional amounts as the City determines are reasonably required to be set aside as contingency reserves for Operation and Maintenance Expenses.

(2) *Debt Service on Parity Obligations.* From the remaining moneys in the System Revenue Fund: The City (i) not later than the third day before the end of each month commencing June, 2007 (or if such day is not a Business Day, the next preceding Business Day), is to transfer to the Trustee as a Purchase Price Installment an amount equal to one-sixth (1/6th) of the interest coming due on the Bonds on the next Interest Payment Date; provided that an appropriate adjustment should be made for the initial Interest Payment Date; (ii) not later than the third day before the end of each month commencing February, 2009 (or if such day is not a Business Day, the next preceding Business Day), transfer to the Trustee as a Purchase Price Installment an amount equal to one-twelfth (1/12th) of the Principal Installment due on the next Principal Installment Date; (iii) on any date other than an Interest Payment Date or a Principal Installment Date on which principal and/or interest on the Outstanding Bonds is due and payable, transfer to the Trustee as a Purchase Price Installment the amount necessary so that the amount on deposit in the Debt Service Fund available to make such payment is sufficient to pay the principal and interest on the Outstanding Bonds due and payable on such date; and (iv) on each date on which a payment is due to pay the principal of or interest on any outstanding Additional Parity Obligations, transfer the amount then due for the payment of such additional Parity Obligations in accordance with the provisions of the applicable Parity Obligations; provided that if on any day the amount available therefor in the System Revenue Fund is not sufficient to make all the payments to be made in the amounts described in this paragraph, the City is required to apply the available money in the System Revenue Fund to the payment of the Purchase Price Installments and the amounts due for the Additional Parity Obligations ratably based on the amounts then due without any discrimination or preference between Purchase Price Installments and Additional Parity Obligations.

(3) *Debt Service Reserves.* After making the transfers described above, amounts in the System Revenue Fund will be applied: (i) on or before the last Business Day of each month to the transfer to the Trustee, of that sum, if any, necessary replenish the Reserve Fund for any withdrawals (other than the transfer of any excess pursuant to the Indenture) so that the amount on deposit in the Reserve Fund is equal to the Reserve Fund Requirement; (ii) on or before the last Business Day of each month preceding a Reserve Valuation Date, the City shall transfer to the Trustee that sum, if any, necessary so that the amount on deposit in the Reserve Fund is equal to the Reserve Fund Requirement; and (iii) on or before the last Business Day of each month, to the transfer to

the applicable trustee or trustees for the Additional Parity Obligations amounts then required to be deposited with such trustee or trustees to maintain debt service reserves for such Additional Parity Obligations. To the extent that transfers from the Reserve Fund to the Debt Service Fund are from draws on a Reserve Surety as permitted by the Indenture, transfers under the Agreement to restore the Reserve Fund shall be made to reimburse the provider of the Reserve Surety to the extent the Reserve Surety is reinstated; provided that the foregoing procedures for the application of the System Revenues consisting of reimbursement payments shall be subject to any similar provisions for Parity Obligations on a pro rata basis.

(4) *Other Amounts Due For Parity Obligations.* After making the transfers described in the paragraph above, amounts in the System Revenue Fund will be applied to the payment when due of Additional Payments (other than with respect to the Reserve Requirement) due under the Agreement and payments, other than payments with respect to principal, interest and debt service reserves, due in connection with Additional Parity Obligations.

(5) *Surplus.* After making the transfers described in the paragraph above, amounts in the System Revenue Fund may be applied for any purpose permitted by law; including but not limited to payments with respect to Subordinate Obligations and payments for capital improvements to the System.

Rate Covenant

The City agrees in the Agreement to fix, prescribe and collect rates, fees and charges of the System for each Fiscal Year so as to yield System Revenues at least sufficient, after making reasonable allowances for contingencies and errors in the estimates, to pay all current Operation and Maintenance Expenses, the Purchase Price Installments, all payments on other Parity Obligations and all payments on Subordinate Obligations as they become due and payable, all payments required for compliance with the terms of the Indenture, including restoration of the Reserve Fund to an amount equal to the Reserve Fund Requirement and all payments to meet any other obligations of the City which are charges, liens or encumbrances upon, or payable from, the System Revenues.

In addition, City covenants in the Agreement, to the maximum extent permitted by law, to fix, prescribe and collect rates, fees and charges of the System for each Fiscal Year so as to yield System Net Revenues during such Fiscal Year equal to at least 110% of the Annual Debt Service in such Fiscal Year.

The City may make or permit to be made adjustments from time to time in such rates, fees and charges and may make or permit to be made such classification thereof as it deems necessary, but will not reduce or permit to be reduced such rates, fees and charges below those then in effect unless the System Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements of the Agreement.

Additional Parity Obligations

The Agreement provides the following System Net Revenue test (the "Earnings Test") for the issuance or incurrence of Additional Parity Obligations which will be secured by a pledge of System Revenues on a parity with the Purchase Price Installments.

Either (i) the System Net Revenues, calculated on Generally Accepted Accounting Principles, as shown by the books of the City for the latest Fiscal Year or any 12 consecutive month period within the last completed 18-month period ended not more than one month before the issuance or incurrence of such additional Parity Obligations as set forth in a Certificate of the City or (ii) the estimated System Net Revenues for the first complete Fiscal Year when the improvements to the System financed with the proceeds of the Additional Parity Obligations shall be in operation as estimated by and set forth in an opinion of an independent consulting engineer or firm of independent consulting engineers employed by the City, plus, at the option of the City, either or both of the items designated under (x) and (y) below, shall have amounted to at least 1.10 times the Maximum Annual Debt Service in any Fiscal Year thereafter on all Parity Obligations to be outstanding immediately subsequent to the incurring of such Additional Parity Obligations; provided, that in the event that all or a portion of such Parity Obligations are to be issued for the purpose of refunding and retiring any Parity Obligations then outstanding, interest and principal payments on the Parity Obligations to be so refunded and retired from the proceeds of such refunding Parity Obligations being issued shall be excluded from the foregoing computation of Maximum Annual Debt Service.

The items following may be added to the System Net Revenues for the purpose of meeting the test above:

(x) An allowance for any increase in System Net Revenues (including, without limitation, a reduction in Operation and Maintenance Expenses) which may arise from any additions to and extensions and improvements of the System to be made or acquired with the proceeds of such Additional Parity Obligations or with moneys from any other source which, during all or any part of the Fiscal Year or the 12 consecutive month period were not in service, in an amount equal to the estimated additional average annual net revenues to be derived from such additions, extensions and improvements for the first 36-month period in which each addition, extension or improvement is respectively to be in operation, all as shown by the certificate or opinion of a qualified independent engineer employed by the City; and

(y) An allowance for earnings arising from any increase in the charges made for the use of the System which has become effective prior to the incurring of such additional Parity Obligations but which, during all or any part of such Fiscal Year or such 12 consecutive month period within the last completed 18-month period, was not in effect, in an amount equal to the amount by which the System Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or such 12 consecutive month period within the last completed 18-month period, as shown by a Certificate of the City.

Any debt service reserve fund established for Additional Parity Obligations shall satisfy the following criteria: (i) such debt service reserve fund shall be held by an independent trustee (who may be other than the Trustee); and (ii) the required amount of such debt service reserve fund shall not exceed the lesser of the maximum annual debt service of such Parity Obligations (calculated on the basis of a year ending on the principal payment date of such Parity Obligations) or the maximum amount permitted under the Code, provided that, if such Parity Obligations are a loan from a governmental agency, then a debt service reserve fund shall be established in the amount, if any, required or permitted by such governmental agency.

The City may at any time incur Additional Parity Obligations for the purpose of refunding and retiring any Parity Obligations then outstanding without compliance with the Earnings Test, if the Annual Debt Service for each Fiscal Year during which any Additional Parity Obligations which are outstanding both before and after the issuance of such refunding Additional Parity Obligations will not be increased by reason of the entry into or incurrence of such refunding Parity Obligations.

The City may at any time and from time to time, without satisfying the Earnings Test, enter into one or more Swap Agreements, the net payments (but not any early termination payments) under which shall constitute Parity Obligations; provided that: (i) each Swap Agreement shall relate to Parity Obligations which are installment purchase installments, capital lease installment payments, bonds, notes or other evidences of indebtedness of the City, which Parity Obligations shall be identified by the City at the time of entering such Swap Agreements, relating to capital improvements, including replacements, for the System and (ii) the notional amount of all Swap Agreements in effect with respect to such Parity Obligations does not exceed the outstanding principal payments with respect to such Parity Obligations; and (iii) if such Swap Agreement is not taken into account in the calculation of Maximum Annual Debt Service in connection with the incurrence of the related Parity Obligations, the Trustee shall have received a Rating Confirmation.

The City may at any time and from time to time, without compliance with the Earnings Test, enter into one or more Credit Agreements in connection with Parity Obligations. Nothing contained in the Agreement limits the issuance of any Subordinate Obligations. See "APPENDIX C–Summary of Certain Provisions of the Indenture and the Agreement–The Agreement–Additional Parity Obligations."

BOND INSURANCE

The following information has been furnished by the Bond Insurer for use in this Official Statement. Such information has not been independently confirmed or verified by the Authority or the City. No representation is made herein by the Authority as to the accuracy or adequacy of such information subsequent to the date hereof, or that the information contained and incorporated herein by reference is correct. Reference is made to Appendix G for a specimen of the Bond Insurance Policy. The Bond Insurer does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Bond Insurance Policy and the Bond Insurer set forth under the heading "BOND INSURANCE." Additionally, the Bond Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The Policy

The Bond Insurance Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Authority to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Bond Insurance Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Bond Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

The Bond Insurance Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. The Bond Insurance Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Bond Insurance Policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Bond Insurer from the Paying Agent or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Bond Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Bond Insurer, and appropriate instruments to effect the appointment of the Bond Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

The Bond Insurer

The Bond Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Bond Insurer. The Bond Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Bond Insurer, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions.

The principal executive offices of the Bond Insurer are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, the Bond Insurer is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for the Bond Insurer, limits the classes and concentrations of investments that are made by the Bond Insurer and requires the approval of policy rates and forms that are employed by the Bond Insurer. State law also regulates the amount of both the aggregate and individual risks that may be insured by the Bond Insurer, the payment of dividends by the Bond Insurer, changes in control with respect to the Bond Insurer and transactions among the Bond Insurer and its affiliates.

The Bond Insurance Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Information of the Bond Insurer

Moody's Investors Service, Inc. rates the financial strength of the Bond Insurer "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc., rates the financial strength of the Bond Insurer "AAA."

Fitch Ratings rates the financial strength of the Bond Insurer "AAA."

Each rating of the Bond Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Bond Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. The Bond Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

As of December 31, 2005, the Bond Insurer had admitted assets of $11.0 billion (audited), total liabilities of $7.2 billion (audited), and total capital and surplus of $3.8 billion (audited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2006, the Bond Insurer had admitted assets of $10.9 billion (unaudited), total liabilities of $6.9 billion (unaudited), and total capital and surplus of $4.0 billion (unaudited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning the Bond Insurer, see the consolidated financial statements of the Bond Insurer and its subsidiaries as of December 31, 2006 and December 31, 2005 and for each of the three years in the period ended December 31, 2006, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2006 and the consolidated financial statements of the Bond Insurer and its subsidiaries as of December 31, 2006, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by the Bond Insurer with the State of New York Insurance Department are available over the Internet at the Company's web site at http://www.mbia.com and at no cost, upon request to the Bond Insurer at its principal executive offices.

Incorporation of Certain Documents by Reference

The following document filed by the Company with the Securities and Exchange Commission (the "SEC") is incorporated by reference into this Official Statement:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Any documents, including any financial statements of the Bond Insurer and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006, June 30, 2006 and September 30, 2006 are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington, D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to the Bond Insurer at its principal executive offices.

In the event the Bond Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

THE SYSTEM

General

The System dates back to 1911 and consists of approximately 510 miles of gravity sewer and wastewater pipelines and appurtenant facilities and equipment. The average current daily demand on the System is approximately 50 million of gallons per day ("mgd"). The majority of the System's sewer pipes are made of vitrified clay pipe ("VCP") and are at least 8" in diameter. The City's use of gravity sewers allows the System to operate without the use of pump stations or force mains.

The System does not include any private laterals (*i.e.*, sewers that solely serve one private property or privately owned complex). Additionally, "trunk lines" are not included in the System. The trunk lines serving the System are owned and operated by the OCSD. All sewage and wastewater discharged by the City's customers is ultimately transported through the System to OCSD's trunk lines, where it then flows to and is treated by OCSD's Sewage Treatment Plant #2. The treated effluent is then disposed of by OCSD. OCSD owns and operates two large sewage and wastewater treatment plants, serving 2.5 million people in north and central Orange County, ranking as the 6th largest wastewater discharger in the United States. OCSD submits its bills for treatment and disposal costs directly to residents and businesses through the County Assessor.

Management

The City Manager is responsible for overall management and supervision of the System. The City Manager reports to the City Council, which approves all policy matters, including major expenditures and financial commitments.

Day-to-day management, operation and maintenance of the System are overseen by the City's Department of Public Works. The Department of Public Works provides services, including, but not limited to, financial management, contract and staff oversight and management, equipment acquisition and upkeep, sewer line and wastewater cleanup and repair, sewer line and wastewater inspection and documentation, sewer spill prevention and response and regulatory reporting and documentation.

Regulation

The Santa Ana Regional Water Quality Control Board (the "Board") is the regional agency which implements the Clean Water Act for the Southern California region, including the City. In 2002, the Board required that all cities within its jurisdiction upgrade their sewer maintenance and repair programs to prevent sewer spills and failures by adopting the Sewer Waste Discharge Requirement for Orange County (the "Sewer WDR"). The Sewer WDR mandates that each city within Orange County develop and implement a Sewer Master Plan, which includes extensive studies to determine the locations and degree of existing and future sewer capacities. The increasingly stringent requirements under this permit were a primary cause for increases in the System-wide System Wastewater Collection and Disposal System Maintenance Fee (the "Sewer Fee") in 2006.

The City adopted the MPSS by resolutions adopted in December 2005 and January 2006 to comply with the Sewer WDR. The MPSS identifies existing and build-out sewer flows and sewer needs of the System. See "PLAN OF FINANCE–General." In addition, the System is subject to the National Pollution Discharge Elimination System ("NPDES") permit issued as Order No. 2002-0010 by the Board, which became effective in 1991 to control and protect the quality of urban runoff in the City from the discharge of pollutants such as sewage from the System to the water of the State. The permit allows the System to discharge storm water to the storm drain system and requires that system capacity be sized to reduce the possibilities of sewage spills, primarily in connection with storm runoff. The System is also subject to Order No. 2006-0003 of the State Water Resources Control Board (the "State Water Board"), which establishes Waste Discharge Requirements for purposes of California law. The requirements imposed by the Board and the State Water Board are substantially similar.

The City is responsible for obtaining all California Environmental Quality Act approvals as well as various construction permits and approvals for the Project. The Department of Public Works recommended approval of two projects in connection with the Phase One Improvements on April 17, 2007 and is currently reviewing proposals for six additional projects to commence in early 2008. The remaining ten improvements expected to be constructed as part of the Phase One Improvements are expected to be completed by Spring 2009. The City expects to obtain all remaining permits and approvals necessary for the Phase One Improvements in a timely fashion.

The City does not expect any of the activities required for its environmental and regulatory compliance to adversely impact System Revenues or its ability to pay the Purchase Price Installments. The City believes that it is currently in material compliance with all governmental regulations applicable to the System.

Customer Base

Apart from approximately 200 residential septic users and a few properties on City boundaries that are served by adjacent cities, the System serves the entire City, and a small unincorporated territory within Orange County located adjacent to West Anaheim (the "Service Area"). As of March 31, 2007, the population of the City included approximately 350,000 residents, with approximately 9,000 businesses and industries of various sizes. Each residential dwelling connected to the System represents a billing unit for the System. Each toilet facility (or, "Water Closet") located inside a commercial or industrial establishment, including, motels, hotels, restaurants, professional offices, club houses, places of entertainment, manufacturing plants, public and private schools, and any other organization or business whether of a service, wholesale or retail variety, including non-profit organizations, represents a billing unit to the System. Lastly, each recreational vehicle park with a Water Closet located therein and each recreational vehicle space equipped with a sewage disposal connection represents a billing unit to the System (collectively, "Billing Units").

TABLE 1

CITY OF ANAHEIM
SANITARY SEWER COLLECTION SYSTEM
Number of Billing Units[1]

Customer Class	Billing Units
Residential Users	
Residential Inside City Limits	55,206
Residential Outside City Limits	146
Residential Multi-Family	42,173
Residential Total	97,525
Commercial & Industrial Users	
Total	44,660
Total[2]	142,185

[1] As of February 28, 2007.
[2] Excludes 484 Billing Units for RV connections.

The following table shows the percentage of total billings of the System for each class of customer.

TABLE 2

CITY OF ANAHEIM
SANITARY SEWER COLLECTION SYSTEM
Percentage of Total Billings by Customer Class[1]

Customer Class	Percent of Total
Residential Users	52.2%
Commercial & Industrial Users	47.8%
Total	100%

[1] As of February 28, 2007.

The following table sets forth the top ten largest sewer accounts for Fiscal Year ended June 30, 2006.

TABLE 3

CITY OF ANAHEIM
SANITARY SEWER COLLECTION SYSTEM
Ten Largest Sewer Accounts[1]

User	Type of Business	Water Closets
Disney Resort	Hotel	3571
Anaheim Hilton	Hotel	1743
Marriott Corp	Hotel	1064
Ken Real Estate (Sheraton Anaheim Hotel)	Hotel	521
San Diego Hotel Inc. (Sheraton Park Hotel)	Hotel	513
Fairfield Inn	Hotel	481
Edmonson d\b\a MP (Howard Johnson Plaza Hotel)	Hotel	361
Tarsada Inc. (Anaheim Plaza Hotel & Suites)	Hotel	320
Anaheim Memorial Hospital	Hospital	320
Quality Hotel Inc. (Clarion Hotel)	Hotel	286
TOTAL		**9,180**

[1] For Fiscal Year Ended June 30, 2006.

System Rates

Pursuant to the Anaheim Municipal Code (the "City Code"), the City Council shall fix by resolution or ordinance, fees and charges to be collected by the City for the collection and transportation of sewage and wastewater by the System. For purposes of the City's audited financial statements, the Sewer Fee is combined with all City charges for solid waste collection and street cleaning under the general heading of "Sanitation Services." See "APPENDIX A–The City of Anaheim Audited Financial Statements."

The City's general practice has been to increase the Sewer Fee annually in accordance with the Consumer Price Index (the "CPI"). The CPI is a statistical time-series measure of a weighted average of prices of a specified set of goods and services purchased by consumers. However, the Sewer Fee is in no way limited to the increases reflected by the CPI and the City Council has increased the Sewer Fee beyond the CPI when necessary to provide funds to pay for capital improvements to the System. The rates collected pursuant to the Sewer Fee are not subject to the approval of any governmental entity other than the City Council, but are subject to the limitations imposed under the California Constitution.

The following table sets forth the monthly rate of the Sewer Fee by user category from 2002 to 2007.

TABLE 4

CITY OF ANAHEIM
SANITARY SEWER COLLECTION SYSTEM
Sewer Rate Fee By User Category[1]

	2002-03	2003-04	2004-05	2005-06	2006-07
Monthly Residential & Multi-Family-Inside City Limits	$2.39	$2.46	$2.52	$2.99	$4.49
Percentage Increase	N/A	3.00%	2.60%	19.00%	50.00%
Monthly Residential & Multi-Family-Outside City Limits	$3.59	$3.69	$3.79	$4.50	$6.75
Percentage Increase	N/A	3.00%	2.60%	19.00%	50.00%
Annual Residential & Multi-Family-Outside City Limits without Water & Electric	$43.20	$44.40	$45.55	$54.05	$81.08
Percentage Increase	N/A	3.00%	2.60%	19.00%	50.00%
Monthly Residential Water & Electric with Penalty for Non-Payment	$29.13	$29.95	$30.73	$36.46	$54.69
Percentage Increase	N/A	14.00%	2.60%	19.00%	50.00%
Monthly Commercial / Industrial / Mixed-Use per Water Closet[2]	$4.32	$4.91	$5.04	$5.98	$8.97
Percentage Increase	N/A	14.00%	2.60%	19.00%	50.00%
Monthly Recreational Vehicles with Sewage Disposal	$4.32	$4.91	$5.04	$5.98	$8.97
Percentage Increase	N/A	14.00%	2.60%	19.00%	50.00%

(1) Sewer rates were historically increased by the CPI. However, in years with increased infrastructure maintenance projects, the Sewer Fee reflected increases over the CPI.
(2) The Sewer Fee applies per Water Closet located in a commercial or industrial establishment.

Proposed Sewer Fee Increases

The City staff is preparing Sewer Fee increases expected to be considered by the City Council in June 2007, 2008 and 2009. Such proposals are expected to be approximately 3.00%, in line with the City's practice of rate increases in line with the CPI. The City is also preparing for a Sewer Fee increase expected to be considered by the City Council in June 2010. Such proposal is expected to be approximately 40.00% to provide funds to pay for additional capital improvements to the System. The City is preparing the proposed rate increases in compliance with Article XIIIC and XIIID of the California Constitution. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND SEWER RATES AND CHARGES–Articles XIIIC and XIIID of the California Constitution."

Billing and Collections

The City bills the Sewer Fee on the City utility bill, which includes sold waste collection, street cleaning, electric and water as well as sewer services. The Sewer Fee for residential customers is billed bi-monthly on the utility bill. Commercial and Industrial customers are billed monthly on the utility bill. All utility bills are due upon receipt and become past due 15 days after the initial issue date. Partial payment by a customer of the amount then owed under the Sewer Fee is applied ratably to each service represented on the utility bill.

A past due notice is mailed approximately 21 days after the issue date. A second notice is mailed to the customer approximately 19 days from the past due date notice; this notice also includes a cut off date for electric and water service. If payment is not received by 5:00 p.m. on the date of the disconnect notice, the electric or water service is disconnected. Full payment of the bill, plus any reconnection charges, is required prior to any restoration of service. Also, a deposit may be required to re-establish the credit.

Outstanding Indebtedness

As the Bonds are the initial financing for the System, there is not any outstanding indebtedness payable from System Revenues.

Historical Revenues and Expenses

The following table shows the System's revenues and expenses for Fiscal Years ended June 30, 2002 through 2006. The City's audited financial statements for Fiscal Year ended June 30, 2006 are contained in Appendix A to this Official Statement, which include the System's financial information, combined with the financial information with the solid waste collection and street cleaning charges collected by the City. See "APPENDIX A– City of Anaheim Audited Financial Statements–Basic Financial Statements."

TABLE 5

CITY OF ANAHEIM
SANITARY SEWER COLLECTION SYSTEM
Summary of Revenues and Expenses

	Fiscal Year 2001-02	Fiscal Year 2002-03	Fiscal Year 2003-04	Fiscal Year 2004-05	Fiscal Year 2005-06
Revenue (not including transfers)					
Sewer Maintenance Fee	$4,779,084	$5,187,844	$6,030,127[(1)]	$5,796,494	$6,951,978
Inter-Departmental Revenues & Intra-Government Services	13,301	34,698	13,630	25,495	8,422
Sewer Spill Collections / Fees & Permits	10,276	11,305	0	12,789	6,049
Inter-Governmental & OCSD Revenues	29,412	0	74,573	1,182,821	1,159,190
Recovery of Damages & Reimbursement	49,006	71,876	144	12	120,750
Interest Income	83,673	84,942	86,211	88,157	125,534
Transfers to General Fund	(119,544)	(196,410)	(205,748)	(219,202)	(225,779)
Total	**$4,845,208**	**$5,194,255**	**$5,998,937**	**$6,886,566**	**$8,146,144**
Operating Expenses					
Personnel	$844,992	$1,042,743	$1,114,510	$1,243,531	$1,221,794
Other Operating	1,598,811	1,342,637	1,356,447	1,473,834	1,768,593
Capital (Infrastructure Maintenance)	1,022,575	1,798,286	1,429,697	4,016,873	4,476,501
Capital (Equipment)	20,632	0	145	1,159	55,219
Total	**$3,487,010**	**$4,183,666**	**$3,900,799**	**$6,735,397**	**$7,522,107**
NET OPERATING INCOME	1,358,198	1,010,589	2,098,138	151,169	624,037
Beginning Balance from Previous Fiscal Year	2,702,314	4,060,512	5,071,101	7,169,239	7,320,408
Plus Net Operating Income	1,358,198	1,010,589	2,098,138	151,169	624,037
Ending Balance for Fiscal Year Ending June 30, 2006	4,060,512	5,071,101	7,169,239	7,320,408	7,944,445

(1) Includes a one time adjustment of $411,639 for recorded unbilled revenue.

Comparative Service Charges

The following table compares the System residential rate to the residential sewer rates of various entities within Orange County by assuming a constant rate of monthly sewer discharge. The current monthly Sewer Fee for each residential unit in the City is $4.49.

TABLE 6

Comparison of Estimated Current Monthly Sewer Rates
Monthly Residential for Sanitary Sewer Collection[(1)]

Agency/City	Monthly Residential Rate
Villa Park	$16.15
Seal Beach	15.80
Newport Beach	12.41
Sunset Beach	12.40
Fullerton	10.69
Irvine Ranch Water District	10.00
Buena Park	8.54
Huntington Beach	6.75
Midway Cities	6.75
Placentia	6.16
Garden Grove	5.90
La Palma	5.63
Anaheim	**4.49**
La Habra	4.00
Yorba Linda Water District	3.50
Santa Ana	3.31
Costa Mesa Sanitary District	2.81
Orange	.76
Average[(2)]	**$7.74**

(1) As of January 1, 2007.
(2) City's sewer rates not included for purposes of calculating average.

CERTAIN RISK FACTORS

The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and the order of presentation does not necessarily reflect the relative importance of the various risks.

Payment of principal of and interest on the Bonds depends primarily upon the City's payments of the Purchase Price Installments pursuant to the Agreement. Some of the events which could prevent the City from making the Purchase Price Installments are set forth below.

General

The payment of principal of and interest on the Bonds is secured solely by a pledge of the Trust Estate pursuant to the Indenture, which will be funded primarily from the Purchase Price Installments from the System Net Revenues in accordance with the Agreement. The realization of the System Net Revenues is subject to, among other things, the capabilities of management of the City, the ability of the City to provide sewer services to its users, and the ability of the City to establish and maintain sewer fees and charges sufficient to provide the required debt service coverage as well as pay for Operation and Maintenance Expenses.

Among other matters, weather, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of System Net Revenues realized by the City.

Regulation of the System

The collection and treatment of sewage and wastewater is regulated, to a large extent, by the federal government and the State. Standards set forth in federal and state law control the operations of the System. In the event that the federal government, acting through the Environmental Protection Agency, or the State, acting through the Department of Health Services, or additional federal or state legislation, should impose stricter discharge and collection standards upon the System, the City's expenses could increase accordingly and rates and fees would have to be increased to offset those expenses. It is not possible to predict the direction which federal or State regulation will take with respect to discharge and collection standards, although it is likely that both will impose more stringent standards with attendant higher costs.

Earthquakes, Floods and Other Natural Disasters

Earthquakes, floods or other natural disasters could interrupt operation of the System and cause increased costs and thereby interrupt the ability of the City to realize System Net Revenues. The City is not obligated under the Agreement to have earthquake or flood insurance.

System Demand

There can be no assurance that the demand for sewer services will continue as described in this Official Statement. Reduction in levels of demand could require an increase in rates or charges in order to comply with the covenants to fix rates and charges of the System.

System Expenses

There can be no assurance that the City's expenses will be consistent with the descriptions in this Official Statement. Increases in expenses could require a significant increase in rates or fees in order to pay for City sewer projects and comply with the rate covenant.

Rate Process

The passage of Proposition 218 by the California electorate potentially affects the City's ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition under Proposition 218. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND SEWER RATES AND CHARGES–Articles XIIIC and XIIID of the California Constitution."

Limitations on Remedies and Bankruptcy

The ability of the City to increase sewer services fees and to comply with its covenants under the Agreement and to generate System Net Revenues sufficient to pay Purchase Price Installments may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND SEWER RATES AND CHARGES – Articles XIIIC and XIIID of the California Constitution." Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on remedies contained in the Indenture and Agreement, the rights and obligations under the Bonds, the Indenture and the Agreement may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against governmental entities in the State. Various legal opinions to be delivered concurrently with the issuance of the Bonds will be so qualified. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix F. In the event the Authority fails to comply with its covenants under the Indenture or to pay principal of or interest on the Bonds, or the City fails to comply with its covenants under the Agreement, there can be no assurance that available remedies will be adequate to fully protect the interests of the Owners of the Bonds.

The enforcement of the remedies provided in the Indenture and the Agreement could prove both expensive and time consuming. In addition, the rights and remedies provided in the Indenture and the Agreement may be limited by and are subject to provisions of the federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors' rights. If the Authority were to file a petition under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), the Owners and the Trustee could be prohibited or severely restricted from taking any steps to enforce their rights under the Indenture and the Agreement, respectively.

Special Obligations

The Bonds are special obligations of the Authority and are not secured by a legal or equitable pledge or charge or lien upon any property of the Authority or any of its income or receipts, except the Trust Estate, which pledge is subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The obligation of the Authority to make debt service payments on the Bonds does not constitute an obligation of the Authority to levy or pledge any form of taxation.

The City is obligated under the Agreement to make payments to the Authority solely from the System Net Revenues. There is no assurance that the City can succeed in operating the System such that the System Net Revenues will continue to be realized as described in this Official Statement.

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

CONSTITUTIONAL LIMITATIONS ON TAXES AND SEWER RATES AND CHARGES

Article XIIIA of the California Constitution

Section 1(a) of Article XIIIA of the California Constitution limits the maximum ad valorem tax on real property to 1% of full cash value (as defined in Section 2 of Article XIIIA), to be collected by each county and apportioned among the county and other public agencies and funds according to law. Section 1(b) of Article XIIIA provides that the 1% limitation does not apply to ad valorem taxes to pay interest or redemption charges on (a) indebtedness approved by the voters prior to July 1, 1978 or (b) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by the necessary votes cast by the voters voting on the proposition. Section 2 of Article XIIIA defines "full cash value" to mean "the County Assessor's valuation of real property as shown on the 1975/76 tax bill under full cash value or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year or to reflect a reduction in the consumer price index or comparable data for the area under the taxing jurisdiction, or reduced in the event of declining property values caused by substantial damage, destruction, or other factors. Legislation enacted by the State Legislature to implement Article XIIIA provides that notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above.

On June 18, 1992, following a number of challenges to the provisions of Article XIIIA, the United States Supreme Court upheld the decision in Nordlinger v. Hahn, 225 Cal. App. 3d 1259, a case involving residential property taxation decided by the State Court of Appeals. The 8 to 1 majority held that the Article XIIIA assessment method serves a rational state interest by providing certainty regarding property taxes to homeowners and therefore does not violate provisions of the Equal Protection Clause codified in the 14th Amendment of the U.S. Constitution.

The effect of Article XIIIA on the City's finances, then, has been to restrict ad valorem tax revenues for general purposes to the statutory allocation of the 1% levy while leaving intact the power to levy ad valorem taxes in whatever rate or amount may be required to pay debt service on its general obligation bonds. The City cannot predict whether any further challenges to the State's present system of property tax assessment will be made, or what the outcome of impact on any of the City of any such challenge might be.

Article XIIIB of the California Constitution

An initiative amendment to the California Constitution (Article XIIIB) was approved by the California electorate on November 6, 1979. This amendment establishes limits on certain annual appropriations of State and local government entities. Initially, the limits are based generally on appropriations for the Fiscal Year 1978-79 with future adjustments permitted for changes in the cost of living, population and certain other factors. The definition of appropriations subject to limitation is stated so as to exclude, among other things, (1) appropriations of proceeds received by a government entity from user fees to the extent such proceeds do not exceed the costs reasonably borne by such entity in providing the product or service, (2) the appropriations of any special district "which did not as of the 1977-78 fiscal year levy an ad valorem tax on property in excess of 12½ cents per $100 of assessed value", and (3) "appropriations required to pay the cost of interest and redemption charges, including the funding of any reserve or sinking fund required in connection therewith, on indebtedness existing or legally authorized as of January 1, 1979, or a bonded indebtedness thereafter approved . . ." by vote of the electors of the issuing entity. In addition, the amendment provides that nothing in it "will be construed to impair the ability of the State or any local government to meet its obligations with respect to existing or future bonded indebtedness."

The City is of the opinion that its sewer fees and charges do not exceed the costs it reasonably bears in providing such services and therefore are not subject to the limits of Article XIIIB.

Articles XIIIC and XIIID of the California Constitution

Proposition 218, a State ballot initiative known as the "Right to Vote on Taxes Act," was approved by the voters on November 5, 1996. The initiative added Articles XIIIC and XIIID to the California Constitution, creating additional requirements for the imposition by most local governments of "general taxes," "special taxes," "assessments," "fees," and "charges." Proposition 218 became effective, pursuant to its terms, as of November 6, 1996, although compliance with some of its provisions was deferred until July 1, 1997, and certain of its provisions purport to apply to any tax imposed for general governmental purposes (i.e., "general taxes") imposed, extended or increased on or after January 1, 1995 and prior to November 6, 1996.

Article XIIID imposes substantive and procedural requirements on the imposition, extension or increase of any "fee" or "charge" subject to its provisions. A "fee" or "charge" subject to Article XIIID includes any levy, other than an ad valorem tax, special tax or assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership. Article XIIID prohibits, among other things, the imposition of any proposed fee or charge, and, possibly, the increase of any existing fee or charge, in the event written protests against the proposed fee or charge are presented at a required public hearing on the fee or charge by a majority of owners of the parcels upon which the fee or charge is to be imposed. Except for fees and charges for water, sewer and refuse collection services, the approval of a majority of the property owners subject to the fee or charge, or at the option of the agency, by a two-thirds vote of the electorate residing in the affected area, is required within 45 days following the public hearing on any such proposed new or increased fee or charge.

While the term "property-related" fee is not defined in Article XIIID, the California courts have given such term and expansive definition in which the City understands to include sewer fees such as the Sewer Fee. Based upon the California Second District Court of Appeal decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (2000), which was denied review by the California Supreme Court, it was generally believed that Article XIIID did not apply to charges for metered water, which had been held to be commodity charges related to consumption of the service, not property ownership. In a decision rendered in February 2004, the California Supreme Court in *Richmond et al. v. Shasta Community Services District* (S105078) upheld a Third District Court of Appeal decision that water connection fees were not property-related fees or charges subject to Article XIIID while at the same time stating in dicta that fees for ongoing water service through an existing connection were property related fees and charges. In October 2004, the California Supreme Court granted review of the decision of the Fourth District Court of Appeal in *Bighorn-Desert View Water Agency v. Beringson*, 120 Cal. App. 4th 891 (2004), in which the appellate court had relied on *Howard Jarvis Taxpayers Association v. City of Los Angeles* and rejected the Supreme Court's dicta in *Richmond et al. v. Shasta Community Services District*. On March 23, 2005, the California Fifth District Court of Appeal held that an "in lieu" fee which is payable to a city's general fund from its water utility and which is included in the city's water rate structure was invalid. In reaching its decision, the court concluded that the city's water rates were "property related" fees, governed by the limitations of Article XIIID. The California Supreme Court denied review of this case. On July 24, 2006, the Supreme Court ruled in *Bighorn-Desert View Water Agency v. Verjil*. In dicta, the Court repeated the Supreme Court's previous dicta in *Richmond et al. v. Shasta Community Services District* that fees and charges for ongoing water service through an existing connection were property related fees and charges under Article XIIID.

The City expects to follow the majority protest procedures set forth in Article XIIID in imposing new sewer fees and charges. Nevertheless, it remains unclear what effect, if any, Article XIIID will have on the ability of the City to charge rates to its retail customers greater than those which existed on November 5, 1996, and the potential impact such limitations will have on the City's System Net Revenues.

Article XIIID also provides that "standby charges" are considered "assessments" and must follow the procedures required for "assessments" under Article XIIID and imposes several procedural requirements for the imposition of any assessment, which may include (1) various notice requirements, including the requirement to mail a ballot to owners of the affected property; (2) the substitution of a property owner ballot procedure for the traditional written protest procedure, and providing that "majority protest" exists when ballots (weighted according to proportional financial obligation) submitted in opposition exceed ballots in favor of the assessments; and (3) the requirement that the levying entity "separate the general benefits from the special benefits conferred on a parcel" of land. Article XIIID also precludes standby charges for services that are not immediately available to the parcel being charged.

Article XIIID provides that all existing, new or increased assessments are to comply with its provisions beginning July 1, 1997. Existing assessments imposed on or before November 5, 1996, and imposed exclusively to finance sewer capital costs or maintenance and operations expenses are exempted from some of the provisions of Article XIIID applicable to assessments. Such exemptions do not apply to increases in existing assessments.

Article XIIIC extends the people's initiative power to reduce or repeal previously authorized local taxes, assessments, fees and charges. This extension of the initiative power is not limited by the terms of Article XIIIC to fees, taxes, assessment fees and charges imposed after November 6, 1996 and absent other authority could result in retroactive reduction in any existing taxes, assessments, fees or charges. It is not clear what scope the courts will give the initiative provisions of Article XIIIC.

No assurance may be given that Articles XIIIC and XIIID will not have a material adverse impact on the City's System Net Revenues.

Articles XIIIA, XIIIB, XIIIC and XIIID were adopted pursuant to California's constitutional initiative process. From time to time other initiative measures could be adopted by California voters, placing additional limitations on the ability of the City to increase revenues.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel") to the Authority, based on an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of California personal income taxes. Bond Counsel expects to deliver an opinion at the time of issuance of the Bonds substantially in the form set forth in Appendix F hereto, subject to the matters discussed below.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Authority or the Beneficial Owners to incur significant expense.

CERTAIN LEGAL MATTERS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. A complete copy of the proposed form of the opinion to be delivered by Bond Counsel is attached hereto as "APPENDIX F–Proposed Form of Opinion of Bond Counsel." Certain legal matters will be passed upon for the Authority and for the City by the City Attorney. Bond Counsel takes no responsibility for the accuracy, completeness or fairness of this Official Statement.

CONTINUING DISCLOSURE AGREEMENT

The City has covenanted, for the benefit of the Owners and beneficial owners of the Bonds, to provide certain financial information and operating data relating to the City and the Bonds (the "Annual Report") by not later than the December 31 following the end of each fiscal year, commencing with the report for Fiscal Year 2006-07 and to provide notices of the occurrence of certain enumerated events, if material. The City will file, or cause to be filed, the Annual Report with each Nationally Recognized Municipal Securities Information Repository, and with the appropriate State information depository, if any. The City will file, or cause to be filed, the notices of material events with the Municipal Securities Rulemaking Board (and with the appropriate State information depository, if any). The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth below in "APPENDIX E–Form of Continuing Disclosure Agreement." These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5).

The City has never failed to comply in all material respects with its previous continuing disclosure undertakings under SEC Rule 15c2-12(b)(5).

ABSENCE OF LITIGATION

To the best knowledge of the Authority and the City, there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against the Authority to restrain or enjoin the authorization, execution or delivery of the Bonds, the pledge of the Trust Estate or the collection of the payments to be made pursuant to the Indenture, the obligation of the City to pay the Purchase Price Installments from the System Net Revenues made pursuant to the Agreement, or in any way contesting or affecting the validity of the Bonds, the Indenture, the Agreement or the agreement for the sale of the Bonds.

In addition, there is no litigation pending or threatened against the Authority, or the City which, in the opinion of the City Attorney of the City, would materially adversely affect the System or the sources of payment for the Bonds.

RATINGS

Fitch Ratings ("Fitch") and Standard & Poor's Rating Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") have assigned the Bonds the ratings of "AAA" and "AAA," respectively, conditioned on the issuance of the Bond Insurance Policy by the Bond Insurer. Additionally, Fitch has assigned the Bonds an underlying rating of "AA–" and S&P has assigned the Bonds an underlying rating of "AA" without consideration of the issuance of the Bond Insurance Policy. Such ratings reflect only the views of such organizations and are not a recommendation to buy, sell, or hold the Bonds. Explanations of the significance of the ratings may be obtained only from the respective organizations assigning such rating. There is no assurance that the ratings will remain in effect for any given period of time or that any such rating will not be revised, either downward, or upward, or withdrawn entirely, but the applicable rating agency, if, in its judgment, circumstances so warrant. The Authority and City undertake no responsibility to bring to the attention of the Owners of the Bonds any downward revision or withdrawal of any such rating. Any such downward revision or withdrawal could have an adverse effect on the market price of the Bonds. Maintenance of ratings will require periodic review of current financial data and other updating information by assigning agencies.

UNDERWRITING

The Bonds are being purchased by E. J. De La Rosa & Co., Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Bonds, subject to certain conditions, at a price equal to $49,087,913.75 (representing the principal amount of the Bonds, less Underwriter's discount of $141,698.70 and plus net original issue premium of $1,519,612.45). The Underwriter is committed to purchase all of the Bonds if any are purchased.

The Bonds are offered for sale at the initial prices stated on the cover page of this Official Statement, which may be changed from time to time by the Underwriter. The Bonds may be offered and sold to certain dealers at prices lower than the public offering prices.

AUDITED FINANCIAL STATEMENTS

The City's audited financial statements include information regarding certain funds of the City, including its General Fund, which are not pledged to make Purchase Price Installments or to otherwise pay debt service on the Bonds. Additionally, the City has not requested nor did the City obtain permission from KPMG LLP (the "Auditor") to include the audited financial statements and the report thereon as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the City. In addition, the Auditor has not reviewed this Official Statement. See "APPENDIX A–City of Anaheim Audited Financial Statements."

MISCELLANEOUS

References are made herein to certain documents and statutes which are brief summaries thereof which do not purport to be complete or definitive and reference is made to such documents and statutes for full and complete statements of the contents thereof. Copies of the Indenture, the Agreement and other documents referred to herein may be obtained from the Trustee or from the Authority.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or owners of any of the Bonds.

The execution and delivery of this Official Statement has been duly authorized by the Authority.

ANAHEIM PUBLIC FINANCING AUTHORITY

By: /s/ Elisa Stipkovich
Executive Director

APPENDIX A

CITY OF ANAHEIM AUDITED FINANCIAL STATEMENTS

The Financial Statements include information regarding certain funds of the City, including its General Fund, which are not pledged to make Purchase Price Installments or to otherwise pay debt service on the Bonds. Additionally, the City has not requested nor did the City obtain permission from KPMG LLP (the "Auditor") to include the audited financial statements and the report thereon as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the City. In addition, the Auditor has not reviewed this Official Statement.

[THIS PAGE INTENTIONALLY LEFT BLANK]

KPMG

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

Independent Auditors' Report

The Honorable Mayor and City Council of the
City of Anaheim, CA:

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Anaheim, California (City) as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions of these financial statements based on our audit.

We conducted our audit 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 Controller 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 of material misstatement. An audit included 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 City'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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Anaheim, California, as of June 30, 2006, and the respective changes in the financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Housing Authority Funds for the year then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis on pages 11 through 19 and the pension plan supplementary information on page 59 are not a required part of the basic financial statements but are supplementary information required by the U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiring 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 8, 2006 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 agreement, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in accessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining individual fund statements and schedules as listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The combining individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

December 8, 2006

Management's Discussion and Analysis

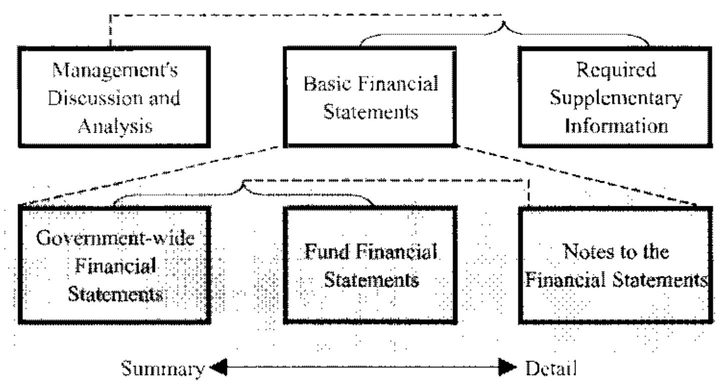
(Unaudited)

As management of the City of Anaheim (City), we offer readers of the City's basic financial statements this narrative overview and analysis of the financial activities of the City as of and for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report and the City's basic financial statements in the financial section of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

COMPONENTS OF THE ANNUAL FINANCIAL REPORT



Government-wide financial statements. The government-wide financial statements are comprised of the Statement of Net Assets and the Statement of Activities. These two statements are designed to provide readers with a broad overview of the City's finances utilizing the full accrual method of accounting, in a manner similar to a private-sector business. Under the full accrual method of accounting, transactions are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, assets, liabilities, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected revenues and accrued but unpaid interest expense).

The Statement of Net Assets presents information on all of the City's assets and liabilities, including capital assets and long-term liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. Functional activities are highlighted in this statement, whereby direct and indirect functional costs are shown net of related program revenue. This statement shows the extent to which the various functions depend on general taxes and non-program revenues for support.

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, police, fire, community development, planning, public works, community services, public utilities (street lighting), convention, sports and entertainment (Visitor and Convention Bureau and the Arrowhead Pond of Anaheim), and interest on related long-term debt. The business-type activities of the City include an electric and water utility, solid waste and sanitation, golf courses, and convention, sports and entertainment venues (Anaheim Convention Center, Angel Stadium of Anaheim, and The Grove of Anaheim) operations.

The government-wide financial statements include not only the City itself, but also the Anaheim Housing Authority, Anaheim Redevelopment Agency, Community Center Authority, Anaheim Public Improvement Corporation, and Anaheim Public Financing Authority. Although these entities are legally separate, they function for all practical purposes as a part of the City, and therefore have been included as blended component units as an integral part of the primary government.

The government-wide financial statements can be found on pages 21-23 of this report.

Fund financial statements. The fund financial statements focus on current available resources and are organized and operated on the basis of funds, each of which is defined as a fiscal and accounting entity with a self-balancing set of accounts, established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements utilize the modified accrual basis of accounting, which focuses on near-term inflow and outflow of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 19 individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund and Housing Authority Special Revenue Fund, both of which are considered to be major funds. Data for the other 17 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of supplementary combining statements on pages 65-74 of this report.

The City adopts an annually appropriated budget for all governmental and proprietary funds. Budgetary comparison statements for the General Fund and the major special revenue fund (Housing Authority) are required to be presented and are included in the basic financial statements on pages 29-30 of this report. Additionally, budgetary schedules for the other governmental funds have been provided to demonstrate compliance with the budget and can be found as part of other supplementary schedules on pages 79-86 of this report.

The governmental funds financial statements can be found on pages 25-28 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses its enterprise funds to account for its electric and water utility, solid waste and sanitation, golf courses, and convention, sports and entertainment venues operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its general benefits and insurance, motorized equipment, duplicating and printing, information services, and office maintenance and equipment operations. Because these services predominantly benefit governmental rather than business-type functions, they have been included with governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for all of the enterprise funds, which are considered to be major funds of the City. Conversely, all of the internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The proprietary funds financial statements can be found on pages 31-35 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs.

The fiduciary fund financial statements can be found on page 36 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 37-64 of this report.

Other supplementary information. In addition to the basic financial statements and accompanying notes, this report also presents combining individual fund statements referred to earlier in connection with nonmajor governmental funds and internal service funds. Also included are the budgetary comparison Schedules of Revenues, Expenditures and Changes in Fund Balances for all nonmajor special revenue funds, all debt service funds, and all capital projects funds. These statements and schedules can be found on pages 79-86 of this report.

FINANCIAL HIGHLIGHTS (Amounts in thousands)

- The City's net assets increased as a result of this year's operations. Net assets of the City's governmental activities increased $61,972 (10%) and business-type activities net assets decreased $43,091 (5%).

- At the close of the current fiscal year, the City's governmental funds reported total ending fund balances of $216,749, an increase of $11,280. 32% of ending fund balances, $70,400, is available for spending at the City's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved undesignated fund balance for the General Fund was $44,075, or 20% of the total General Fund expenditures.
- The City's total long-term liabilities decreased by $11,663 (less than 1%) during the current fiscal year.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

NET ASSETS
JUNE 30, 2006 AND 2005

	Governmental Activities		Business-type Activities		Total Government	
	2006	2005	2006	2005	2006	2005
Current and other assets	$ 470,713	$ 449,054	$ 595,363	$ 635,031	$1,066,076	$1,084,085
Capital assets	1,231,832	1,177,304	1,172,048	1,172,394	2,403,880	2,349,698
Total assets	1,702,545	1,626,358	1,767,411	1,807,425	3,469,956	3,433,783
Other liabilities	80,914	74,517	103,544	80,986	184,458	155,503
Long-term liabilities outstanding	914,928	907,110	751,405	770,886	1,666,333	1,677,996
Total liabilities	995,842	981,627	854,949	851,872	1,850,791	1,833,499
Net assets:						
Invested in capital assets, net of related debt	660,671	605,346	615,253	645,802	1,275,924	1,251,148
Restricted	107,400	95,459	81,524	80,700	188,924	176,159
Unrestricted (deficit)	(61,368)	(56,074)	215,685	229,051	154,317	172,977
Total net assets	$ 706,703	$ 644,731	$ 912,462	$ 955,553	$1,619,165	$1,600,284

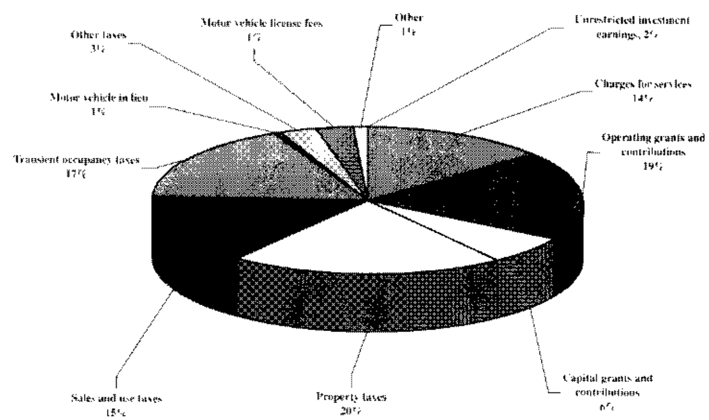
By far the largest portion of the City's net assets (79%) reflects its investment in capital assets (e.g. land, buildings, utility plant, machinery, equipment, and infrastructure), net of any related debt used to acquire those assets that is still outstanding. The City uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (12%) represents resources that are subject to external restriction on how they may be used. The remaining unrestricted net assets of $154,317 may be used to meet the City's ongoing obligations to citizens and creditors. Of the unrestricted net assets, $215,685 is attributable to business-type activities, which offsets the governmental activities unrestricted net deficit of $61,368. The Anaheim Redevelopment Agency (Redevelopment Agency), a blended component unit of the City, represents $61,407 of the deficit in unrestricted net assets. The Redevelopment Agency was established for the purpose of promoting economic revitalization and eliminating blight within the designated project area of the City. Often these activities do not result in residual assets, but rather underwrite the cost of a development activity deemed beneficial in meeting the Redevelopment Agency's objectives. The resulting Statement of Net Assets reflects the debt obligation to be repaid through future tax revenues, without an offsetting asset. While this is a routine function of such an entity, when blended with the City, its deficit of unrestricted net assets causes the governmental activities to report a consolidated deficit position.

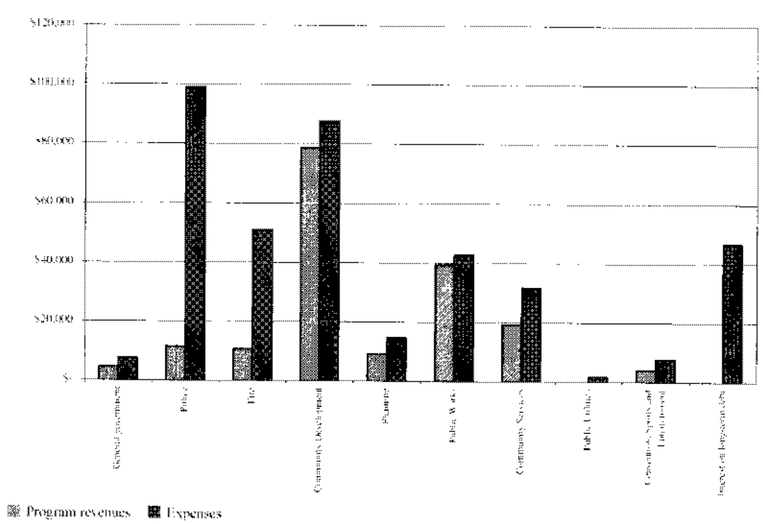
CHANGE IN NET ASSETS
YEARS ENDED JUNE 30, 2006 AND 2005

	Governmental Activities		Business-type Activities		Total Government	
	2006	2005	2006	2005	2006	2005
REVENUES						
Program revenues:						
Charges for services	$ 62,031	$ 42,581	$452,261	$407,453	$ 514,292	$ 450,034
Operating grants and contributions	85,484	77,870	2,556	2,473	88,040	80,343
Capital grants and contributions	29,004	20,906	5,749	11,513	34,753	32,419
General revenues:						
Taxes:						
Property taxes	90,299	78,620			90,299	78,620
Sales and use taxes	68,024	61,779			68,024	61,779
Transient occupancy taxes	75,979	67,141			75,979	67,141
Motor vehicle license fees	2,595	2,113			2,595	2,113
Other taxes	12,357	10,175			12,357	10,175
Unrestricted investment earnings	12,346	8,071	16,850	16,592	29,196	24,663
Other	5,058	1,499		418	5,058	1,917
Gain (loss) on sale of capital assets	20	(722)	(264)	(1,164)	(244)	(1,886)
Total revenues	443,197	370,033	477,152	437,285	920,349	807,318
EXPENSES						
Program activities:						
Governmental activities:						
General government	7,394	8,221			7,394	8,221
Police	98,967	91,713			98,967	91,713
Fire	50,957	46,596			50,957	46,596
Community Development	87,542	83,183			87,542	83,183
Planning	14,493	13,206			14,493	13,206
Public Works	42,734	39,463			42,734	39,463
Community Services	31,712	28,314			31,712	28,314
Public Utilities	1,704	1,557			1,704	1,557
Convention, Sports and Entertainment	7,595	7,703			7,595	7,703
Interest on long-term debt	46,571	47,105			46,571	47,105
Business-type activities:						
Electric Utility			365,277	274,622	365,277	274,622
Water Utility			47,225	41,313	47,225	41,313
Sanitation			47,163	45,429	47,163	45,429
Golf Courses			4,281	4,062	4,281	4,062
Convention, Sports and Entertainment Venues			47,853	46,225	47,853	46,225
Total expenses	389,669	367,061	511,799	411,651	901,468	778,712
Excess (deficiency) before transfers	53,528	2,972	(34,647)	25,634	18,881	28,606
Transfers in (out)	8,444	12,400	(8,444)	(12,400)		
Increase (Decrease) in net assets	61,972	15,372	(43,091)	13,234	18,881	28,606
Net assets at beginning of year	644,731	629,359	955,553	942,319	1,600,284	1,571,678
Net assets at end of year	$706,703	$644,731	$912,462	$955,553	$1,619,165	$1,600,284

REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES



EXPENSES AND PROGRAM REVENUES - GOVERNMENTAL ACTIVITIES



Governmental activities. The most significant revenues of the governmental activities are general taxes (56%), which include property taxes (20%), sales and use taxes (15%), transient occupancy taxes (17%), other taxes (3%), and motor vehicle license fees (VLF) (1%). Program revenues are 40% of the total revenues of the governmental activities, which include charges for services (14%), operating grants and contributions (19%), and capital grants and contributions (7%).

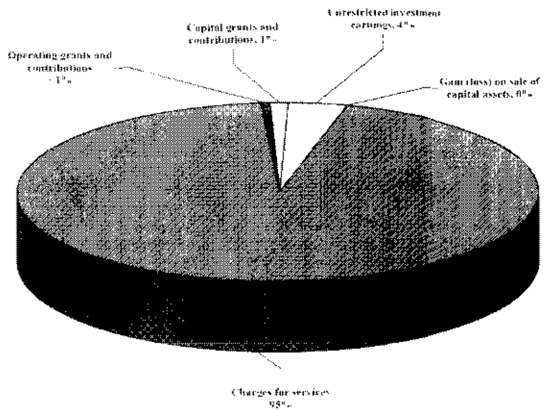
Public safety (police and fire) expenses are most significant (38%) of all governmental activities expenses, followed by community development (22%), interest on long-term debt (12%), public works (11%), and various other programs (16%). Included in these amounts is depreciation expense, which is 8% of the total expenses for governmental activities.

Governmental activities revenues increased $73,164 (20%) in the current fiscal year. Charges for services increased $19,450 (46%) primarily due to an increase in developer fees of $17,100, of which $15,300 relates to the Platinum Triangle. Operating grants increased $7,614 (10%) primarily due to increases of $4,500 Housing Counseling Agency Act funds and $3,100 in Section 8 Housing Assistance funds. Capital grants increased $8,098 (39%) primarily due to the receipt of $2,100 of State Library Bond Act funding, $1,900 from the Housing Counseling Agency Act, and $1,700 from various grants for the construction of the West Anaheim Community Center and Police Substation. The overall strength in the economy, increased property assessments, and Disneyland's 50th anniversary celebration contributed to the increases in property taxes, $11,679 (15%), sales and use taxes, $6,245 (10%), and transient occupancy taxes (TOT), $8,838 (13%).

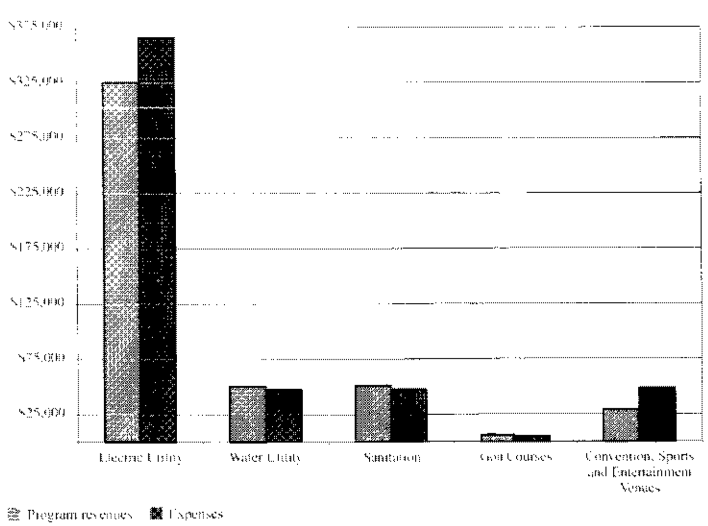
Governmental activities expenses increased $22,608 (6%) in the current fiscal year. The most significant change in program expenses was the increase in police expenses of $7,254 (8%) primarily due to $6,400 used for additional officers and higher salaries and benefits expenses. Fire increased $4,361 (9%) due to higher salary and benefit expenses. In addition, community services increased $3,398 (12%) due to a $1,500 increase in salaries and benefits along with $1,065 in expenses related to the increased expenses for park and facilities maintenance and operations. These increases were partially offset by various decreases in other programs expenses.

There were no other programs with significant or unusual changes.

REVENUES BY SOURCE - BUSINESS-TYPE ACTIVITIES



EXPENSES AND PROGRAM REVENUES - BUSINESS-TYPE ACTIVITIES



Business-type activities. Business type activities reduced the City's net assets by $43,091. Key elements of this change are as follows:

Charges for services of $452,261 increased $44,808 (11%). The most significant increase in charges for services is due to the Electric Utility increases of $19,260 in wholesale revenues, $16,601 in surplus natural gas sales, and an increase of $1,818 in transmission revenues. In addition, the water utility had a $3,272 increase in revenues from the sale of water.

Capital grants and contributions of $5,749 decreased $5,764 (50%). This decrease was primarily due to the Convention, Sports, and Entertainment Venues decrease of $7,950 (96%) primarily due to not repeating last year's receipt of one time grant revenues. This decrease was offset by water utilities $1,859 (133%) increase in capital grants due to more reimbursable work requested by developers.

Total expenses of $511,799 increased $100,148 (24%). The most significant change in program expenses is the increase in the Electric Utility of $90,655 (33%). This is primarily due to the $47,010 increase in purchased power costs, a $2,582 increase in fuel and generation expenses, and an acceleration of depreciation expense regarding the SONGS capital assets in the amount of $42,002. In addition, the water utility program expenses increased $5,912 (14%) primarily due to a $4,284 increase in purchased water costs and $1,224 increase in treatment and pumping costs.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported total ending fund balances of $216,749, an increase of $11,280 in comparison with the prior fiscal year. 33% of the ending fund balances, $70,400, constituted unreserved fund balances, which are considered available for appropriation. The remainder of the fund balances is reserved to indicate that it is not available for new spending because it has already been committed 1) to pay debt service ($43,618), 2) related to land held for resale by RDA ($53,037), and 3) to offset non-current financial resources that are not anticipated to be liquidated in the near term ($49,695).

General Fund revenues were $20,630 (9%) greater than in the prior fiscal year primarily due to the increases in property taxes, sales taxes and in transient occupancy taxes as discussed in the government-wide financial analysis of governmental activities. Expenditures increased $19,482 (10%). This increase is primarily found in police, $9,896 (12%), fire, $2,844 (6%), and community services, $2,655 (11%) as discussed in the government-wide financial analysis of governmental activities. There were no other significant expenditure variances.

The Housing Authority revenues and other financing sources increased by $17,799 (32%). This increase resulted from the receipt of $1.9M in state BEGIN and CalHOME funding for first-time homebuyer loans; an increase in HOME program revenues for the purchase of the Cherry Orchard and OCTA properties ($4.6M), and an increase in Section 8 program revenues for rental assistance ($3.1M), the sale of Hermosa Village Phase 3 improvements (apartment buildings) ($2.6M), and other financing sources for property acquisition in Hermosa Village Phase 3, from the Redevelopment Housing Set-Aside ($5.6M). Expenditures and other financing uses increased by $19,706 (35%). This increase resulted from expenditures for properties acquired for Hermosa Village Phase 3 ($8.7M); an increase in expenditures related to more units leased and increased costs in the Section 8 rental assistance program ($2.3M), an increase in second mortgage loans in the HELP, BEGIN and CalHOME programs ($2.1M), and an increase in other financing uses related to transfers from HOME to Redevelopment Housing Set-Aside to acquire the Lincoln Inn (Cherry Orchard) and OCTA remnant sites ($5.6M).

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The Electric Utility's fund net assets decreased $41,514 (11%) in the current fiscal year. The most significant factors of the changes in fund net assets are discussed in the government-wide financial analysis of business-type activities.

The Water Utility's fund net assets increased $1,629 (less than 1%) in the current year. There were no significant or unusual changes.

Sanitation's fund net assets increased $1,743 (6%) in the current fiscal year. There were no significant or unusual changes.

The Golf Courses' fund net assets increased $1,067 (16%) in the current year. There were no significant or unusual changes. This increase resulted primarily from a $1,195 capital contribution from community services.

The Convention, Sports and Entertainment Venues fund net assets decreased $5,459 (2%) in the current year. There were no significant or unusual changes.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year the original budget was amended to increase appropriations by $8,052 (4%). Following are the main components of the increase:

- $2,619 for carryovers of prior year expenditures.
- $300 for additional public works expenditures for labor and architectural services. This increase was offset by an increase in revenue related to the planning activities.
- $461 for additional planning expenditures for contracted services related to increased in demand for planning services.

- $272 for increased payment to the Visitors and Convention Bureau due to the increase in TOT revenues.
- $106 for additional community development expenditures. $100 for the Homeless and Motel Resident Services Coordinator and $6 for the California Rivers and Mountains Conservancy Grant.
- $1,150 for additional community services expenditures. $266 for the West Anaheim Youth Center and $884 for the Haskett library.
- $500 for additional police expenditures for a new underground storage tank.
- $2,644 for additional fire expenditures. $1,700 for a new fire truck, $876 for overtime related to mutual aid provided to other entities, $68 for other additional legal and equipment costs.

The increase in appropriation was to be funded from additional revenues of $3,783, primarily from property taxes, sales taxes, and transient occupancy taxes, and the remaining $4,269 from fund balance.

General Fund revenues of $243,768 exceeded budgeted revenues of $229,964 by $13,804 (6%). The excess was primarily due to property taxes ($6,721), sales and use taxes ($5,211) and transient occupancy taxes ($5,211) due to the overall strength in the economy.

General Fund expenditures were less than budgeted. Of the total appropriations of $230,842, approximately 6%, or $13,761, went unspent. There were no significant variances.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS
(net of accumulated depreciation)
JUNE 30, 2006 AND 2005

	Governmental Activities		Business-type Activities		Total Government	
	2006	2005	2006	2005	2006	2005
Land	$ 521,904	$ 495,006	$ 37,593	$ 36,281	$ 559,497	$ 531,287
Construction in progress	46,982	46,105	76,745	27,951	123,727	74,056
Nuclear fuel at amortized cost			2,792	2,197	2,792	2,197
Buildings, structures and improvements	148,510	141,395	342,903	350,518	491,413	491,913
Utility plant			699,513	741,354	699,513	741,354
Machinery and equipment	41,539	34,142	12,502	14,093	54,041	48,235
Infrastructure	472,897	460,656			472,897	460,656
Total	$1,231,832	$1,177,304	$1,172,048	$1,172,394	$2,403,880	$2,349,698

Capital assets. The City's investment in capital assets for its governmental and business-type activities at June 30, 2006, amounted to $2,403,880 (net of accumulated depreciation). This investment in capital assets included land, construction in progress, nuclear fuel at amortized cost, buildings, structures and improvements, utility plant, machinery and equipment, and infrastructure. The total increase in the City's investment in capital assets resulted from many various projects throughout the City. The total increase over the prior fiscal year was 2%, of which governmental activities increased nearly 2% and business-type activities increased less than 1%.

Additional information on the City's capital assets can be found in note 5 of the notes to the financial statements, on pages 48-49 of this report.

LONG-TERM LIABILITIES
JUNE 30, 2006 AND 2005

	Governmental Activities		Business-type Activities		Total Government	
	2006	2005	2006	2005	2006	2005
General obligation bonds	$ 6,170	$ 6,625			$ 6,170	$ 6,625
Revenue bonds	575,125	569,016	$513,874	$528,130	1,088,999	1,097,146
Tax allocation bonds	159,664	164,134			159,664	164,134
Certificates of participation	30,066	33,174	125,088	132,952	155,154	166,126
Capital lease obligations	2,220	1,523	274	180	2,494	1,703
Notes and loans payable	43,331	28,669	14,976	15,842	58,307	44,511
Self-insurance	30,828	29,920			30,828	29,920
Retired medical	67,524	74,049			67,524	74,049
Decommissioning provision			97,193	93,782	97,193	93,782
Total	$914,928	$907,110	$751,405	$770,886	$1,666,333	$1,677,996

Long-term liabilities. The City's outstanding long-term liabilities, including bonds, certificates of participation, capital leases, notes and loans payable, self-insurance, retired medical, and the provision for decommissioning costs totaled $1,666,333 at June 30, 2006. Of this total, $914,928 (55%) was in governmental activities and $751,405 (45%) was in business-type activities. The City's outstanding long-term liabilities decreased $11,663 (less than 1%) in fiscal year 2006. The decrease is primarily due to the repayment of principal on long-term liabilities.

Additional information on the City's long-term liabilities can be found in note 7 of the notes to the financial statements, on pages 49-57 of this report.

ECONOMIC FACTORS

- The unemployment rate in the Orange County, California area for June 2006 was 3.7%, which remains below both the state (4.9%) and national (4.6%) average. Increases in the construction and information sectors have provided an overall increase in Orange County job creation over the last twelve months.

- TOT revenue continues to be the City's largest General Fund revenue source. TOT was budgeted at $70.7 million for the current fiscal year and actual TOT revenue was $76.0 million.

- For the 2007 fiscal year, the City appropriated $244.4 million in estimated available fund balance in the General Fund for spending. This leaves $34.9 million in estimated available reserves, which is 14% of General Fund appropriations. The City's long-standing policy is to maintain General Fund reserves of at least 7% to 10% of annual appropriations.

- The City annually reviews all of its fees as part of the budget adoption process. Developer, construction, and other fees applicable to residents and developers doing business with the City were adjusted in June 2006, generally by the average of CPI (5.4%). This is consistent with the City's policy of recovering costs without becoming an undue financial burden on existing tax and rate payers.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Finance Director, City of Anaheim, 200 South Anaheim Boulevard, Suite 643, Anaheim, California, 92805.

Statement of Net Assets
June 30, 2006 (In thousands)

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 13,315	$ 10,598	$ 23,913
Investments	250,861	214,524	465,385
Accounts receivable, net	11,221	48,909	60,130
Accrued interest receivable	2,784	4,237	7,021
Internal balances, net	(469)	469	
Due from other governments	44,580		44,580
Notes receivable, net	37,486		37,486
Inventories	947	8,698	9,645
Land held for resale, net	53,037		53,037
Prepaids and deposits	2,496	28,830	31,326
Restricted cash and cash equivalents	30,597	5,641	36,238
Restricted investments	23,850	247,880	271,730
Unamortized debt issuance costs	8	6,963	6,971
Bond payment receivable		18,282	18,282
Pipeline receivable		332	332
Capital assets, net:			
Nondepreciable	568,886	117,130	686,016
Depreciable	662,946	1,054,918	1,717,864
Total assets	1,702,545	1,767,411	3,469,956
LIABILITIES			
Accounts payable	26,547	27,584	54,131
Wages payable	22,565	1,684	24,249
Due to other governments	8,690		8,690
Interest payable	13,050	8,518	21,568
Arbitrage rebate liability		226	226
Deposits	5,128	12,926	18,054
Regulatory credits		51,843	51,843
Unearned revenues	4,934	763	5,697
Noncurrent liabilities:			
Due within one year	36,892	24,239	61,131
Due in more than one year	878,036	727,166	1,605,202
Total liabilities	995,842	854,949	1,850,791
NET ASSETS			
Invested in capital assets, net of related debt	660,671	615,253	1,275,924
Restricted for:			
Debt service	15,902	57,884	73,786
Capital projects	11,592	18,547	30,139
Community Development	45,073		45,073
Streets and roads	29,255		29,255
Other purposes	5,578	5,093	10,671
Unrestricted (deficit)	(61,368)	215,685	154,317
Total net assets	$ 706,703	$ 912,462	$1,619,165

The accompanying notes are an integral part of these financial statements.

Statement of Activities
Year Ended June 30, 2006 (In thousands)

			Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	**Expenses**	**Indirect Expenses Allocation**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**Total**
Governmental activities:								
General government	$ 19,682	$(12,288)	$ 4,516	$ 44		$ (2,834)		$ (2,834)
Police	96,656	2,311	7,346	2,095	$ 1,873	(87,653)		(87,653)
Fire	48,967	1,990	8,942	1,634	81	(40,300)		(40,300)
Community Development	86,834	708	6,122	69,930	2,505	(8,985)		(8,985)
Planning	13,891	602	9,031	28		(5,434)		(5,434)
Public Works	41,923	811	7,653	11,406	20,198	(3,477)		(3,477)
Community Services	30,808	904	18,421	347	387	(12,557)		(12,557)
Public Utilities	1,704					(1,704)		(1,704)
Convention, Sports and Entertainment Venues	7,595				3,960	(3,635)		(3,635)
Interest on long-term debt	46,571					(46,571)		(46,571)
Total governmental activities	394,631	(4,962)	62,031	85,484	29,004	(213,150)		(213,150)
Business-type activities:								
Electric Utility	362,907	2,370	322,845	210	2,124		$(40,098)	(40,098)
Water Utility	46,209	1,016	46,926		3,261		2,962	2,962
Solid Waste and Sanitation	46,812	351	49,397	1,253			3,487	3,487
Golf Courses	4,159	122	5,736				1,455	1,455
Convention, Sports and Entertainment Venues	46,750	1,103	27,357	1,093	364		(19,039)	(19,039)
Total business-type activities	506,837	4,962	452,261	2,556	5,749		(51,233)	(51,233)
Total government	$901,468	$ -	$514,292	$88,040	$34,753	(213,150)	(51,233)	(264,383)

	Governmental Activities	Business-type Activities	Total
General revenues:			
Taxes:			
Property taxes	90,299		90,299
Sales and use taxes	68,024		68,024
Transient occupancy taxes	75,979		75,979
Motor vehicle license fees	2,595		2,595
Other taxes	12,357		12,357
Unrestricted investment earnings	12,346	16,850	29,196
Other	5,058		5,058
Gain (loss) on sale of capital assets	20	(264)	(244)
Transfers	8,444	(8,444)	
Total general revenues and transfers	275,122	8,142	283,264
Change in net assets	61,972	(43,091)	18,881
Net assets at beginning of year	644,731	955,553	1,600,284
Net assets at end of year	$ 706,703	$912,462	$1,619,165

The accompanying notes are an integral part of these financial statements.

Balance Sheet
Governmental Funds
June 30, 2006 (In thousands)

	General	Housing Authority	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 1,910	$ 999	$ 3,812	$ 6,721
Investments	36,775	8,622	74,356	119,753
Accounts receivable, net	9,038		749	9,787
Accrued interest receivable	325	96	1,050	1,471
Notes receivable		19,486	22,029	41,515
Due from other funds	10,012		12,998	23,010
Due from other governments	17,522	426	26,632	44,580
Inventories	210			210
Land held for resale, net			53,037	53,037
Prepaids and deposits	344		2,112	2,456
Restricted cash and cash equivalents		3,720	26,860	30,580
Restricted investments			23,377	23,377
Total assets	$76,136	$33,349	$247,012	$356,497
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 4,581	$ 585	$ 13,981	$ 19,147
Wages payable	4,478	129	369	4,976
Deposits	3,536	78	1,514	5,128
Due to other funds	85		27,956	28,041
Due to other governments		8,670	20	8,690
Deferred revenues	8,777	19,955	45,034	73,766
Total liabilities	21,457	29,417	88,874	139,748
Fund balances:				
Reserved for encumbrances	903	92	25,364	26,359
Reserved for noncurrent interfund receivable	9,147		11,522	20,669
Reserved for inventories	210			210
Reserved for debt service			43,618	43,618
Reserved for land held for resale			53,037	53,037
Reserved for prepaids and deposits	344		2,112	2,456
Unreserved - designated for debt service, reported in:				
Debt Service Funds			1,137	1,137
Unreserved - designated for capital projects, reported in:				
Special Revenue Funds			9,102	9,102
Capital Projects Funds			36,951	36,951
Unreserved - undesignated, reported in:				
General Fund	44,075			44,075
Special Revenue Funds		3,840	(436)	3,404
Debt Service Funds				
Capital Projects Funds			(24,269)	(24,269)
Total fund balances	54,679	3,932	158,138	216,749
Total liabilities and fund balances	$76,136	$33,349	$247,012	$356,497

The accompanying notes are an integral part of these financial statements.

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2006 (In thousands)

Total fund balances - governmental funds		$ 216,749
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in the operation of governmental funds are not financial resources and, therefore, are not reported in the funds. These assets consist of:		
Land	$ 521,904	
Construction in progress	45,057	
Buildings, structures and improvements	226,945	
Machinery and equipment	37,438	
Infrastructure	741,502	
Accumulated depreciation	(369,134)	
Total capital assets, net		1,203,712
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		65,528
Internal service funds are used by management to charge the costs of certain activities, such as insurance, employee benefits, and fleet services, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		48,986
Compensated absences, not otherwise included in the internal service funds, are not due and payable in the current period and, therefore, are not reported in the funds.		(464)
Long-term liabilities of governmental funds, including bonds, certificates of participation, and notes and loans payable ($814,810), and accrued interest payable ($12,998), are not due and payable in the current period and, therefore, are not reported in the funds.		(827,808)
Net assets of governmental activities		$ 706,703

The accompanying notes are an integral part of these financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2006 (In thousands)

	General	Housing Authority	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	$ 48,688		$ 41,635	$ 90,323
Sales and use taxes	66,045			66,045
Other taxes	7,862			7,862
Transient occupancy taxes	75,979			75,979
Licenses, fees and permits	21,057	$ 69	19,499	40,625
Intergovernmental revenues	5,165	62,181	36,307	103,653
Charges for services	12,593		56	12,649
Fines, forfeits and penalties	3,464			3,464
Use of money and property	2,727	3,475	7,001	13,203
Other	188	1,250	16,726	18,164
Total revenues	243,768	66,975	121,224	431,967
Expenditures:				
Current:				
City Council	295			295
City Administration	3,006			3,006
City Attorney	3,890		120	4,010
City Clerk	706			706
Human Resources	1,041		46	1,087
Finance	4,039			4,039
City Treasurer	524			524
Police	92,812		2,273	95,085
Fire	46,604		1,779	48,383
Community Development	106	60,017	28,703	88,826
Planning	12,676		1,231	13,907
Public Works	16,656		8,695	25,351
Community Services	27,150		1,603	28,753
Public Utilities	1,704			1,704
Convention, Sports and Entertainment	4,340		734	5,074
Capital outlay	541	9,698	67,499	77,738
Debt service:				
Principal retirement	595	26	18,411	19,032
Interest and fiscal agent charges	396		38,782	39,178
Total expenditures	217,081	69,741	169,876	456,698
Excess (deficiency) of revenues over (under) expenditures	26,687	(2,766)	(48,652)	(24,731)
Other financing sources (uses):				
Transfers in	26,628	6,550	62,357	95,535
Transfers out	(49,662)	(5,860)	(28,803)	(84,325)
Proceeds from long-term debt		226	22,357	22,583
Proceeds from the sale of capital assets	20			20
Capital leases	1,935	100	163	2,198
Total other financing sources (uses)	(21,079)	1,016	56,074	36,011
Net change in fund balances	5,608	(1,750)	7,422	11,280
Fund balances at beginning of year	49,071	5,682	150,716	205,469
Fund balances at end of year	$ 54,679	$ 3,932	$158,138	$216,749

The accompanying notes are an integral part of these financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2006 (In thousands)

Net change in fund balances - total governmental funds	$ 11,280
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays ($77,738) exceeded depreciation ($25,012) in the current period.	52,726
Transfers of capital assets between governmental funds and proprietary funds do not provide current financial resources and are not reported as transfers in the funds.	(2,766)
The net effect of other miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.	2,473
Revenues in the Statement of Activities that do not provide current financial resources and are not reported as revenues in the governmental funds.	4,116
Proceeds from long-term debt provide current financial resources to governmental funds, but the issuing of debt increases long-term liabilities in the Statement of Net Assets.	(22,583)
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	19,032
Certain expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(4,305)
Internal service funds are used by management to charge the costs of certain activities, such as insurance, employee benefits, and fleet services, to individual funds. The net revenue of the internal service funds is reported with governmental activities.	1,999
Change in net assets of governmental activities	$ 61,972

The accompanying notes are an integral part of these financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – General Fund
Year Ended June 30, 2006 (In thousands)

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	$ 41,967	$ 41,967	$ 48,688	$ 6,721
Sales and use taxes	60,834	60,834	66,045	5,211
Other taxes	7,558	7,558	7,862	304
Transient occupancy taxes	70,768	70,768	75,979	5,211
Licenses, fees and permits	18,000	19,382	21,057	1,675
Intergovernmental revenues	3,575	3,681	5,165	1,484
Charges for services	18,627	18,646	12,593	(6,053)
Fines, forfeits and penalties	3,002	3,002	3,464	462
Use of money and property	2,331	2,331	2,727	396
Other	1,795	1,795	188	(1,607)
Total revenues	228,457	229,964	243,768	13,804
Expenditures:				
City Council	518	518	295	(223)
City Administration	4,213	4,213	3,006	(1,207)
City Attorney	4,570	4,570	3,890	(680)
City Clerk	744	745	706	(39)
Human Resources	1,609	1,683	1,041	(642)
Finance	7,268	7,268	4,039	(3,229)
City Treasurer	709	709	524	(185)
Police	94,052	94,353	92,812	(1,541)
Fire	43,649	47,191	46,604	(587)
Community Development	388	388	106	(282)
Planning	11,875	13,133	12,676	(457)
Public Works	13,784	16,816	16,656	(160)
Community Services	27,005	28,646	27,150	(1,496)
Public Utilities	1,729	1,729	1,704	(25)
Convention, Sports and Entertainment	5,224	5,496	4,340	(1,156)
Capital outlay	4,204	2,393	541	(1,852)
Debt service:				
Principal retirement	595	595	595	
Interest and fiscal agent charges	396	396	396	
Total expenditures	222,532	230,842	217,081	(13,761)
Excess (deficiency) of revenues over (under) expenditures	5,925	(878)	26,687	27,565
Other financing sources (uses):				
Transfers in	212,062	219,695	26,628	(193,067)
Transfers out	(218,054)	(219,074)	(49,662)	169,412
Proceeds from the sale of capital assets	188	188	20	(168)
Capital leases			1,935	1,935
Total other financing sources (uses)	(5,804)	809	(21,079)	(21,888)
Net change in fund balance	121	(69)	5,608	5,677
Fund balance at beginning of year	49,071	49,071	49,071	
Fund balance at end of year	$ 49,192	$ 49,002	$ 54,679	$ 5,677

The accompanying notes are an integral part of these financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – Housing Authority
Year Ended June 30, 2006 (In thousands)

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Over (Under)
Revenues:				
Licenses, fees and permits	$ 80	$ 80	$ 69	$ (11)
Intergovernmental revenues	58,781	63,371	62,181	(1,190)
Charges for services	322	322		(322)
Use of money and property	311	311	3,475	3,164
Other	440	440	1,250	810
Total revenues	59,934	64,524	66,975	2,451
Expenditures:				
Community Development	62,852	62,648	60,017	(2,631)
Capital outlay	6,030	9,698	9,698	
Principal retirement		26	26	
Total expenditures	68,882	72,372	69,741	(2,631)
Excess (deficiency) of revenues over (under) expenditures	(8,948)	(7,848)	(2,766)	5,082
Other financing sources (uses):				
Transfers in	12,781	15,181	6,550	(8,631)
Transfers out	(8,612)	(12,112)	(5,860)	6,252
Proceeds from long-term debt	2,780	2,780	226	(2,554)
Proceeds from the sale of capital assets	2,000	2,000		(2,000)
Capital leases			100	100
Total other financing sources (uses)	8,949	7,849	1,016	(6,833)
Net change in fund balances	1	1	(1,750)	(1,751)
Fund balance at beginning of year	5,682	5,682	5,682	
Fund balance at end of year	$ 5,683	$ 5,683	$ 3,932	$(1,751)

The accompanying notes are an integral part of these financial statements.

Statement of Fund Net Assets
Proprietary Funds
June 30, 2006 (In thousands)

	Enterprise Funds						
	Electric Utility	Water Utility	Sanitation	Golf Courses	Convention, Sports and Entertainment Venues	Total	Internal Service Funds
ASSETS							
Current assets:							
Cash and cash equivalents	$ 6,373	$ 1,435	$ 1,383	$ 38	$ 1,369	$ 10,598	$ 6,594
Investments	128,927	29,674	27,482	749	27,692	214,524	131,108
Restricted assets:							
Restricted cash and cash equivalents		744				744	
Restricted investments		1,838				1,838	
Accounts receivable, net	35,031	5,591	7,371	104	812	48,909	1,434
Accrued interest receivable	2,879	348	277	1	732	4,237	1,314
Interfund receivable	280					280	29
Inventories	8,479	212			7	8,698	737
Bond payment receivable					1,355	1,355	
Prepaids and other assets	470	392			116	978	40
Total current assets	182,439	40,234	36,513	892	32,083	292,161	141,256
Noncurrent assets:							
Restricted cash and cash equivalents	4,316				581	4,897	17
Restricted investments	227,191	3,082			15,769	246,042	473
Unamortized debt issuance costs	5,525	179			1,259	6,963	8
Bond payment receivable, less current portion					16,927	16,927	
Pipeline receivable		332				332	
Interfund receivable, less current portion	420				10,699	11,119	56
Prepaids and other assets	27,852					27,852	
Capital assets:							
Land	15,347	1,846	316	1,949	18,135	37,593	
Buildings, structures and improvements			48	16,251	464,359	480,658	6,760
Utility plant	893,193	295,945				1,189,138	
Machinery and equipment			4,199	958	25,072	30,229	55,980
Construction in progress	71,700	3,913			1,132	76,745	1,925
	980,240	301,704	4,563	19,158	508,698	1,814,363	64,665
Less accumulated depreciation	(408,411)	(81,214)	(4,029)	(6,220)	(145,233)	(645,107)	(36,545)
Nuclear fuel, at amortized cost	2,792					2,792	
Capital assets, net	574,621	220,490	534	12,938	363,465	1,172,048	28,120
Total noncurrent assets	839,925	224,083	534	12,938	408,700	1,486,180	28,674
Total assets	1,022,364	264,317	37,047	13,830	440,783	1,778,341	169,930

(continued)

Statement of Fund Net Assets
Proprietary Funds
June 30, 2006 (In thousands) (continued)

	Enterprise Funds						
	Electric Utility	Water Utility	Sanitation	Golf Courses	Convention, Sports and Entertainment Venues	Total	Internal Service Funds
LIABILITIES							
Current liabilities (payable from current assets):							
Accounts payable	$ 15,129	$ 6,534	$ 3,718	$ 235	$ 1,397	$ 27,013	$ 7,403
Wages payable	846	253	90	14	450	1,653	1,345
Interest payable					2,032	2,032	52
Compensated absences							15,780
Long-term obligations	3,770	22	7	1	9,174	12,974	15,605
Unearned revenues					763	763	725
Deposits	7,807	1,921	791		2,407	12,926	
Interfund payable				548	280	828	
Regulatory credits	51,170	673				51,843	
Total current liabilities (payable from current assets)	78,722	9,403	4,606	798	16,503	110,032	40,910
Current liabilities (payable from restricted assets):							
Accounts payable	571					571	
Wages payable	31					31	
Interest payable	6,176	310				6,486	
Arbitrage rebate liability	224	2				226	
Long-term obligations	10,051	2,270				12,321	
Total current liabilities (payable from restricted assets)	17,053	2,582				19,635	
Total current liabilities	95,775	11,985	4,606	798	16,503	129,667	40,910
Noncurrent liabilities:							
Interfund payable, less current portion				5,205	420	5,625	
Long-term obligations, less current portion	488,526	22,414	10	1	117,966	628,917	84,513
Provision for decommissioning costs	97,193					97,193	
Total noncurrent liabilities	585,719	22,414	10	5,206	118,386	731,735	84,513
Total liabilities	681,494	34,399	4,616	6,004	134,889	861,402	125,423
FUND NET ASSETS							
Invested in capital assets, net of related debt	145,922	196,295	516	12,935	259,585	615,253	26,366
Restricted for:							
Debt service	44,094	3,147			10,643	57,884	438
Capital projects	10,003	2,205			6,339	18,547	
Other purposes	5,093					5,093	
Unrestricted (deficit)	135,758	28,271	31,915	(5,109)	29,327	220,162	17,703
Total fund net assets	$ 340,870	$229,918	$32,431	$ 7,826	$ 305,894	916,939	$ 44,507
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.						(4,477)	
Net assets of business-type activities						$912,462	

The accompanying notes are an integral part of these financial statements.

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2006 (In thousands)

	Enterprise Funds						
	Electric Utility	Water Utility	Sanitation	Golf Courses	Convention, Sports and Entertainment Venues	Total	Internal Service Funds
Operating revenues:							
Sales of light and power	$293,286					$293,286	
Transmission revenues	25,903					25,903	
Sales of water		$ 45,608				45,608	
Sanitation fees			$47,889			47,889	
Green fees and cart rentals				$ 5,321		5,321	
Facilities rental					$ 22,153	22,153	
Concession fees				215	4,178	4,393	
Other	3,656	1,318	1,508	200	1,026	7,708	$129,254
Total operating revenues	322,845	46,926	49,397	5,736	27,357	452,261	129,254
Operating expenses:							
Cost of purchased power	193,482					193,482	
Fuel and generation of power	39,696					39,696	
Cost of purchased water		22,043				22,043	
Treatment and pumping of water		4,625				4,625	
Maintenance, operations and administration	35,096	12,442	46,848	3,399	27,939	125,724	31,722
Insurance premiums and claims							9,416
Compensated absences and other benefits							84,571
Depreciation and amortization	73,833	6,939	308	621	12,241	93,942	5,648
Total operating expenses	342,107	46,049	47,156	4,020	40,180	479,512	131,357
Operating income (loss)	(19,262)	877	2,241	1,716	(12,823)	(27,251)	(2,103)
Nonoperating income (expenses):							
Intergovernmental revenues	210		1,253			1,463	
Interest income	13,036	978	680	5	2,151	16,850	3,367
Debt service recovery					1,093	1,093	
Other nonoperating income							
Interest expense	(23,342)	(959)		(197)	(7,630)	(32,128)	(123)
Gain (loss) from disposal of capital assets				(152)	(112)	(264)	270
Total nonoperating income (expenses)	(10,096)	19	1,933	(344)	(4,498)	(12,986)	3,514
Income (loss) before contributions and transfers	(29,358)	896	4,174	1,372	(17,321)	(40,237)	1,411
Capital contributions	3,293	3,261		1,195	364	8,113	668
Transfers in					11,498	11,498	
Transfers out	(15,449)	(2,528)	(2,431)	(1,500)		(21,908)	(800)
Change in fund net assets	(41,514)	1,629	1,743	1,067	(5,459)	(42,534)	1,279
Fund net assets at beginning of year	382,384	228,289	30,688	6,759	311,353		43,228
Fund net assets at end of year	$340,870	$229,918	$32,431	$ 7,826	$305,894		$ 44,507
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.						(557)	
Change in net assets of business-type activities						$ (43,091)	

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2006 (In thousands)

	Enterprise Funds						
	Electric Utility	Water Utility	Sanitation	Golf Courses	Convention, Sports and Entertainment Venues	Total	Internal Service Funds
Cash flows from operating activities:							
Receipts from customers and users	$ 334,852	$ 47,007	$ 47,369	$ 5,533	$ 31,770	$ 466,531	
Receipts from interfund services provided	1,689	290	8			1,987	$129,052
Payments to suppliers	(226,398)	(24,436)	(40,447)	(2,655)	(15,293)	(309,229)	(21,412)
Payments to employees	(29,808)	(9,752)	(3,708)	(414)	(14,844)	(58,526)	(97,470)
Payments for interfund services used	(9,559)	(3,794)	(2,475)	(167)	(1,742)	(17,737)	(2,617)
Payments for insurance premiums and claims							(8,815)
Other receipts			1,500	200		1,700	128
Net cash provided (used) by operating activities	70,776	9,315	2,247	2,497	(109)	84,726	(1,134)
Cash flows from noncapital financing activities:							
Receipt of interfund balances	280					280	19
Transfers in					11,498	11,498	
Transfers out	(15,000)	(2,391)	(2,431)	(1,500)		(21,322)	(800)
Operating grant receipts	210		1,253			1,463	
Net cash provided by (used in) noncapital financing activities	(14,510)	(2,391)	(1,178)	(1,500)	11,498	(8,081)	(781)
Cash flows from capital and related financing activities:							
Proceeds from sale of capital assets							300
Proceeds of borrowing net of premium	395	66		2		463	
Capital contributions	3,037	1,559				4,596	
Capital purchases	(76,476)	(7,909)	(83)	(3)	(2,977)	(87,448)	(4,577)
Nuclear fuel purchases	(3,010)					(3,010)	
Debt service recovery					2,353	2,353	
Principal payments on long-term debt	(13,145)	(2,659)			(7,336)	(23,140)	(509)
Interest payments	(25,144)	(1,078)		(197)	(7,577)	(33,996)	(114)
Payment of interfund balances for capital purposes	(449)	(137)		(368)	(280)	(1,234)	
Issuance costs	(379)					(379)	
Net cash used in capital and related financing activities	(115,171)	(10,158)	(83)	(566)	(15,817)	(141,795)	(4,900)
Cash flows from investing activities:							
Purchase of investment securities	(137,499)	(18,077)	(17,586)	(1,071)	(21,892)	(196,125)	(71,807)
Proceeds from sale and maturity of investment securities	164,875	16,159	12,851	350	20,189	214,424	58,872
Interest received	15,652	1,547	1,139	279	2,617	21,234	5,423
Collection of note receivable		73				73	
Net cash provided (used) by investing activities	43,028	(298)	(3,596)	(442)	914	39,606	(7,512)
Decrease in cash and cash equivalents	(15,877)	(3,532)	(2,610)	(11)	(3,514)	(25,544)	(14,327)
Cash and cash equivalents at beginning of the year	26,566	5,711	3,993	49	5,464	41,783	20,938
Cash and cash equivalents at end of the year	$ 10,689	$ 2,179	$ 1,383	$ 38	$ 1,950	$ 16,239	$ 6,611

(continued)

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2006 (In thousands) (continued)

	Enterprise Funds						
	Electric Utility	Water Utility	Sanitation	Golf Courses	Convention, Sports and Entertainment Venues	Total	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by operating activities:							
Operating income (loss)	$(19,262)	$ 877	$2,241	$1,716	$(12,823)	$ (27,251)	$(2,103)
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation and amortization	73,833	6,939	308	621	12,241	93,942	5,648
Amortization of nuclear fuel	2,415					2,415	
Increase in provision for decommissioning costs	3,411					3,411	
Changes in assets and liabilities:							
Accounts receivable	(3,305)	327	(511)	2	249	(3,238)	(895)
Inventories	(1,205)	(34)			1	(1,238)	(105)
Prepaids and other assets	(6,162)	(49)			(114)	(6,325)	(21)
Accounts payable	3,882	1,115	224	163	(533)	4,851	1,998
Wages payable	168	96	(6)		77	335	274
Unearned revenues					8	8	129
Compensated absences, post retirement and self-insurance liabilities							(6,059)
Deposits	2,328	(315)	(9)	(5)	785	2,784	
Regulatory credits	14,673	359				15,032	
Total adjustments	90,038	8,438	6	781	12,714	111,977	969
Net cash (used in) provided by operating activities	$ 70,776	$ 9,315	$2,247	$2,497	$ (109)	$ 84,726	$(1,134)
Schedule of noncash investing, capital and financing activities:							
Capital contributions	$ 256	$ 1,702			$ 355	$ 2,313	
Transfers in (out) of capital assets	1,169		$1,195			2,364	$ 668
Decrease in fair value of investments	(2,192)	(593)	(316)	$ (4)	(354)	(3,459)	(2,235)
Reconciliation of cash and cash equivalents:							
Cash and cash equivalents	$ 6,373	$ 1,435	$1,383	$ 38	$ 1,369	$ 10,598	$ 6,594
Restricted cash and cash equivalents, current portion		744				744	
Restricted cash and cash equivalents, noncurrent portion	4,316				581	4,897	17
Total cash and cash equivalents	$ 10,689	$ 2,179	$1,383	$ 38	$ 1,950	$ 16,239	$ 6,611

The accompanying notes are an integral part of these financial statements.

Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2006 (In thousands)

Agency Funds - Mello Roos	
ASSETS	
Restricted cash and cash equivalents	$3,587
Due from other governments	44
Total assets	$3,631
LIABILITIES	
Due to bond holders	$3,631

Agency Funds - Urban Area Security Initiative	
ASSETS	
Due from other governments	$1,210
Total assets	$1,210
LIABILITIES	
Due to other governments	$1,210

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

(Amounts in thousands)

NOTE 1 —SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial reporting entity

As defined by U.S. generally accepted accounting principles (GAAP) that are established by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

The accompanying financial statements present the City of Anaheim (City), the primary government, and its component units. The financial data of the component units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The component units described below are each legally separate from the City, but are so intertwined with the City that they are, in substance, the same as the City. They are reported as part of and accountable to the City and blended into the government-wide and fund financial statements.

Anaheim Housing Authority (Housing Authority) is a separate entity primarily funded by the U.S. Department of Housing and Urban Development to administer funds received under the Federal Housing Assistance Payments program. City Council members, in separate session, serve as the governing board of the Housing Authority, and all accounting and administrative functions are performed by the City. The financial activity of the Housing Authority has been blended into the City's Comprehensive Annual Financial Report (CAFR) in the government-wide governmental activities and in the fund financial statements as the Housing Authority Special Revenue Fund.

Anaheim Redevelopment Agency (Redevelopment Agency) is a separate government entity created to develop and execute plans for improvement, rehabilitation and redevelopment of blighted areas within the City. City Council members, in separate session, serve as the governing board of the Redevelopment Agency, and all accounting and administrative functions are performed by the City. The financial activity of the Redevelopment Agency has been blended into the City's CAFR in the government-wide governmental activities and in the fund financial statements as the Redevelopment Housing Set-Aside Special Revenue Fund, the Redevelopment Agency Debt Service Fund, and the Redevelopment Agency Capital Projects Fund. For a copy of separate financial statements, contact the Finance Director of the City.

Community Center Authority (CCA), a joint powers authority, was created primarily to finance the initial construction of the Anaheim Convention Center. A five-member board appointed by the City Council governs the CCA. The City has entered into a noncancelable long-term lease with the CCA, which provides for lease payments in amounts sufficient to meet the annual debt service requirements on the certificates of participation issued by the CCA to finance the construction of the facility. The lease is a financing arrangement, which transfers the ownership of the facility to the City at the end of the lease term, and the sole activity of the CCA is to provide financing for the City. As such, the financial data for the CCA has been blended into the City's CAFR in the government-wide business-type activities and in the fund financial statements with the City's Convention, Sports and Entertainment Venues Fund, as all activity related to the Anaheim Convention Center is accounted for in this enterprise fund. The capital lease has been eliminated in the financial statements. For a copy of separate financial statements, contact the Finance Director of the City.

Anaheim Public Improvement Corporation (APIC), a non-profit corporation, was created primarily to finance several construction projects in the City. City Council members, in separate session, serve as the governing board of APIC. The City has entered into noncancelable long-term leases with APIC, which provide for lease payments in amounts sufficient to meet the annual debt service requirements on the certificates of participation issued by APIC to finance these construction projects. The leases are financing arrangements, which transfer ownership of the constructed assets to the City at the end of the lease terms. The financial data of APIC has been blended into various governmental and business-type activities and funds of the City as applicable, and the capital leases have been eliminated.

Anaheim Public Financing Authority (Authority), a joint powers authority, was established as a vehicle to reduce local borrowing costs and promote greater use of existing and new financial instruments and mechanisms. City Council members, in separate session, serve as the governing board of the Authority. Financial activity of the Authority has been blended into the City's CAFR into various governmental and business-type activities and funds of the City as applicable.

The City is a participant in four joint ventures and jointly-owned properties (see note 11), which are not considered part of the financial reporting entity, as the City does not have any significant equity interests in the joint ventures and jointly-owned properties.

Basic financial statements

In accordance with GASB Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report on the City and its component units as a whole, excluding fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All activities, both governmental and business-type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Generally, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements. The "doubling up" effect of internal service fund activity has been eliminated from the government-wide financial statements with the expenses shown in the various functions and programs on the Statement of Activities.

The government-wide Statement of Net Assets reports all financial and capital resources of the City (excluding fiduciary funds). It is displayed in a format of assets less liabilities equal net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various functions and programs of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Indirect expenses for administrative overhead are allocated among the functions and programs using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Interest on general long-term debt is not allocated to the various functions. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

Also, part of the basic financial statements are fund financial statements for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds. Other nonmajor funds, as well as the internal service funds, are combined in a single column on the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Housing Authority Special Revenue Fund accounts for the providing of housing assistance to low and moderate-income families in the Anaheim area. Financing is provided primarily from Federal Section 8, U.S. Department of Housing and Urban Development (HUD) receipts.

The City reports the following major enterprise funds:

The Electric Utility Fund accounts for the operation of the City's electric utility, a self-supporting activity, which renders services on a user charge basis to residents and businesses located in Anaheim.

The Water Utility Fund accounts for the operation of the City's water utility, a self-supporting activity, which renders services on a user charge basis to residents and businesses located in Anaheim.

The Sanitation Fund accounts for the operation of the City's solid waste and sanitation program, a self-supporting activity, which provides for the collection and disposal of solid waste, street sweeping, and sanitary sewer cleaning on a user charge basis to residents and businesses located in Anaheim.

The Golf Courses Fund accounts for the operation of the Anaheim Municipal ("Dad Miller") Golf Course and the Anaheim Hills Golf Course, a self-supporting activity that renders services on a user charge basis.

The Convention, Sports and Entertainment Venues Fund accounts for the operations of the Anaheim Convention Center, Stadium (Angel Stadium of Anaheim, home to the Los Angeles Angels of Anaheim of the American Baseball League), and The Grove of Anaheim. See note 12 for further discussions of the Stadium and The Grove of Anaheim.

The internal service funds, which provide services to the other funds of the City, are presented in a single column in the proprietary funds financial statements. Because the principal users of the internal service funds are the City's governmental activities, the assets and liabilities of the internal service funds are consolidated into the governmental activities column of the government-wide Statement of Net Assets. The costs of the internal service fund services are spread to the appropriate function or program on the government-wide Statement of Activities and the revenues and expenses within the internal service funds are eliminated from the government-wide financial statements to avoid any doubling effect of these revenues and expenses. The City operates five internal service funds:

The General Benefits and Insurance Fund is used to account for employee compensated absences, retirement and health benefits, and self-insurance programs.

The Motorized Equipment Fund is used to account for motorized equipment used by the City departments.

The Duplicating and Printing Fund is used to account for central duplicating, printing, and mailing services provided to City departments.

The Information Services Fund is used to account for data processing services to City departments.

The Office Maintenance and Equipment Fund is used to account for office maintenance services and equipment used by City departments.

Measurement focus and basis of accounting

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. These modifications are outlined below:

A. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes: property taxes, sales and use taxes, transient occupancy taxes, licenses, fees and permits, intergovernmental revenues (including motor vehicle license fees), charges for services, fines, forfeits and penalties, and interest.

B. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

C. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Bond proceeds are reported as an other financing source.

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the City's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

The proprietary funds financial statements are prepared on the same basis (economic resources measurement focus and accrual basis of accounting) as the government-wide financial statements. Therefore, most lines for the total enterprise funds on the proprietary funds financial statements will directly reconcile to the business-type activities column on the government-wide financial statements. Because the enterprise funds are combined into a single business-type activities column on the government-wide financial statements, certain interfund activities between these funds are eliminated in the consolidation for the government-wide financial statements, but are included in the fund columns in the proprietary funds financial statements. The net costs of the internal service funds are also partially allocated to the business-type activities column on the government-wide financial statements. A reconciliation of the total enterprise funds on the fund financial statements to the business-type activities column on the government-wide financial statements is provided on the face of the fund financial statements.

Enterprise funds account for operations where the intent of the City is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges and space rentals. Under GASB Statement No. 34, enterprise funds are also required for any activity whose principal revenue sources meet any of the following criteria: 1) any activity that has issued debt backed solely by the fees and charges of the activity, 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges, or it is the policy of the City to establish activity fees or charges to recover the cost of providing services, including capital costs.

On the proprietary funds financial statements, operating revenues are those that flow directly from the operations of the activity, i.e. charges to customers or users who purchase or use the goods or services of that activity. Operating expenses are those that are incurred to provide those goods or services. Non-operating revenues and expenses are items such as investment income and interest expense that are not a result of the direct operations of the activity.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City has elected for proprietary funds not to apply Financial Accounting Standards Board (FASB) statements issued after November 30, 1989.

The Utility funds follow the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (Electric Utility) and the California Public Utilities Commission (Water Utility). The Utilities are not subject to the regulations of these commissions.

Fiduciary funds account for assets held by the City in a trustee or agency capacity on behalf of others and, therefore, are not available to support City programs. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements as they are not an asset of the City available to support City programs. The City currently maintains two agency funds, one to account for the monies collected and paid on behalf of the Mello-Roos Districts located in the City, and the second to account for pass-through transactions related to the Urban Area Security Initiative (UASI) federal grant program.

Cash and investments

The City pools available cash from all funds for the purpose of increasing income through investment activities. Investments in U.S. government and agency securities and corporate notes are carried at fair value based on quoted market prices. Participating guaranteed investment contracts and flexible repurchase agreements are carried at fair value based on net realizable value. Money market mutual funds are carried at fair value based on the fund's share price. The City's investment in the State of California Local Agency Investment Fund (LAIF) is carried at fair value based on the value of each participating dollar as provided by LAIF. LAIF is authorized by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. Commercial paper, non-participating guaranteed investment contracts and negotiable certificates of deposit are carried at amortized cost (which approximates fair value). Interest income, which includes changes in fair value, on investments is allocated to all funds on the basis of daily cash and investment balances. See note 2 for further discussion.

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

Notes receivable

In the government-wide financial statements, notes receivable of $37,486 includes accrued interest receivable of $9,725, ranging from 3% to 10% interest rate per annum, net of allowances of $13,754 for uncollectible accounts at June 30, 2006. Allowances for uncollectible accounts were estimated based on certain assumptions; therefore, actual results could differ from the estimates.

In the governmental funds financial statements, due to the extended period of time over which notes receivable are to be collected and the contingent nature of certain sources of repayment, the City has generally not recorded the related accrued interest and has recorded deferred revenue equal to the outstanding principal balance of the notes receivable.

Inventories

Inventories, as determined by annual physical counts, are stated at average cost. Inventories in the General Fund are recorded as expenditures when used and are reported under the consumption method of accounting.

Land held for resale

The Redevelopment Agency has acquired parcels of land as part of their primary purpose to develop or redevelop blighted areas. The Redevelopment Agency records these parcels as land held for resale in their financial records. The properties held for resale are recorded at the lower of cost or estimated net realizable value. At June 30, 2006, land held for resale with a cost of $78,503 was recorded net of the allowance for decline in value of $25,466 and totaled $53,037, with this amount offset by a reservation of fund balance in the governmental funds financial statements.

Restricted assets

Certain proceeds of the City's bonds, as well as certain resources set aside for their repayment, are classified as restricted on the Statement of Net Assets, Balance Sheet, or Statement of Fund Net Assets, because they are maintained in separate bank accounts and their use is limited by applicable debt covenants. Additionally, resources set aside by the Electric Utility for future decommissioning of its ownership share of the units at San Onofre Nuclear Generating Station, Units 2 and 3 (SONGS) are classified as restricted on both the government-wide Statement of Net Assets and proprietary funds Statement of Fund Net Assets.

Capital assets

Under GASB Statement No. 34, all capital assets, whether owned by governmental activities or business-type activities are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets, including public domain infrastructure (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the City) are defined as assets with an initial, individual cost of more than $5 ($50 for infrastructure) and an estimated useful life greater than one year. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the capital asset or materially extend capital assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. Interest incurred during the construction phase of projects is reflected in the capitalized value of the asset constructed for proprietary funds. For the year ended June 30, 2006, business-type activities capitalized net interest costs of $2,447 in the government-wide and fund financial statements. Total interest expense incurred by the business-type activities (and the enterprise funds on the proprietary funds statements) before capitalization was $34,575.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings, structures and improvements	5	to	85 years
Utility plant	5	to	75 years
Machinery and equipment	2	to	40 years
Infrastructure	25	to	75 years

Capital assets transferred between funds are transferred at their net book value (cost less accumulated depreciation), as of the date of the transfer.

Debt costs

Debt issuance costs in the amount of $6,971 are included in noncurrent assets at June 30, 2006. Unamortized discounts, consisting of refunding costs of $9,417 reduced by premiums net of discounts of $9,992, are reflected in net long-term obligations. Both debt issuance costs and discounts are amortized over the lives of the related bond issues using the effective interest method.

Accretion

Accretion is an adjustment of the difference between the price of a bond or certificate of participation (COP) issued at an original discount and the par value of the bond or COP. For the governmental activities debt, the accreted value is recognized as it accrues by fiscal year. For the business-type activities debt, the accreted value at maturity is recognized at the time of issuance with an offset to bond or COP discount.

Regulatory credits

The Electric Utility's rates, rules and regulations provide for a power cost adjustment billing factor to reflect variations in the cost of power to the Electric Utility. This billing factor provides increased flexibility by allowing the adjustment of revenues from the sale of electricity for differences between the Electric Utility's actual cost of power and the amount billed to customers through standard rates. The over or under collections are recorded as regulatory credits until they are refunded to or recovered from utility customers. The Electric Utility obtained Council approval to change the rate from $0.0049 to approximately $0.0099 for all domestic retail kilowatt hour (kWh) sales and from $0.0040 to $0.0090 for all non-domestic retail kWh sales of electricity except residential lifeline usage beginning January 1, 2006. At June 30, 2006, the liability recorded for regulatory credits totaled $51,170.

The Water Utility's rates, rules and regulations provide for a water rate stabilization account to reflect variations in the cost of water to the Water Utility. This stabilization account provides increased flexibility by allowing the adjustment of revenues from the sale of water for differences between the Water Utility's actual cost of water and the amount billed to customers through standard rates. The account is funded through expense reimbursements such as water supply cost refunds received from the Metropolitan Water District and Orange County Water District and other miscellaneous credits and revenue. At June 30, 2006 the liability recorded for regulatory credits totaled $673 for the Water Utility.

Deferred revenues

Deferred revenues arise in governmental funds when revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise, in both governmental and proprietary funds, when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures (unearned). In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized. Deferred revenues in the governmental funds amounted to $73,766 at June 30, 2006. Of this amount, $41,515 represents notes receivable that did not meet the available criterion, $28,043 represents various other revenues that did not meet the available criterion, and $4,208 represents resources for which the City did not have legal claim.

Compensated absences

Compensated absences, vacation and sick pay, for all City employees are generally paid by the General Benefits and Insurance Fund, an internal service fund. The General Benefits and Insurance Fund is reimbursed through payroll charges to all other funds based on estimates of benefits to be earned and used during the fiscal year. It is the policy of the City to pay all accumulated vacation pay when an employee retires or terminates. Accumulated sick pay in excess of 175 hours per employee is paid to employees at their then current rate of pay in January each year or upon termination from the City. Employees are paid for all accumulated sick pay when they retire from the City. Vested vacation and sick pay benefits are accrued when incurred in the General Benefits and Insurance Fund and at June 30, 2006, totaled $15,780 and is included in wages payable in the Statement of Net Assets. Also included in the Statement of Net Assets at June 30, 2006, is compensatory time liability of $464. The total compensated absences liability of $16,244 is included in wages payable in the Statement of Net Assets at June 30, 2006.

Changes in the City's compensated absences liability in fiscal year 2006 were as follows:

Compensated absences liability at beginning of year	$ 16,584
Current year compensated absences benefits earned	18,495
Current year compensated absences used	(18,835)
Compensated absences liability at end of year	$ 16,244

The amount of the compensated absences liability expected to be exhausted during the next fiscal year is $16,244.

Nuclear fuel and decommissioning costs

The Electric Utility amortizes the cost of nuclear fuel to expense using the "as burned" method. In accordance with the Nuclear Waste Disposal Act of 1982, the Electric Utility is charged a fee for the disposal of nuclear fuel at the rate of one mill per kWh on the Electric Utility's share of electricity generated by SONGS. The Electric Utility pays the fee quarterly to Southern California Edison Company (SCE), which is acting as the agent for SONGS participants. Federal regulations require the Electric Utility to provide for the future decommissioning costs of its ownership share of SONGS. The Electric Utility has established a provision for decommissioning costs of SONGS and restoration of the beachfront at San Onofre, California where it is located. The Electric Utility funds the reserve and recognizes this expense over the remaining useful life of the generating plant. A separate trust account has been established for prior and future amounts funded and these amounts are classified as restricted assets in the accompanying balance sheets. At June 30, 2006, the provision for decommissioning costs totaled $97,193. For the year ended June 30, 2006, the Electric Utility has recorded decommissioning costs incurred for SONGS in the amount of $2,971, which is included in the fuel and generation component in operating expenses.

The California Public Utilities Commission approved a cost estimate by SCE for the decommissioning costs of SONGS. The Electric Utility currently has $97,193 set aside for the decommissioning costs with an assumed rate of return of four percent per year. Based on SCE's cost estimate and the assumed four percent rate of return, the Utility will no longer need to fund the provision for decommissioning with cash contributions as investment earnings from the cash and investments currently set aside are expected to fully fund the future obligations incurred by the Electric Utility.

Pension plan

Full-time City employees are members of the State of California Public Employees' Retirement System (System). The City's policy is to fund all pension costs accrued; such costs to be funded are determined annually as of July 1 by the System's actuary. See note 10 for further discussion.

Fund balances

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The accumulated deficit fund balances at June 30, 2006, for Workforce Development, Community Development Block Grant, and Grants funds included in nonmajor governmental funds in the amount of $405, $186, and $3,081 respectively, will be eliminated in future years by the receipt of reimbursements for grant expenditures.

Budgetary principles

The City is required by its charter to adopt an annual budget on or before June 30 for the ensuing fiscal year. The General, special revenue, debt service, and capital projects governmental fund types and proprietary fund types have legally adopted budgets approved by City Council. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the department level. From the effective date of the budget, the amounts stated therein as proposed expenditures/expenses become appropriations to the various City departments. Throughout the fiscal year the budget was amended to add supplemental appropriations. All amendments to the budget which change the total appropriation amount for any department require City Council approval and all increases in appropriations must be accompanied by an increase in revenue sources of a like amount to maintain a balanced budget. The City Manager has the authority to change individual budget line items within a department as long as the total department's appropriation amount is not changed.

The City utilizes an encumbrance system as a management control technique to assist in controlling expenditures. All appropriations lapse at the end of the fiscal year, except for capital projects (other than the Redevelopment Agency Capital Projects Fund), which are carried forward until such time as the project is completed or terminated and for encumbered balances that are re-appropriated in the next year.

GASB Statement No. 34 requires that budgetary comparison statements for the General Fund and major special revenue funds be presented in the basic financial statements. These statements must display original budget, amended budget and actual results.

Budgeted revenue amounts represent the original budget modified by City Council-authorized adjustments during the year, which were contingent upon new or additional revenue sources. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year. Budgets are prepared in conformity with GAAP using the modified accrual basis of accounting.

Property taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments due on November 1 and February 1 and become delinquent after December 10 and April 10. The County of Orange, California (County) bills and collects the property taxes and remits them to the City in installments during the year. City property tax revenues are recognized when levied to the extent that they result in current receivables collectable within 60 days after year-end.

The County is permitted by State law (Proposition 13) to levy taxes at 1% of full market value (at time of purchase) and can increase the property tax rate no more than 2% per year from the full market value at the time of purchase. The City receives a share of this basic levy proportionate to what it received in the 1976 and 1978 periods.

Entitlements, shared revenues and grants

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred, all eligibility requirements have been met, and reimbursement is received within the availability period.

Revenue recognition for Electric Utility, Water Utility and Sanitation Funds

Revenue is recorded in the period in which services are provided. Residential and smaller commercial customers are billed bimonthly and all other customers monthly. At June 30, 2006 unbilled but earned service charges recorded in accounts receivable for the Electric Utility, Water Utility, and Sanitation Funds amounted to $15,091, $3,187, and $3,496 respectively.

Termination benefits

For the year ended June 30, 2006, the City of Anaheim did not have a liability related to either voluntary or involuntary termination benefits.

Net assets restricted by enabling legislation

The government-wide Statement of Net Assets reports $107.4 million of governmental activities restricted net assets, of which $29.8 million is restricted by enabling legislation.

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 expenditures/expenses during the reporting period. As such, actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND INVESTMENTS:

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

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 rated A-1 by Standard and 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 City has been actively managing short-term treasuries to enhance revenues. This program has involved buying and selling of up to 10% of the operating portfolio in short-term treasuries, which are short-term investments of the highest quality. These securities meet the City's investment parameters and can be held to maturity.

Deposits and investments is comprised of the following at June 30, 2006:

	Cash and Cash Equivalents	Investments	Restricted Cash and Cash Equivalents	Restricted Investments	Total
Governmental activities:					
General Fund	$ 1,910	$ 36,775			$ 38,685
Housing Authority	999	8,622	$ 3,720		13,341
Nonmajor governmental funds	3,812	74,356	26,860	$ 23,377	128,405
Internal service funds	6,594	131,108	17	473	138,192
Total governmental activities	13,315	250,861	30,597	23,850	318,623
Business-type activities:					
Electric Utility	6,373	128,927	4,316	227,191	366,807
Water Utility	1,435	29,674	744	4,920	36,773
Solid Waste and Sanitation	1,383	27,482			28,865
Golf Courses	38	749			787
Convention, Sports and Entertainment Venues	1,369	27,692	581	15,769	45,411
Total business-type activities	10,598	214,524	5,641	247,880	478,643
Government-wide totals	23,913	465,385	36,238	271,730	797,266
Fiduciary fund			3,587		3,587
Total cash and investments	$23,913	$465,385	$39,825	$271,730	$800,853

Deposits at June 30, 2006, consist of bank balances of $12,406 that were maintained in various federally regulated financial institutions. The bank balances, with no carrying value at June 30, 2006, represent deposits in transit, outstanding checks, and other reconciling items. Deposits with a bank balance of $446 are insured by the Federal Depository Insurance Corporation. For deposits with a bank balance of $11,960, California state statutes require federally regulated financial institutions to secure a city's deposits by pledging collateral consisting of either government securities with a value of 110% of a city's total deposits or by pledging first trust deed mortgage notes having a value of 150% of a city's total deposits. The collateral is required by regulation to be held by the counterparty's agent in the name of the City.

Investments

The City Treasurer prepares an Investment Policy Statement annually that is presented to the Investment Advisory Commission for review and then to the City Council for approval. The approved Investment Policy is submitted to the California Debt and Investment Advisory Committee in accordance with State law.

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 California Government Code and, in general, the Treasurer's policy is more restrictive than State law. The City did not have any violations of its policy during the current fiscal year. Section 53607 of the California Government Code allows the City Council to delegate its investment authority to the Treasurer and requires that the Treasurer provide a monthly report to the City Council of its investment transactions. The annual delegation of authority is incorporated in the investment policy. The Treasurer's Report meets the requirement for monthly investment reporting.

Investments Authorized by the California 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 State 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 California Government Code or the City's Investment Policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
U.S. Treasury obligations	5 years	None	None
U.S. agency securities	5 years	75%	20%
Bankers' acceptances	180 days	25%	5%
Commercial paper	270 days	25%	5%
Negotiable certificates of deposit	3 years	15%	5%
Repurchase agreements	90 days	75%	None
Reverse repurchase agreements	92 days	20%	None
Medium term corporate notes	5 years	15%	5%
Money market mutual funds	N/A	20%	10%
LAIF	N/A	80 Million	None
Time certificates of deposit (TCD)	5 years	30%	5%

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

At June 30, 2006 the City exceeded the 5% concentration limit in the following Federal agency securities: Federal Farm Credit Bank $72,076 (14%), Federal Home Loan Bank $79,417 (15%), Federal Home Loan Mortgage Corporation $38,846 (7%), and Federal National Mortgage Association $36,640 (7%).

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 California 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 Allowed	Maximum Investment in One Issuer
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
Mutual funds	None	None	None
LAIF	None	None	None

At June 30, 2006 the investments controlled by fiscal agents exceeded the 5% concentration limit in the following federal agency and guaranteed investment securities: Federal Home Loan Bank $76,609 (29%) and Transamerica Life $74,229 (28%). All guaranteed investment securities have downgrade language that requires collateral should credit ratings drop below certain levels.

Custodial Credit Risk

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Treasurer mitigates this risk by investing in longer-term securities only with funds that are not needed for current cash flow purposes and holding these securities to maturity. The Treasurer uses the segmented time distribution method to identify and manage interest rate risk. In accordance with its 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 trustee is offset by the fact that the long term investments are for the reserve funds with the semi-annual 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 funds are used to accumulate monthly or semi-annual debt service payments.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity at June 30, 2006:

Investments	Credit Rating	Fair Value 6/30/2006	12 Months or Less	13 to 24 Months	25 to 36 Months	37 to 60 Months	More Than 60 Months
Treasurer's Pooled Investments:							
U.S. Treasury notes	Exempt	$252,383	$ 93,513	$ 99,326	$ 59,544		
Federal agency securities	AAA	231,859	104,523	56,623	32,712	$38,001	
Medium term notes	Aa2-AA-	17,348		7,095	4,974	5,279	
Commercial paper	P1-A1+	4,986	4,986				
Mutual funds	AAA	11,344	11,344				
LAIF	Unrated	9,500	9,500				
Total investments controlled by City Treasurer		527,420	223,866	163,044	97,230	43,280	
Investments Controlled by Fiscal Agents:							
Federal agency securities	AAA	95,675	55,360		8,962	27,866	$ 3,487
Guaranteed investment agreement	Unrated	85,006	68,123				16,883
Collaterized investment contracts	Unrated	19,074					19,074
Flexible repurchase agreements	Unrated	33,967			2,397	12,873	18,697
Mutual funds	AAA	25,395	25,395				
LAIF	Unrated	1,910	1,910				
Total investments controlled by fiscal agents		261,027	150,788		11,359	40,739	58,141
Total Investments		$788,447	$374,654	$163,044	$108,589	$84,019	$58,141

NOTE 3 – ACCOUNTS RECEIVABLE, DUE FROM OTHER GOVERNMENTS, AND CERTAIN INTERFUND TRANSACTIONS, RECEIVABLE AND PAYABLE BALANCES:

Accounts receivable for the City's governmental and business-type activities, including the applicable allowance for uncollectible accounts at June 30, 2006, are as follows:

	Accounts Receivable	Allowance for Uncollectibles	Total
Governmental activities:			
General Fund	$ 9,877	$ (839)	$ 9,038
Nonmajor governmental funds	751	(2)	749
Internal service funds	1,434		1,434
Total governmental activities	12,062	(841)	11,221
Business-type activities:			
Electric Utility	35,121	(90)	35,031
Water Utility	5,595	(4)	5,591
Sanitation	7,415	(44)	7,371
Golf Courses	104		104
Convention, Sports and Entertainment Venues	834	(22)	812
Total business-type activities	49,069	(160)	48,909
Total accounts receivable	$61,131	$(1,001)	$60,130

Due from other governments for the City's governmental activities at June 30, 2006, are as follows:

	Taxes	Grants	Other	Total
Governmental activities:				
General Fund	$17,187		$335	$17,522
Housing Authority		$ 338	88	426
Nonmajor and other funds	1,429	24,957	246	26,632
Total due from other governments	$18,616	$25,295	$669	$44,580

Revenues are reported net of estimated uncollectible amounts. Total estimated uncollectible amounts related to revenues of the current period are as follows:

General Fund	$231
Electric Utility	311
Water Utility	20
Sanitation	12
Others	24
Total	$598

Net internal balances between governmental activities and business-type activities of $469 are included in the government-wide financial statements at June 30, 2006.

The following interfund receivables and payables are included in the fund financial statements at June 30, 2006:

	Interfund Receivable	Interfund Payable
Governmental funds:		
General Fund	$10,012	$ 85
Nonmajor governmental funds	12,998	27,956
Total governmental funds	23,010	28,041
Enterprise funds:		
Electric Utility	700	
Golf Courses		5,753
Convention, Sports and Entertainment Venues	10,699	700
Total enterprise funds	11,399	6,453
Internal service funds	85	
Total	$34,494	$34,494

There are interfund balances at June 30, 2006 that are generally short-term loans to cover temporary cash deficits in various funds. The following interfund balances are expected to be repaid in more than one year:

General Fund

Of the total interfund receivable in the General Fund, $3,152 is due from nonmajor governmental funds (Redevelopment Agency Capital Projects Fund). On September 3, 2002, the City loaned the Redevelopment Agency $3,388 in order to acquire two properties for redevelopment. The properties are located at 1234 and 1300 South Anaheim Boulevard. The loan is to be amortized over 30 years and is repayable over five years with the first annual payment due on August 1, 2003, and the final lump sum payment due on August 1, 2007. The loan bears interest at the City's average annual investment yield.

Of the total interfund receivable in the General Fund, $855 is due from nonmajor governmental funds (Redevelopment Agency Capital Projects Fund). The balance is expected to be repaid from future proceeds of the Anaheim Westgate Center (Westgate).

Of the total interfund receivable in the General Fund, $5,753 is due from the Golf Courses Fund. On September 24, 2002, the City Council approved a loan up to $6,400 from the General Fund to the Golf Courses Fund for construction of the Anaheim Hills Golf Clubhouse. The loan is payable in annual amounts of not less than $548 beginning in July 2004 until July 2023 and bears interest at the City's investment yield as of June 30th of each year.

Nonmajor Governmental Funds

Of the interfund receivable in the nonmajor governmental funds, $9,267 is due to the Other Capital Improvements Capital Projects Fund from the nonmajor governmental funds (Redevelopment Agency Capital Projects Fund). The Redevelopment Agency entered into a Cooperation Agreement with the City on April 1, 2003 whereby the City will assist the Redevelopment Agency with the development of Westgate utilizing $10,000 of fund from the HUD Section 108 loan program. The Redevelopment Agency is obligated to pay the City for the repayment of the HUD 108 loan from property tax increment and certain project revenues generated by the Westgate. As of June 30, 2006, the Redevelopment Agency has utilized $9,423 of HUD 108 funds to acquire certain properties.

Of the interfund receivable in the nonmajor governmental funds, $2,139 is due to the Redevelopment Agency Capital Projects Fund from nonmajor governmental funds (Other Capital Improvements Capital Projects Fund). On March 15, 1999, the Redevelopment Agency entered into a Cooperation Agreement with the City where the Redevelopment Agency and the City will share in the cost of the west Lincoln Avenue Street improvement project. The Agreement also provides that the Redevelopment Agency will receive transportation fee credits in the amount of its contribution to the project.

Electric Utility Fund

The interfund receivable of $700 in the Electric Utility Fund is due from the Convention, Sports and Entertainment Venues Enterprise Fund for the installation of energy efficient HVAC equipment, and building envelope improvements. The loan is payable in monthly installments of $23 beginning January 2005 until December 2008.

Convention, Sports and Entertainment Venues Fund

The interfund receivable of $10,699 in the Convention, Sports and Entertainment Venues Fund is due from nonmajor governmental funds (Redevelopment Agency Capital Projects Fund). The City entered into a Cooperation Agreement with the Redevelopment Agency on May 14, 1996, for the renovation of the Stadium. The Redevelopment Agency agreed to reimburse the City for $10,000 of renovation costs plus 5% simple interest on the unpaid balance. The Agency's reimbursement obligation is payable from the Stadium Project Area (SPA) property tax increment revenue. Any outstanding balance ceases to be an obligation of the Redevelopment Agency on August 9, 2039, the expiration of the SPA. It is expected that the balance will be repaid prior to the expiration of the SPA.

The net transfers of $8,444 from the business-type activities to the governmental activities on the government-wide Statement of Activities are primarily comprised of operational subsidies to the General Fund that are offset by debt service subsidies to the Convention, Sports and Entertainment Venues Fund and the transfer of capital assets to the Electric and Water Utilities and from Convention, Sports and Entertainment Venues Funds reduced by the transfer of capital assets from governmental activities to business-type activities in the amount of $1,966.

The following interfund transfers are reflected in the fund financial statements at June 30, 2006:

	Transfers In	Transfers Out
Governmental funds:		
General Fund	$ 26,628	$ 49,662
Housing Authority	6,550	5,860
Nonmajor governmental funds	62,357	28,803
Total governmental funds	95,535	84,325
Enterprise funds:		
Electric Utility		15,449
Water Utility		2,528
Sanitation		2,431
Golf Courses		1,500
Convention, Sports and Entertainment Venues	11,498	
Total enterprise funds	11,498	21,908
Internal Service funds		800
Total	$107,033	$107,033

The interfund transfers generally are made for the purpose of debt service payments made from a debt service fund but funded from an operating fund or subsidy transfers. There were no significant transfers during the fiscal year that were either non-routine in nature or inconsistent with the activities of the fund making the transfer.

NOTE 4 – BOND PAYMENT RECEIVABLE:

On August 3, 1995, the Los Angeles Rams Football Company, currently the St. Louis Rams (Rams), exercised its right to terminate its lease under the Fourth Amendment to the Exhibition Agreement between the Rams and the City (Rams Agreement). Under the Rams Agreement, the Rams became obligated to repay the City for the debt service on the 1979 Anaheim (California) Stadium Inc. Lease Revenue Bonds in the principal amount of $28,110, which obligation is supported by an irrevocable standby letter of credit with Dresdner Bank AG and will be repaid by August 15, 2015. The 1979 Anaheim (California) Stadium Inc. Lease Revenue Bonds were subsequently refunded, and are no longer outstanding, by a portion of the Convention, Sports and Entertainment Venues Fund 1993 Refunding Projects Certificates of Participation. At June 30, 2006, there remained principal outstanding of $18,282 on that portion of the Convention, Sports and Entertainment Venues Fund 1993 Refunding Projects Certificates of Participation. During fiscal year 2006, the Rams reimbursed the City $2,353 (representing $1,260 for principal and $1,093 for interest) for the current portion of their debt service obligation. The City accounted for the termination of the lease by recording a bond payment receivable from the Rams and a contribution to the Convention, Sports and Entertainment Venues Enterprise Fund in the amount of the debt obligation assumed by the Rams under the Rams Agreement.

NOTE 5 – CAPITAL ASSETS:

Capital asset activities for the year ended June 30, 2006 are as follows:

	Beginning Balance	Additions	Transfer In (Out)	Deletions	Ending Balance
Governmental activities:					
Nondepreciable assets:					
Land	$ 495,006	$ 28,529	$ (684)	$ (947)	$ 521,904
Construction in progress	46,105	43,931	(42,446)	(608)	46,982
Total	541,111	72,460	(43,130)	(1,555)	568,886
Depreciable assets:					
Buildings, structures and improvements	221,002	5,545	7,158		233,705
Machinery and equipment	79,068	9,566	6,830	(2,046)	93,418
Infrastructure	713,165	1,566	26,778	(7)	741,502
Total	1,013,235	16,677	40,766	(2,053)	1,068,625
Total assets	1,554,346	89,137	(2,364)	(3,608)	1,637,511
Less accumulated depreciation for:					
Buildings, structures and improvements	(79,607)	(5,588)			(85,195)
Machinery and equipment	(44,926)	(8,969)		2,016	(51,879)
Infrastructure	(252,509)	(16,103)		7	(268,605)
Total accumulated depreciation	(377,042)	(30,660)		2,023	(405,679)
Total governmental activities capital assets, net	$1,177,304	$ 58,477	$ (2,364)	$(1,585)	$1,231,832
Business-type activities:					
Nondepreciable assets:					
Land	$ 36,281	$ 143	$ 1,169		$ 37,593
Construction in progress	27,951	87,426	(38,034)	$ (598)	76,745
Nuclear fuel at amortized cost	2,197	3,010		(2,415)	2,792
Total	66,429	90,579	(36,865)	(3,013)	117,130
Depreciable assets:					
Buildings, structures and improvements	477,634	896	2,637	(509)	480,658
Utility plant	1,152,329	2,207	36,361	(1,759)	1,189,138
Machinery and equipment	30,443	466	231	(911)	30,229
Total	1,660,406	3,569	39,229	(3,179)	1,700,025
Total assets	1,726,835	94,148	2,364	(6,192)	1,817,155
Less accumulated depreciation for:					
Buildings, structures and improvements	(127,116)	(10,921)		282	(137,755)
Utility plant	(410,975)	(80,772)		2,122	(489,625)
Machinery and equipment	(16,350)	(2,249)		872	(17,727)
Total accumulated depreciation	(554,441)	(93,942)		3,276	(645,107)
Total business-type activities capital assets, net	$1,172,394	$ 206	$ 2,364	$(2,916)	$1,172,048

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	
General government	$ 354
Police	1,631
Fire	540
Community Development	1,183
Planning	258
Public Works	16,541
Community Services	1,987
Convention, Sports and Entertainment	2,518
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	5,648
Total depreciation expense - governmental activities	$30,660
Business-type activities:	
Electric Utility	73,833
Water Utility	6,939
Sanitation	308
Golf Courses	621
Convention, Sports and Entertainment Venues	12,241
Total depreciation expense - business-type activities	$93,942

Capital leases

Included in the capital assets amounts listed above are the following capitalized leased assets:

	Governmental Activities	Business-type Activities	Total
Machinery and equipment	$ 6,637	$ 539	$ 7,176
Less accumulated amortization	(1,698)	(245)	(1,943)
Capitalized leased assets, net	4,939	294	5,233

Operating leases

Housing Authority

At June 30, 2006, the Housing Authority earned revenues as the lessor of land, carried at cost of $40,461 in the government-wide financial statements, under four operating ground leases. These leases to developers are noncancelable. Two of the leases are for a term of 55 years, expiring in 2055 and 2057. Two of the leases are for a term of 57 years, expiring in 2060 and 2063. The total base rent amounts to be collected over the terms of the leases are $12,400, $8,700, $7,505, and $7,900, respectively, with simple interest accruing on unpaid portions at a rate of 4.0%, 4.5%, 4.0%, and 4.0%, respectively. Minimum lease payments are calculated annually, based on residual receipts, as defined in the lease agreements. It is estimated that the full amounts of the leases are collectible. At June 30, 2006, the Housing Authority has recorded notes receivable due from developers related to these transactions of $8,366 in both the government-wide and fund financial statements.

Redevelopment Agency

At June 30, 2006, the Redevelopment Agency earned revenues as lessor from certain parking structure property and retail spaces, carried at cost of $7,861, less accumulated depreciation of $6,216, under operating leases. The following is a schedule of minimum future rentals on noncancelable operating leases at June 30, 2006:

Fiscal Year Ending June 30	
2007	$ 256
2008	257
2009	258
2010	259
2011	260
2012-2016	1,314
2017-2021	1,345
2022-2026	1,227
2027-2031	1,172
2032-2034	704
Total minimum future rentals	$7,052

NOTE 6 – GENERAL BENEFITS AND INSURANCE FUND:

The General Benefits and Insurance Fund, an internal service fund, is used to account for employee compensated absences, retirement and health benefits, workers' compensation related benefits, self-insurance, commercial insurance purchases, and alternative risk financing activities. Revenues of the General Benefits and Insurance Fund are derived from charges to City departments using estimates of benefits earned and cost allocation charges established at the beginning of the year and from interest income on reserves.

At June 30, 2006, 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 (collectively, "Insurance"). Settled claims have not exceeded insurance coverage in any of the past three years, nor does management believe that there are any pending claims that will exceed insurance coverage.

The unpaid claims liability included in the General Benefits and Insurance Fund is based on the results of actuarial studies and includes amounts for claims incurred but not reported and allocated loss adjustment expenses. Claims liabilities are calculated using a discount of 4% and consider the effects of inflation, multi-year loss development trends, and other economic and social factors. It is the City's practice to obtain full actuarial studies biennially for general liability and workers' compensation coverages. Premiums are charged by the General Benefits and Insurance Fund using various allocation methods that include actual costs, trends in claims experience, exposure base, and number of participants.

Changes in the General Benefits and Insurance Fund's claims liability in fiscal years 2006 and 2005 were as follows:

	2006	2005
Claims liability at beginning of year	$29,920	$26,382
Current year claims and changes in estimates	7,891	9,741
Claims payments	(6,983)	(6,203)
Claims liability at end of year	$30,828	$29,920

Current year total incurred losses increased slightly, primarily because (i) actual incurred development was greater than actuarially anticipated since the prior report, and (ii) reserves were strengthened in the workers' compensation program, while (iii) actual paid losses were less than actuarially anticipated in the prior report, and (iv) workers' compensation loss experience was more favorable in the current year, compared to the prior year.

Above the self-insured retention of $1,000 per occurrence for workers' compensation losses, the City purchases excess insurance to $75,000 per occurrence. Above the self-insured retention of $1,000 per occurrence for liability losses, the City purchases excess insurance for all City operations to $45,000, excluding (i) Utilities operations for which the City purchases excess insurance to $70,000, and (ii) helicopter operations for which the City purchases $50,000 of commercial excess insurance (on a first-dollar basis). The first layer of excess liability loss coverage is procured through the Authority for California Cities Excess Liability (ACCEL), a joint powers insurance authority pooling catastrophic general, automobile, personal injury, and public officials errors and omissions liability losses among twelve California cities, through both risk-sharing and joint purchase arrangements. The City, therefore, continues to maintain some limited excess liability risk sharing exposure directly with ACCEL. This pooled coverage has exposure (i) from the run-out periods from prior years in which commercial excess insurance was not obtained, (ii) from losses, which are covered under ACCEL's Memorandum of Coverage but not covered under the commercial excess liability policies, and (iii) from an ACCEL retained layer of $2,000 in excess of $1,000. Each ACCEL member's share of pooled losses is based on a risk-sharing formula, which includes, but is not limited to, exposure and loss experience factors.

In order to provide funds to pay claims, ACCEL collects a deposit from each member. The deposits are credited with investment income at the rate earned on ACCEL's investments. At June 30, 2006, ACCEL's cash and investments totaled $22,952, of which $4,597 consists of deposits provided by the City. The City has no specific equity interest in ACCEL. Deposits provided to ACCEL by the City are expensed when paid by the General Benefits and Insurance Fund.

ACCEL is responsible for deciding the risks it will underwrite, monitoring the handling of large claims, and arranging financial programs. ACCEL does not have any debt outstanding. For a copy of separate financial statements, contact the Finance Director of the City.

NOTE 7 – LONG-TERM LIABILITIES:

The following is a summary of changes in long-term liabilities reported in the government-wide financial statements for the year ended June 30, 2006:

	Beginning Balance	Additions/ Proceeds	Reductions/ Payments	Ending Balance	Due Within One Year
Governmental activities:					
Bonds Payable:					
General obligation	$ 6,625		$ (455)	$ 6,170	$ 470
City lease revenue	506,432		(3,955)	502,477	5,290
Redevelopment Agency	159,094		(2,977)	156,117	3,982
Accretion	67,624	$10,544	(1,973)	76,195	3,742
Total	739,775	10,544	(9,360)	740,959	13,484
COPs:					
City COPs	31,327		(2,881)	28,446	3,280
Motorized Equipment COPs	1,849		(227)	1,622	239
Unamortized COP discount	(2)			(2)	
Total	33,174		(3,108)	30,066	3,519
Capital lease obligations:					
City	1,264	1,535	(802)	1,997	512
Redevelopment Agency		46	(15)	31	24
Housing Authority		74	(26)	48	24
Internal Service Funds	259	167	(282)	144	99
Total	1,523	1,822	(1,125)	2,220	659
Notes and loans payable:					
City	16,450		(1,529)	14,921	1,591
Redevelopment Agency	10,194	22,357	(6,392)	26,159	2,372
Housing Authority	2,025	226		2,251	
Total	28,669	22,583	(7,921)	43,331	3,963
Self-insurance (note 6)	29,920	7,891	(6,983)	30,828	8,395
Retired medical (note 10)	74,049		(6,525)	67,524	6,872
Governmental activities total	907,110	42,840	(35,022)	914,928	36,892
Business-type activities:					
Bonds payable:					
Electric Utility	494,845		(14,615)	480,230	13,220
Water Utility	11,925		(1,871)	10,054	1,325
Convention, Sports and Entertainment Venues	23,090		(75)	23,015	75
Unamortized bond premium/discount	(1,730)	2,305		575	
Total	528,130	2,305	(16,561)	513,874	14,620
COPs:					
Electric Utility	21,630		(520)	21,110	545
Convention, Sports and Entertainment Venues	106,684		(5,961)	100,723	6,143
Accretion	5,669		(1,800)	3,869	1,891
Unamortized COP discount	(1,031)		417	(614)	
Total	132,952		(7,864)	125,088	8,579
Capital lease obligation:					
Electric Utility		255	(89)	166	56
Water Utility	180	104	(216)	68	22
Golf		3	(1)	2	1
Sanitation		24	(7)	17	7
Convention, Sports and Entertainment Venues		40	(19)	21	9
Total	180	426	(332)	274	95
Notes and loans payable:					
Water Utility	16,320		(919)	15,401	945
Unamortized note discount	(478)		53	(425)	
Total	15,842		(866)	14,976	945
Decommissioning provision	93,782	3,411		97,193	
Business-type activities total	770,886	6,142	(25,623)	751,405	24,239
Government-wide total	$1,677,996	$48,982	$(60,645)	$1,666,333	$61,131

GOVERNMENTAL ACTIVITIES:

BONDS PAYABLE

At June 30, 2006, bonds payable consisted of the following:

	Date Issued	Final Maturity	Range of Interest Rates at Issue Date	Authorized and Issued	Out-standing 6/30/06
City					
1993 General Obligation Refunding Bonds	11/01/93	10/01/16	4.0%-7.0%	$ 10,055	$ 6,170
1997 Anaheim Lease Revenue Bonds	2/01/97	3/01/37	4.5%-6.9%	510,427	502,477
Accretion					72,648
Total City bonds					581,295
Redevelopment Agency					
1992 Project Alpha Tax Allocation Bonds	2/01/02	12/28/18	4.0%-6.45%	134,433	106,332
Accretion					3,547
1997 Project Alpha Tax Allocation Bonds, Series A	6/01/97	2/01/18	4.4%-5.3%	27,905	19,855
2000 Project Alpha Tax Allocation Bonds, Series A & B	12/01/00	2/01/18	4.1% - 7.7%	31,850	29,930
Total Redevelopment Agency bonds					159,664
Total governmental activities bonds				$714,670	$740,959

Bonds Payable - City

Lease payment measurement revenues

In February 1997, the Anaheim Public Financing Authority sold $510.4 million of lease revenue bonds to construct public improvements in The Anaheim Resort. The Bonds are special obligations of the Authority payable solely from lease payments to be made by the City to the Authority for the use and occupancy of the leased premises. Debt service requirements to maturity for these lease revenue bonds are paid from lease payment measurement revenues (LPMR) defined as: 1) 3% of the 15% transient occupancy taxes (TOT) (i.e. 20% of the total transient occupancy taxes) for all hotel properties in the City, excluding Disney properties, and 2) 100% of the incremental TOT, sales, and property tax revenues from all Disney properties over the 1995 base, adjusted each year by the CPI change, with a minimum 2% increase annually. The City is not required to pay any additional sums should the LPMR fall short of the amount required to pay debt service on the bonds. The Walt Disney Company provided a guarantee to the bond insurer to enable the issuer to obtain municipal bond insurance, resulting in the bonds receiving an AAA rating from S&P and an Aaa rating from Moody's. LPMR began on January 1, 2001, with the first payment made to the trustee on July 7, 2001, for the LPMR generated during the period January through June 2001. Subsequent to that date, LPMR is collected and remitted to the trustee monthly. During the fiscal year ended June 30, 2006, $3,955 was remitted to the trustee.

Debt service requirements to maturity for the 1993 General Obligation Refunding Bonds and the 1997 Anaheim Lease Revenue Bonds to be paid by the Municipal Improvements Debt Service Fund from future property tax revenues and by the Anaheim Resort Improvements Debt Service Fund from future LPMR, respectively, are as follows:

Fiscal Year Ending 6/30	Principal	Interest	Total
2007	$ 5,760	$ 22,609	$ 28,369
2008	7,050	22,274	29,324
2009	8,240	21,835	30,075
2010	9,615	21,290	30,905
2011	11,105	20,656	31,761
2012-2016	82,385	90,015	172,400
2017-2021	69,823	127,519	197,342
2022-2026	71,010	156,860	227,870
2027-2031	87,245	176,167	263,412
2032-2036	107,882	196,439	304,321
2037	48,532	57,358	105,890
Total bonds	$508,647	$913,022	$1,421,669

Included in interest is $72,648 related to accretion on capital appreciation bonds.

Bonds Payable - Redevelopment Agency

Debt service requirements to maturity for the Redevelopment Agency Tax Allocation bonds are to be paid by the Redevelopment Agency Debt Service Fund from future tax increment revenue are as follows:

Fiscal Year Ending 6/30	Principal	Interest	Total
2007	$ 3,982	$13,417	$ 17,399
2008	7,790	9,409	17,199
2009	8,260	9,373	17,633
2010	10,685	8,365	19,050
2011	11,355	7,684	19,039
2012-2016	68,365	26,522	94,887
2017-2021	45,680	4,425	50,105
Total bonds	$156,117	$79,195	$235,312

Included in interest is $3,547 related to accretion on capital appreciation bonds.

CERTIFICATES OF PARTICIPATION

At June 30, 2006, certificates of participation consisted of the following:

	Date Issued	Final Maturity	Range of Interest Rates at Issue Date	Authorized and Issued	Out-standing 6/30/06
City					
1993 Refunding Projects	1/14/93	8/01/19	5.47%	$ 9,696	$ 5,926
1993 Police Facilities Refinancing Project	7/15/93	8/01/08	4.47%	26,000	6,450
1993 Arena Land Refinancing	11/01/93	11/01/19	6.0%-7.50%	21,210	16,070
Total City					28,446
Motorized Equipment					
1993 Refunding Projects	1/14/93	8/01/11	5.47%	4,584	1,622
Unamortized COP discount					(2)
Total Motorized Equipment					1,620
Total governmental activities COPs				$61,490	$30,066

Certificates of Participation Payable – City

Certificates of participation debt service payments are to be paid from unrestricted revenues of the Certificates of Participation Debt Service Fund. COP debt service requirements to maturity are as follows:

Fiscal Year Ending 6/30	Principal	Interest	Total
2007	$ 3,280	$ 1,607	$ 4,887
2008	3,204	1,445	4,649
2009	3,388	1,272	4,660
2010	1,208	1,149	2,357
2011	1,303	1,070	2,373
2012-2016	7,849	3,956	11,805
2017-2021	8,214	1,098	9,312
Total COPs	$28,446	$11,597	$40,043

Certificates of Participation Payable – Motorized Equipment

Debt service requirements to maturity for Motorized Equipment certificates of participation are to be paid by the Motorized Equipment Internal Service Fund from future revenues are as follows:

Fiscal Year Ending 6/30	Principal	Interest	Total
2007	$ 239	$ 87	$ 326
2008	251	72	323
2009	261	58	319
2010	273	42	315
2011	290	26	316
2012	308	8	316
Total	1,622	293	1,915
Unamortized COP discount	(2)		(2)
Total COPs	$1,620	$293	$1,913

CAPITAL LEASE OBLIGATIONS

The City has a long-term noncancelable lease with Motorola, Inc. to finance the acquisition of certain software utilized by the City's Police Department. The lease qualifies as a capital lease for accounting purposes as defined under the FASB Statement No. 13, *Accounting for Leases*, and therefore has been recorded at the present value of future minimum lease payments at the date of inception of the lease. Future minimum lease payments to be made from unrestricted revenues of the General Fund under the capital lease are as follows:

Fiscal Year Ending 6/30	
2007	$ 296
2008	296
2009	296
2010	247
Total	1,135
Less amount representing interest, variable	(107)
Present value of future minimum lease payments	$1,028

The City has long-term noncancelable leases with Xerox Corporation and Cannon Finance Service, Inc. to finance the acquisition of a Xerox Copier and a Canon Digital Color Copier. The leases qualify as capital leases for accounting purposes as defined under the FASB Statement No. 13, *Accounting for Leases*, and therefore have been recorded at the present value of future minimum lease payments at the date of inception of the leases. Future minimum lease payments to be made from unrestricted revenues of the Duplicating and Printing Internal Service Fund under these capital leases are as follows:

Fiscal Year Ending 6/30	
2007	$36
Total	36
Less amount representing interest, variable	(1)
Present value of future minimum lease payments	$35

The City has a long-term noncancelable agreement with HP Financial Services to finance the acquisition of the City's server, desktop, and portable computer equipment. The agreement qualifies as a capital lease for accounting purposes as defined under the FASB Statement No. 13, *Accounting for Leases*, and therefore has been recorded at the present value of future minimum lease payments at the date of inception of the lease. Future minimum lease payments to be made from unrestricted revenues of the Information Services Internal Service Fund under the capital lease are as follows:

Fiscal Year Ending 6/30	
2007	$ 659
2008	410
2009	139
Total	1,208
Less amount representing interest, variable	(51)
Present value of future minimum lease payments	$1,157

NOTES AND LOANS PAYABLE

At June 30, 2006, notes and loans payable are as follows:

Homer Street land acquisition

In July 1995, the Redevelopment Agency executed an installment note secured by a deed of trust with the County for acquisition of land at 1133 Homer Street and 1170 Anaheim Boulevard. The land will be developed by the Community Services Department as part of La Palma Park. The amount of the note is $500 and bears interest at 7.25% per annum for a term of 15 years. Based on a cooperative agreement between the Redevelopment Agency and the Community Services Department, principal and interest on the note will be paid by the Community Services Department. At June 30, 2006, the outstanding balance on the note was $175. Note debt service requirements to maturity are as follows:

Fiscal Year Ending 6/30	Principal	Interest	Total
2007	$ 39	$13	$ 52
2008	42	10	52
2009	45	7	52
2010	49	3	52
Total notes and loans	$175	$33	$208

HUD Section 108 guaranteed loans payable

In May 1999, the City entered into an agreement with HUD, making available $3,000 to finance the acquisition of certain property for park use. The loan bears interest ranging from 6.56% to 7.22% and is payable over a nine-year period beginning on August 1, 2000 until August 1, 2008. The outstanding balance at June 30, 2006, was $1,110. Loan debt service requirements to maturity to be paid from the Community Development Block Grant Special Revenue Fund are as follows:

Fiscal Year Ending 6/30	Principal	Interest	Total
2007	$ 350	$ 67	$ 417
2008	375	41	416
2009	385	14	399
Total notes and loans	$1,110	$122	$1,232

In May 2003, the City entered into an agreement with HUD, making available $10,000 to provide financial assistance related to the development of Westgate on a former landfill site located at the northeast corner of Beach Boulevard and Lincoln Avenue. The loan is payable from sales tax revenue generated by Westgate, from Community Development Block Grant yearly entitlement, and from the Redevelopment Agency's property tax increment and project participation revenues generated by Westgate. The outstanding balance at June 30, 2006 was $9,843. The loan bears interest ranging from 1.74% to 5.97% and is payable over 20 years beginning on February 1, 2005 until August 1, 2023. Loan debt service requirements to maturity are as follows:

Fiscal Year Ending 6/30	Principal	Interest	Total
2007	$ 162	$ 518	$ 680
2008	169	513	682
2009	175	508	683
2010	272	499	771
2011	355	486	841
2012-2016	2,388	2,122	4,510
2017-2021	3,711	1,312	5,023
2022-2026	2,611	220	2,831
Total notes and loans	$9,843	$6,178	$16,021

Computer-Aided Dispatch and Records Management System (CAD/RMS) loan payable

In December 2005, the City entered into an agreement with Suntrust to finance the acquisition and implementation of the CAD/RMS system. The amount of the loan is $5,289 and bears interest at 3.30% per annum for a term of 5 years. Principal and interest payments of $578 are due semiannually beginning on June 30, 2006 until December 31, 2009. The outstanding balance at June 30, 2006 was $3,793. Loan debt service requirements to maturity are as follows:

Fiscal Year Ending 6/30	Principal	Interest	Total
2007	$1,040	$117	$1,157
2008	1,074	82	1,156
2009	1,110	46	1,156
2010	569	9	578
Total notes and loans	$3,793	$254	$4,047

Redevelopment Agency Savi notes payable

In July 1989, the Redevelopment Agency executed a note with Savi Ranch Associates, a California general partnership. The amount of the note is $2,707 and bears interest at 9.5% per annum. The note is payable from net property tax increment as defined in the Redevelopment Agency note. If there is insufficient property tax increment to pay for principal and interest at the termination of the River Valley project area plan, the note ceases to be an obligation of the Redevelopment Agency.

Redevelopment Agency contractual commitments

As part of the Redevelopment Agency's economic development program to attract and retain businesses in the City, the Redevelopment Agency has entered into various contractual commitments. Generally, the Redevelopment Agency reimburses the business for its tenant improvement costs from property tax increment revenues received by the Redevelopment Agency. At June 30, 2006, the outstanding balance of these commitments totaled $465.

California State Teachers Retirement System (CALSTRS) has entered into an agreement, dated December 15, 1992, with the Redevelopment Agency to share in the development costs of the Plaza Redevelopment Project. In March 2004, CALSTRS assigned the agreement to the new owners, Pan Pacific Retail Properties, In. (PPRP).The PPRP participation note bears 7% simple interest rate and has a maximum term of 25 years. The Redevelopment Agency's obligation to repay the note is entirely contingent on the revenues generated by the project. The note will be forgiven at the end of the term whether or not the entire amount has been repaid. At June 30, 2006, the outstanding balance of the participation note is $4,615.

Debt service requirements to maturity for the Redevelopment Agency note and contractual commitments to be paid from future revenues are as follows:

Fiscal Year Ending 6/30	Principal	Interest	Total
2007	$ 2,372	$1,164	$ 3,536
2008	7,193	1,474	8,667
2009	5,974	805	6,779
2010	2,449	653	3,102
2011	813	572	1,385
2012-2016	1,753	2,508	4,261
2017-2021	5,605	1,045	6,650
Total notes and contractual commitments	$26,159	$8,221	$34,380

Housing Authority CHFA loan agreements

In October 2003, the Housing Authority entered into a loan agreement for an amount up to $1,800 with the California Housing Finance Agency (CHFA), to provide funding for first-time homebuyers down payment assistance. The note bears 3% simple interest, with principal and interest due in October 2013. At June 30, 2006, the outstanding balance of this loan is $601.

In November 1999 and April 2000, the Housing Authority entered into separate loan agreements totaling $1,650 with CHFA to provide funding to several property owners for the rehabilitation of properties to provide affordable housing. The notes bear 3% simple interest, with principal payments in the amount of $1,150 and $500 due in November 2009 and April 2010, respectively.

BUSINESS-TYPE ACTIVITIES:

BONDS PAYABLE

	Date Issued	Final Maturity	Range of Interest Rates at Issue Date	Authorized and Issued	Outstanding 6/30/06
Electric Utility					
1993 Revenue Bonds	6/01/93	10/01/07	3.5%-5.1%	$ 60,700	$ 12,945
1998 Revenue Bonds	5/01/98	10/01/28	4.75%-5.0%	65,000	59,040
1999 Revenue Bonds	9/01/99	10/01/27	4.625%	45,000	43,010
2002 Revenue Bonds	2/15/02	10/01/31	3.3%-5.25%	178,705	178,705
2003 Revenue Bonds	4/01/03	10/01/22	3.0%-5.0%	60,415	57,745
2004 Revenue Bonds	6/01/04	10/01/34	3.0%-5.0%	131,265	128,785
Total					480,230
Unamortized bond premium					1,164
Total Electric Utility					481,394
Water Utility					
2004 Revenue Bonds	5/01/04	10/01/16	4.0%-4.5%	12,105	10,054
Total					10,054
Unamortized bond discount					(392)
Total Water Utility					9,662
Convention, Sports and Entertainment Venues					
2002 Revenue Bonds	7/02/02	8/01/23	3.0%-5.5%	26,260	23,015
Unamortized bond discount					(197)
Total Convention, Sports and Entertainment Venues					22,818
Total business-type activities bonds				$579,450	$513,874

Bonds Payable - Electric Utility

Bond debt service requirements to maturity for the Electric Utility to be paid from revenues are as follows:

Fiscal Year Ending 6/30	Principal	Interest	Total
2007	$ 13,220	$ 23,222	$ 36,442
2008	13,770	22,625	36,395
2009	14,410	22,011	36,421
2010	15,000	21,374	36,374
2011	15,685	20,671	36,356
2012-2016	87,515	91,767	179,282
2017-2021	97,315	67,833	165,148
2022-2026	95,620	44,283	139,903
2027-2031	92,540	21,047	113,587
2032-2035	35,155	2,216	37,371
Total	480,230	337,049	817,279
Unamortized bond premium	1,164		1,164
Total bonds	$481,394	$337,049	$818,443

Bonds Payable - Water Utility

Bond debt service requirements to maturity for the Water Utility to be paid from revenues are as follows:

Fiscal Year Ending 6/30	Principal	Interest	Total
2007	$ 1,325	$ 379	$ 1,704
2008	1,375	325	1,700
2009	1,435	269	1,704
2010	1,490	210	1,700
2011	880	163	1,043
2012-2016	3,544	327	3,871
2017-2021	5		5
Total	10,054	1,673	11,727
Unamortized bond discount	(392)		(392)
Total bonds	$ 9,662	$1,673	$11,335

Bonds Payable – Convention, Sports and Entertainment Venues

Bond debt service requirements to maturity for the Convention, Sports and Entertainment Venues to be paid from revenues are as follows:

Fiscal Year Ending 6/30	Principal	Interest	Total
2007	$ 75	$1,131	$ 1,206
2008	80	1,129	1,209
2009	3,215	1,071	4,286
2010	3,340	944	4,284
2011	3,505	777	4,282
2012-2016	12,370	1,190	13,560
2017-2021	260	77	337
2022-2026	170	14	184
Total	23,015	6,333	29,348
Unamortized bond discount	(197)		(197)
Total bonds	$22,818	$6,333	$29,151

CERTIFICATES OF PARTICIPATION

	Date Issued	Final Maturity	Range of Interest Rates at Issue Date	Authorized and Issued	Out-standing 6/30/06
Electric Utility					
1997 Distribution Plant	5/01/97	4/01/27	4.5%-6.0%	$ 25,000	$ 21,110
Unamortized COP discount					(322)
Total Electric Utility					20,788
Convention, Sports and Entertainment Venues					
1992 Convention Center					
Financing Project	1/01/92	8/01/23	3.9%-6.4%	92,777	40,471
Accretion					3,869
1993 Refunding Projects	1/14/93	8/01/19	5.47%	114,564	60,252
Unamortized COP discount					(292)
Total Convention, Sports and Entertainment Venues					104,300
Total business-type activities COPs				$232,341	$125,088

Certificates of Participation Payable - Electric Utility

Certificates of participation debt service requirements to maturity for the Electric Utility to be paid from revenues are as follows:

Fiscal Year Ending 6/30	Principal	Interest	Total
2007	$ 545	$ 1,202	$ 1,747
2008	575	1,173	1,748
2009	610	1,138	1,748
2010	645	1,102	1,747
2011	685	1,063	1,748
2012-2016	4,065	4,672	8,737
2017-2021	5,325	3,412	8,737
2022-2026	7,010	1,727	8,737
2027-2031	1,650	95	1,745
Total	21,110	15,584	36,694
Unamortized COP discount	(322)		(322)
Total COPs	$20,788	$15,584	$36,372

Certificates of Participation Payable – Convention, Sports and Entertainment Venues

Certificates of participation debt service requirements to maturity for the Convention, Sports and Entertainment Venues Fund to be paid from unrestricted revenues are as follows:

Fiscal Year Ending 6/30	Principal	Interest	Total
2007	$ 6,143	$ 7,582	$ 13,725
2008	6,327	7,378	13,705
2009	5,396	5,096	10,492
2010	5,669	4,774	10,443
2011	6,027	4,435	10,462
2012-2016	31,354	17,296	48,650
2017-2021	36,907	5,844	42,751
2022-2024	2,900	207	3,107
Total	100,723	52,612	153,335
Unamortized COP discount	(292)		(292)
Total COPs	$100,431	$52,612	$153,043

Included in interest is $3,869 related to accretion on capital appreciation certificates.

NOTES AND LOANS PAYABLE

At June 30, 2006, notes and loans payable are as follows:

Orange County Water District Promissory Note

In April 1990, the Water Utility executed a Well Construction Program Agreement with the Orange County Water District to assist in financing the construction of three super wells to be located within the City. Advances totaling $2,177 at an interest rate of 3.5% for a period of 15 years were for wells 46, 47 and 49. The outstanding balance on this note at June 30, 2006, totaled $577.

State of California Revolving Fund Note Payable

In June 2001, the Water Utility executed a note payable to the State of California Revolving Fund at a rate of 2.8% in the amount of $18,063. There are semi-annual payments of principal and interest in the amount of $592 through June 12, 2021. The outstanding balance on this note at June 30, 2006, totaled $14,824.

Notes and Loans Payable – Water Utility

Notes and loans debt service requirements to maturity for the Water Utility are as follows:

Fiscal Year Ending 6/30	Principal	Interest	Total
2007	$ 945	$ 428	$ 1,373
2008	941	399	1,340
2009	935	373	1,308
2010	963	346	1,309
2011	899	319	1,218
2012-2016	4,716	1,209	5,925
2017-2021	5,417	506	5,923
2022	585	8	593
Total	15,401	3,588	18,989
Unamortized note discount	(425)		(425)
Total notes and loans	$14,976	$3,588	$18,564

ARBITRAGE

The Tax Reform Act of 1986 (Act) substantially revised the treatment to be afforded to earnings on the proceeds of tax-exempt debt, and now requires the City to calculate and remit rebatable arbitrage earnings to the Internal Revenue Service. Certain of the City's debt and interest earned on the proceeds thereof are subject to the requirements of the Act. The City has accrued a liability for estimated rebatable arbitrage earnings and has set aside such earnings as restricted cash. At June 30, 2006, the arbitrage rebate liability for governmental and business-type activities was zero and $226, respectively.

COMPLIANCE WITH DEBT COVENANTS

There are various limitations and restrictions contained in the City's bond and certificates of participation indentures. The City believes they are in compliance with all significant limitations and restrictions.

DEBT ISSUANCE

Certain bonds and certificates of participation defeased by the City prior to June 30, 2006, are summarized below:

	Outstanding 6/30/06
Redevelopment Agency	
Local Government Finance Authority Revenue Bonds, 1986 Issue A	$38,410
Electric Utility	
Electric System Authority Revenue Bonds, First Issue of 1993	60,330
Electric System Authority Revenue Bonds, Second Issue of 1993	58,355
Electric System Revenue Bonds, Issue of 1994	1,655

In each of these refundings, the proceeds of the refunding issues were placed in irrevocable escrow accounts and invested in government securities that, together with interest earnings thereon, will provide amounts sufficient for future payments of interest and principal on the issues refunded. Refunded debt is not included in the City's accompanying basic financial statements as the City has satisfied its obligation through the in-substance defeasance of these issues.

CONDUIT FINANCINGS

City

The City has entered into two conduit financings on behalf of community care provider facilities and one to facilitate the management agreement for the Honda Center (formerly the Arrowhead Pond) of Anaheim. In accordance with applicable agreements, the City has no obligation for debt service payments and therefore, the debt is not reflected in the accompanying basic financial statements. Bonds payable and certificates of participation related to conduit financings outstanding at June 30, 2006, are as follows:

	Date Issued	Final Maturity	Amount Issued	Outstanding 6/30/06
1985 West Anaheim Convalescent Home	12/30/85	12/01/05	$ 3,204	$ 2,104
1993 Anaheim Memorial Hospital Association	10/15/93	5/15/20	46,690	32,580
2003 Anaheim Arena Financing Project	12/11/03	6/01/23	46,500	40,500
Total			$96,394	$75,184

Anaheim Housing Authority

The Anaheim Housing Authority has entered into 11 conduit debt financings on behalf of various developers to assist with the acquisition, construction, equipping, rehabilitation and refinancing of multifamily residential rental projects within the City of Anaheim. In accordance with the bond documents, neither the City nor the Housing Authority has an obligation for debt service payments and therefore, the debt is not reflected in the accompanying basic financial statements. Housing Authority revenue bonds related to conduit financings outstanding at June 30, 2006, are as follows:

	Date Issued	Final Maturity	Amount Issued	Outstanding 6/30/06
1985 West Anaheim Royale	12/01/85	12/01/15	$ 4,664	$ 3,269
1990 Bel Age Apartments	8/01/90	8/01/20	10,000	6,800
1992 Heritage Village Park	11/12/92	11/12/07	8,485	5,485
1997 Monterey Apartments	5/15/97	5/15/27	4,545	4,145
1997 Port Trinidad Apartments	5/15/97	5/15/27	2,140	1,940
1997 Casa Granada Apartments	5/15/97	5/15/27	3,795	3,495
1998 Sage Park Project	11/01/98	11/01/28	5,500	5,500
2000 Cobblestone Apartments	7/20/00	3/15/33	3,980	3,880
2000 Seawinds Apartments	7/20/00	7/15/33	7,000	6,800
2000 Park Vista Apartments	7/24/00	7/01/33	27,180	27,180
2001 Solara Court Apartments	1/01/01	12/01/34	8,200	6,187
Total			$ 85,489	$74,681

Mello-Roos Community Facilities Districts

In June 1989, the City issued $26,620 in special tax bonds to finance a portion of the cost of acquisition and construction of facilities in East Anaheim Hills. The bonds were authorized pursuant to the Mello-Roos Community Facilities Act of 1982. In April 1995, $15,389 of the 1989 bonds were advance refunded through the Anaheim Public Financing Authority and in June 2005, $11,160 of the 1995 bonds were refunded through the Anaheim Public Financing Authority. In December 1999, $7,720 of the 1989 bonds were refunded by the City. The 2005 and the 1999 bonds are payable from a special assessment tax and are non-recourse bonds secured by the properties. Neither the faith and credit nor the taxing power of the City, the State of California or any political subdivision of either of the foregoing is pledged to the payment of the bonds. The bonds are not general or special obligations of the City, nor do they contain any credit enhancements that secondarily pledge existing or future resources of the City, accordingly they are not reflected in the accompanying basic financial statements. The City is acting as agent only for the property owners in collecting the special assessments and forwarding the collections to the fiscal agent. This activity is recorded in an agency fund in the basic financial statements. At June 30, 2006, the 2004 Anaheim Public Financing Authority bonds outstanding amounted to $10,150, and the 1999 Mello-Roos bonds outstanding amounted to $6,335.

NOTE 8 – INTEREST RATE SWAPS:

Objective of the interest rate swaps. As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance, the City entered into interest rate swap agreements for certain COPs. The intention of the swaps was to effectively change the City's variable interest rate on the COPs to a synthetic fixed rate.

Terms and fair values. The terms and fair values of the outstanding swaps at June 30, 2006, were as follows. The City's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated COPs payable category.

COP Issues	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date
1993 Refunding Projects	$67,800	1/1/1993	5.47%	3.87%†	$(6,792)	8/1/2019
1993 Police Facilities Refinancing Project	6,450	6/1/1993	4.47%	3.87%†	(105)	8/1/2008
	$74,250				$(6,897)	

†Variable rate received effective at June 30, 2006. The variable rate received is a weekly interest rate determined by the remarketing agent on the determination date to be the minimum interest rate, which, in the opinion of the remarketing agent under then-existing market conditions, would enable the remarketing agent to sell such COPs.

Fair Value. Because interest rates have declined since execution of the swaps, the swaps had a negative fair value of $6,897 at June 30, 2006. The swaps' negative fair value may be countered by a reduction in total interest payments required under the variable-rate COPs, creating a lower synthetic interest rate. Because the coupons on the City's variable-rate COPs adjust to changing interest rates, the COPs do not have a corresponding fair value increase. The fair values were estimated using the present value of expected cash flows.

Credit Risk. At June 30, 2006, the City was not exposed to credit risk because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the City would be exposed to credit risk in the amount of the derivatives' fair values. The swap counterparty was rated AAA by S&P and Aaa by Moody's at June 30, 2006. To mitigate the potential for credit risk, if the counterparty's credit quality falls below AA-/Aa3, the fair value of the swaps will be fully collateralized by the counterparty with cash or securities. Collateral would be posted with a third-party custodian.

Termination Risk. The City or the counterparty may terminate the swaps if the other party fails to perform under the terms of the contracts. The swaps may be terminated by the City if the counterparty's credit quality rating falls below "A-" as issued by S&P or "A3" as issued by Moody's. Additionally, the swaps may be terminated by the counterparty if the City's credit quality rating falls below "BBB-" as issued by S&P or "Baa" as issued by Moody's or if the COPs' credit quality ratings fall below "AA-" as issued by S&P or "Aa3" as issued by Moody's. If the swaps are terminated, the variable-rate COPs would no longer carry synthetic interest rates. Also, if at the time of termination the swaps had negative fair values, the City would be liable to the counterparty for a payment equal to the swaps' fair values.

NOTE 9 – RETIREMENT PLANS:

PERS

The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. A copy of PERS' annual financial report may be obtained from its executive office at 400 P Street, Sacramento, California 95814.

Funding Policy: Participants are required to contribute 8.0% (9.0% for safety employees) of their annual covered salary. For miscellaneous employees the City pays 7% of the participant contributions and the employee pays 1%. For Police safety employees 7% of the 9% is paid by the City and the employee pays the remaining 2%. For Fire safety employees, the entire 9% is paid by the employee. In addition, the City is required to contribute at an actuarially determined rate applied to annual covered payroll; the current rates are 8.626% for miscellaneous employees, 24.646% for fire safety employees and 31.029% for police safety employees. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost: For fiscal year 2006, the City's annual pension cost of $42,734 for PERS was equal to the City's required and actual contributions. The required contribution was determined as a part of the 2005 actuarial valuations, using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 2% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 15-year period (smoothed market value). The PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization periods at June 30, 2005, were 16 years for the miscellaneous plan and 32 years for safety fire and police plans for years of service unfunded.

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/04	$20,027	100%	$0
6/30/05	29,591	100	0
6/30/06	42,734	100	0

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Actuarial Valuation Date	(A) Actuarial Asset Value	(B) Entry Age Accrued Liability (AAL)	(C) Excess/(Deficiency) Over AAL (A)-(B)	(D) Funded Ratio (A)/(B)	(E) Annual Covered Payroll	(F) Excess/(Deficiency) of Covered Payroll (C)/(E)
6/30/03	954,147	1,020,648	(66,501)	93.5	142,034	(46.8)
6/30/04	998,831	1,129,864	(131,033)	88.4	145,210	(90.2)
6/30/05	1,072,386	1,209,424	(137,038)	93.5	151,831	(90.3)

Retirement Medical Benefits

In addition to the pension benefits described above, the City provides postretirement medical benefits to eligible retirees (hired prior to January 1, 2002, and Anaheim Police Association employees hired prior to July 6, 2001) in accordance with City Personnel Resolutions and various Memoranda of Understanding. Depending upon the employee's date of hire and employee group, eligibility requirements may be age 50 and five years of City service or age 50 and ten years of City service. Several changes to the plan were made during the year.

- For employees hired prior to January 1, 1996 (other than employees represented by the Anaheim Police Association, the Anaheim Fire Association and the International Brotherhood of Electrical Workers), a change was made to the plan during the year that freezes the length of service credit for all employees eligible for the benefit. Length of service, a factor in determining the amount of the benefit earned, will not accrue beyond December 31, 2005. Employees hired on or after January 1, 1996 (other than employees represented by the Anaheim Police Association and the Anaheim Fire Association) are no longer eligible for City funding of all or a portion of postretirement medical benefits.

- For employees represented by the International Brotherhood of Electrical Workers (IBEW) who had not retired as of October 15, 2005, the plan is amended whereas benefits for future retirees are to be provided through a trust established by the Union. More information is provided below regarding benefits extended by the union trust to those eligible retirees after October 15, 2005.

- All retirees retiring on or after January 1, 2006 are required to enroll in Medicare Parts A and B if eligible for coverage by Social Security.

The City provides postretirement medical benefits in the form of contributions to defined contribution retiree medical plans in accordance with City Personnel Resolutions and various Memoranda of Understandings for all newly hired employees as of January 1, 1996 (July 6, 2001 for the Anaheim Police Association and November 9, 2001 for the Anaheim Fire Association employees). Under the plans, the City is required to make one-time contributions ranging from $3 to $8 per employee. The City's total contribution to the plans for the period July 1, 2005 to June 30, 2006, was $692. All active employees (including those eligible for the defined benefit retiree medical plan discussed above) are eligible to participate in the plan through voluntary contributions of the value of sick or vacation hours up to certain limits, into their retiree health savings accounts. These accounts are available to reimburse costs incurred after retirement for medical and other welfare benefits.

Those employees hired on or after January 1, 1996 and before January 1, 2002 (not represented by the Anaheim Police Association, the Anaheim Fire Association or the International Brotherhood of Electrical Workers) were transitioned from the defined benefit post retirement medical plan to the defined contribution post retirement medical plan. A one-time contribution of $.07 per month of service was made to a newly established retiree health savings account for those eligible employees on or about December 31, 2005. Total contributions to participant accounts under this provision were $1,685. Participation in the retiree health savings account is mandatory for that group of employees and requires an employee contribution of 1% of their regular earnings.

In all cases, eligible retirees may participate in any health plan made available to active City employees. The contribution made by the City toward the cost of the plan is determined by Personnel Resolution or Memorandum of Understanding. At June 30, 2006, 1,135 retirees or surviving spouses met the various eligibility requirements and were receiving benefits.

The City has several plans with different contribution levels and benefit provisions. City contributions vary up to 100% of annual premium cost, depending on the employee's Medicare eligibility, year of hire, age and employee group.

The City's contributions toward the cost of these benefits are generally advance funded on an actuarial basis to a dedicated reserve but contributions are not required. For the period July 1, 2005 to June 30, 2006, the City did not make the actuarially determined contribution.

The most recent actuarial valuation was as of July 1, 2004, using the Projected Unit Credit cost method to determine reserving requirements. The valuation was based on the following assumptions:

Discount rate	4.5% annual
Increase in future payroll	4.0% annual
Medical trend	8.0% increase in 2006, declining to 5.0% increase by 2010
Non-economic	System-wide PERS assumptions based on pension formula of the employee group

The July 1, 2004, actuarial valuation estimated the current normal cost of the benefit at 3.27% of payroll. An additional 3.34% of payroll was estimated as the cost of amortizing prior service obligations over a 30-year period as a level percentage of total payroll. Currently, the accrued liability is estimated at $213,558 of which $146,052 is unfunded and $67,506 is funded, available, and reserved for future obligations.

Changes were made to the postretirement medical benefits for members of the IBEW bargaining unit. Those members of the IBEW retiring on or before October 15, 2005 may be eligible for the City's defined benefit postretirement medical benefits. Members of the IBEW retiring after that date are eligible for benefits from a trust established by the IBEW.

Benefits are determined by the trustees of the IBEW Trust. The City's liability is limited to an annual contribution equal to a specified percentage of pay less the annual cost of funding retirees before October 15, 2005. The specified percentage is four percent initially and will go to five percent on December 26, 2008. As of October 1, 2005, the City transferred a portion of the reserve earmarked for providing retiree medical benefits to IBEW employees to the IBEW Trust such that the actuarial liability of retirees as of October 15, 2005 and future retirees were similarly funded. Such determination was based on the actuarial assumptions and methods reflected in the July 1, 2004 valuation and participant data as of October 15, 2005.

NOTE 10 – JOINT VENTURES AND JOINTLY-OWNED PROPERTIES:

Authority for Orange County - City Hazardous Materials Emergency Response

The City participates in a joint powers authority, the Authority for Orange County-City Hazardous Materials Emergency Response (Hazmat), for the purposes of responding to, assessing the nature of, and stabilizing any emergency created by the release or threatened release of hazardous materials.

The following entities are members of Hazmat: City of Anaheim, Orange County Fire Authority, City of Santa Ana, and the City of Huntington Beach. Members of the Board of Directors (Hazmat Board) consist of one voting Board member and an alternate appointed by the governing body from the City of Anaheim, Orange County Fire Authority, City of Santa Ana, and the City of Huntington Beach.

Distribution of fair share contributions to reimburse the provider agencies are as follows: City of Anaheim, 27.3%; Orange County Fire Authority, 27.3%; City of Santa Ana, 27.3%; City of Huntington Beach, 18.1%.

At the direction of the Hazmat Board, revenues are disbursed to the provider agencies at the end of each preceding quarter. Audited financial information for the joint powers authority as of and for the year ended June 30, 2006, is as follows:

Total assets	$ 70
Total liabilities	48
Members' equity	22
Total revenues	212
Total expenses	215
Expenses over revenues	(3)

Hazmat does not have any debt outstanding at June 30, 2006.

The City has no significant equity interest in Hazmat, and accordingly neither assets nor liabilities of Hazmat have been recorded in the City's basic financial statements. For a copy of separate financial statements, contact the Finance Director of the City.

Metro Cities Fire Authority

The City participates in a joint powers authority, Metro Cities Fire Authority (Fire Authority), for the purpose of providing a central communication network and record keeping system to support fire suppression, emergency medical assistance, rescue service, and related services provided by the members of the Fire Authority.

The following entities are members of the Fire Authority: City of Anaheim, City of Fountain Valley, City of Fullerton, City of Garden Grove, City of Huntington Beach, City of Newport Beach, and the City of Orange.

Public entities in Orange County may receive services from the Fire Authority by executing an agreement and paying a fair share contribution. Audited financial information for the Fire Authority as of and for the year ended June 30, 2006, is as follows:

Total assets	$1,219
Total liabilities	540
Members' equity	679
Total revenues	4,025
Total expenses	4,161
Expenses over revenues	(136)

The City has no significant equity interest in the Fire Authority, and accordingly neither assets nor liabilities of the Fire Authority have been recorded in the City's basic financial statements. For a copy of separate financial statements, contact the Finance Director of the City.

Jointly-owned utility plants

The City's Electric Utility owns a 10.04% ownership interest in the coal-fired San Juan Generating Station, Unit 4, located near Waterflow, New Mexico. The other participants in Unit 4 and their respective ownership include: Public Service of New Mexico, 45.48%; City of Farmington, New Mexico, 8.48%; County of Los Alamos, New Mexico, 7.20%; and M-S-R Public Power Agency, 28.80%. There are no separate financial statements for this venture, as each participant's interest in the utility plant is included in their respective financial statements. The City's cumulative share of construction costs included in the utility plant at June 30, 2006, amounted to $60,775. The City's bonded indebtedness incurred to finance the purchase of the 10.04% ownership interest is also included in the basic financial statements.

In addition, the City's Electric Utility owns a 3.16% interest as a tenant in common in SONGS. The other participants and their respective ownership interests in SONGS are: SCE, 75.05%; San Diego Gas and Electric Company, 20.00%; and the City of Riverside, California, 1.79%. There are no separate financial statements for this venture, as each participant's interests in the utility plant and operating expenses are included in their respective financial statements. At June 30, 2006, the Electric Utility's carrying value (participating share) of the SONGS was $23,605, net of accumulated depreciation of $189,328, which is included in utility plant. The Electric Utility recorded depreciation related to the SONGS of $49,997 for the year ended June 30, 2006. The City's bonded indebtedness incurred to finance its portion of the construction costs is also included in these financial statements.

The operation and maintenance of SONGS is the responsibility of SCE. The four-member San Onofre Board of Review (Board) approves the joint venture's budgets for capital expenditures and operating expenses. SCE has two participants on the Board, including the chairman; the City and the other participants each have one representative on the Board.

On June 22, 2004, SCE, as operating agent for the SONGS Nuclear Power Plant gave notice that SCE had, pursuant to Section 16 of the Second San Onofre Operating Agreement (Agreement), declared an Operating Impairment. As a result of SCE's action, on October 11, 2004, the Anaheim Public Utilities (City) exercised its option, pursuant to provisions of the Agreement, to have its ownership share reduced per provisions of the Agreement. The City believes the result will be termination of the City's Ownership Share by January 1, 2007. On December 20, 2005, the City and SCE entered into an agreement for the City to transfer its interest in SONGS to SCE as soon as SCE can obtain approval from the Federal Energy Regulatory Commission (FERC), California Public Utilities Commission (CPUC), California State Lands Commission, and U.S. Nuclear Regulatory Commission (NRC). SCE expects to obtain such approvals by January 1, 2007. SCE received approval from FERC on April 24, 2006.

Because the City expects to transfer its interests to SCE and, therefore, transfer ownership of the utility plant assets to SCE by January 1, 2007, the City reduced the useful life of the SONGS utility plant assets. The original useful life assumed that the City would retain ownership through the end of the current SONGS operating license scheduled to expire in 2022. With the transfer of the City's interests to SCE expected to occur by January 1, 2007, the useful life of the plant assets to the City have correspondingly accelerated the depreciation expense related to the SONGS utility plant. Under the original useful life of the SONGS utility plant, the depreciation expense would have been $7,995, but due to the shortened useful life of the plant assets, the depreciation expense is $42,002 greater than under the original useful life of the plant assets for a total yearly depreciation of $49,997.

NOTE 11 – COMMITMENTS AND CONTINGENCIES:

Intermountain Power Agency

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

Generation	Entitlement	Expiration
Intermountain Power Project	13.2%	2027

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

Southern California Public Power Authority

The Electric Utility is a member of the Southern California Public Power Authority (SCPPA), a joint powers agency. SCPPA provides for the financing and construction of electric generating and transmission projects for participation by some or all of its members. To the extent the Electric Utility participates in projects developed by SCPPA, it is obligated for its proportional share of the cost of the project. The City is obligated for the following percentage of electrical facilities owned by SCPPA:

Transmission	Entitlement	Expiration
Southern Transmission System (STS)	17.6%	2027
Mead-Adelanto Project (MAP)	13.5%	2030
Mead-Phoenix Project (MPP)	24.2%	2030

Generation	Entitlement	Expiration
Hoover Dam Uprating (Hoover)	42.6%	2018
Magnolia Generating Station (Magnolia)	38.0%	2036
SCPPA Natural Gas Project	62.5%	2036

Take or pay commitments

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

Fiscal Year Ending 6/30	IPA	STS	MAP	MPP	Hoover	Magnolia	Natural Gas	Total
2006	$ 38,158	$ 12,509	$ 2,856	$ 1,591	$ 934	$ 7,444	$ 1,063	$ 64,555
2007	40,827	12,331	2,852	1,589	957	7,443	17,625	83,624
2008	37,620	11,902	2,857	1,586	957	7,444		62,366
2009	39,986	11,989	2,928	1,822	956	7,442		65,123
2010	40,934	12,124	2,917	1,815	957	7,444		66,191
2011-2015	201,609	69,252	14,511	8,228	4,786	37,212		335,598
2016-2020	163,856	72,224	11,616	6,225	1,913	37,215		293,049
2021-2025	22,364	23,097				37,213		82,674
2026-2030						37,211		37,211
2031-2035						50,356		50,356
2036-2037								
Total	$585,354	$225,428	$40,537	$22,856	$11,460	$236,424	$18,688	$1,140,747

In addition to debt service, the City's entitlement requires the payment for fuel costs, operations and maintenance (O&M), administration and general (A&G) and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service, however, prior experience indicates that annual costs are generally consistent from year to year. The fiscal year 2006 budget for fuel, O&M, A&G and other costs at these projects are as follows:

Fiscal Year	IPA	STS	MAP	MPP	Hoover	Magnolia	Total
2006	$41,526	$2,976	$204	$284	$133	$21,515	$66,638

Sports and Entertainment Arena

Effective December 16, 2003, the City and Anaheim Arena Management LLC (AAM) entered into a Facility Management Agreement (FMA) whereby AAM has the exclusive right and license to manage, maintain and operate all aspects of the facility in accordance with the FMA through June 30, 2023 with an option to extend the term for an additional period not to exceed 10 years. Annual distributions to the City, AAM and the County of Orange are required for their respective share of adjusted net revenues, as defined in the FMA. In the event that cash on hand is insufficient to pay operating expenses, debt service, distributions to the City, the County of Orange, or other amounts payable, AAM shall make or cause an affiliate or third-party lending institution to make loans for such purposes, as defined in the FMA. Such funds will be repaid from gross revenues or adjusted net revenues, if any, as defined in and in accordance with disbursement priorities established in the FMA. At June 30, 2006, the outstanding conduit debt on the Arrowhead Pond of Anaheim totaled $40,500. The debt is non-recourse, payable from revenues generated by the facility. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the debt. The debt is not a general or special obligation of the City, nor does it contain any credit enhancements that secondarily pledge existing or future resources of the City (other than revenues generated by the facility), and accordingly it is not reflected in the accompanying basic financial statements.

On January 26, 1999, the City entered into a series of lease transactions for the Arrowhead Pond of Anaheim (now the Honda Center). Under these transactions, the City leased the Arrowhead Pond of Anaheim to a third party trustee acting for the benefit of an equity investor for a term of approximately 39.2 years. The trustee sublet the facility back to the City for 20 years, which was shorter than the then remaining term of the management agreement between the third-party manager at that time (Manager) and the City in consideration of an advance rental payment for the entire lease term. At the end of the sublease, the City has a purchase option to purchase the trustee's rights under the lease for a fixed amount. The advance rent payments to the City were deposited into a trust fund and invested. The cash scheduled to be available from this trust fund is sufficient to pay the City's rent payments for the term of the sublease and to exercise the City's purchase option at the end of the sublease. The excess of the amount of the advance rent payment made by the trustee to the City over the deposit to the trust funds, after the payment of transaction expenses and payment to the Manager for agreeing to pledge its interest as Manager under the management agreement then in effect and agreeing to undertake certain additional obligations to the transaction, was approximately $4,000. This amount was recognized by the City as deferred revenue and is being amortized over the sublease term. The City has secured its obligations to the other parties to these lease transactions by a pledge of its respective interest in revenues from the facility, subordinate (with certain exceptions) to any interests of the debt holders of the facility. The City's obligations under these lease transactions are considered to be defeased in substance, and therefore the related liabilities as well as the trust assets have been excluded from the City's financial statements. The City's and AAM's respective rights under the FMA are subject in certain respects to the effect of the 1999 lease transaction.

Stadium

On May 14, 1996, the City and the California Angels, LP (Team) (renamed Anaheim Angels), which was then managed by Disney Sports Enterprises, Inc. (subsequently known as Anaheim Sports, Inc.), entered into an agreement to provide for the operation and refurbishment of the Stadium. Pursuant to the agreement, the Team assumed responsibility for the operation of the Stadium on October 1, 1996. The agreement runs for 33 years (subject to a limited Team option to cancel at 20 years and the Team's right to extend the term).

Under the terms of the agreement, the Team assumed full responsibility for all Stadium operations and maintenance, including capital maintenance. The Team books all Stadium and parking lot events (except for ten annual City events), pays all expenses, and retains all revenue (subject to the City's rights to share in certain net revenues) except that the City credits the Team up to $500 per year adjusted annually for CPI for a capital reserve, calculated on the basis of property taxes. The City's participation in net revenues includes amounts received by the Team above certain thresholds including paid admissions ($2.00 per paid admission in excess of 2.6 million admissions per year), net income from non-game events (in excess of $2,000 per year adjusted annually for CPI), and parking lot net income (25% in excess of $4,000 per year adjusted annually for CPI). Additionally, as indicated above, the City retained the right to book and retain all revenue from ten parking lot events per year. Major League Baseball consented to the transfer of the Team in fiscal year 2003 to interests controlled by Arte Moreno. No changes in the terms of the agreement with the Team were made in connection with that transfer.

The Agreement also provided that the City had the right to develop approximately 42 acres of the parking lot. In 1998 a land sale of $1,000 for a 1.25 acre site was approved for the construction of a 1,100-seat theatre called "Tinseltown Studios" (now known as "The Grove of Anaheim"). In November 2002, the City purchased the facility and the land for $6,700 from its then owner, SMG, a Pennsylvania partnership, an affiliate of Aramark Entertainment, Inc. Concurrent with the purchase, the City granted to Nederlander-Grove LLC (Nederlander) a license to operate the facility for three years with the right to extend another five years. Under the terms of the agreement, Nederlander receives a management fee of $150. Additionally, The City and Nederlander each participate 50% in the annual net profits and net losses from operations, as defined in the management agreement. Nederlander is responsible for 100% of losses in excess of $400, thereby limiting the City's share of net losses to a maximum of $200 in any given year. Upon expiration of the term of the agreement, the City may elect to extend the term or pay the unamortized balance of capital assets purchased during the term to Nederlander.

In May 1999, the City approved the sale to Summit Commercial Properties of a 1.5 acre building site on the Sportstown site for $4,190. The transaction closed in March 2000, and the owner, HPMC Stadium Gateway Associates, LLC, constructed a 250,000 square foot, six-story office building on the parcel. The "Stadium Gateway Anaheim" office building opened for business on October 1, 2001. In April 2003, the building was sold to Principal Financial Group and is now operated by Stadium Gateway LLC, who has reported 100% occupancy. The owner paid the City $189 for the year ended June 30, 2006, for parking and common area maintenance. The City is continuing to pursue other opportunities for future development of the site.

Litigation

A number of claims and suits are pending against the City for alleged damages to persons and/or property and for other alleged liabilities arising out of matters usually incident to the operation of a city such as Anaheim. Although the aggregate amount asserted for such lawsuits and claims is significant, in the opinion of City management, the City has strong defenses against such claims, and thus the ultimate loss, if any, relating to these claims and suits not covered by insurance, will not materially affect the financial position of the City.

Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Construction and other significant commitments

At June 30, 2006, the City had the following commitments with respect to unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Completion Date
Amberwood Water Main Replacement	$ 696	NOV 06
Anaheim Fire Station No 11	3,478	JUL 07
Automotive Equipment Acquisitions	7,908	JUN 07
Convention Center Katella Ave Frontage Landscape	4,343	DEC 06
Convention Way Median & Parkway Improvement	1,860	JAN 07
East Hills Gymnasium	1,262	DEC 06
East Hills Library	791	DEC 06
Gene Autry Way/I-5 and HOV Interchange	1,377	NOV 10
Heliport Air Port Facility at Fullerton Airport	4,410	MAR 07
Katella Smart Street - Master Demolition Plan	819	JUN 07
Lewis 230 kv Extension	52,540	DEC 07
Lincoln Ave Sanitary Sewer Improvement	2,473	DEC 06
Lincoln Ave Street Widening	1,678	FEB 07
Park 69/12 kv GIS Substation	838	DEC 06
Parking Structure	17,804	JUN 07
Technology Development	2,322	JUN 07
Underground District No 40	7,619	SEP 07
Underground District No 52	8,355	MAR 07
Underground Fuel Storage Tank Replacement	546	DEC 06
Well No 34 and No 54	982	MAY 07
Well No 48 Site Improvement	1,950	JUL 07
West Anaheim Youth Center & Police Station	918	JAN 07

NOTE 12 – SUBSEQUENT EVENTS

CIM Project

In August 2006, the Redevelopment Agency entered into a First Amendment to the Amended and Restated Disposition and Development Agreement with CIM Real Estate Fund, L.P. (CIM). The amendment made modifications to the scope of development (see page 50) of the CIM project and increases the maximum cost to the Redevelopment Agency from $26,000 to $35,000.

Note Purchase Agreement – Citigroup Global Markets Inc.

On November 14, 2006, the Redevelopment Agency entered into a Note and Purchase Agreement (Agreement) with Citigroup Global Markets Inc. for a short-term bridge loan of $18,000 to pay for half of the purchase price of an approximately 18.3 acre industrial property at the northeast corner of Olive and South Streets. The note bears an initial interest rate of 6.44% per annum and is adjustable monthly beginning on December 1, 2007 at a note rate defined in the Agreement. Interest is payable monthly and principal matures on November 14, 2008 or earlier, as provided in the Agreement.

Brookfield Olive Street Project

On November 15, 2006, the Redevelopment Agency purchased 610 Olive Street and 525 E. South Street (sites) for a total purchase price of $37,454, in accordance with a Second Amendment to Agreement of Purchase and Sale & Joint Escrow Instructions between CP/HERS Anaheim, L.P. and the Redevelopment Agency dated October 30, 2006.

Nonmajor Governmental Funds

SPECIAL REVENUE FUNDS are used to account for revenue derived from specific taxes or other earmarked revenue sources (other than for major capital projects) that are restricted by law or administrative action to expenditures for specified purposes

GAS TAX AND ROADS FUND - Established to account for the construction and maintenance of the road network system of the City. Financing is primarily provided by the City's share of Federal, State, and local gasoline taxes. Federal, State, and local regulations require that these gasoline taxes be used to improve and maintain streets, and includes programs that improve the air quality of the region.

WORKFORCE DEVELOPMENT FUND - Established to account for the City's involvement in Federal, State, and local programs to create jobs for the unemployed citizens in the Anaheim area.

COMMUNITY DEVELOPMENT BLOCK GRANT FUND - Established to account for financing of rehabilitation of privately held homes and government infrastructure. Financing is provided by the Federal Housing and Community Development Act.

COMMUNITY SERVICES FACILITIES FUND - Established to account for the development of new parksite, playground, and other community facilities. Financing is provided by State and Federal reimbursement programs in conjunction with fees charged to residential and commercial developers.

SEWER AND STORM DRAIN CONSTRUCTION FUND - Established to account for the construction of the City's sewer and storm drain system. Financing is provided by fees charged to residential and commercial developers.

GRANTS FUND - Established to account for miscellaneous grants requiring segregated fund accounting. Financing is provided by Federal, State, and local agencies.

ANAHEIM RESORT MAINTENANCE DISTRICT FUND - Established to account for the levy and collection of special assessments to pay the cost of annual maintenance and improvements within the maintenance district, for those parcels which specifically benefit from the maintenance and improvements.

NARCOTIC ASSET FORFEITURE FUND - Established to account for funds received from Federal and State agencies which are derived from monies and property seized by the Police Department in drug related incidents. These funds are used to supplement existing resources of the City's law enforcement activities.

REDEVELOPMENT HOUSING SET-ASIDE FUND - Established for the purpose of increasing and improving the community's supply of low and moderate income housing in accordance with the California Community Redevelopment Law. Financing is provided from property tax increment

DEBT SERVICE FUNDS are used to account for the accumulation of resources and the payment of principal and interest on general debt of the City and related entities.

MUNICIPAL IMPROVEMENTS FUND - Established to accumulate resources for the payment of principal and interest on general obligation bonds of the City. Debt service is financed by property tax revenues.

REDEVELOPMENT AGENCY FUND - Established to accumulate resources for payment of principal and interest on Redevelopment Agency tax allocation bonds. Debt service is financed by property tax revenues.

CERTIFICATES OF PARTICIPATION FUND - Established to accumulate resources for payment of the principal and interest on the certificates of participation for the Parking Facility Project, Police Facilities Projects, Arena Land Acquisition, and other various acquisitions and capital improvements.

ANAHEIM RESORT IMPROVEMENTS FUND - Established to accumulate resources for payment of the principal and interest on the lease revenue bonds for The Anaheim Resort improvements.

CAPITAL PROJECTS FUNDS are established to account for resources used for the acquisition and construction of capital facilities by the City, except for those financed by proprietary funds.

REDEVELOPMENT AGENCY FUND - Established to account for the acquisition, relocation, demolition, and sale of property for those portions of Anaheim earmarked as in need of redevelopment related activities. Financing is provided by property tax increment and bond proceeds.

OTHER CAPITAL IMPROVEMENTS FUND - Established to account for miscellaneous capital projects within the city to include the Anaheim Resort as determined by the City Council. With the exception of the Anaheim Resort, capital projects are funded by fees from developers for infrastructure improvements and subsidies from the General Fund. Capital projects within the Anaheim Resort are financed through the sale of lease revenue bonds.

Combining Balance Sheet
Nonmajor Governmental Funds by Fund Type
June 30, 2006 (In thousands)

	Nonmajor Special Revenue Funds	Nonmajor Debt Service Funds	Nonmajor Capital Projects Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	$ 985	$ 511	$ 2,316	$ 3,812
Investments	23,820	10,170	40,366	74,356
Accounts receivable, net	603		146	749
Accrued interest receivable	343	368	339	1,050
Notes receivable	13,330		8,699	22,029
Due from other funds	1		12,997	12,998
Due from other governments	26,270	354	8	26,632
Land held for resale, net	23,653		29,384	53,037
Prepaids and other assets	93	3	2,016	2,112
Restricted cash and cash equivalents	3,739	11,219	11,902	26,860
Restricted investments		23,377		23,377
Total assets	$92,837	$46,002	$108,173	$247,012
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 6,660	$ 1,244	$ 6,077	$ 13,981
Wages payable	302		67	369
Deposits	238		1,276	1,514
Due to other funds	1,593		26,363	27,956
Due to other governments			20	20
Deferred revenue	36,294		8,740	45,034
Total liabilities	45,087	1,244	42,543	88,874
Fund balances:				
Reserved for encumbrances	15,338		10,026	25,364
Reserved for noncurrent interfund receivable			11,522	11,522
Reserved for debt service		43,618		43,618
Reserved for land held for resale	23,653		29,384	53,037
Reserved for prepaids and other assets	93	3	2,016	2,112
Unreserved - designated for debt service		1,137		1,137
Unreserved - designated for capital projects	9,102		36,951	46,053
Unreserved - undesignated	(436)		(24,269)	(24,705)
Total fund balances	47,750	44,758	65,630	158,138
Total liabilities and fund balances	$92,837	$46,002	$108,173	$247,012

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds by Fund Type
Year Ended June 30, 2006 (In thousands)

	Nonmajor Special Revenue Funds	Nonmajor Debt Service Funds	Nonmajor Capital Projects Funds	Total Nonmajor Governmental Funds
Revenues:				
Property taxes	$11,035	$ 30,600		$ 41,635
Licenses, fees and permits	4,125		$ 15,374	19,499
Intergovernmental revenues	34,723	7	1,577	36,307
Charges for services	56			56
Use of money and property	2,041	1,824	3,136	7,001
Other	13,553		3,173	16,726
Total revenues	65,533	32,431	23,260	121,224
Expenditures:				
Current:				
City Attorney	120			120
Human Resources			46	46
Police	2,228		45	2,273
Fire	1,779			1,779
Community Development	12,517	5,196	10,990	28,703
Planning	1,229		2	1,231
Public Works	7,172		1,523	8,695
Community Services	947		656	1,603
Convention, Sports and Entertainment			734	734
Capital outlay	40,810		26,689	67,499
Debt service:				
Principal retirement	1,068	16,595	748	18,411
Interest and fiscal agent charges	165	37,572	1,045	38,782
Total expenditures	68,035	59,363	42,478	169,876
Deficiency of revenues under expenditures	(2,502)	(26,932)	(19,218)	(48,652)
Other financing sources (uses):				
Transfers in	2,288	44,489	15,580	62,357
Transfers out	(15,168)	(9,200)	(4,435)	(28,803)
Proceeds from long-term debt	12,160		10,197	22,357
Capital leases	81		82	163
Total other financing sources (uses)	(639)	35,289	21,424	56,074
Net change in fund balances	(3,141)	8,357	2,206	7,422
Fund balances at beginning of year	50,891	36,401	63,424	150,716
Fund balances at end of year	$47,750	$ 44,758	$ 65,630	$158,138

Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2006 (In thousands)

	Gas Tax and Roads	Workforce Development	Community Development Block Grant	Community Services Facilities	Sewer and Storm Drain Construction
ASSETS					
Cash and cash equivalents	$ (127)		$ 4	$ 241	$ 190
Investments	1,731	$ (1)	82	4,873	3,841
Accounts receivable, net	267	3		2	
Accrued interest receivable	31		8	102	48
Notes receivable			4,218		
Due from other funds					
Due from other governments	17,890	1,145	190	2,343	
Land held for resale, net					
Prepaids and other assets	75	13			
Restricted cash and cash equivalents					
Total assets	$19,867	$1,160	$4,502	$7,561	$4,079
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 1,679	$ 188	$ 203	$2,672	$ 31
Wages payable	76	38	80	3	1
Deposits				1	
Due to other funds		875		118	
Deferred revenue	16,326	464	4,405	641	
Total liabilities	18,081	1,565	4,688	3,435	32
Fund balances (deficits):					
Reserved for encumbrances	5,735	376	671	4,049	
Reserved for land held for resale					
Reserved for prepaids and other assets	75	13			
Unreserved - designated for capital projects					
Unreserved - undesignated	(4,024)	(794)	(857)	77	4,047
Total fund balances (deficits)	1,786	(405)	(186)	4,126	4,047
Total liabilities and fund balances	$19,867	$1,160	$4,502	$7,561	$4,079

(continued)

Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2006 (In thousands) (continued)

	Grants	Anaheim Resort Maintenance District	Narcotic Asset Forfeiture	Redevelopment Housing Set-Aside	Total
ASSETS					
Cash and cash equivalents	$ (65)	$ 275	$ 131	$ 336	$ 985
Investments	(1,447)	5,473	2,476	6,792	23,820
Accounts receivable, net	274	3		54	603
Accrued interest receivable	5	51	29	69	343
Notes receivable				9,112	13,330
Due from other funds				1	1
Due from other governments	4,617			85	26,270
Land held for resale, net				23,653	23,653
Prepaids and other assets				5	93
Restricted cash and cash equivalents	2			3,737	3,739
Total assets	$ 3,386	$5,802	$2,636	$43,844	$92,837
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 1,088	$ 670	$ 8	$ 121	$ 6,660
Wages payable	33	12	2	57	302
Deposits				237	238
Due to other funds				600	1,593
Deferred revenue	5,346			9,112	36,294
Total liabilities	6,467	682	10	10,127	45,087
Fund balances (deficits):					
Reserved for encumbrances	1,885	1,565	100	957	15,338
Reserved for land held for resale				23,653	23,653
Reserved for prepaids and other assets				5	93
Unreserved - designated for capital projects				9,102	9,102
Unreserved - undesignated	(4,966)	3,555	2,526		(436)
Total fund balances (deficits)	(3,081)	5,120	2,626	33,717	47,750
Total liabilities and fund balances	$ 3,386	$5,802	$2,636	$43,844	$92,837

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)
Nonmajor Special Revenue Funds
Year Ended June 30, 2006 (In thousands)

	Gas Tax and Roads	Workforce Development	Community Development Block Grant	Community Services Facilities	Sewer and Storm Drain Construction
Revenues:					
Property taxes					
Licenses, fees and permits	$ 228			$ 2,437	$1,460
Intergovernmental revenues	17,232	$3,109	$ 5,878	1,931	
Charges for services	56				
Use of money and property	234		153	316	122
Other	90	10	239		
Total revenues	17,840	3,119	6,270	4,684	1,582
Expenditures:					
Current:					
City Attorney			120		
Police			283		
Fire					
Community Development		3,358	1,937		
Planning			1,229		
Public Works	2,838				497
Community Services			525	349	
Capital outlay	16,295		1,298	7,876	24
Debt service:					
Principal retirement	1	6	2	37	
Interest and fiscal agent charges				15	
Total expenditures	19,134	3,364	5,394	8,277	521
Excess (deficiency) of revenues over (under) expenditures	(1,294)	(245)	876	(3,593)	1,061
Other financing sources (uses):					
Transfers in	57				
Transfers out	(4,789)		(1,017)		
Proceeds from long-term debt					
Capital leases	4	23	7		
Total other financing sources (uses)	(4,728)	23	(1,010)		
Net change in fund balances	(6,022)	(222)	(134)	(3,593)	1,061
Fund balances at beginning of year	7,808	(183)	(52)	7,719	2,986
Fund balances (deficits) at end of year	$ 1,786	$ (405)	$ (186)	$ 4,126	$4,047

(continued)

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)
Nonmajor Special Revenue Funds
Year Ended June 30, 2006 (In thousands) (continued)

	Grants	Anaheim Resort Maintenance District	Narcotic Asset Forfeiture	Redevelopment Housing Set-Aside	Total
Revenues:					
Property taxes		$3,567		$ 7,468	$11,035
Licenses, fees and permits					4,125
Intergovernmental revenues	$ 5,442		$1,131		34,723
Charges for services					56
Use of money and property	39	117	95	965	2,041
Other	122	2		13,090	13,553
Total revenues	5,603	3,686	1,226	21,523	65,533
Expenditures:					
Current:					
City Attorney					120
Police	1,303		642		2,228
Fire	1,779				1,779
Community Development				7,222	12,517
Planning					1,229
Public Works	16	3,821			7,172
Community Services	73				947
Capital outlay	5,042	316	54	9,905	40,810
Debt service:					
Principal retirement	6	2	1,011	3	1,068
Interest and fiscal agent charges			150		165
Total expenditures	8,219	4,139	1,857	17,130	68,035
Excess (deficiency) of revenues over (under) expenditures	(2,616)	(453)	(631)	4,393	(2,502)
Other financing sources (uses):					
Transfers in		200		2,031	2,288
Transfers out	(254)			(9,108)	(15,168)
Proceeds from long-term debt				12,160	12,160
Capital leases	18		19	10	81
Total other financing sources (uses)	(236)	200	19	5,093	(639)
Net change in fund balances	(2,852)	(253)	(612)	9,486	(3,141)
Fund balances at beginning of year	(229)	5,373	3,238	24,231	50,891
Fund balance (deficits) at end of year	$(3,081)	$5,120	$2,626	$33,717	$47,750

Combining Balance Sheet
Nonmajor Debt Service Funds
June 30, 2006 (In thousands)

	Municipal Improvements	Redevelopment Agency	Certificates of Participation	Anaheim Resort Improvements	Total
ASSETS					
Cash and cash equivalents		$ 503	$ 8		$ 511
Investments		10,170			10,170
Accrued interest receivable	$ 5	203	120	$ 40	368
Due from other governments	15	339			354
Deposits and prepaids		3			3
Restricted cash and cash equivalents	31	535	103	10,550	11,219
Restricted investments	627	2,306	5,297	15,147	23,377
Total assets	$678	$14,059	$5,528	$25,737	$46,002
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 2	$ 1,235	$ 5	$ 2	$ 1,244
Total liabilities	2	1,235	5	2	1,244
Fund balances:					
Reserved for debt service	676	11,684	5,523	25,735	43,618
Reserved for prepaids and other assets		3			3
Unreserved - designated for debt service		1,137			1,137
Total fund balances	676	12,824	5,523	25,735	44,758
Total liabilities and fund balances	$678	$14,059	$5,528	$25,737	$46,002

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Debt Service Funds
Year Ended June 30, 2006 (In thousands)

	Municipal Improvements	Redevelopment Agency	Certificates of Participation	Anaheim Resort Improvements	Total
Revenues:					
Property taxes	$727	$29,873			$ 30,600
Intergovernmental revenues	7				7
Use of money and property	14	1,138	$ 349	$ 323	1,824
Total revenues	748	31,011	349	323	32,431
Expenditures:					
Current:					
Community Development		5,196			5,196
Debt service:					
Principal retirement	455	9,304	2,881	3,955	16,595
Interest and fiscal agent charges	284	12,925	1,761	22,602	37,572
Total expenditures	739	27,425	4,642	26,557	59,363
Excess (deficiency) of revenues over (under) expenditures	9	3,586	(4,293)	(26,234)	(26,932)
Other financing sources (uses):					
Transfers in		8,415	4,299	31,775	44,489
Transfers out		(9,200)			(9,200)
Total other financing sources (uses)		(785)	4,299	31,775	35,289
Net change in fund balances	9	2,801	6	5,541	8,357
Fund balances at beginning of year	667	10,023	5,517	20,194	36,401
Fund balances (deficits) at end of year	$676	$12,824	$ 5,523	$ 25,735	$ 44,758

Combining Balance Sheet
Nonmajor Capital Projects Funds
June 30, 2006 (In thousands)

	Redevelopment Agency	Other Capital Improvements	Total
ASSETS			
Cash and cash equivalents	$ 145	$ 2,171	$ 2,316
Investments	2,937	37,429	40,366
Accounts receivable, net	137	9	146
Accrued interest receivable	27	312	339
Notes receivable	8,699		8,699
Due from other funds	3,730	9,267	12,997
Due from other governments		8	8
Land held for resale, net	29,384		29,384
Deposits and prepaids	2,000	16	2,016
Restricted cash and cash equivalents	4,714	7,188	11,902
Total assets	$ 51,773	$56,400	$108,173
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 3,659	$ 2,418	$ 6,077
Wages payable	47	20	67
Deposits	1,276		1,276
Due to other funds	24,224	2,139	26,363
Due to other governments		20	20
Deferred revenue	8,740		8,740
Total liabilities	37,946	4,597	42,543
Fund balances:			
Reserved for encumbrances	1,482	8,544	10,026
Reserved for noncurrent interfund receivable	2,255	9,267	11,522
Reserved for land held for resale	29,384		29,384
Reserved for prepaids and other assets	2,000	16	2,016
Unreserved - designated for capital projects	2,975	33,976	36,951
Unreserved - undesignated	(24,269)		(24,269)
Total fund balances	13,827	51,803	65,630
Total liabilities and fund balances	$ 51,773	$56,400	$108,173

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Capital Projects Funds
Year Ended June 30, 2006 (In thousands)

	Redevelopment Agency	Other Capital Improvements	Total
Revenues:			
Licenses, fees and permits		$15,374	$ 15,374
Intergovernmental revenues	$ 600	977	1,577
Use of money and property	1,978	1,158	3,136
Other	2,871	302	3,173
Total revenues	5,449	17,811	23,260
Expenditures:			
Current:			
Human Resources		46	46
Police		45	45
Community Development	10,990		10,990
Planning		2	2
Public Works		1,523	1,523
Community Services		656	656
Convention, Sports and Entertainment		734	734
Capital outlay	17,188	9,501	26,689
Debt service:			
Principal retirement	252	496	748
Interest and fiscal agent charges	426	619	1,045
Total expenditures	28,856	13,622	42,478
Excess (deficiency) of revenues over (under) expenditures	(23,407)	4,189	(19,218)
Other financing sources (uses):			
Transfers in	13,955	1,625	15,580
Transfers out	(4,435)		(4,435)
Proceeds from long-term debt	10,197		10,197
Capital leases	45	37	82
Total other financing sources (uses)	19,762	1,662	21,424
Net change in fund balances	(3,645)	5,851	2,206
Fund balances at beginning of year	17,472	45,952	63,424
Fund balances at end of year	$ 13,827	$51,803	$ 65,630

Internal Service Funds

INTERNAL SERVICE FUNDS are used to account for the financing of centralized services to City departments on a cost-reimbursement basis (including depreciation).

GENERAL BENEFITS AND INSURANCE FUND - Established to account for employee compensated absences, retirement and health benefits, and self-insurance programs.

MOTORIZED EQUIPMENT FUND - Established to account for motorized equipment used by City departments.

DUPLICATING AND PRINTING FUND - Established to account for central duplicating, printing and mailing services provided to City departments.

INFORMATION SERVICES FUND - Established to account for data processing services to City departments.

OFFICE MAINTENANCE AND EQUIPMENT FUND - Established to account for City office maintenance services and equipment used by City departments.

Combining Statement of Fund Net Assets
Internal Service Funds
June 30, 2006 (In thousands)

	General Benefits and Insurance	Motorized Equipment	Duplicating and Printing	Information Services	Office Maintenance and Equipment	Total
ASSETS						
Current assets:						
Cash and cash equivalents	$ 5,796	$ 381	$ 20	$ 80	$ 317	$ 6,594
Investments	115,149	7,565	395	1,589	6,410	131,108
Accounts receivable, net	1,399	17	18			1,434
Accrued interest receivable	1,139	87	10	27	51	1,314
Interfund receivable	29					29
Inventories		737				737
Prepaids and other assets	40					40
Total current assets	123,552	8,787	443	1,696	6,778	141,256
Noncurrent assets:						
Interfund receivable, less current portion	56					56
Restricted cash and cash equivalents		17				17
Restricted investments		473				473
Unamortized debt issuance costs		8				8
Capital assets:						
Buildings and improvements		3,230			3,530	6,760
Equipment	115	39,891	554	13,694	1,726	55,980
Construction in progress		308		1,617		1,925
Less accumulated depreciation	(61)	(26,850)	(482)	(5,226)	(3,926)	(36,545)
Capital assets, net	54	16,579	72	10,085	1,330	28,120
Total noncurrent assets	110	17,077	72	10,085	1,330	28,674
Total assets	123,662	25,864	515	11,781	8,108	169,930
LIABILITIES						
Current liabilities:						
Accounts payable	5,389	648	126	919	321	7,403
Wages payable	1,159	93	8	14	71	1,345
Interest payable		52				52
Compensated absences	15,780					15,780
Self-insurance liability	8,395					8,395
Long-term debt	6	251	39	32	10	338
Postretirement employment benefits	6,872					6,872
Unearned revenues	725					725
Total current liabilities	38,326	1,044	173	965	402	40,910
Noncurrent liabilities:						
Self-insurance liability, less current portion	22,433					22,433
Long term obligations, less current portion (note 8)	10	1,389		18	11	1,428
Postretirement employment benefits, less current portion	60,652					60,652
Total noncurrent liabilities	83,095	1,389		18	11	84,513
Total liabilities	121,421	2,433	173	983	413	125,423
FUND NET ASSETS						
Invested in capital assets, net of related debt	38	14,947	37	10,035	1,309	26,366
Restricted for debt service		438				438
Unrestricted	2,203	8,046	305	763	6,386	17,703
Total fund net assets	$ 2,241	$ 23,431	$ 342	$10,798	$ 7,695	$ 44,507

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Funds
Year Ended June 30, 2006 (In thousands)

	General Benefits and Insurance	Motorized Equipment	Duplicating and Printing	Information Services	Office Maintenance and Equipment	Total
Operating revenues:						
Charges for services	$97,077	$ 9,546	$1,723	$11,640	$9,066	$129,052
Other	141			4	57	202
Total operating revenues	97,218	9,546	1,723	11,644	9,123	129,254
Operating expenses:						
Salaries and wages	2,291	3,458	395	430	2,781	9,355
Maintenance and operations	2,028	4,579	1,229	9,601	4,930	22,367
Insurance premiums and claims	9,416					9,416
Compensated absences and other benefits	84,571					84,571
Depreciation	21	3,321	58	2,099	149	5,648
Total operating expenses	98,327	11,358	1,682	12,130	7,860	131,357
Operating income (loss)	(1,109)	(1,812)	41	(486)	1,263	(2,103)
Nonoperating income (expenses):						
Interest income	2,832	278	34	65	158	3,367
Interest expense		(111)	(6)	(6)		(123)
Gain (loss) from disposal of capital assets		270				270
Total nonoperating income	2,832	437	28	59	158	3,514
Income (loss) before capital contributions	1,723	(1,375)	69	(427)	1,421	1,411
Capital contributions				668		668
Transfers in						
Transfers out			(800)			(800)
Change in fund net assets	1,723	(1,375)	(731)	241	1,421	1,279
Fund net assets at beginning of year	518	24,806	1,073	10,557	6,274	43,228
Fund net assets at end of year	$ 2,241	$23,431	$ 342	$10,798	$7,695	$ 44,507

Combining Statement of Cash Flows
Internal Service Funds
Year Ended June 30, 2006 (In thousands)

	General Benefits and Insurance	Motorized Equipment	Duplicating and Printing	Information Services	Office Maintenance and Equipment	Total
Cash flows from operating activities:						
Receipts from interfund services provided	$ 97,077	$ 9,546	$ 1,723	$11,640	$ 9,066	$129,052
Payments to suppliers	(361)	(6,396)	(1,114)	(9,110)	(4,431)	(21,412)
Payments for salaries and wages to employees	(2,033)	(3,442)	(395)	(431)	(2,780)	(9,081)
Payments for interfund services used	(1,073)	(417)	(69)	(598)	(460)	(2,617)
Payments for insurance premiums and claims	(8,815)					(8,815)
Payments for compensated absences and other benefits	(88,389)					(88,389)
Other receipts (payments)	169	(102)		4	57	128
Net cash provided by (used in) operating activities	(3,425)	(811)	145	1,505	1,452	(1,134)
Cash flows from noncapital financing activities:						
Payment of interfund balances	19					19
Transfer out			(800)			(800)
Net cash provided by (used in) noncapital financing activities	19		(800)			(781)
Cash flows from capital and related financing activities:						
Proceeds from sale of capital assets		300				300
Capital purchases	(12)	(2,936)		(1,521)	(108)	(4,577)
Principal payments of long-term debt	(6)	(237)	(54)	(203)	(9)	(509)
Interest payments		(100)	(7)	(7)		(114)
Net cash used in capital and related financing activities	(18)	(2,973)	(61)	(1,731)	(117)	(4,900)
Cash flows from investing activities:						
Purchase of investment securities	(67,387)	(1,727)		(759)	(1,934)	(71,807)
Proceeds from sale and maturity of investment securities	53,844	3,756	542	730		58,872
Interest received	4,732	443	33	67	148	5,423
Net cash provided by investing activities	(8,811)	2,472	575	38	(1,786)	(7,512)
Increase (decrease) in cash and cash equivalents	(12,235)	(1,312)	(141)	(188)	(451)	(14,327)
Cash and cash equivalents at beginning of the year	18,031	1,710	161	268	768	20,938
Cash and cash equivalents at end of the year	$ 5,796	$ 398	$ 20	$ 80	$ 317	$ 6,611

(continued)

Combining Statement of Cash Flows
Internal Service Funds
Year Ended June 30, 2006 (In thousands) (continued)

	General Benefits and Insurance	Motorized Equipment	Duplicating and Printing	Information Services	Office Maintenance and Equipment	Total
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	$(1,109)	$(1,812)	$ 41	$ (486)	$1,263	$(2,103)
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	21	3,321	58	2,099	149	5,648
Changes in assets and liabilities:						
Accounts receivable	(889)	3	(18)	9		(895)
Inventories		(105)				(105)
Prepaids and other assets	(40)	19				(21)
Accounts payable	4,264	(2,253)	64	(116)	39	1,998
Wages payable	258	16		(1)	1	274
Unearned revenues	129					129
Compensated absences	(442)					(442)
Self-insurance liability	908					908
Post retirement employment benefits	(6,525)					(6,525)
Total adjustments	(2,316)	1,001	104	1,991	189	969
Net cash provided by (used in) operating activities	$(3,425)	$ (811)	$145	$1,505	$1,452	$(1,134)
Schedule of noncash financing and investing activities:						
Decrease in fair value of investments	$(2,094)	$ (141)				$(2,235)
Transfers in of capital assets				$ 668		668
Reconciliation of cash and cash equivalents:						
Cash and cash equivalents	$ 5,796	$ 381	$ 20	$ 80	$ 317	$ 6,594
Restricted cash and cash equivalents		17				17
Total cash and cash equivalents	$ 5,796	$ 398	$ 20	$ 80	$ 317	$ 6,611

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – All Nonmajor Special Revenue Funds
Year Ended June 30, 2006 (In thousands)

	Gas, Tax and Roads			Workforce Development		
	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Over (Under)	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Over (Under)
Revenues:						
Property taxes						
Licenses, fees and permits	$ 200	$ 228	$ 28			
Intergovernmental revenues	64,972	17,232	(47,740)	$3,877	$3,109	$(768)
Charges for services	128	56	(72)			
Use of money and property	29	234	205			
Other		90	90		10	10
Total revenues	65,329	17,840	(47,489)	3,877	3,119	(758)
Expenditures:						
Current:						
City Attorney						
Police						
Fire						
Community Development				3,844	3,358	(486)
Planning						
Public Works	2,938	2,838	(100)			
Community Services						
Capital outlay	57,950	16,295	(41,655)	30		(30)
Debt service:						
Principal retirement	1	1		6	6	
Interest and fiscal agent charges						
Total expenditures	60,889	19,134	(41,755)	3,880	3,364	(516)
Excess (deficiency) of revenues over (under) expenditures	4,440	(1,294)	(5,734)	(3)	(245)	(242)
Other financing sources (uses):						
Transfers in	22,842	57	(22,785)	287		(287)
Transfers out	(26,786)	(4,789)	21,997	(284)		284
Proceeds from long-term debt						
Proceeds from the sale of capital assets						
Capital leases		4	4		23	23
Total other financing sources (uses)	(3,944)	(4,728)	(784)	3	23	20
Net change in fund balances	496	(6,022)	(6,518)		(222)	(222)
Fund balances at beginning of year	7,808	7,808		(183)	(183)	
Fund balances (deficit) at end of year	$ 8,304	$ 1,786	$ (6,518)	$ (183)	$ (405)	$(222)

(continued)

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – All Nonmajor Special Revenue Funds
Year Ended June 30, 2006 (In thousands) (continued)

	Community Development Block Grant			Community Services Facilities		
	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Over (Under)	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Over (Under)
Revenues:						
Property taxes						
Licenses, fees and permits				$ 3,204	$ 2,437	$ (767)
Intergovernmental revenues	$ 12,719	$ 5,878	$ (6,841)	9,396	1,931	(7,465)
Charges for services						
Use of money and property	123	153	30	106	316	210
Other	500	239	(261)			
Total revenues	13,342	6,270	(7,072)	12,706	4,684	(8,022)
Expenditures:						
Current:						
City Attorney	120	120				
Police	306	283	(23)			
Fire						
Community Development	5,132	1,937	(3,195)			
Planning	1,230	1,229	(1)			
Public Works						
Community Services	900	525	(375)	788	349	(439)
Capital outlay	5,348	1,298	(4,050)	18,416	7,876	(10,540)
Debt service:						
Principal retirement				37	37	
Interest and fiscal agent charges				15	15	
Total expenditures	13,036	5,392	(7,644)	19,256	8,277	(10,979)
Excess (deficiency) of revenues over (under) expenditures	306	878	572	(6,550)	(3,593)	2,957
Other financing sources (uses):						
Transfers in	12,483		(12,483)	8,601		(8,601)
Transfers out	(12,789)	(1,017)	11,772	(3,451)		3,451
Proceeds from long-term debt						
Proceeds from the sale of capital assets				1,400		(1,400)
Capital leases		7	7			
Total other financing sources (uses)	(306)	(1,010)	(704)	6,550		(6,550)
Net change in fund balances		(132)	(132)		(3,593)	(3,593)
Fund balances at beginning of year	(52)	(52)		7,719	7,719	
Fund balances (deficit) at end of year	$ (52)	$ (184)	$ (132)	$ 7,719	$ 4,126	$ (3,593)

(continued)

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – All Nonmajor Special Revenue Funds
Year Ended June 30, 2006 (In thousands) (continued)

	Sewer and Storm Drain Construction			Grants		
	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Over (Under)	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Over (Under)
Revenues:						
Property taxes						
Licenses, fees and permits	$ 240	$1,460	$1,220			
Intergovernmental revenues				$20,005	$ 5,442	$(14,563)
Charges for services						
Use of money and property	65	122	57		39	39
Other					122	122
Total revenues	305	1,582	1,277	20,005	5,603	(14,402)
Expenditures:						
Current:						
City Attorney						
Police				11,115	1,303	(9,812)
Fire				6,230	1,779	(4,451)
Community Development				1,000		(1,000)
Planning						
Public Works	114	497	383	2,500	16	(2,484)
Community Services				388	73	(315)
Capital outlay	699	24	(675)	5,058	5,042	(16)
Debt service:						
Principal retirement				6	6	
Interest and fiscal agent charges						
Total expenditures	813	521	(292)	26,297	8,219	(18,078)
Excess (deficiency) of revenues over (under) expenditures	(508)	1,061	1,569	(6,292)	(2,616)	3,676
Other financing sources (uses):						
Transfers in	813		(813)	13,808		(13,808)
Transfers out	(305)		305	(7,516)	(254)	7,262
Proceeds from long-term debt						
Proceeds from the sale of capital assets						
Capital leases					18	18
Total other financing sources (uses)	508		(508)	6,292	(236)	(6,528)
Net change in fund balances		1,061	1,061		(2,852)	(2,852)
Fund balances at beginning of year	2,986	2,986		(229)	(229)	
Fund balances (deficit) at end of year	$2,986	$4,047	$1,061	$ (229)	$(3,081)	$ (2,852)

(continued)

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – All Nonmajor Special Revenue Funds
Year Ended June 30, 2006 (In thousands) (continued)

	Anaheim Resort Maintenance District			Narcotic Asset Forfeiture		
	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Over (Under)	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Over (Under)
Revenues:						
Property taxes	$ 3,600	$3,567	$ (33)			
Licenses, fees and permits						
Intergovernmental revenues				$ 1,403	$1,131	$ (272)
Charges for services						
Use of money and property	93	117	24		95	95
Other	4	2	(2)			
Total revenues	3,697	3,686	(11)	1,403	1,226	(177)
Expenditures:						
Current:						
City Attorney						
Police				1,153	642	(511)
Fire						
Community Development						
Planning						
Public Works	4,289	3,821	(468)			
Community Services						
Capital outlay	1,767	316	(1,451)	245	54	(191)
Debt service:						
Principal retirement	2	2		1,011	1,011	
Interest and fiscal agent charges				150	150	
Total expenditures	6,058	4,139	(1,919)	2,559	1,857	(702)
Excess (deficiency) of revenues over (under) expenditures	(2,361)	(453)	1,908	(1,156)	(631)	525
Other financing sources (uses):						
Transfers in	2,360	200	(2,160)	1,278		(1,278)
Transfers out				(122)		122
Proceeds from long-term debt						
Proceeds from the sale of capital assets						
Capital leases					19	19
Total other financing sources (uses)	2,360	200	(2,160)	1,156	19	(1,137)
Net change in fund balances	(1)	(253)	(252)		(612)	(612)
Fund balances at beginning of year	5,373	5,373		3,238	3,238	
Fund balances (deficit) at end of year	$ 5,372	$5,120	$ (252)	$ 3,238	$2,626	$ (612)

(continued)

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – All Nonmajor Special Revenue Funds
Year Ended June 30, 2006 (In thousands) (continued)

	Redevelopment Housing Set-Aside		
	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Over (Under)
Revenues:			
Property taxes	$ 6,899	$ 7,468	$ 569
Licenses, fees and permits			
Intergovernmental revenues			
Charges for services			
Use of money and property	397	965	568
Other	600	13,090	12,490
Total revenues	7,896	21,523	13,627
Expenditures:			
Current:			
City Attorney			
Police			
Fire			
Community Development	11,641	7,222	(4,419)
Planning			
Public Works			
Community Services			
Capital outlay	9,905	9,905	
Debt service:			
Principal retirement		3	3
Interest and fiscal agent charges			
Total expenditures	21,546	17,130	(4,416)
Excess (deficiency) of revenues over (under) expenditures	(13,650)	4,393	18,043
Other financing sources (uses):			
Transfers in	25,245	2,031	(23,214)
Transfers out	(28,453)	(9,108)	19,345
Proceeds from long-term debt	983	12,160	11,177
Proceeds from the sale of capital assets	15,875		(15,875)
Capital leases		10	10
Total other financing sources (uses)	13,650	5,093	(8,557)
Net change in fund balances		9,486	9,486
Fund balances at beginning of year	24,231	24,231	
Fund balances (deficit) at end of year	$ 24,231	$33,717	$ 9,486

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – All Nonmajor Debt Service Funds
Year Ended June 30, 2006 (In thousands)

	Municipal Improvements			Redevelopment Agency		
	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Over (Under)	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Over (Under)
Revenues:						
Property taxes	$ 739	$727	$ (12)	$ 27,603	$29,873	$ 2,270
Intergovernmental revenues		7	7			
Use of money and property		14	14	830	1,138	308
Other				56		(56)
Total revenues	739	748	9	28,489	31,011	2,522
Expenditures:						
Current:						
Community Development				5,200	5,196	(4)
Debt service:						
Principal retirement	455	455		9,304	9,304	
Interest and fiscal agent charges	284	284		12,930	12,925	(5)
Total expenditures	739	739		27,434	27,425	(9)
Excess (deficiency) of revenues over (under) expenditures		9	9	1,055	3,586	2,531
Other financing sources (uses):						
Transfers in				10,586	8,415	(2,171)
Transfers out				(11,641)	(9,200)	2,441
Total other financing sources (uses)				(1,055)	(785)	270
Net change in fund balances		9	9		2,801	2,801
Fund balances at beginning of year	667	667		10,023	10,023	
Fund balances at end of year	$ 667	$676	$ 9	$ 10,023	$12,824	$ 2,801

(continued)

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – All Nonmajor Debt Service Funds
Year Ended June 30, 2006 (In thousands) (continued)

	Anaheim Resort Improvements		
	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Over (Under)
Revenues:			
Property taxes			
Intergovernmental revenues			
Use of money and property		$ 323	$ 323
Other			
Total revenues		323	323
Expenditures:			
Current:			
Community Development			
Debt service:			
Principal retirement	$ 3,955	3,955	
Interest and fiscal agent charges	22,607	22,602	(5)
Total expenditures	26,562	26,557	(5)
Excess (deficiency) of revenues over (under) expenditures	(26,562)	(26,234)	328
Other financing sources (uses):			
Transfers in	27,721	31,775	4,054
Transfers out	(1,159)		1,159
Total other financing sources (uses)	26,562	31,775	5,213
Net change in fund balances		5,541	5,541
Fund balances at beginning of year	20,194	20,194	
Fund balances at end of year	$ 20,194	$ 25,735	$5,541

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – All Nonmajor Capital Projects Funds
Year Ended June 30, 2006 (In thousands)

	Redevelopment Agency			Other Capital Improvements		
	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Over (Under)	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Over (Under)
Revenues:						
Licenses, fees and permits				$ 3,796	$15,374	$ 11,578
Intergovernmental revenues		$ 600	$ 600	800	977	177
Charges for services						
Use of money and property	$ 2,346	1,978	(368)	390	1,158	768
Other		2,871	2,871	181	302	121
Total revenues	2,346	5,449	3,103	5,167	17,811	12,644
Expenditures:						
Current:						
City Administration				90	46	(44)
Human Resources				3,455	45	(3,410)
Police				28		(28)
Fire				1,099		(1,099)
Community Development	15,708	10,990	(4,718)	2	2	
Planning				11,540	1,523	(10,017)
Public Works				4,027	656	(3,371)
Community Services				1,141	734	(407)
Convention, Sports and Entertainment				9,501	9,501	
Capital outlay	17,188	17,188				
Debt service:						
Principal retirement	252	252		496	496	
Interest and fiscal agent charges	426	426		619	619	
Total expenditures	33,574	28,856	(4,718)	31,998	13,622	(18,376)
Excess (deficiency) of revenues over (under) expenditures	(31,228)	(23,407)	7,821	(26,831)	4,189	31,020
Other financing sources (uses):						
Transfers in	61,963	13,955	(48,008)	33,617	1,625	(31,992)
Transfers out	(39,384)	(4,435)	34,949	(7,213)		7,213
Proceeds from long-term debt	1,800	10,197	8,397			
Proceeds from the sale of capital assets	6,850		(6,850)			
Capital leases		45	45		37	37
Total other financing sources (uses)	31,229	19,762	(11,467)	26,404	1,662	(24,742)
Net change in fund balances	1	(3,645)	(3,646)	(427)	5,851	6,278
Fund balances at beginning of year	17,472	17,472		45,952	45,952	
Fund balances (deficit) at end of year	$ 17,473	$ 13,827	$ (3,646)	$ 45,525	$51,803	$ 6,278

Combining Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds
Year Ended June 30, 2006 (In thousands)

Agency Fund - Mello-Roos	Beginning Balance	Additions	Deductions	Ending Balance
ASSETS				
Restricted cash and cash equivalents	$3,554	$2,738	$(2,705)	$3,587
Due from other governments	43	2,630	(2,629)	44
Total assets	$3,597	$5,368	$(5,334)	$3,631
LIABILITIES				
Due to bond holders	$3,597	$2,739	$(2,705)	$3,631

Agency Fund - Urban Area Security Initiative	Balance	Additions	Deductions	Balance
ASSETS				
Due from other governments	—	$4,137	$(2,927)	$ 1,210
Total assets	—	$4,137	$(2,927)	$1,210
LIABILITIES				
Due to other governments	—	$2,708	$(1,498)	$1,210

Total Agency Funds	Beginning Balance	Additions	Deductions	Ending Balance
ASSETS				
Restricted cash and cash equivalents	$3,554	$2,738	$(2,705)	$3,587
Due from other governments	43	6,767	(5,556)	1,254
Total assets	$3,597	$9,505	$(8,261)	$4,841
LIABILITIES				
Due to other governments	$3,597	$5,447	$(4,203)	$4,841

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

THE CITY OF ANAHEIM

The Bonds are not secured by the faith and credit or the taxing power of the City. The economic and financial data regarding the City of Anaheim and Orange County set forth in this section are included for information purposes only, to give a more complete description of the service area of the System.

General

The City of Anaheim (the "City") was founded and incorporated in 1857, disincorporated in 1872, reincorporated in 1876, and reorganized in 1888. No change in organization took place until June 1964, when the local voters approved a City Charter. The City operates under the Charter and with a Council-Manager form of government. The five City Council members are elected to four-year terms in alternate slates every two years. The Mayor presides over meetings of the City Council and has one vote.

The City Council appoints the City Manager, who heads the executive branch of government, implements City Council directives and policies, and manages the administrative and operational functions through the various departmental heads, who are appointed by the City Manager.

City full-time employees numbered 2,117 as of July 1, 2006, of whom 590 were assigned to the Police Department and 290 to the Fire Department. The latter has ten stations; the City enjoys a Class One fire insurance rating, the highest rating possible.

The City covers 50 square miles and is located in the northern portion of Orange County, about 28 miles southeast of downtown Los Angeles and about 90 miles north of San Diego. The City lies on a coastal plain which is bordered by the Pacific Ocean on the west and the Santa Ana Mountains on the east.

The City is in the center of an area with 15 million people which is comprised of Orange, San Diego, Los Angeles, Riverside and San Bernardino counties. Major freeways in and through the City provides convenient access for industries to labor markets and recreation and commerce to consumers of an even much broader area. The Santa Ana Freeway (Interstate 5) connecting Los Angeles and San Diego, is the main artery traversing the City and connects, in or near the City, with the Artesia/Riverside (State Route 91), the Garden Grove (State Route 22), the Orange (State Route 57), and the Costa Mesa (State Route 55) freeways.

AMTRAK rail passenger service is available to a station situated at Edison International Field of Anaheim. Anaheim is also served by four other railroads, the UPSP Railroad, the Santa Fe, the Burlington Northern Santa Fe, and the Metrolink Commuter Service, and by numerous truck carriers in Southern California.

The major airports in the area include John Wayne (14 miles south), Ontario International (20 miles northeast), Los Angeles International (30 miles northwest) and Long Beach (14 miles west).

Daily bus service for residents and the 20 million tourists and conventioneers who visit Anaheim annually is provided by various lines including the Orange County Transportation Authority, Metropolitan Transportation Authority, Greyhound Lines and Valen Transportation Services.

Municipal Government

City Council. Legislative authority is vested in a city council of five nonpartisan members, who hire a city manager to oversee day-to-day operations. Each council member is elected for four years with staggering terms.

Biographies of the members of the City Council are set forth below:

CURT PRINGLE, MAYOR, was first elected Mayor of Anaheim in 2002, and was overwhelmingly re-elected to a second four-year term in 2006 with 79% of the vote. Mayor Pringle's "freedom friendly" policy initiatives have sparked an economic renaissance in Anaheim and positioned the City — the 10th largest in California - as a model of free-market-oriented urban renewal.

Mr. Pringle brought a significant depth of public policy experience to the Mayor's office of Anaheim. He served in the California State Assembly from 1988-1990 and again from 1992-1998. During his tenure in the State Assembly, Mr. Pringle served as the Speaker of the Assembly in 1996, Republican Leader, Republican Caucus Chair, chairman of the Appropriations Committee, chairman of the Rules Committee and vice chairman of the Budget Committee. He also served on the Insurance, Governmental Organization, Banking, Local Government and Joint Legislative Budget Review Committees. Additionally, he served as a budget conferee in 1995, where he authored the 1995-1996 California State Budget.

Mr. Pringle is also a successful businessman who has built his Orange County public relations company, Curt Pringle & Associates, into one of the region's leading PR, land use and public affairs firms.

ROBERT HERNANDEZ, MAYOR PRO TEM AND COUNCIL MEMBER, was first elected to the Anaheim City Council in November 2002 after a 38-year career serving in the Anaheim Fire Department. He has served on the Anaheim Firefighters Association as treasurer and board member at large. He has a long history of service to the community in such organizations as the American Cancer Society, American Heart Association, Anaheim Chamber of Commerce, Western Medical Centers Foundation Board of Trustees, Latino Peace Officers Association, and was a founding member of the Downtown Anaheim Association. Council Member Hernandez addresses the housing needs of people with disabilities as Outreach Chair of the Dayle Macintosh Center, and currently serves as Chairman of the Board of Anaheim Memorial Medical Center and as Anaheim's representative at the Transportation and Maglev Committees of the Southern California Association of Governments.

LUCILLE KRING, COUNCIL MEMBER, was re-elected to the Anaheim City Council in November 2006 after a four-year absence. Ms. Kring also served as a City Councilmember from 1998-2002. Ms. Kring is a graduate from Western State University College of Law. She practices in the field of labor, employment contract and real estate law. She also has a real estate broker's license and a B.S. degree in Chemistry. During her previous tenure on the Anaheim City Council, Ms. Kring served as chair of the League of California Cities' Employee Relations Policy Committee, a member of the Energy & Environment Committee for the Southern California Association of Governments and a member of the National League of Cities' Energy, Environment and Natural Resources Committee. She also was a member of the Orange County-City Hazardous Materials Emergency Response Authority and chair of the Training Joint Powers Authority.

Ms. Kring was an Anaheim Chamber of Commerce Ambassador and was Ambassador of the Year, after amassing 500 hours of volunteer service to the community. In 1996, she was elected to the Chamber's Board of Directors and continues to serve as a board member. Ms. Kring is active in numerous local charitable organizations. She sits on the boards of Anaheim Memorial Medical Center, Anaheim Family YMCA, Canyon Hills Community Council, Anaheim Police Activities League, Anaheim Republican Assembly, and is currently president of the Anaheim Rotary Club. A cancer survivor, she has served on the Board of the American Cancer Society-North Orange County Unit and regularly participates in fundraising for Muscular Dystrophy Association, Leukemia & Lymphoma Society and Paint Your Heart Out Anaheim.

She is a former president of a local Toastmaster's chapter and has served as a religious education teacher at St. Columban Church in Garden Grove. Ms. Kring is also a graduate of the inaugural Leadership Anaheim class and served as a deputy foreman for the Federal Grand Jury for 18 months.

LORRI GALLOWAY, COUNCIL MEMBER, was elected to the City Council in November 2004. She is the founder and executive director of The Eli Home for Abused Children. The Eli Home has provided award-winning child abuse prevention and domestic violence prevention programs throughout Orange County. Through emergency shelters, walk-in counseling centers, advocacy and outreach, Eli has benefited thousands of victims since 1983. Ms. Galloway is a member of the CSUF Non-Profit Professionals Alumni Association, California Bar Association — Probation Department, Canyon Hills Community Council, Los Amigos, United Latinos of Anaheim (ULA) and the Anaheim Sesquicentennial Commission. Among her awards and achievements are: Rancho Santiago College Women of Achievement Award, First Lady of California Community Service Award, National Philanthropy Association Outstanding Founder Award, Orange County Spirit of Volunteerism Award, Outstanding Filipino American in Orange County Centennial Award, LA Times Volunteers of Distinction Award, Orange County Bar Association Liberty Bell Award, and the Orange County Labor Council Community Services Award.

HARRY S. SIDHU, P.E., COUNCIL MEMBER, was elected to the City Council in November 2004. In 1974, he immigrated to the United States from India with his parents, as a permanent resident, and settled in Philadelphia, Pennsylvania, where he received a Bachelor of Science Degree in Mechanical Engineering from Drexel University. In 1977, Mr. Sidhu became a United States citizen. He moved to California in 1981 and began his professional life as a consulting engineer with Rockwell International and General Dynamics, and as a U.S. Defense Industry Engineer for Hughes Aircraft. During that period, Mr. Sidhu became a licensed Professional Engineer - Registered Mechanical Engineer in the State of California, and obtained a General Contractor's License (B). He is also a licensed franchise business broker. In 1994, he moved to Anaheim where he presently resides with his wife and two children. His community involvement has included the following: Boys and Girls Clubs of Anaheim — Board of Directors; Anaheim General Hospital — Board of Directors; Anaheim Historical Society; Anaheim Beautiful; Orange County Community Housing Corporation; Anaheim Chamber of Commerce; Anaheim Small Business Chamber; Anaheim Youth Soccer Coach; charity fundraiser and sponsor of children's sports, and many civic activities. Prior to joining the City Council, he served as Chairman for the Budget Advisory Commission for the City of Anaheim. Mr. Sidhu was also formerly the 4th District At-Large Representative to the Executive Steering Committee, Orange County Division, League of California Cities. He also currently serves on the Board of Directors of the Orange County Sanitation District, and as a member of the Board of Trustees of the Orange County Vector Control District.

City Management. Biographies of the members of the City Management are set forth below:

DAVID M. MORGAN, CITY MANAGER, began working for the City in December 1974. He has worked in Budget and Audit, Personnel, Data Processing, Intergovernmental Relations, Strategic Planning and Golf and Stadium Field Operations. He was appointed City Manager in December 2001 after serving as Assistant City Manager for almost nine years. As the City Manager, Mr. Morgan coordinates a full range of municipal services ranging from public utilities, public safety, transportation, growth management, and social activities designed to enhance the quality of life of Anaheim's citizens. He has a Bachelor's and a Master's degree in Public Administration from California State University, Fullerton. He belongs to the International City Manager's Association, and has served as a member of the Graduate Center adjunct faculty for Public Policy and Administration at California State University, Long Beach. He also serves as a member of the Governing Board for Anaheim Memorial Medical Center.

THOMAS J. WOOD, ASSISTANT CITY MANAGER, joined the City in 1990 and presently serves as the City's chief operating officer. During his tenure with the City he has led complex negotiations leading to the revitalization of the Anaheim Resort, and the restructuring of the Honda Center operating agreement. During Mr. Wood's 30 plus years in municipal management, he has directed the renewal of neighborhoods, balanced budgets, coordinated public safety efforts, and has focused on land use, infrastructure, economic development, crisis management, organizational development and public affairs issues. Mr. Wood holds a Bachelor of Arts degree from Whittier College and a Master's degree in Public Administration from the University of Southern California, and has instructed graduate level courses in productivity, finance and administration.

JOEL FICK, DEPUTY CITY MANAGER, joined the City in 1974. He was appointed as the City's Planning Director in 1987 and has worked in the City Manager's Office since January 2002. As Deputy City Manager, he has direct oversight of the Planning Department, Community Development Department, and Public Works Department. He oversees all development activities related to current and advanced planning, building, subdivision, grading, redevelopment, housing, and code enforcement. He also has oversight of all other Public Works Department activities, including fleet and facility maintenance and Anaheim's extensive capital improvement program. Mr. Fick received a Bachelor's degree in Geography and a Master's degree in Public Administration from California State University, Fullerton and is also a past instructor of planning courses at the University.

WILLIAM G. SWEENEY, FINANCE DIRECTOR, was appointed in June 1995 as the director of the department that oversees the Accounting, Purchasing, Budget, Risk Management and Information Services functions of the City. Mr. Sweeney joined the City in 1988 as the Finance and Administrative Services Manager for Anaheim Stadium. In 1992, he became the City's Budget and Audit Manager, where his responsibilities included administration of the City's $1.3 billion budget. He began his career in local government with the City of Long Beach in 1977, where he held a number of key positions in the Finance, Public Works, General Services, and Parks and Recreation Departments. A graduate of California State University at Long Beach, Mr. Sweeney has completed graduate level work at the school's Graduate Center for Public Policy and Administration.

JACK L. WHITE, CITY ATTORNEY, has been City Attorney of Anaheim, California, since his appointment to office by the Anaheim City Council in July 1985. Previously, he had served as both Deputy City Attorney and Assistant City Attorney of Anaheim beginning in 1977. Mr. White manages and supervises a staff of 33 employees, including twenty other attorneys. His office represents and advises the City Council, City departments, and City officials on all legal matters, and prosecutes all misdemeanor and infraction crimes occurring in the City of Anaheim. In addition, his office defends the City in civil litigation matters and prepares all city contracts, ordinances and other legal documents for consideration of the City Council. He was formerly a member of the law firm of Martin & Flandrick, San Marino, California, which represented thirteen Southern California cities as City Attorney. Mr. White has a Juris Doctor degree from the University of California, Los Angeles, and was admitted to the practice of law in 1969. Mr. White is a member of the National Institute of Municipal Law Officers, the American Trial Lawyers' Association, the American Arbitration Association, the California District Attorney's Association and is past president of the Orange County City Attorney's Association.

LINDA NGUYEN, CITY CLERK, joined the City in April 2001 and thereafter was appointed to Deputy City Clerk, responsible for the management of City Council agendas and the supervision of City Clerk staff. During this time, she was responsible for the automation of the agenda process, which resulted in increased workflow efficiencies and reduced paper production. Ms. Nguyen left the City in December 2005 for a position with the County of Orange as a Human Resources Manager, and returned to Anaheim in February 2007 as its City Clerk. Ms. Nguyen has a Bachelor's degree in political science and a Master's degree in public administration from California State University of Fullerton. She is active in the International Institute of Municipal Clerks; the Southern California Public Management Association, and the Society for Human Resources Management.

HENRY W. STERN, CITY TREASURER, was appointed in January 2007. Mr. Stern has held the positions of Investment Officer for the City of Lakewood, CA for seventeen years and Treasury Operations Officer for the City of Long Beach, CA for six years before joining the City of Los Angeles, CA as its Chief Investment Officer, where he has worked for the last three years. Mr. Stern has a Bachelor's degree in political science and a Master's degree in public administration from California State University at Long Beach. He is a Certified Treasury Professional and is active in the Association of Finance Professionals. He lectures to professional organizations on investment topics such as cash flow analysis, banking services, risk management, asset allocation, advanced investment strategies and portfolio management.

Pensions

All full-time and certain part-time City personnel belong to the California Public Employees' Retirement System ("CalPERS"). As of June 30, 2006, CalPERS had separate contracts with the State of California plus 1,544 local public agencies and 1,053 school districts. Membership includes the State of California, cities, counties, school districts and other public agencies. Each agency has somewhat differing benefit programs and amounts of actuarial liabilities. For the Public Employees' Retirement Fund as a whole, the CalPERS investment portfolio market value as of June 30, 2006, was approximately $208.2 billion, compared to $189.8 billion as of June 30, 2005. As of June 30, 2005, the CalPERS unfunded actuarial accrued liability was $14.765 billion. Note that such information is the most recent information available and that no assurances can be given that there has not been a reduction in the market value of the assets held by CalPERS.

For the City, net assets available for benefits as of June 30, 2006 were $1,072,386,000 with an unfunded liability of $137,037,000.

The City's contribution rate is determined by annual actuarial valuations based on the benefit formula and the number of employees and their respective salary schedules. As of July 1, 2006, the City's contribution rate was 15.793% for miscellaneous employees and 23.823% for fire safety employees, and 24.069% for police safety employees. Participants' contributions totaled $14,094,000 for the fiscal year ended June 30, 2006.

Labor Relations

A majority of City employees are represented by various unions, including the Anaheim Municipal Employees Association, the Anaheim Police Association, the Anaheim Firefighters Association, the International Brotherhood of Electrical Workers, Local 47 (IBEW), the Service Employees International Union, Local 1877; and the General Truck Drivers Union, Local 952. The preceding are designated representatives under the Meyer Milias Brown Act (Section 3500 et seq. of the Government Code of California). The expiration dates of current memoranda of understanding are: IBEW (full-time employees), January 7, 2010; IBEW (part-time employees), January 7, 2010; Anaheim Municipal Employees Association General Employees, January 7, 2010; Anaheim Municipal Employees Association Clerical Employees, January 7, 2010; Anaheim Municipal Employees Association Part Time Unit, July 10, 2008, Anaheim Police Association, January 7, 2010; Anaheim Firefighters Association, June 30, 2009; Service Employees International Union, Local 1877, October 4, 2007; and the General Truck Drivers (Teamsters), October 4, 2007.

Area and Population

The City land area remained at 3.7 square miles from 1900 through 1940. From 1940 to 2006, that area increased to 50.37 square miles. The City's population grew from 14,556 in 1950 to 347,389 in 2006. Anaheim is California's tenth most populous city. The following chart includes the growth in the area and population of the City since 1900 as well as the growth in the population of Orange County.

CITY OF ANAHEIM AND ORANGE COUNTY
AREA AND POPULATION
Calendar Year

Year	City of Anaheim Square Miles	City Population	Annual Average Population Change1[(1)]	Orange County Population	City Population Percent of County	Size of California Cities
1900	3.70	1,456	0.0%	19,696	7.4%	51
1910	3.70	2,628	8.0	34,436	7.6	66
1920	3.70	5,526	11.0	61,375	9.0	42
1930	3.70	10,995	9.9	118,674	9.3	44
1940	3.70	11,031	0.0	130,760	8.4	N/A
1950	4.40	14,556	3.2	216,224	6.7	68
1960	27.34	104,184	61.6	703,925	14.8	12
1970	33.10	166,701	6.0	1,420,386	11.7	8
1980	42.05	219,310	3.2	1,931,570	11.4	8
1990	45.03	266,406	2.1	2,410,556	11.1	10
2000	49.79	328,014	2.3	2,846,289	11.5	10
2001	49.79	331,686	1.1	2,891,100	11.5	10
2002	49.79	335,197	1.1	2,940,743	11.4	10
2003	49.79	337,975	0.8	2,983,731	11.3	10
2004	49.90	341,044	0.9	3,019,889	11.3	10
2005	50.37	341,808	0.2	3,047,054	11.2	10
2006	50.37	347,489	0.6	3,072,336	11.1	10

(1) Expressed as the annual average population change over each period as a percent of the prior year.
Sources: California Department of Finance and City of Anaheim Planning Department.

Building Activities

According to the 2000 Federal Census, prepared by the U.S. Bureau of Census, the total number of dwelling units in the City increased from 93,177 in 1990 to 99,719 in 2000, an increase of 6,542 (or 7%).

Total valuation of all building permits issued by the City Building Division was approximately $388 million in 2006; total permits issued in 2006 were 3584.

CITY OF ANAHEIM
BUILDING ACTIVITIES
Calendar Year

	2002	2003	2004	2005	2006
New Construction					
Residential (in thousands)	$50,876	$60,573	$ 40,070	$ 89,406	$28,859
Permits	165	291	111	108	134
Non-Residential (in thousands)	$ 142,802	$ 78,705	$ 98,623	$ 42,476	$148,360
Permits	742	662	563	45	73
Additions and Alterations					
Residential (in thousands)	$ 27,583	$ 36,894	$ 46,982	$ 29,278	$37,771
Permits	2,946	3,517	2,943	1,788	2147
Non-Residential (in thousands)	$ 4,556	$5,142	$ 6,617	$ 56,262	$73,458
Permits	398	389	467	462	468
Total New Residential Units	410	374	257	771	732

Employment

No annual information is regularly compiled on employment and unemployment for the City alone. Employment in Orange County increased from about 1,481,700 in 2002 to about 1,568,300 in 2006. The County unemployment rate was lower than that in the State in each of the past five years. The mobile resident labor force of Orange County is employed not only in the County but also in adjacent counties, such as Los Angeles, San Bernardino and Riverside. The 2000 census indicated that 99.9% of the City's labor force was in the civilian labor force and 93.8% of that labor force was employed.

ORANGE COUNTY
EMPLOYMENT, UNEMPLOYMENT AND LABOR FORCE[(1)]
Calendar Year Averages: 2001-2006
(000s except for Unemployment Rates)

	2002	2003	2004	2005	2006
Employment	1,481.7	1,515.0	1,521.3	1,541.8	1,568.3
Unemployment	64.0	59.7	68.0	60.4	55.3
Civilian Labor Force	1,545.7	1,574.7	1,589.0	1,602.2	1,623.6
Unemployment Rate	4.1%	3.8%	4.3%	3.8%	3.4%
State Unemployment Rate	6.7%	6.8%	6.2%	5.4%	4.9%

(1) By place of residence, including workers involved in labor disputes.

The 2000 Census for Anaheim prepared by the United States Bureau of Census indicated a civilian labor force living within the City of 142,825. The percentages of Anaheim workers in different industries so reported were:

Industry	Percent of Workers
Services	42.2
Manufacturing	20.2
Wholesale and Retail Trade	16.8
Finance, Insurance and Real Estate	7.3
Construction	6.8
Transportation, Communications and Utilities	3.7
Public Administration	2.7
Agriculture, Forests, Fisheries and Mining	0.3

The table below lists the major manufacturing and non-manufacturing employers within the City.

CITY OF ANAHEIM
TOP TEN PRIVATE EMPLOYERS
2006

Company	Number of Employees	Products/Purpose
Walt Disney Resort	23,105	Theme Park
Kaiser Foundation Hospital	3,660	Medical Facilities
Boeing North America	3,500	Guidance and Navigation Systems
Alstyle Apparel	1,600	Apparel Manufacturer
Anaheim Memorial Medical Center	1,185	Medical Facilities
Northgate Gonzalez Supermarkets	1,000	Grocery Retailer
Honda Center	1,000	Entertainment and Sports Venue
Anaheim Memorial Hospital-ER	979	Medical Facilities
Hilton Anaheim	900	Hotel
Long Beach Mortgage Company, Inc.	800	Wholesale Mortgage Lenders

Income

The following table summarizes the total effective buying income and the median household effective buying income for the City, the State and the nation from 2002 through 2005.

CITY OF ANAHEIM
PERSONAL INCOME
Calendar Years 2002 through 2005

Year and Area	Total Effective Buying Income ($000)	Median Household Effective Buying Income
2002		
City of Anaheim	$5,665,625	$48,883
California	650,521,407	43,532
United States	5,303,481,498	38,365
2003		
City of Anaheim	$4,928,760	$41,296
California	647,879,427	42,484
United States	5,340,682,818	38,035
2004		
City of Anaheim	$4,914,458	$41,514
California	674,721,020	42,924
United States	5,466,880,008	38,201
2005		
City of Anaheim	$5,045,683	$42,383
California	705,108,410	43,915
United States	5,692,909,567	39,324

Source: Sales & Marketing Management Survey of Buying Power.

Tourism and Community and Recreational Facilities

Tourism is a major industry in Anaheim. Much of that industry is centered around the Anaheim Resort Area, an area of 2.2 square miles that includes the Disneyland Park, Disney's California Adventure, the Anaheim Convention Center, and a majority of the City's 18,000 hotel and motel rooms. Overall, the City has about 150 lodging establishments and 600 restaurants in a broad range of styles, ethnicities and price ranges.

In 2001, the Anaheim Resort completed a major renovation including the following improvements: increasing the size of the Anaheim Convention Center by 40% to 1.6 million square feet at a cost of $180 million, making it the eighth largest convention facility in the United States; the creation of Disney's California Adventure, a second gated theme park adjacent to the original Disneyland, as well as construction of Disney's Grand Californian Hotel and Downtown Disney, a retail, dining and entertainment destination at a cost of $1.4 billion; improvements to the I-5 Freeway leading to the Anaheim Resort Area, doubling capacity from six to 12 lanes, at a cost of $1.1 billion; and, major improvements to landscaping, roads, and signage throughout the Anaheim Resort Area. In response to these dramatic changes, more than 70% of the rooms in the Anaheim Resort Area have either been remodeled or are new construction.

Early indicators are that this investment is a major success. Normal bookings at the Anaheim Convention Center have traditionally averaged about 300 groups at any one time. With the completion of construction, that number has risen to more than 900 groups representing 4.7 million future room nights.

In 1964, the City commenced construction of the Anaheim Stadium (renamed Angel Stadium of Anaheim) for the public presentation of major league baseball, football, soccer, track, field and other sporting and nonsporting events. In 1964, the City entered into a 35 year agreement with Golden West Baseball Company (the California Angels) for the purpose of exhibiting American League Baseball at the Stadium.

In early 1996, a newly formed limited partnership now known as Anaheim Angels L.P., acquired 100% of what is now known as the Los Angeles Angels of Anaheim, an American League Major League Baseball franchise (the "Angels"), and reached agreement with the City on a plan to keep the Angels in Anaheim for the next 33 years. The agreement centered around a $118 million renovation of Anaheim Stadium, with Anaheim Angels L.P. (formerly known as The California Angels L.P.) obligated to pay $80 million of the total costs and for any costs overruns in excess of $100 million. The renovation made the Stadium a smaller and more intimate park with about 45,000 seats and upgraded concessions, suites, seating and other amenities. Also as part of the agreement, the Anaheim Angels L.P. took over operation of the Stadium effective October 1, 1996. The team was crowned Major League's Baseball's World Champions in 2002 after collecting a franchise-best 99 wins in the regular season. In 2003, Arturo Moreno purchased the team for $185 million.

In June 1993, the City completed construction on the $103 million 19,400-seat Arrowhead Pond of Anaheim (renamed the Honda Center) with approximately 3,900 parking spaces. The Honda Center is now home to the National Hockey League's Anaheim Ducks (formerly known as the Mighty Ducks of Anaheim) and is equipped to accommodate National Basketball Association games, national touring shows as well as major concerts.

Orange County is a major tourist center of Southern California. In 2004, the County had more than 43 million visitors. Forty-four miles of shorelines with more than twenty publicly maintained beach areas provide year-round aquatic activities.

In the City, there are two 18-hole golf courses, twelve community parks, all of which contain major athletic facilities, 46 neighborhood parks and special-use facilities, a nature center, and two community centers that include senior citizen centers.

Previously mentioned recreational and amusement facilities in Anaheim include Disneyland, Disney's California Adventure, Downtown Disney, House of Blues-Anaheim, the Anaheim Convention Center, Anaheim Stadium, and the Honda Center. Within one hour's drive from the City are Knott's Berry Farm in the adjacent City of Buena Park, the Los Alamitos Race Course, the renowned Spanish Mission of San Juan Capistrano, and the Art Colony at Laguna Beach which sponsors an annual art festival and numerous cultural events and attractions in Los Angeles. The Newport Harbor area, a few miles south of the City, provides anchorage facilities for approximately 4,600 private boats. Boat launching ramps, deep sea fishing, scuba-diving, and other aquatic activities are readily accessible. Within a two-hour drive are numerous summer and winter resort areas in the San Bernardino and San Jacinto mountains.

Other Anaheim facilities include a main public library, four branch libraries and two bookmobiles. Within the City, there are five general hospitals with a capacity of 997 beds, two FM radio stations, 37 banks, 15 savings and loan associations, ten credit unions and 66 churches of all major denominations.

Retail Sales

The table below presents the City's taxable retail sales for calendar years 2001 through 2005 in comparison to other cities in Orange County and the State of California. Owing to changes in the sales tax base for retail goods, the years are not totally comparable, but the trend in relative magnitude of retail sales tax bases is exhibited.

ANAHEIM, COUNTY CITIES, ORANGE COUNTY, CALIFORNIA
TAXABLE RETAIL SALES, ALL OUTLETS
Calendar Year
($000)

	2001	2002	2003	2004	2005
Anaheim	$ 4,581,334	$ 4,588,964	$ 4,744,127	$ 5,283,841	$ 5,725,673
Brea	1,313,619	1,260,784	1,320,858	1,467,636	1,582,264
Buena Park	1,213,798	1,231,088	1,321,763	1,390,281	1,504,214
Costa Mesa	3,160,603	3,176,417	3,452,450	3,820,884	4,059,880
Fullerton	1,359,264	1,388,892	1,429,159	1,546,622	1,659,029
Garden Grove	1,544,261	1,553,394	1,625,963	1,768,357	1,788,182
Huntington Beach	2,113,445	2,104,087	2,220,984	2,411,197	2,479,780
Irvine	3,893,976	3,660,618	4,087,470	4,421,676	4,617,019
Mission Viejo	1,229,310	1,276,634	1,356,743	1,511,913	1,609,328
Newport Beach	1,716,344	1,798,205	1,913,046	2,124,545	2,358,641
Orange	2,351,784	2,468,455	2,617,651	2,834,411	3,051,952
Santa Ana	3,496,407	3,481,362	3,588,645	3,802,432	3,950,188
Tustin	1,547,554	1,576,701	1,596,029	1,670,674	1,753,089
Westminster	1,314,697	1,333,058	1,383,905	1,477,837	1,531,790
Major Cities	30,836,396	30,898,659	32,658,793	35,532,306	37,671,029
All Other	13,758,918	13,970,497	12,858,273	16,149,753	17,392,217
Orange County	$ 44,595,314	$ 44,869,156	$ 45,517,066	$ 51,682,059	$ 55,063,246
California	$441,517,560	$440,950,094	$460,296,468	$500,076,783	$536,904,428

Source: California State Board of Equalization.

Following is the breakdown of calendar year 2005 sales tax permits in the City by type of outlet, and the percentage of the City's total tax derived from the type of outlet identified:

Type of Outlet	Permits	Percent of Transactions[1]
Apparel Stores	275	1
General Merchandise Stores	140	4
Food Stores	184	2
Eating and Drinking Places	784	9
Home Furnishings and Appliances	215	3
Building Materials and Farm Implements	137	10
Auto Dealers and Auto Supplies	388	10
Service Stations	78	6
Other Retail Stores	1,704	8
All Other Outlets	5,439	45
Total	**9,344**	**100**

[1] Total may not add due to rounding.
Source: California State Board of Equalization.

Following is a table indicating the growth of taxable transactions for calendar years 2001 through 2005 by type of business.

CITY OF ANAHEIM
TAXABLE TRANSACTION BY TYPE OF BUSINESS
Calendar Year
($000)

	2001	2002	2003	2004	2005
Apparel Stores	$ 55,625	$ 55,946	$ 57,595	$ 64,450	$ 72,488
General Merchandise	223,050	225,173	227,105	232,177	248,515
Food Stores	138,538	135,537	132,236	132,562	138,891
Eating and Drinking Places	408,528	408,691	458,744	469,249	541,142
Home Furnishing Appliances	122,427	125,285	143,502	160,043	164,052
Building Materials and Farm Implements	339,556	354,540	379,666	539,636	571,174
Auto Dealers and Auto Supplies	467,027	521,847	546,711	581,870	597,199
Service Stations	228,442	230,332	280,050	328,691	368,469
Other Retail Stores	347,379	347,131	383,736	463,517	460,665
Retail Stores Total	2,330,572	2,404,482	2,609,345	2,972,195	3,162,595
All Other Outlets	2,250,762	2,184,482	2,134,782	2,311,646	2,563,078
Total All Outlets	$4,581,334	$4,588,964	$8,744,127	$5,283,841	$5,725,673

Source: California State Board of Equalization.

The table below compares the taxable sales per capita for the City and Orange County during the period 2001 to 2005.

COMPARISON OF TAXABLE SALES
CITY OF ANAHEIM AND ORANGE COUNTY
Calendar Year

	City of Anaheim		Orange County		Taxable Sales Per Capita	
	Taxable Sales ($000)	Population	Taxable Sales ($000)	Population	Anaheim	Orange County
2001	$4,581,334	331,686	$44,595,314	2,891,100	$13,812	$15,425
2002	4,588,964	335,197	44,869,156	2,940,743	13,690	15,258
2003	4,744,127	337,975	47,517,066	2,983,731	14,037	15,925
2004	5,283,841	341,044	51,682,059	3,019,889	15,493	17,114
2005	5,725,673	345,317	55,063,246	3,047,054	16,581	18,071

Sources: California State Board of Equalization and United States Bureau of Statistics.

Education

The City is served by nine public high schools, ten public junior high schools and forty-four public elementary schools. Almost all of the City lies within eight districts: the Anaheim City, Magnolia, Savanna and Centralia Elementary School Districts, the Anaheim Union High School District, the Placentia and Orange Unified School Districts, and the North Orange County Community College District.

There are eleven institutions of higher learning in Orange County and an additional twelve in adjacent areas of southern Los Angeles County. Within Orange County, there are the University of California, Irvine, California State University, Fullerton, Chapman University, Southern California College, and public community colleges with grades 13 and 14.

City Financial Information

The following unaudited summaries of certain funds of the City have been prepared by the City Finance Department from audited financial statements.

CITY OF ANAHEIM
ALL GOVERNMENTAL FUND TYPES[1]
SUMMARY OF REVENUES, TRANSFERS AND OTHER FINANCING SOURCES[2]
Fiscal Years Ended June 30, 2002 through 2006
($000)

	2002	2003	2004	2005	2006
Property taxes	$ 53,018	$ 57,151	$ 60,563	$ 81,949	$ 90,323
Sales and use taxes	52,368	54,066	55,409	59,976	66,045
Transient occupancy taxes	57,780	56,199	63,268	67,141	75,979
Licenses, fees and permits	15,806	15,731	15,578	18,749	40,625
Fines, forfeits and penalties	2,769	2,673	2,812	3,454	3,464
Intergovernmental revenue	103,761	107,308	108,170	101,447	103,653
Use of money and property	13,878	12,354	8,408	9,144	13,203
Charges for services	5,206	5,516	5,700	12,130	12,649
Other revenues	20,880	19,724	20,629	13,685	26,026
Revenues before transfers and other financing sources	325,466	330,722	340,537	367,675	431,967
Other financing sources	9,583	13,801	18,744	19,428	36,011
Total revenue and other financing sources	$ 335,049	$ 344,523	$ 359,281	$ 387,103	$ 467,978

(1) Includes the General Fund, special revenue funds, debt service funds and capital projects funds and excludes the enterprise funds and internal service funds.

(2) Amounts have been restated from audited financial statements to conform with current presentation. Additionally, prior period adjustments for changes in accounting principles and corrections of errors have generally been treated as adjustments to beginning fund balances. Therefore, no adjustments have been made to revenues or other financing sources. See audited financial statements for further details.

CITY OF ANAHEIM
ALL GOVERNMENTAL FUND TYPES[1,2]
SUMMARY OF EXPENDITURES
Fiscal Years Ended June 30, 2002 through 2006
($000)

	2002	2003	2004	2005	2006
General government	$ 12,403	$ 12,823	$ 11,370	$ 12,276	$ 13,667
Public Safety	102,925	110,202	110,633	130,711	143,468
Community Development [3]	72,492	91,933	87,778	83,384	88,826
Planning	10,463	10,285	11,904	12,313	13,907
Public Works and Maintenance	37,377	21,425	25,224	22,248	25,351
Community Services	26,011	25,938	25,203	25,724	28,753
Public Utilities	2,651	1,811	1,566	1,557	1,704
Convention, Sports and Entertainment	6,003	4,677	5,353	5,140	5,074
Total operating expenditures	$ 270,325	$ 279,094	$ 279,031	$ 293,353	$ 320,750
Redemption of serial bonds, general obligations	7,797	8,020	9,391	10,134	19,032
Interest expenditures	38,081	38,330	38,630	38,681	39,178
Capital outlay	35,310	40,881	32,195	41,301	77,738
Total expenditures	**$ 351,513**	**$ 366,325**	**$ 359,247**	**$ 383,469**	**$ 456,698**

(1) Includes the General Fund, special revenue funds, debt service funds and capital projects funds and excludes the enterprise funds and internal service funds.

(2) Amounts have been restated from audited financial statements to conform with current presentation. Additionally, prior period adjustments for changes in accounting principles and corrections of errors have generally been treated as adjustments to beginning fund balances. Therefore, no adjustments have been made to expenditures. See audited financial statements for further details.

(3) In 2003, expenditures increased primarily as a result of the increase in the expenditures associated with the recognition of decline on land held for resale.

Budgetary Processes

The fiscal year of the City begins on the first day of July of each year and ends on the thirtieth day of June of the following year.

At such date as the City Manager determines, each department head must furnish to the City Manager an estimate of revenues and expenditures for such department, for the ensuing fiscal year, detailed in such manner as may be prescribed by the City Manager. In preparing the proposed budget, the City Manager reviews the estimates, holds conferences thereon with the respective department heads, and revises the estimates as he may deem advisable.

At least thirty days prior to the beginning of each fiscal year, the City Manager submits to the City Council the proposed budget as prepared by the City Manager. After reviewing and making such revisions as it deems advisable, the City Council determines the time for the holding of a public hearing thereon and causes to be published a notice thereof not less than ten days prior to the hearing date. Copies of the proposed budget are available for inspection by the public in the office of the City Clerk at least ten days prior to the hearing.

At the conclusion of the public hearing, the City Council further considers the proposed budget and makes any revisions thereof that it deems advisable. On or before June 30, the City Council adopts the budget with revisions, if any, by the affirmative vote of at least a majority of the total members of the City Council.

From the effective date of the budget, the amounts stated as proposed expenditures are appropriated to the departments, for the objects and purposes named. The City Manager is empowered to transfer funds from one object or purpose to another within the same department, as necessary. All appropriations lapse at the end of the fiscal year to the extent that they have not been expended or lawfully encumbered. At any public meeting after the adoption of the budget, the City Council may amend or supplement the budget by the affirmative vote of at least a majority of the total members of the City Council.

Under the City Charter, the City may not incur indebtedness evidenced by general obligation bonds which would in the aggregate exceed 15% of the total assessed valuation, for purposes of City taxation, of all the real and personal property within the City, and no bonded indebtedness which shall constitute a general obligation of the City may be created unless authorized by the affirmative votes of two-thirds of the electors.

The City Council employs, at the beginning of each fiscal year, an independent certified public accountant who, at such time or times as specified by the City Council, at least annually, and at such other times as they shall determine, examines the books, records, inventories and reports of all officers and departments as the City Council may direct. As soon as practicable after the end of the fiscal year, a report is submitted by such accountant to the City Council and a copy of the financial statements as of the close of the fiscal year is published.

Assessed Valuation and Tax Collections

Taxes are levied each fiscal year on taxable real and personal property which is situated in the City as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed public utilities property and real property, the taxes on which are a lien, sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. Delinquent taxes must be paid by June 30 to avoid additional penalties, which are equal to 1.5% per month on the unpaid base tax amount for each June 30th delinquent amount, plus a $15 redemption fee. Taxpayers may elect to pay delinquent taxes in installments of 1/5 (20%) of the redemption amount over a five (5) year period. In June of the fifth year anniversary of original delinquency, those parcels still unpaid are officially processed for Power to Sell (*i.e.*, for Tax Action sale). Consequently, sometime in the 6th year of delinquency, if still unpaid, the property is officially offered at tax sale by the Orange County Tax Collector's office.

Property taxes on the unsecured roll are mailed between March and July of each fiscal year and are due upon receipt. If unpaid, such taxes become delinquent after August 31 and a 10% penalty plus a $48 collection fee attaches to any delinquent payment. Delinquent taxes must be paid by October 31 to avoid the filing of a tax lien and additional penalties, which are equal to 1.5% per month until paid. The Orange County Tax Collector further has the right to enforce tax collection through seizure and sale or a suit in court.

Assessed valuation for revenue purposes increased by 13.8% in fiscal year 2006 over the prior fiscal year. Such assessed valuations include secured and unsecured properties assessed by the Orange County Assessor, and secured utility properties assessed by the State Board of Equalization. Such assessed valuations exclude business inventory exemptions and exclude veterans, religious, charitable, and other such nonrecoverable exemptions.

The table below shows the assessed valuations, total City tax levies, total current tax levy collections, collection percentage, and per capita assessed valuation for the last ten completed fiscal years. The assessed valuation for fiscal year 2006 is $26,693,311.

CITY OF ANAHEIM
ASSESSED VALUATION AND TAX COLLECTION RECORD
($000)

Fiscal Year Ended June 30	Assessed Valuation	Total City Tax Levy	Total Current Tax Levy Collections	Percent of Current Tax Levy Collected	Population (000s)	Per Capita Assessed Valuation
1996	14,348,350	19,471	19,379	99.5	293	49
1997	14,336,554	19,291	18,905	98.0	295	49
1998	14,643,627	19,854	20,338	102.4	301	49
1999	15,270,764	19,333	19,850	102.7	306	50
2000	16,010,173	24,915	24,690	99.1	328	49
2001	17,503,408	26,860	26,661	99.3	332	53
2002	19,475,528	29,203	28,690	98.2	335	58
2003	22,787,461	32,856	32,554	99.1	338	67
2004	22,114,199	32,326	31,923	98.8	341	65
2005	23,450,862	30,868	49,915	162.0	341	69
2006	26,693,311	32,859	55,619	169.3	345	77

Source: City of Anaheim Comprehensive Annual Financial Reports and California Municipal Statistics, Inc.

Summarized below is a ten-year history of property tax rates levied by the City and overlapping taxing agencies in a typical tax code area in Anaheim.

CITY OF ANAHEIM TYPICAL TAX CODE AREA
PROPERTY TAX RATE HISTORY
(Per $100 of Assessed Valuation)

Fiscal Year Ended June 30	Basic County, City, School Levy	City	County of Orange	School Districts	Orange County Flood Control	Metropolitan Water District	Total Rate Per $100 Assessed Valuation
1996	1.0000	.0041	.0001	--	.0004	.0089	1.0135
1997	1.0000	.0049	.0001	--	--	.0089	1.0139
1998	1.0000	.0047	--	--	--	.0089	1.0136
1999	1.0000	.0045	--	--	--	.0089	1.0134
2000	1.0000	.0038	--	--	--	.0088	1.0126
2001	1.0000	.0038	--	--	--	.0088	1.0126
2002	1.0000	.0035	--	--	--	.0077	1.0112
2003	1.0000	.0029	--	.0699	--	.0067	1.0795
2004	1.0000	.0035	--	.0646	--	.0061	1.0742
2005	1.0000	.0030	--	.0671	--	.0058	1.0088
2006	1.0000	.0027	--	.0692	--	.0052	1.0771

Source: County Tax Rates (various years); Auditor-Controller, County of Orange.

Largest Property Taxpayers

The ten largest property taxpayers in Anaheim and their 2006 full market valuations as of July, 2006 are as follows:

CITY OF ANAHEIM
LARGEST PROPERTY TAXPAYERS
($000)

Taxpayer	Type of Business	2006 Full Market Valuation of Property	Percentage of 2006 Total City Full Market Valuation
Walt Disney World Company	Family Recreation	$3,383,738	9.41%
Lennar Platinum Triangle	Property Management	142,276	0.40
Kaiser Foundation Health	Medical Facility	113,368	0.32
PPC Anaheim Apartments	Property Management	102,000	0.28
Allstate Life Insurance Company	Insurance Industry	99,035	0.28
Pan Pacific Retail	Property Management	89,368	0.25
Boeing North America	Aircraft and Navigation Systems	84,336	0.23
Anaheim Memorial Hospital	Medical Facility	83,576	0.23
Ashford Anaheim LP	Real Estate Investment Trust	76,629	0.21
CA-Orange Limited	Commercial Real Estate	75,560	0.21
Total		$4,249,886	11.82%

Source: Orange County Assessor's Office and City Finance Department.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE AGREEMENT

The following are summaries of certain provisions of the Indenture and the Agreement which are not described elsewhere in this Official Statement. These summaries do not purport to be complete or definitive and are qualified in their entireties by the full terms of the aforementioned documents. All capitalized terms not otherwise defined in this Official Statement have the meanings set forth in the Indenture. Copies of the Indenture and the Agreement are available upon request from the Trustee.

CERTAIN DEFINITIONS

The following are definitions of certain terms used, but not otherwise defined, in this Official Statement.

"Accountant's Report" means a written report by an independent Certified Public Accountant.

"Act" means the Joint Exercise of Powers Act, constituting Chapter 5 of Division 7 of Title 1 of the Government Code of California, as amended from time to time.

"Additional Parity Obligations" all obligations of the City, other than the Purchase Price Installments, with respect to the payment of: (i) borrowed money, including reimbursement of advances made under Credit Agreements, in connection with capital assets of the System; (ii) installment purchase payments for capital assets of the System; (iii) lease payment obligations under leases of assets of the System which are "capital leases" under Generally Accepted Accounting Principles; (iv) net payments (but not payments due on early termination) under Swap Agreements; and (v) interest with respect to each of the foregoing, in each case where such payments are secured by a pledge of the System Revenues on a parity with the pledge thereof to secure the Purchase Price Installments under the Agreement.

"Additional Payments" means the payments to be made by the City pursuant to the Agreement.

"Agreement" means the Installment Purchase Agreement, dated as of May 1, 2007, between the City and the Authority, as originally executed and as it may from time to time be amended or supplemented in accordance herewith.

"Agreement Event of Default" means an event described in the Agreement.

"Annual Debt Service" means, for any Fiscal Year, the sum of (1) the interest accruing on all Parity Obligations during such Fiscal Year, assuming that all such Parity Obligations are retired as scheduled, plus (2) the principal amount (including principal due as sinking fund installments) allocable to all Parity Obligations during such Fiscal Year, calculated as if such principal amounts were deemed to accrue daily during such Fiscal Year in equal amounts from, in each case, the immediately preceding payment date for such principal or, with respect to the initial principal payment date for such Parity Obligations, the date of delivery of such Parity Obligations (provided that principal shall not be deemed to accrue for greater than a 365-day period prior to any principal payment date), as the case may be, to the next succeeding payment date for principal, provided, that the following adjustments shall be made to the foregoing amounts in the calculation of Annual Debt Service:

(A) with respect to any Parity Obligations bearing or comprising interest at other than a fixed interest rate, for all or any part of the applicable Fiscal Year as to which the interest rate has not been determined, the rate of interest used to calculate Annual Debt Service shall be (i) with respect to such Parity Obligations then outstanding, one hundred ten per cent (110%) of the greater of (1) the daily average interest rate on such Parity Obligations during the twelve calendar months next preceding the date of such calculation (or the portion of such twelve calendar months that such Parity Obligations have borne interest) or (2) the most recent effective interest rate on such Parity Obligations prior to the date of such calculation or (ii) with respect to Parity Obligations then proposed to be issued, the then current Municipal Market Data General Obligation Yield for a maturity comparable to the maturity of the applicable Parity Obligations as published in The Bond Buyer (or if The Bond Buyer or such yield is no longer published, such other published similar index as shall be selected by the City);

(B) with respect to any issue or series of Parity Obligations having twenty-five per cent (25%) or more of the aggregate principal amount thereof due in any one Fiscal Year, Annual Debt Service shall be calculated as if the interest on and principal of the Parity Obligations of such issue or series were being paid in substantially equal annual amounts over the term of such Parity Obligations; provided, however that the full amount of scheduled payments of interest and principal of such Parity Obligations shall be included in Annual Debt Service if the date of calculation is within 24 months of the date on which such twenty-five percent (25%) or more of aggregate principal amount becomes due;

(C) with respect to any Parity Obligations or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Parity Obligations or portions thereof, such accreted discount shall be treated as due when scheduled to be paid;

(D) Annual Debt Service shall not include interest on Parity Obligations which is to be paid from amounts constituting capitalized interest; and

(E) no amounts shall be included in Annual Debt Service with respect to Swap Agreement; provided that if a Swap Agreement is in effect with respect to any Parity Obligations and the City pays a fixed amount under such Swap Agreement, the interest rate of such Parity Obligations covered by the Swap Agreement shall be considered to be the fixed rate payable by the City under such Swap Agreement; and provided further that if a Swap Agreement is in effect with respect to any Parity Obligations and the City pays a variable amount under such Swap Agreement, the interest rate of such Parity Obligations covered by the Swap Agreement shall be considered to be a variable rate determined in accordance with the procedure set forth in subparagraph (A) of this definition.

"Authority" means the Anaheim Public Financing Authority, and its successors and assigns.

"Authorized Denomination" means $5,000 or any integral multiple thereof.

"Beneficial Owners" means those individuals, partnerships, corporations or other entities for whom the Direct Participants have caused DTC to hold Bonds as the Owner thereof.

"Bond Counsel" means any attorney at law or firm of attorneys of nationally recognized standing in matters pertaining to the federal tax exemption of interest on obligations of states and political subdivisions, selected by the City and duly admitted to practice law before the highest court of any state of the United States of America.

"Bond Insurance Policy" means the financial guaranty Bond Insurance Policy issued by the Bond Insurer with respect to the Bonds.

"Bond Insurer" means MBIA Insurance Corporation and its successors and assigns.

"Bond Register" means the books for the registration and transfer of the Bonds kept by the Trustee pursuant to the Indenture.

"Bonds" means the Anaheim Public Financing Authority Sewer Revenue Bonds, Series 2007, authorized by the Indenture.

"Book-Entry System" means the system for maintaining records of the ownership of Bonds by DTC or a successor securities depository pursuant to the terms and provisions of the Indenture.

"Business Day" means any day other than a Saturday, a Sunday or a day on which banks located in the city where the Corporate Trust Office is located, are required or authorized to remain closed.

"Certificate of Completion" means a Certificate of the City certifying that all Costs of the Project to be paid from the Improvement Fund have been disbursed or reserved.

"Certificate of the Authority" means an instrument in writing signed by the President of the Authority or by any other officer of the Authority duly authorized by the Authority for that purpose.

"Certificate of the City" means an instrument in writing signed by the Mayor, the City Manager or the Director of Finance of the City, or by any other officer of the City duly authorized by the City for that purpose, such authorization to be evidenced by a certificate verifying the specimen signatures of such officers at the request of the Trustee.

"Certified Financial Statements" means financial statements for the System Revenue Fund certified by the Director of Finance or an Assistant Director of Finance of the City as being prepared in accordance with Generally Accepted Accounting Principles which are, except as noted, applied on a consistent basis with prior financial statements for the System.

"Charter" means the Charter of the City, as amended and supplemented.

"City" means the City of Anaheim, California and its successors.

"Code" means the Internal Revenue Code of 1986, as amended, and the regulations of the United States Department of the Treasury issued thereunder, and in this regard reference to any particular section of the Code shall include reference to all successors to such section of the Code.

"Completion Date" shall mean the date of completion of the construction of the Project as that date shall be certified as provided in the Agreement.

"Continuing Disclosure Agreement" means the Continuing Disclosure Agreement between the City and the Trustee with respect to the Bonds.

"Corporate Trust Office" means, with respect to the Trustee: (i) the principal corporate trust office of the Trustee, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted; or (ii) such other office designated by the Trustee from time to time.

"Cost" means, with respect to the Project, the costs, expenses and liabilities paid or incurred or to be paid or incurred by the City in connection with the planning, engineering, designing, acquiring, constructing, installing, and financing of the Project or any portion thereof, and the obtaining of all governmental approvals, certificates, permits and licenses with respect thereto, including, but not limited to, the cost of any demolitions or relocations necessary in connection therewith, any good faith or other similar payment or deposits, the cost of acquisition by or for the City of real and personal property or any interests therein, costs of physical construction and costs of the City incidental to such construction or acquisition, all costs relating to injury and damage claims, the costs of any indemnity or surety bonds and premiums on insurance, including obligations to a stock, mutual or reciprocal insurance company or exchange, preliminary investigation and development costs, engineering fees and expenses, contractors' fees and expenses, the costs of labor, materials, equipment and utility services and supplies, legal fees and expenses, administration and general overhead expenses and costs of keeping accounts and making reports required by the Indenture prior to or in connection with the completion of construction, and all federal, state and local taxes and payments in lieu of taxes legally required to be paid in connection with the Project during the period of construction thereof and shall include reimbursements to the City for any of the above items theretofore paid by or on behalf of the City. It is intended that this definition of Cost be broadly construed to encompass all costs, expenses and liabilities of the City which are chargeable to the capital accounts of the Project in accordance with generally accepted accounting principles.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the City or the Authority and related to the authorization, execution, authentication and delivery of the Agreement, the Indenture and the sale of the Bonds, including, but not limited to, costs of preparation and reproduction of documents, costs of rating agencies and costs to provide information required by rating agencies, filing and recording fees, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, fees and expenses of the underwriter, fees and charges for preparation, execution and safekeeping of the Bonds, fees of the Authority and any other cost, charge or fee in connection therewith.

"Costs of Issuance Fund" means the fund so designated established pursuant to the Indenture.

"Credit Agreement" means a letter of credit and reimbursement agreement, an insurance reimbursement agreement, a standby bond purchase agreement or any other agreement pursuant to which a bank, financial institution or insurance company agrees to provide credit or liquidity support for Parity Obligations and the City agrees to reimburse advances made under such credit or liquidity support and to pay interest on such advances.

"Debt Service Fund" means the fund by that name established pursuant to the Indenture.

"Default Rate" means, as of any date, the interest rate per annum equal to the lesser of: the highest rate of interest borne by any of the Bonds Outstanding on such date; or (ii) the maximum interest rate then permitted under applicable law.

"Direct Participants" means those broker-dealers, banks and other financial institutions from time to time for which DTC holds the Bonds as securities depository.

"DTC" means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the New York Banking Law, or any successor securities depositary for the Bonds.

"Favorable Opinion of Bond Counsel" means, with respect to any action requiring such an opinion, an Opinion of Counsel from a Bond Counsel to the effect that such action, in and of itself, will not adversely affect the Tax-Exempt status of interest on the Bonds.

"Fiscal Year" means the period beginning on July 1 of each year and ending on the last day of June of the next succeeding year, or any other twelve month period selected and designated as the official Fiscal Year of the City.

"Fitch" means Fitch Ratings, Ltd., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors or assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the services of a municipal securities rating agency, then "Fitch" shall be deemed to refer to any other nationally recognized municipal securities rating agency selected by the City.

"Generally Accepted Accounting Principles" means the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successor, or by any other generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Governmental Accounting Standards Board or its successor.

"Government Obligations" means obligations which are: (i) direct obligations of (including obligations issued or held in book-entry form on the books of) the Department of Treasury of the United States of America, which may consist of specific portions of the principal of or interest on such obligations; or (ii) obligations unconditionally guaranteed as to principal and interest by the United States of America, which may consist of specific portions of the principal of or interest on such obligations; or (iii) evidences of ownership interests in such direct or unconditionally guaranteed obligations.

"Improvement Fund" means the fund by that name established pursuant to the Indenture.

"Indenture" means the Indenture of Trust, as originally executed and as it may from time to time be amended or supplemented in accordance with its terms.

"Independent Certified Public Accountant" means any firm of certified public accountants appointed by the City, which is independent of the City and the Authority pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302; Fitch "Called Bond Department," 5250 Center Drive, Suite 150, Charlotte, NC 28217; S&P "Called Bond Record," 55 Water Street, New York, New York 10041; or, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as the City may designate in a Certificate of the City delivered to the Trustee.

"Interest Account" means the account by that name in the Debt Service Fund established pursuant to the Indenture.

"Interest Payment Date" means February 1 and August 1 of each year, commencing August 1, 2007.

"Maximum Annual Debt Service" means, as of any date of calculation, the largest Annual Debt Service during the period from the date of such calculation through the final maturity date of all Parity Obligations.

"Moody's" means Moody's Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the services of a municipal securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized municipal securities rating agency selected by the City.

"Net Proceeds" means, when used with respect to any casualty insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys' fees) incurred in the collection of such proceeds.

"Operation and Maintenance Expenses" means the reasonable costs paid or incurred by the City for maintaining and operating the System, including: (a) all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the System in good repair and working order, (b) all administrative costs of the City that are charged directly or apportioned to the operation of the System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums (including payments required to be paid into any self insurance funds), (c) all other costs or charges required to be paid by the City to comply with the terms of the Indenture or of any Supplemental Agreement or of any resolution authorizing the execution of any Parity Obligations, such as compensation, reimbursement and indemnification of the Trustee and the Authority, fees and expenses of Independent Certified Public Accountants and deposits to the Rebate Fund, and (d) all other costs or charges which are expenses of operating or maintaining the System in accordance with Generally Accepted Accounting Principles; but excluding in all cases (e) payment of Parity Obligations and Subordinate Obligations, (f) costs of capital additions, replacements, betterments, extensions or improvements which under Generally Accepted Accounting Principles are chargeable to a capital account, (g) depreciation, replacement and obsolescence charges or reserves therefor, amortization of intangibles and unrealized gains or losses due to marking assets and liabilities to market, and (h) transfers from the System Revenue Fund to other funds or accounts of the City other than the administrative costs of the City described above.

"Opinion of Counsel" means a written opinion signed by an attorney or firm of attorneys selected by the City and duly admitted to practice law before the highest court of any state of the United States of America.

"Outstanding," means when used as of any particular time with respect to the Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore executed, authenticated, and delivered under the Indenture except:

(1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(2) Bonds deemed paid pursuant to the Indenture; and

(3) Bonds in lieu of or in exchange for which other Bonds shall have been executed and delivered by the Trustee.

"Owner" means any Person who shall be the registered owner of any Bond.

"Parity Obligations" means the Purchase Price Installments and any Additional Parity Obligations.

"Participating Underwriter" shall have the meaning ascribed thereto in the Continuing Disclosure Agreement.

"Permitted Investments" mean any of the following obligations if and to the extent that they are permissible investments of funds of the Authority:

A. Government Obligations.

B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States (stripped securities are only permitted if they have been stripped by the agency itself):

1. Farmers Home Administration ("FmHA")
   Bonds of beneficial ownership

2. Federal Housing Administration Debentures ("FHA")

3. General Services Administration
   Participation certificates

4. Government National Mortgage Association ("GNMA")
   GNMA - guaranteed mortgage-backed bonds
   GNMA - guaranteed pass-through obligations (participation certificates) (not acceptable for certain cash-floor sensitive issues)

5. United States Maritime Administration
   Guaranteed Title XI financing

6. United States Department of Housing and Urban Development
   Project Notes
   Local Authority Bonds

C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit United States government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

1. Federal Home Loan Bank System
   Senior debt obligations

2. Federal Home Loan Mortgage Authority ("FHLMC")
   Participation Bonds
   Senior debt obligations

3. Federal National Mortgage Association ("FNMA")
   Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal)

4. Student Loan Marketing Association
   Senior debt obligations

5. Resolution Funding Authority obligations (only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable)

6. Farm Credit System
   Consolidated system-wide bonds and notes

D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of "AAAm-G," "AAA-m" or "AA-m" and if rated by Moody's rated "Aaa," "Aa1" or "Aa2," including funds for which the Trustee or any of its affiliates (including any holding company, subsidiaries, or other affiliates) provides investment advisory or other management services, provided such funds satisfy the criteria in the Indenture contained.

E. Bonds of deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks (including affiliates of the Trustee), savings and loan associations or mutual savings banks. The collateral must be held by a third party and the Owners must have a perfected first security interest in the collateral.

F. Bonds of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by FDIC, including BIF and SAIF.

G. Investment agreements, including guaranteed investment agreements, forward purchase agreements and Reserve Fund put agreements acceptable to the Bond Insurer.

H. Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by S&P.

I. Bonds or notes issued by any state or city which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.

J. Federal funds or bankers acceptances with a maximum term of one year of any bank (including those of the Trustee and its affiliates) which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P.

K. Repurchase Agreements for 30 days or less must follow the following criteria. Repurchase Agreements which exceed 30 days must be acceptable to the Bond Insurer Repurchase agreements provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date.

1. Repurchase agreements must be between the municipal entity and a dealer bank or securities firm

a. Primary dealers on the Federal Reserve reporting dealer list which are rated "A" or better by S&P and Moody's, or

b. Banks rated "A" or above by S&P and Moody's.

2. The written repurchase agreements contract must include the following:

a. Securities which are acceptable for transfer are:

(1) Direct United States governments, or

(2) Federal agencies backed by the full faith and credit of the United States government (and FNMA & FHLMC)

b. The term of a repurchase agreement may be up to 30 days

c. The collateral must be delivered to the municipal entity, trustee (if trustee is not supplying the collateral) or third party acting as agent for the trustee (if the trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

d. Valuation of Collateral

(1) The securities must be valued weekly, marked-to-market at current market price plus accrued interest

(a) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by City, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

3. A legal opinion must be delivered to the municipal entity to the effect that the repurchase agreement meets guidelines under state law for legal investment of public funds.

L. Any state administered pool investment fund in which the City is statutorily permitted or required to invest will be deemed a permitted investment, including, but not limited to the Local Agency Investment Fund in the treasury of the State.

"Person" means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Plans and Specifications" shall mean the plans and specifications prepared for and showing the Project and on file with the City, as the same may be implemented and detailed from time to time and as the same may be revised from time to time prior to the Completion Date in accordance with the Agreement.

"Principal Account" means the account by that name in the Debt Service Fund established pursuant to the Indenture.

"Principal Installment" means the maturity of the principal of any Bond and the redemption of any Bond from Sinking Fund Installments.

"Principal Installment Date" means any date on which a Principal Installment is due.

"Project" means the additions, betterments, extensions, replacements and improvements to the System described or provided for in Exhibit A to the Agreement.

"Purchase Price Installments" means the payments to be paid by the City pursuant to the Agreement.

"Qualified Counterparty" means a bank, insurance company, broker-dealer or other financial institution which is the counterparty to the City in an interest rate swap transaction which, at the time of entering into such transaction, is rated in one of the two highest rating categories (without regard to numerical rankings, plus or minus rankings or other subcategories) by each Rating Agency.

"Rating Agency" means, as of any time and to the extent it is then providing a rating for Parity Obligations at the request of the City, each of Fitch and S&P, and their respective successors or assigns, or, in the event neither Fitch nor S&P is providing a rating for any Parity Obligations, any other nationally recognized securities rating agency or agencies rating any outstanding Parity Obligations at the request of the City.

"Rating Confirmation" means a written confirmation from each Rating Agency to the effect that, following the event or action requiring a Rating Confirmation, the then current ratings for the each of the outstanding Parity Obligations shall not be lowered or withdrawn solely as a result of the occurrence of such event or action.

"Rebate Fund" means the fund by that name established pursuant to the Indenture and provided for in the Agreement.

"Record Date" means, with respect to each Interest Payment Date, the fifteenth day of the month prior to an Interest Payment Date whether or not a Business Day.

"Redemption Account" means the account by that name in the Debt Service Fund established pursuant to the Indenture.

"Redemption Price" means the amount payable upon the redemption of any Bond or Bonds, including any unpaid, accrued interest to the redemption date.

"Representation Letter" means the letter of representation to The Depository Trust Company, New York, New York, from the Authority.

"Reserve Fund" means the fund by that name established pursuant to the Indenture.

"Reserve Fund Requirement" means with respect to the Bonds, as of any date of determination, the least of (a) ten percent (10%) of the initial offering price to the public of the Bonds as determined under the Code, or (b) the greatest Annual Debt Service with respect to the Bonds in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Bond is due, or (c) one hundred twenty-five percent (125%) of the sum of the Annual Debt Service with respect to the Bonds for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or if appropriate, the first full Fiscal Year following the initial delivery of the Bonds) and terminating with the last Fiscal Year in which any Bond is due, divided by the number of such Fiscal Years, all as computed and determined by the City and specified in writing to the Trustee; provided, that such requirement (or any portion thereof) may be provided by a Reserve Surety.

"Reserve Surety" means a debt service reserve municipal bond insurance policy or surety bond issued by a municipal bond insurer or a letter of credit issued by a bank or other institution provided that, at the time of delivery of such insurance policy, surety bond or letter of credit, the obligations insured by such bond insurer or the obligations of such bank or other institution payable on a parity with its obligations under such letter of credit, as applicable, are rated in the highest rating category (without regard to qualifiers) by the Rating Agencies and, if rated by A.M. Best & Company, also in the highest rating category (without regard to qualifiers) by A.M. Best & Company.

"Retained Earnings Account" means the account maintained by the City for the deposit and expenditure of, among other amounts, System Net Revenues retained by the City as retained earnings of the System.

"Revenues" means all payments received by the Authority or the Trustee from the City pursuant to or in respect of the Agreement (except Additional Payments pursuant to the Agreement, indemnification payments pursuant to the Agreement and amounts received for or on deposit in the Rebate Fund), including, without limitation, Purchase Price Installments.

"Rule 15c2-12" means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors or assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the services of a municipal securities rating agency, then "S&P" shall be deemed to refer to any other nationally recognized municipal securities rating agency selected by the City.

"Securities Depositaries" mean: The Depository Trust Company, 55 Water Street, 50th Floor, New York, N.Y. 10041-0099 Attn: Call Notification Department, Fax (212) 855-7232; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other securities depositaries as the Authority may designate in a Certificate of the Authority to the Trustee.

"Sinking Fund Installments" means each amount so designated as set forth in the Indenture.

"State" means the State of California.

"Subordinate Obligations" means the obligations of the City that are payable from, or secured by a pledge of, System Revenues on a basis that is junior and subordinate to the payment of Parity Obligations and the pledge of System Revenues securing Parity Obligations.

"Supplemental Indenture" means any Indenture then in full force and effect which has been duly executed and delivered by the Authority and the Trustee amendatory of the Indenture or supplemental thereto; but only if and to the extent that such Supplemental Indenture is specifically authorized thereunder.

"System" means the whole and each and every part of the system of the City for the collection, treatment and disposal of sewage and wastewater, including both the portion thereof existing on the date of the Indenture and all additions, betterments, extensions and improvements to such system or any part thereof acquired or constructed after the date of the Indenture.

"System Net Revenues" means, for any period of time, the System Revenues for such period less the Operation and Maintenance Expenses for such period.

"System Revenue Fund" means the account designated as the Sewer Maintenance Revenue Account or such other fund or account established by the City for the deposit and expenditure of System Revenues.

"System Pledged Revenues" means all System Revenues, including amounts on deposit in the System Revenue Fund and the System Net Revenues on deposit in the Retained Earnings Account, including the investments of such moneys.

"System Revenues" means all gross income and revenue received or receivable by the City from the ownership or operation of the System, determined in accordance with Generally Accepted Accounting Principles, including the Sewer Maintenance Fee and all other fees (including connection fees), rates, charges and all amounts paid under any contracts received by or owed to the City in connection with the operation of the System and all proceeds of insurance relating to the System and investment income allocable to the System and all other income and revenue howsoever derived by the City from the ownership or operation of the System or arising from the System; provided, however, that System Revenues shall not include any development fees which by law are not available, or any grants which by law or the terms of the grant are not available, to pay Operation and Maintenance Expenses or debt service on Parity Obligations.

"Tax Certificate" means the Tax Certificate and Agreement, dated the Delivery Date, with respect to the Bonds and requirements of certain provisions of the Code, as such certificate may from time to time be modified or supplemented in accordance with the terms thereof, including all exhibits attached thereto.

"Tax-Exempt" means, with respect to interest on any obligations of a state or local government, including the interest on the Bonds, that such interest is excluded from gross income for federal income tax purposes (other than in the case of an Owner of any such obligation who is a substantial user of the facilities financed with such obligations or a related person within the meaning of Section 147(a) of the Code) whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating tax liabilities, including any alternative minimum tax or environmental tax, under the Code.

"Trustee" means The Bank of New York Trust Company, N.A., acting in its capacity as trustee under and pursuant to the Indenture, and its successors and assigns.

"Trust Estate" means (a) all right, title and interest of the Authority in, to and under the Agreement (other than the Authority's rights to receive Additional Payments pursuant to the Agreement and indemnification payments pursuant to the Agreement) and (b) subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture: (i) the Purchase Price Installments and (ii) all income derived from the investment of money in the Funds (other than the Rebate Fund) established by the Indenture and held by the Trustee; and (iii) the amounts in the Funds (other than the Rebate Fund) established by the Indenture and held by the Trustee, including the investments thereof.

"Trust Event of Default" means, with respect to the Indenture, an event described in the Indenture.

"Written Request of the Authority" means an instrument in writing signed by the President of the Authority or by any other officer of the Authority duly authorized by the Authority for that purpose.

"Written Request of the City" means an instrument in writing signed by the Mayor, the City Manager or the Finance Director of the City or their designee, or by any other officer of the City duly authorized by the City for that purpose, such authorization to be evidenced at the request of the Trustee by a certificate verifying the specimen signatures of such officers.

INSTALLMENT PURCHASE AGREEMENT

The following is a summary of certain terms and conditions of the Installment Purchase Agreement which are not described elsewhere in this Official Statement. This summary does not purport to be comprehensive and reference should be made to the Installment Purchase Agreement for a full and complete statement of its provisions.

Covenants of the City

Punctual Payment. The City will punctually pay the Purchase Price Installments in strict conformity with the terms of the Agreement and will faithfully satisfy, observe and perform all agreements, conditions, covenants and terms of the Agreement.

Legal Existence. The City will use all means legally available to maintain its existence.

Against Encumbrances. The City will not mortgage or otherwise encumber, pledge or place any charge or lien upon the System The City will not mortgage or otherwise encumber, pledge or place any lien or charge upon any of the System Revenues on a parity with the pledge securing the payment of the Purchase Price Installments except for other Parity Obligations as provided in the Agreement. The City will not issue or incur any obligations secured by System Revenues which are senior to the Parity Obligations. The City may at any time issue any Subordinate Obligations.

Against Sale or Other Disposition of the System. The City will not sell or otherwise dispose of the System or any part thereof essential to the proper operation of the System or to the maintenance of the System Net Revenues, unless no Bonds remain Outstanding under the Indenture. The City will not enter into any lease or agreement which impairs the operation of the System or any part thereof necessary to secure adequate System Net Revenues for the payment of the Parity Obligations, or which would otherwise impair the rights of the Owners with respect to the System Net Revenues or the operation of the System.

Maintenance and Operation of System. The City will maintain and preserve the System in good repair and working order at all times and will operate the System in an efficient and economical manner.

Insurance.

(a) To the extent such insurance is available for reasonable premiums from a reputable insurance company, the City will procure and maintain at all times insurance on the System against such risks (including accident to or destruction of the System) and in such amounts as are usually insured in connection with operations in California similar to the System; provided, that such insurance coverage may be satisfied under a self-insurance program which is actuarially sound.

(b) The City shall procure and maintain or cause to be procured and maintained public liability insurance covering claims against the City (including its city council, officers and employees) for bodily injury or death, or damage to property occasioned by reason of the City's operations, including any use of the System, and such insurance shall afford protection in such amounts as are usually covered in connection with operations in California similar to the System; provided, that such insurance coverage may be satisfied under a self-insurance program which is actuarially sound.

(c) If all or any part of the System shall be damaged or destroyed, the Net Proceeds realized by the City as a result thereof shall be deposited by the City with the Trustee in a special fund which the Trustee shall establish as needed in trust and applied by the City to the cost of acquiring and constructing repairs, replacements, additions, betterments, extensions or improvements to the System if (A) the City first secures and files with the Trustee a Certificate of the City showing (i) the loss in annual System Revenues, if any, suffered, or to be suffered, by the City by reason of such damage or destruction, (ii) a general description of the repairs, replacements, additions, betterments, extensions or improvements to the System then proposed to be acquired and constructed by the City from such proceeds, and (iii) an estimate of the System Revenues to be derived after the completions of such repairs, replacements, additions, betterments, extensions or improvements; and (B) the Trustee has been furnished a Certificate of the City, certifying that the System Revenues after such repair, replacement, addition, betterment, extension or improvement of the System will sufficiently offset on a timely basis the loss of System

Revenues resulting from such damage or destruction so that the ability of the City to pay all Parity Obligations when due will not be substantially impaired, and such Certificate of the City shall be final and conclusive, and any balance of such proceeds not required by the City for such purpose shall be deposited in the System Revenue Fund and applied as provided in the Agreement; provided, that if the foregoing conditions are not met, then such proceeds shall be deposited with the Trustee and applied to make Purchase Price Installments and Parity Obligation Payments as they shall become due ratably without any discrimination or preference; provided further that the foregoing procedures for the application of Net Proceeds consisting of insurance payments shall be subject to any similar provisions for Parity Obligations on a pro rata basis.

If such damage or destruction has had no effect, or at most an immaterial effect, upon the System Revenues and the security of the Parity Obligations, and a Certificate of the City to such effect has been filed with the Trustee, then the City shall forthwith deposit such proceeds in the System Revenue Fund, to be applied as provided in Agreement.

Eminent Domain Proceeds. If all or any part of the System shall be taken by eminent domain proceedings, the Net Proceeds realized by the City therefrom shall be deposited by the City with the Trustee in a special fund which the Trustee shall establish as needed in trust and applied by the City to the cost of acquiring and constructing additions, betterments, extensions or improvements to the System if (A) the City first secures and files with the Trustee a Certificate of the City showing (i) the loss in annual System Revenues, if any, suffered, or to be suffered, by the City by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions or improvements to the System then proposed to be acquired and constructed by the City from such proceeds, and (iii) an estimate of the additional System Revenues to be derived from such additions, betterments, extensions or improvements; and (B) the Trustee has been furnished a Certificate of the City, certifying that such additional System Revenues will sufficiently offset on a timely basis the loss of System Revenues resulting from such eminent domain proceedings so that the ability of the City to pay all Parity Obligations when due will not be substantially impaired, and such Certificate of the City shall be final and conclusive, and any balance of such proceeds not required by the City for such purpose shall be deposited in the System Revenue Fund and applied as provided in the Agreement, provided, that if the foregoing conditions are not met, then such proceeds shall be deposited with the Trustee and applied to make Purchase Price Installments and Parity Obligation Payments as they shall become due ratably without any discrimination or preference; provided further that the foregoing procedures for the application of Net Proceeds consisting of awards under eminent domain proceedings shall be subject to any similar provisions for Parity Obligations on a pro rata basis.

If such eminent domain proceedings have had no effect, or at most an immaterial effect, upon the System Revenues and the security of the Parity Obligations, and a Certificate of the City to such effect has been filed with the Trustee, then the City shall forthwith deposit such proceeds in the System Revenue Fund, to be applied as provided in the Agreement.

Amounts of Rates, Fees and Charges.

(a) The City will, at all times while any Bonds remain Outstanding under the Indenture, fix, prescribe and collect rates, fees and charges and manage the operation of the System for each Fiscal Year so as to yield System Revenues at least sufficient, after making reasonable allowances for contingencies and errors in the estimates, to pay the following amounts during such Fiscal Year:

(i) All current Operation and Maintenance Expenses.

(ii) The Purchase Price Installments, all payments on other Parity Obligations and all payments on Subordinate Obligations as they become due and payable.

(iii) All payments required for compliance with the terms of the Indenture and the Agreement, including restoration of the Reserve Fund to an amount equal to the Reserve Fund Requirement.

(iv) All payments to meet any other obligations of the City which are charges, liens or encumbrances upon, or payable from, the System Revenues.

(b) In addition to the requirements described above in subsection (a), the City will, at all times while any Bonds remain Outstanding under the Indenture, to the maximum extent permitted by law, fix, prescribe and collect rates, fees and charges and manage the operation of the System for each Fiscal Year so as to yield System Net Revenues during such Fiscal Year equal to at least 110% per cent of the Annual Debt Service in such Fiscal Year.

The City may make or permit to be made adjustments from time to time in such rates, fees and charges and may make or permit to be made such classification thereof as it deems necessary, but shall not reduce or permit to be reduced such rates, fees and charges below those then in effect unless the System Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements of the Agreement.

Enforcement of and Performance Under Contracts. The City shall enforce all material provisions of any contracts to which it is a party, an assignee, successor in interest to a party or third-party beneficiary, in any case where such contracts provide for material payments or services to be rendered to the System. Further, the City will comply with, keep, observe and perform all material agreements, conditions, covenants and terms, express or implied, required to be performed by it, contained in all contracts affecting or involving the System, to the extent that the City is a party thereto.

Collection of Charges, Fees and Rates. The City will have in effect at all times rules and regulations requiring each user of the System to pay the applicable charges, fees and rates and providing for the billing thereof and for a due date and a delinquency date for each bill. In each case where such bill remains unpaid in whole or in part after it becomes delinquent, the City will enforce the collection procedures contained in such rules and regulations.

Annual Budget. Not less than thirty days prior to the commencement of each Fiscal Year, the City shall adopt and file with the Trustee an Annual Budget for the System for such Fiscal Year. Each such Annual Budget shall set forth in reasonable detail for such Fiscal Year, by month for such Fiscal Year, the estimated System Revenues, the Operation and Maintenance Expenses, the Annual Debt Service, the debt service on Subordinate Obligations and may set forth such additional material as the City Shall determine. If at any time during a Fiscal Year such estimates do not substantially correspond to the actual System Revenues, the Operation and Maintenance Expenses, the Annual Debt Service, the debt service on Subordinate Obligations, or the City adjusts its estimates of any of such items for the Fiscal Year, the City shall adopt and file with the Trustee an amended Annual Budget for the remainder of such Fiscal Year. The Trustee shall not be charges with knowledge of, and shall not be responsible for the sufficiency of, any such Annual Budget, it being expressly agreed and understood that the Trustee shall each such Annual Budget solely as a custodian to preserve a record of the transactions contemplated thereby.

No Free Service. The City will not permit any part of the System or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or Person, or by any public agency (including the State of California and any city, county, public agency, political subdivision, public authority or agency or any thereof), unless otherwise required by law or existing written agreements.

Payment of Claims. The City will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the System or upon the System Revenues or any part thereof, or upon any funds held by the Trustee, or which might impair the security of the payment of the Purchase Price Installments; provided, that nothing in the Agreement contained shall require the City to make any such payments so long as the City in good faith shall contest the validity of any such claims and such nonpayment will not materially adversely affect the City's ability to perform its obligations under the Agreement.

Books of Record and Accounts; Financial Statements. The City will keep proper books of record and accounts in which complete and correct entries shall be made of all transactions relating to the System, the System Revenue Fund and all other accounts or funds established pursuant the Agreement, and upon request will provide information concerning such books of record and accounts to the Trustee.

The City will prepare annually, not later than one hundred eighty (180) days after the close of each Fiscal Year, so long as any Bonds remain Outstanding under the Indenture, an Certified Financial Statements of the City for the preceding Fiscal Year relating to the System Revenue Fund and all other accounts or funds established pursuant to the Agreement and held by the City, showing the balances in each such account or fund as of the beginning of such Fiscal Year and the totals of all deposits in and withdrawals from each such account or fund during such Fiscal Year and the balances in each such account or fund as of the end of such Fiscal Year. Such Certified Financial Statements shall include a statement as to the manner and extent to which the City has complied with the provisions of the Agreement as it relates to such accounts and funds. The City will furnish a copy of such Certified Financial Statements to the Trustee, the Bond Insurer and to the Information Services upon request, and will furnish such reasonable number of copies thereof to investment bankers, security dealers and others interested in the Bonds.

Payment of Taxes and Other Charges and Compliance with Governmental Regulations. The City will pay and discharge all taxes, service charges, assessments and other governmental charges which may after the date of the Agreement be lawfully imposed upon the System or upon the System Revenues, when the same shall become due; provided, that nothing in the Agreement contained shall require the City to make any such payments so long as the City in good faith shall contest the validity of any such taxes, service charges, assessments or other governmental charges and such nonpayment will not materially adversely affect the City's ability to perform its obligations under the Agreement.

The City will duly comply with all applicable state, federal and local statutes and all valid regulations and requirements of any governmental authority relative to the operation of the System or any part thereof, but the City shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith and such noncompliance will not materially adversely affect the City's ability to perform its obligations under the Agreement.

Tax Covenants and Matters.

(a) The City covenants under the Agreement, for the benefit of the Authority and the owners and beneficial owners of the Bonds that, notwithstanding any other provisions of the Agreement, they shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest evidenced by the Bonds under Section 103 of the Code. The City shall not, directly or indirectly, use or permit the use of proceeds of the Bonds or any of the property financed with proceeds of the Bonds, or any portion thereof, by any person other than a governmental unit (as such term is used in Section 141 of the Code) in such manner or to such extent as would result in the loss of exclusion from gross income for federal income tax purposes of interest evidenced by the Bonds.

(b) The City shall not, directly or indirectly, use or permit the use of any proceeds of any Bonds, or of any property financed thereby, or other funds of the City, or take or omit to take any action, that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code. To that end, the City shall comply with all requirements of Section 148 of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent such requirements are, at the time, in effect and applicable to the Bonds.

(c) The City shall not make any use of the proceeds of the Bonds or any other funds of the City, or take or omit to take any other action, that would cause the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

(d) In furtherance of the foregoing tax covenants of the Agreement, the City covenants that it will comply with the provisions of the Tax Certificate, which is incorporated in the Agreement as if fully set forth in the Agreement. These covenants shall survive payment in full or defeasance of the Bonds.

Rebate Fund.

(a) Pursuant to the Indenture, the Trustee will hold in the Rebate Fund any amounts required to satisfy the requirement to make rebate payments to the United States pursuant to Section 148 of the Code and the Treasury Regulations promulgated thereunder. Such amounts shall be governed by the Agreement, the Indenture and by the Tax Certificate, unless and to the extent that the City delivers to the Trustee a Favorable Opinion of Bond Counsel with respect to any departure from such requirements. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust for payment to the United States Treasury.

(i) Within 55 days of the end of each Bond Year (as such term is defined in the Tax Certificate), the City shall calculate or cause to be calculated the amount of "rebate amount," in accordance with Section 148(f)(2) of the Code and Section 1.148 3 of the Treasury Regulations (taking into account any applicable exceptions with respect to the computation of the "rebate amount," described, if applicable, in the Tax Certificate (e.g., the temporary investments exceptions of Section 148(f)(4)(A)(ii) or Section 148(f)(4)(B) of the Code, the expenditure requirements of Section 148(f)(4)(B) or Section 148(f)(4)(C) of the Code or Section 1.148-7(d) of the Treasury Regulations, the exception for certain "small governmental issuers" as set forth in Section 148(f)(4)(D) of the Code, and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the "1½% Penalty") has been made)), for this purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148 1(b) of the Treasury Regulations.

(ii) Within 55 days of the end of each such Bond Year, the City shall deposit to the Rebate Fund from System Revenues as an Operation and Maintenance Expense, if and to the extent required so that the balance in the Rebate Fund shall equal the "rebate amount" so calculated in accordance with the Agreement.

(b) In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the City shall calculate or cause to be calculated the amount of such deficiency and deposit from System Revenues as an Operation and Maintenance Expense, an amount equal to such deficiency prior to the time such payment is due.

(c) The City shall retain records of all determinations made under the Agreement until six years after payment in full of the Purchase Price Installments.

(d) Survival of Defeasance. Notwithstanding anything in the Agreement to the contrary, the obligation to comply with the requirements of this Section shall survive the payment in full of the payment or provision for the payment of the Bonds pursuant to the Indenture.

Continuing Disclosure. The City covenants and agrees under the Agreement that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Agreement, failure of the City to comply with the Continuing Disclosure Agreement shall not be considered an Agreement Event of Default; however, any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or any Owner or beneficial owner of the Bonds may take such actions as described under the Continuing Disclosure Agreement to cause the City to comply with its obligations under the Agreement.

Further Assurances. The City will adopt, make, execute and deliver any and all such further documents, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance under the Agreement.

Release of Liability. The City releases the Authority from, and covenants and agrees that the Authority shall not be liable for, and agrees to indemnify and hold the Authority harmless against, any loss or damage to property or any injury to or death of any person occurring at or about or resulting from any defect in the Project.

No Warranty as to Suitability of Project. The Authority makes no warranty, either express or implied, as to the actual or designed capacity of the Project, as to the suitability of the Project for the purposes specified in the Agreement, as to the condition of the Project, or that the Project will be suitable for the City's purposes or needs.

Provisions Relating to the Bond Insurer. For so long as, and only during such time as, the Bond Insurer is not in default under the Bond Insurance Policy, the following provisions shall be in effect, and any conflict between the provisions described under this caption and the provisions of any other section of the Agreement shall be governed by the provisions described under this caption.

(a) As soon as practicable after the filing thereof with the Authority, the City shall provide the Bond Insurer a copy of any financial statement of the City and a copy of any audit and annual report of the City delivered by the City pursuant to the Agreement and a copy of any report or notice required to be filed with a National Repository and/or State Repository (as such terms are defined in the Continuing Disclosure Agreement) pursuant to the Continuing Disclosure Agreement.

(b) Any acceleration of unpaid Purchase Price Installments pursuant to the Agreement or any annulment thereof shall be subject to the prior written consent of the Bond Insurer.

(c) Notwithstanding anything contained in the Agreement to the contrary, in the event that any principal of or interest on a Bond shall be paid by the Bond Insurer pursuant to the Bond Insurance Policy, the Purchase Price Installments shall remain unpaid under the Agreement for all purposes, shall not be discharged or otherwise satisfied and shall not be considered paid by the City, and the assignment and pledge thereof and all agreements, covenants and other obligations of the City under the Agreement with respect thereto shall continue to exist and shall run to the benefit of the Bond Insurer.

(d) In connection with the execution and delivery of any Parity Obligations under the terms of the Agreement, the City shall deliver or cause to be delivered to the Bond Insurer a copy of the disclosure document, if any, circulated with respect to such Parity Obligations.

Compliance with Indenture. The City shall perform all obligations and shall otherwise comply with all the provisions of the Indenture applicable to the City, including the provisions relating to the requisition and investment of funds held thereunder.

Agreement Events of Default and Remedies

Events of Default and Acceleration of Maturities. Each of the following shall constitute an Agreement Event of Default:

(1) if default shall be made by the City in the due and punctual payment of any Purchase Price Installment or any other Parity Obligations when and as the same shall become due and payable:

(2) if default shall be made by the City in the performance of any of the other agreements or covenants required in the Agreement to be performed by it, and such default shall have continued for a period of thirty (30) days after the City shall have been given notice in writing of such default by the Authority or the Trustee; provided that such default shall not constitute an Agreement Event of Default under the Agreement if the City shall commence to cure such default within such thirty (30) day period and thereafter diligently and in good faith shall proceed to cure such default within a reasonable period of time;

(3) if the City shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property; or

(4) if payment of the principal of any Parity Obligations is accelerated in accordance with its terms;

then, and in each and every such case during the continuance of an Agreement Event of Default specified in clauses (3) and (4) above, the Authority shall, and for any other Agreement Event of Default the Authority may (and at the direction of the Bond Insurer, shall), by notice in writing to the City, declare all unpaid Purchase Price Installments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable; provided that any such declaration of acceleration shall be subject to the prior written consent of the Bond Insurer. This subsection however, is subject to the condition that if, at any time after all unpaid Purchase Price Installments and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the City shall deposit with the Authority a sum sufficient to pay the unpaid Purchase Price Installments, and the interest thereon, then due and payable (other than the Purchase Price Installments and the accrued interest thereon due and payable solely by reason of such declaration), with interest on such overdue Purchase Price Installments at the Default Rate, and the reasonable expenses of the Authority, the Trustee and the Bond Insurer shall have been paid or provision deemed by the Authority, the Trustee or the Bond Insurer, as applicable, to be adequate shall have been made therefor, and any and all other Agreement Events of Default shall have been made good or cured to the satisfaction of the Authority and the Bond Insurer or provision deemed by the Authority and the Bond Insurer to be adequate shall have been made therefor, then and in every such case the Authority and the Bond Insurer, by written notice to the City, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration. Upon the date of the declaration of acceleration as provided in the Agreement, all System Revenues thereafter received shall be applied in the following order:

First, to the payment of the fees, costs and expenses of the Trustee, in carrying out the provisions of this article, and the trustee for any other Parity Obligations, if any, in complying with the terms of such Parity Obligations, including reasonable compensation to accountants and counsel and similar costs with respect to Parity Obligations and then to any fees and expenses incurred by the Authority in carrying out the provisions of the Agreement;

Second, to the payment of Operation and Maintenance Expenses;

Third, to the payment of all unpaid Purchase Price Installments and the unpaid principal amount of all other Parity Obligations, and the accrued interest thereon, with interest on the overdue Purchase Price Installments at the Default Rate and, with respect to such other Parity Obligations, as required by the terms of such other Parity Obligations; and

Fourth, to the Bond Insurer, any amounts owed pursuant to the Agreement and to amounts due to any provider of credit enhancement for other Parity Obligations.

Other Remedies of the Authority. In addition to remedies elsewhere provided in the Agreement, upon the continuance of an Agreement Event of Default, the Authority shall have the right with the written consent of the Bond Insurer to, and at the direction of the Bond Insurer shall:

(a) by mandamus or other action or proceeding or suit at law or in equity, enforce its rights against the City or any director, officer or employee thereof, and compel the City or any such director, officer or employee to perform and carry out its or his duties under applicable law and the agreements and covenants required to be performed by it or him contained in the Agreement;

(b) by suit in equity, enjoin any acts or things which are unlawful or violate the rights of the Authority;

(c) by suit in equity, to require the City and its directors, officers and employees to account as the trustee of an express trust; or

(d) by mandamus or other action or proceeding or suit at law or in equity, pursue any other remedy now or later existing in law or in equity or by statute or otherwise enforce the performance of the City's obligations under the Agreement and to otherwise protect the Authority's rights and interests in connection with the Agreement.

Notwithstanding anything contained in the Agreement, the Authority shall have no security interest in or mortgage on the Project, the System or other facilities of the City or any other real property of the City and no default under the Agreement shall result in the loss of the Project, the System or other facilities of the City or any other real property of the City.

Non Waiver. Nothing in the Agreement shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the Purchase Price Installments to the Authority at the respective due dates from the System Net Revenues pledged for such payment, or shall affect or impair the right of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Agreement.

A waiver of any default or breach of duty or contract by the Authority shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Authority to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the

Authority by applicable law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Authority.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Authority, the City and the Authority shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Authority in the Agreement is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Agreement or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any other law. To the extent that the Agreement confers upon or gives or grants the Trustee any right, remedy or claim under or by reason of the Agreement, the Trustee is explicitly recognized as being a third-party beneficiary under the Agreement and may enforce any such right, remedy or claim conferred, given or granted thereunder.

THE INDENTURE

The following is a summary of certain terms and conditions of the Indenture which are not described elsewhere in the Official Statement. This summary does not purport to be comprehensive and reference should be made to the Indenture for a full and complete statements of its provisions.

Deposit of Purchase Price Installments. The Trustee agrees to establish, maintain and hold the Debt Service Fund for so long as any Bonds shall be Outstanding under the Indenture. All Purchase Price Installments, including any prepayments thereof pursuant to the Agreement, received by the Trustee shall be immediately deposited in the Debt Service Fund and shall be disbursed and applied only as provided in the Indenture.

Establishment and Maintenance of Accounts in the Debt Service Fund. Subject to the provisions of the Indenture, all money in the Debt Service Fund shall be set aside by the Trustee in the following respective special accounts within the Debt Service Fund (each of which is created and each of which the Trustee agrees and covenants to maintain) in the following order of priority: (i) Interest Account; (ii) Principal Account; and (iii) Redemption Account.

All money in each of such accounts shall be held in trust by the Trustee for the benefit of the Owners and shall be applied, used and withdrawn only for the purposes hereinafter described.

(a) Interest Account. On each Interest Payment Date, the Trustee shall set aside in the Debt Service Fund and credit to the Interest Account that amount of money which is equal to the amount of interest on the Bonds becoming due and payable on such Interest Payment Date.

No deposit need be made to the Interest Account on any date if the amount contained therein is at least equal to the aggregate amount of interest on the Bonds becoming due and payable on such date.

All money in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest as it shall become due and payable.

(b) Principal Account. On each date on which a Bond matures or is subject to mandatory redemption from Sinking Fund Installments, the Trustee shall set aside in the Debt Service Fund and credit to the Principal Account an amount of money equal to the principal amount of the Outstanding Bonds maturing or subject to such mandatory redemption on such date.

No deposit need be made to the Principal Account on any date if the amount contained therein is at least equal to the aggregate principal amount of Outstanding Bonds maturing or subject to mandatory redemption from Sinking Fund Installments on such date.

All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal amount of Bonds as they mature or are redeemed from Sinking Fund Installments.

(c) Redemption Account. All prepayments of Purchase Price Installments made by the City shall be deposited in the Redemption Account and applied to the payment, including redemption, or provision for the payment in accordance with the Indenture, of Outstanding Bonds as directed by the City.

Reserve Fund

The Trustee shall establish and hold under the Indenture a fund separate from any other fund established and maintained under the Indenture designated as the Reserve Fund. All Additional Payments pursuant to the Agreement received by the Trustee shall be immediately deposited in the Reserve Fund. Moneys in the Reserve Fund, including the proceeds of draws on any Reserve Surety, shall be applied in accordance with the Indenture.

Upon the execution and delivery of the Bonds, the Trustee shall credit the deposit required by the Indenture to the Reserve Fund to satisfy the initial Reserve Fund Requirement with respect to the Bonds. The Trustee shall deposit in the Reserve Fund all amounts paid by the City pursuant to the Agreement and shall accept any Reserve Surety which the City causes to be delivered pursuant to of the Agreement. If upon the deposit of a Reserve Surety to the Reserve Fund, the amount credited to the Reserve Fund shall be in excess of the Reserve Fund Requirement, such excess amount may be applied to the cost of acquiring such Reserve Surety, and to the extent not so applied, such excess amount shall be applied to the costs of capital improvements to the System or transferred to the Principal Account or the Redemption Account to be applied to the payment of the principal of the Bonds, in each case as directed in a Written Request of the City.

The Trustee agrees and covenants to maintain the Reserve Fund so long as the Agreement has not been discharged in accordance with its terms or any Bonds remain Outstanding under the Indenture To the extent that transfers from the Reserve Fund to the Debt Service Fund are from draws on the Reserve Surety as permitted under the definition of Reserve Fund Requirement in the Indenture, transfers under the Indenture to restore the Reserve Fund shall be made to reimburse the provider of the Reserve Surety to the extent the Reserve Surety is reinstated. Moneys on deposit in the Reserve Fund shall be transferred, and, if the amount of money then on deposit in the Reserve Fund is insufficient therefor, amounts shall be drawn on any Reserve Surety credited to the Reserve Fund and transferred by the Trustee to the Debt Service Fund to pay principal of and/or interest on the Bonds on each date when such principal and/or interest is due and payable in the event amounts on deposit therein are insufficient for such purposes. All investments in the Reserve Fund shall be valued on February 1 of each year beginning in February 1, 2008, and on such other dates as may be specified in a Written Request of the City, at the amortized cost thereof. Except as otherwise provided in the Indenture with respect to the delivery of a Reserve Surety, amounts on deposit in the Reserve Fund in excess of the Reserve Fund Requirement shall be applied to the costs of capital improvements to the System or transferred to the Principal Account or the Redemption Account to be applied to the payment of the principal of the Bonds, in each case as directed in a Written Request of the City; provided that any such excess representing investment income of moneys in the Reserve Fund shall be transferred to the Interest Account.

Covenants of the Authority

Punctual Payment. Authority shall punctually pay, but only out of the Purchase Price Installments and the other funds pledged as in the Indenture provided, the principal, or if applicable Redemption Price, of and interest to become due in respect of every Bond issued under the Indenture at the times and places and in the manner provided in the Indenture and in the Bonds, according to the true intent and meaning thereof. When and as paid in full other than if paid with proceeds from the Bond Insurance Policy, each Bond shall be delivered to the Trustee and shall forthwith be cancelled by the Trustee, who shall deliver a certificate evidencing such cancellation to the Authority and the City. The Trustee shall destroy such cancelled Bonds in accordance with its customary procedures.

Tax Covenants. The Authority covenants with the Owners of the Bonds that, notwithstanding any other provisions of the Indenture, it shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the Tax-Exempt status of interest on the Bonds under Section 103 of the Code. The Authority shall not, directly or indirectly, use or permit the use of proceeds of the Bonds or any of the property financed or refinanced with proceeds of the Bonds, or any portion thereof, by any Person other than a governmental unit (as such term is used in Section 141 of the Code), in such manner or to such extent as would adversely affect the Tax-Exempt status of interest on the Bonds.

The Authority shall not take any action, or fail to take any action, if any such action or failure to take action would cause the Bonds to be "private activity bonds" within the meaning of Section 141 of the Code, and in furtherance thereof, shall not make any use of the proceeds of the Bonds or any of the property financed or refinanced with proceeds of the Bonds, or any portion thereof, or any other funds of the Authority, that would cause the Bonds to be "private activity bonds" within the meaning of Section 141 of the Code. To that end, so long as any Bonds are Outstanding, the Authority, with respect to such proceeds and property and such other funds, will comply with applicable requirements of the Code and all regulations of the United States Department of the Treasury issued thereunder, to the extent such requirements are, at the time, applicable and in effect. The Authority shall establish reasonable procedures necessary to ensure continued compliance with Section 141 of the Code and the continued qualification of the Bonds as "governmental bonds."

The Authority shall not, directly or indirectly, use or permit the use of any proceeds of any Bonds, or of any property financed or refinanced thereby, or other funds of the Authority, or take or omit to take any action, that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code. To that end, the Authority shall comply with all requirements of Section 148 of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent such requirements are, at the time, in effect and applicable to the Bonds.

The Authority shall not make any use of the proceeds of the Bonds or any other funds of the Authority, or take or omit to take any other action, that would cause the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

In furtherance of the foregoing tax covenants, the Authority covenants that it will comply with the provisions of the Tax Certificate. These covenants shall survive payment in full or defeasance of the Bonds.

Accounting Records and Reports. The Trustee will keep or cause to be kept proper books of record and accounts in which complete and correct entries shall be made of all transactions made by the Trustee relating to the receipts, disbursements, allocation and application of the Purchase Price Installments and the proceeds of the Bonds, and such books shall be available for inspection by the Authority, at reasonable hours and under reasonable conditions. Not more than 180 days after the close of each Fiscal Year, the Trustee shall furnish or cause to be furnished to the Authority a complete financial statement covering receipts, disbursements, allocation and application of Purchase Price Installments received by the Trustee for such Fiscal Year. The Authority shall keep or cause to be kept such information as required under the Tax Certificate.

Prosecution and Defense of Suits. The Authority will defend against every suit, action or proceeding at any time brought against the Trustee upon any claim to the extent arising out of the receipt, application or disbursement of any of the Purchase Price Installments and the proceeds of the Bonds or to the extent involving the failure of the Authority to fulfill its obligations under the Indenture; provided that the Trustee or any affected Owner at its election may appear in and defend any such suit, action or proceeding. The Authority will indemnify and hold harmless the Trustee against any and all liability claimed or asserted by any Person to the extent arising out of such failure by the Authority, and will indemnify and hold harmless the Trustee against any attorney's fees or other expenses which it may incur in connection with any litigation to which it may become a party by reason of its actions under the Indenture, except for any loss, cost, damage or expense resulting from the active or passive negligence, willful misconduct or breach of duty by the Trustee. Notwithstanding any contrary provision of the Indenture, this covenant shall remain in full force and effect even though all Bonds may have been fully paid and satisfied.

Amendments to Agreement. The Authority shall not supplement, amend, modify or terminate any of the terms of the Agreement, or consent to any such supplement, amendment, or modification, without,: (i) so long as the Bond Insurer is not in default under the Bond Insurance Policy, the prior written consent of the Bond Insurer; or (ii) if the Bond Insurer is in default under the Bond Insurance Policy and such supplement, amendment, modification would materially adversely affect the interests of the Owners of the Outstanding Bonds, the Trustee first obtains the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding to such supplement, amendment, or modification; provided, however, that no such supplement, amendment, or modification shall reduce the amount of Purchase Price Installments to be made by the City pursuant to the Agreement, or extend the time for making such Purchase Price Installments in any manner that would require the consent of Bond Owners pursuant to the Indenture in any manner not in compliance with the Indenture.

Notices to Rating Agencies. The Authority shall provide the Rating Agencies, with copies to the City and the Bond Insurer, with written notice upon the occurrence of: (i) the resignation or removal of the Trustee; or (ii) the acceptance of appointment as successor trustee under the Indenture promptly upon its becoming aware of such resignation, removal or acceptance.

Encumbrance Upon Trust Estate. The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Trust Estate while any of the Bonds are Outstanding, except the pledge and assignment created by the Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the Act, and reserves the right to issue other obligations for such purposes.

Power to Issue Bonds and Make Pledge. The Authority is duly authorized pursuant to law to issue the Bonds, and to enter into the Indenture and to pledge and assign the Trust Estate, in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the Authority enforceable in accordance with their terms, and the Authority and Trustee shall at all times, to the extent permitted by law and subject to the provisions of the Indenture, defend, preserve and protect the pledge of the Trust Estate and all the rights of the Owners under the Indenture against all claims and demands of all Persons whomsoever.

Waiver of Laws. The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension of law now or at any time hereafter in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is expressly waived by the Authority to the extent permitted by law.

Continuing Disclosure. Pursuant to the Agreement, the City has undertaken all responsibility for compliance with continuing disclosure requirements pursuant to Rule 15c2-12, and the Authority shall have no liability to the Owners of the Bonds or any other Person with respect to Rule 15c2-12. The Trustee covenants and agrees that, subject to the provisions of the Indenture, it will comply with and carry out all of the provisions of the applicable Continuing Disclosure Agreement and the Agreement applicable to it. Notwithstanding any other provision of the Indenture, failure of the City or the Trustee to comply with the applicable Continuing Disclosure Agreement shall not be considered a Trust Event of Default; however, the Trustee, at the written request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, shall (but only to the extent the Trustee has been tendered funds in an amount satisfactory to it or it has been otherwise indemnified from and against any loss, liability, cost or expense, including without limitation, fees and expenses of its counsel and agents and additional fees and charges of the Trustee) or any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause a Corporation to comply with its obligations under the Agreement or, as to any Owner or Beneficial Owner, to cause the Trustee to comply with its obligations under this Section. For purposes of this Section, "Beneficial Owner" means any Person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including Persons holding Bonds through nominees, depositories or other intermediaries).

Preservation of Rights Under Agreement. The Authority shall not waive any provision of the Agreement or take any action to interfere with or impair the pledge and assignment under the Indenture to the Trustee of the rights under the Agreement pledged under the Indenture, or the Trustee's enforcement of any rights thereunder, without the prior written consent of the Trustee. The Trustee may give such written consent, and may itself take any such action, or consent to any such amendment of the Agreement, only in accordance with the provisions of the Indenture.

Further Assurances. Whenever and so often as reasonably requested to do so by the Trustee or any Owner, the Authority will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments, and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners all rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them.

The Trustee

The Bank of New York Trust Company, N.A., as the Trustee, shall receive all money which the Authority is required to deposit with the Trustee under the Indenture and for the purpose of allocating, applying and using such money as provided in the Indenture and for the purpose of paying the principal, or if applicable Redemption Price, of and interest on the Bonds presented for payment and for the purpose of canceling all paid or redeemed Bonds as provided in the Indenture. The Authority agrees that it will at all times maintain a Trustee having a corporate trust office in either San Francisco, California or Los Angeles, California.

The Authority may at any time (unless there exists any Trust Event of Default), and upon written direction from the Bond Insurer shall, remove the Trustee initially appointed and any successor thereto and may appoint a successor or successors thereto by an instrument in writing; provided that any such successor shall be a national banking association, banking corporation or trust company doing business and having a principal office in either San Francisco, California or Los Angeles, California, having a combined capital (exclusive of borrowed capital) and surplus of at least five hundred million dollars ($500,000,000) and subject to supervision or examination by federal or state authority, acceptable to the Bond Insurer. If such national banking association, banking corporation or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this Section the combined capital and surplus of such national banking association, banking corporation or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Trustee may at any time resign by giving written notice of such resignation to the Authority and the Bond Insurer and by mailing to the Owners notice of such resignation. Upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee by an instrument in writing. Any removal or resignation of a Trustee and appointment of a successor Trustee shall become effective only upon the acceptance of appointment by the successor Trustee. If, within thirty (30) days after notice of the removal or resignation of the Trustee no successor Trustee shall have been appointed and shall have accepted such appointment, the removed or resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee, which court may thereupon, after such notice, if any, as it may deem proper and prescribe and as may be required by law, appoint a successor Trustee having the qualifications required.

The Trustee shall, prior to a Trust Event of Default, and after the curing of all Trust Events of Default that may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture and no implied duties or obligations shall be read into the Indenture. The Trustee shall, during the existence of any Trust Event of Default (that has not been cured), exercise such of the rights and powers vested in it, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

Liability of Trustee.

The recitals of facts, agreements and covenants in the Indenture and in the Bonds shall be taken as recitals of facts, agreements and covenants of the Authority, and the Trustee assumes no responsibility for the correctness of the same or makes any representation as to the sufficiency or validity of the Indenture or of the Bonds, or shall incur any responsibility in respect thereof other than in connection with the rights or obligations assigned to or imposed upon it in the Indenture, in the Bonds or in law or equity. The Trustee shall not be liable in connection with the performance of its duties under the Indenture except for its own active or passive negligence, willful misconduct or breach of duty.

The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee in the Indenture.

The Trustee may become the Owner or pledgee of any Bonds with the same rights it would have if it were not Trustee.

Amendment of the Indenture

Except as provided below, the Indenture and the rights and obligations of the Authority, the Trustee and the Owners may be amended at any time by a Supplemental Indenture which shall become binding when (i) the written consent of the Bond Insurer if the Bond Insurer is not in default under the Bond Insurance Policy; or (ii) if the Bond Insurer is in default under the Bond Insurance Policy, the written consents of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture, are filed with the Trustee; provided, that before executing any such Supplemental Indenture the Trustee may first obtain at the Authority's expense an Opinion of Counsel that such Supplemental Indenture complies with the provisions of the Indenture, on which opinion the Trustee may conclusively rely.

No amendment to the Agreement or the Indenture will (1) extend the maturity of, or change the Interest Payment Dates of, or reduce the rate of interest on or the principal amount of or Redemption Price of any Bond without the express written consent of the Owner of such Bond, or (2) reduce the percentage of Bonds required for the written consent to any such amendment without the express written consent of the Owners of all Outstanding Bonds, or (3) modify any rights or obligations of the Trustee without its prior written assent thereto. Copies of any amendments made to the Indenture which are consented to by the Bond Insurer shall be sent to S&P.

The Indenture and the rights and obligations of the Authority and of the Owners may also be amended at any time by a Supplemental Indenture which shall become binding upon adoption without the consent of any Owners, but with the prior written consent of the Bond Insurer if the Bond Insurer is not in default under the Bond Insurance Policy, and only to the extent permitted by law, for any one or more of the following purposes:

(i) to add to the agreements and covenants required in the Indenture to be performed by the Authority other agreements and covenants thereafter to be performed by the Authority, or to surrender any right or power reserved in the Indenture to or conferred in the Indenture on the Authority;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Indenture or in regard to questions arising under the Indenture which the Authority may deem desirable or necessary and not inconsistent with the Indenture;

(iii) to add to the agreements and covenants required in the Indenture, such agreements and covenants as may be necessary to qualify the Indenture under the Trust Indenture Act of 1939;

(iv) to make any amendments or supplements necessary or appropriate to preserve or protect the exclusion of interest on the Bonds from gross income for federal income tax purposes under the Code or the exemption of the Interest Installments from State of California personal income taxes;

(v) to make such amendments or supplements as may be necessary or appropriate to maintain any then current rating on the Bonds by any of the Rating Agencies;

(vi) to add to the rights of the Trustee; or

(vii) for any purpose that will not materially adversely affect the interests of the Owners.

Amendment by Mutual Consent. The provisions of the Indenture does not prevent any Owner from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

Events of Default and Remedies of Owners

Trust Events of Default; Acceleration; Waiver of Default. The following shall be Trust Events of Default: (a) if default shall be made in the due and punctual payment of the principal or Redemption Price of any Bond as the same shall become due and payable (whether at maturity, by proceedings for redemption, by declaration or otherwise); (b) if default shall be made in the due and punctual payment of any installment of interest on any

Bond when and as such interest installment shall become due and payable; (c) if default shall be made by the Authority in the performance or observance of any other of the covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, and such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee, or to the Authority and the Trustee by the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding; or (d) if an Agreement Event of Default has occurred and is continuing; then and in each and every such case during the continuance of such Event of Default, unless the principal of all the Bonds shall have already become due and payable, the Trustee, by notice in writing to the Authority, may and, upon the written request of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, shall declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

However, if at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as provided in the Indenture, there shall have been deposited with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds. with interest on such overdue installments of principal at the rate borne by the respective Bonds, and the reasonable fees and expenses of the Trustee (including but not limited to those of its attorneys), and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Authority and to the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Remedies Cumulative. No remedy in the Indenture conferred upon or reserved to the Trustee or to any Owner of the Bonds is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or later existing at law or in equity.

Defeasance

Discharge of Indenture. Bonds may be paid by the Authority in any of the following ways:

(a) by paying or causing to be paid the principal, or if applicable Redemption Price, of and interest on the Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Indenture) to pay or redeem Bonds; or

(c) by delivering Bonds to the Trustee, for cancellation by it.

If the Authority shall pay all Bonds issued under the Indenture as provided above and shall also pay or cause to be paid all other sums payable under the Indenture by the Authority, then and in that case, and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of the Trust Estate made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture shall cease, terminate, become void and be completely discharged and satisfied, except only as provided in the Indenture. In such event, upon request of the Authority, the Trustee shall cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the Authority and shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the City all moneys or securities or other property held by it pursuant to the Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption and which are not required for the payment of fees and expenses of the Trustee.

Payments by Bond Insurer. Notwithstanding anything contained in the Indenture to the contrary, in the event that the principal of or interest on any of the Bonds shall be paid by the Bond Insurer pursuant to the Bond Insurance Policy, such Bonds shall remain Outstanding under the Indenture for all purposes, shall not be defeased or otherwise satisfied and shall not be considered paid, and the assignment and pledge and all agreements, covenants and other obligations of the City under the Agreement assigned to the Trustee for the benefit of the Owners of the Bonds shall continue to exist and shall run to the benefit of the Bond Insurer, and the Bond Insurer shall be subrogated to the rights of such Owners.

Provisions Relating to the Bond Insurance Policy

Payment Procedure Under the Bond Insurance Policy.

(a) In the event that, on the second Business Day, and again on the Business Day, prior to the Payment Date (as defined in the Bond Insurance Policy), the Trustee has not received sufficient moneys to pay all amounts due with respect to the Bonds due on the second following or following, as the case may be, Business Day, the Trustee shall immediately notify the Bond Insurer or its designee on the same Business Day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.

(b) If the deficiency is made up in whole or in part prior to or on the payment date, the Trustee shall so notify the Bond Insurer or its designee.

(c) In addition, if the Trustee has notice that any Owner has been required to disgorge payments of principal of or interest on the Bonds to a trustee in bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy laws, then the Trustee shall notify the Bond Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

Trustee as Attorney-In-Fact. The Trustee is irrevocably designated, appointed, directed and authorized to act as an attorney-in-fact for Owners of the Bonds as follows:

(a) if and to the extent the Trustee has not received sufficient moneys to pay the principal of and interest on the Bonds, the Trustee shall (i) execute and deliver to State Street Bank and Trust Company, N.A., or its successors under the Bond Insurance Policy (the "Insurance Paying Agent"), in form satisfactory to the Insurance Paying Agent, an instrument appointing the Bond Insurer as agent for such Owners in any legal proceeding related to the payment of such interest and an assignment to the Bond Insurer of the claims for interest to which such deficiency relates and which are paid by the Bond Insurer, (ii) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the Bond Insurance Policy payment from the Insurance Paying Agent with respect to the claims for interest so assigned, and (iii) disburse the same to such respective Owners; and

(b) if and to the extent the Trustee has not received sufficient moneys to pay the principal of the Bonds, the Trustee shall (i) execute and deliver to the Insurance Paying Agent in form satisfactory to the Insurance Paying Agent an instrument appointing the Bond Insurer as agent for such Owner in any legal proceeding relating to the payment of such principal and an assignment to the Bond Insurer of any of the Bonds surrendered to the Insurance Paying Agent of so much of the principal of the Bonds as has not previously been paid or for which moneys are not held by the Trustee and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent is received), (ii) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the Bond Insurance Policy payment therefor from the Insurance Paying Agent, and (iii) disburse the same to such Owners.

No Discharge.

(a) Payments with respect to principal of or interest on the Bonds disbursed by the Trustee from proceeds of the Bond Insurance Policy shall not be considered to discharge the obligation of the City with respect to such Purchase Price Installments, and the Bond Insurer shall become the owner of such unpaid Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this Article or otherwise.

(b) Irrespective of whether any such assignment is executed and delivered, the Authority and the Trustee agree for the benefit of the Bond Insurer that: (i) they recognize that to the extent the Bond Insurer makes payments, directly or indirectly (as by paying through the Trustee), on account of principal of or interest on the Bonds, the Bond Insurer will be subrogated to the rights of such Owners to receive the amount of such principal of and interest on the Bonds from the Authority, with interest thereon as provided and solely from the sources stated in the Agreement and such Bonds; and (ii) they will accordingly pay to the Bond Insurer the amount of Purchase Price Installments (including principal and interest recovered under subparagraph (ii) of the first paragraph of the Bond Insurance Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in the Agreement and such Bonds, but only from the sources and in the manner provided in the Agreement for the payment of the Purchase Price Installments, and will otherwise treat the Bond Insurer as the owner of such rights to the amount of such principal and interest.

Rights of Bond Insurer. Notwithstanding anything to the contrary contained in the Indenture, so long as the Bond Insurer is not in default under the Bond Insurance Policy, (a) the Bond Insurer, acting alone, shall have the right to direct all remedies upon the occurrence and during the continuance of a Trust Event of Default, (b) the Bond Insurer shall be deemed to be the Owner of each Bond it insures for the purpose of exercising all rights and privileges available to such Owners, (c) the Bond Insurer shall have the right to institute any suit, action or proceeding at law or in equity under the same terms as an Owner in accordance with the applicable provisions of the Indenture and (d) there shall be no acceleration in the payment of principal of the Bonds without the prior written consent of the Bond Insurer.

Miscellaneous

Benefits of the Indenture. Nothing contained in the Indenture, expressed or implied, is intended to give to any Person other than the Authority, the Trustee, the City, the Bond Insurer, the issuer of each Reserve Surety and the Owners any right, remedy or claim under or by reason of the Indenture. Any agreement or covenant required in the Indenture to be performed by or on behalf of the Authority or any member, officer or employee thereof shall be for the sole and exclusive benefit of the Trustee, the City, the Bond Insurer, the issuer of each Reserve Surety and the Owners.

Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required in the Indenture to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or his attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to make acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly-sworn to before such notary public or other officer. The ownership of any Bonds and the amount, maturity date, number and date of holding the same may be proved by the Bond Register.

Any declaration, request or other instrument or writing of the Owner of any Bond shall bind all future Owners of such Bond with respect to anything done or suffered to be done by the Authority or the Trustee in good faith and in accordance therewith.

Unclaimed Moneys. Anything in the Indenture to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of any of the Bonds which remain unclaimed for two years after the date when such Bonds have become due and payable, either at their stated maturity dates, redemption or acceleration, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when such Bonds became due and payable, shall be repaid by the Trustee to the City, as its absolute property and free and clear of any trust, lien, pledge or assignment securing said Bonds, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners of such Bonds shall look only to the City for the payment of such Bonds; provided, however, that before being required to make any such payment to the City, the Trustee shall, at the expense of the City, mail, postage prepaid to the

Owners of such Bonds, at the last address, if any, appearing upon the Bond Register a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the mailing of such notice, the balance of such moneys then unclaimed shall be returned to the City.

Accounts and Funds; Business Days. Any account or fund required in the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such accounts and funds shall at all times be maintained in accordance with the Indenture and sound corporate trust industry practice and with due regard for the protection of the security of the Bonds and the rights of the Owners. Any action required to occur under the Indenture on a day which is not a Business Day shall be required to occur on the next succeeding Business Day with the same effect as if made on such non-Business Day.

California Law. The Indenture shall be construed and governed in accordance with the laws of the State of California.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

DTC AND THE BOOK-ENTRY SYSTEM

The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be. Neither the issuer of the Bonds (the "Issuer") nor the trustee or fiscal agent appointed with respect to the Bonds (the "Trustee") take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC and its Participants. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, "NSCC", "GSCC", "MBSCC", and "EMCC", also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Book-Entry Only System. Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of the principal and Redemption Price of the Bonds, and interest thereon will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Issuer or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

Discontinuance of DTC Services. In the event that (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the Issuer determines that DTC will no longer so act and delivers a written certificate to the Trustee to that effect, then the Issuer will discontinue the Book-Entry Only System with DTC for the Bonds. If the Issuer determines to replace DTC with another qualified securities depository, the Issuer will prepare or direct the preparation of a new single separate, fully registered Bond for each maturity of the Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the indenture or fiscal agent agreement executed in connection with the Bonds. If the Issuer fails to identify another qualified securities depository to replace the incumbent securities depository for the Bonds, then the Bonds will no longer be restricted to being registered in the Bond registration books in the name of the incumbent securities depository or its nominee, but will be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the Bonds designates.

If the Book-Entry Only System is discontinued, the following provisions would also apply: (i) the Bonds will be made available in physical form, (ii) principal of, and redemption premiums, if any, on, the Bonds will be payable upon surrender thereof at the corporate trust office of the Trustee, (iii) interest on the Bonds will be payable by check mailed by first-class mail or, upon the written request of any Owner of $1,000,000 or more in aggregate principal amount of Bonds received by the Trustee on or prior to the 15th day of the calendar month immediately preceding the interest payment date, by wire transfer in immediately available funds to an account with a financial institution within the continental United States of America designated by such Owner, and (iv) the Bonds will be transferable and exchangeable as provided in the indenture or fiscal agent agreement executed in connection with the Bonds.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Disclosure Agreement") is executed and delivered by the City of Anaheim, California (the "City") in connection with the issuance of $47,710,000 Anaheim Public Financing Authority Sewer Revenue Bonds, Series 2007 (the "Bonds") and The Bank of New York Trust Company, N.A., as dissemination agent (the "Dissemination Agent"). The Bonds are being issued pursuant to an Indenture of Trust (the "Indenture"), dated as of May 1, 2007, by and between the Anaheim Public Financing Authority (the "Authority") and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). The City and the Dissemination Agent covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"*Annual Report*" means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"*Beneficial Owner*" means any person which (a) has or shares the power, directly or indirectly, to vote or consent with respect to, to make investment decisions concerning the ownership of, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries); or (b) is treated as the owner of any Bonds for federal income tax purposes.

"*Dissemination Agent*" means The Bank of New York Trust Company, N.A., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the City written acceptance of such designation.

"*Listed Events*" means any of the events listed in Section 5(a) of this Disclosure Agreement.

"*National Repository*" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are currently found at http://www.sec.gov/consumer/nrmsir.htm.

"*Obligated Person*" means any "obligated person" within the meaning of the Rule.

"*Official Statement*" means the Official Statement, dated May 10, 2007, prepared and distributed in connection with the initial sale of the Bonds.

"*Participating Underwriter*" means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Repository*" means each National Repository and each State Repository.

"*Rule*" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time-to-time.

"*State*" means the State of California.

"*State Repository*" means any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

"*Trustee*" means The Bank of New York Trust Company, N.A., having a principal corporate trust office in Los Angeles, California or its successor as Trustee under the Indenture.

Section 3. Provision of Annual Reports.

(a) Provided the Dissemination Agent shall have been timely provided with the same (at least 15 Business Days prior to any date due as provided below), the Dissemination Agent shall, not later than December 31 of each year, commencing December 31, 2007, for the report for the 2006-07 Fiscal Year, or if the City's fiscal year-end changes from June 30, not later than 210 days after the end of the City's fiscal year, provide to each Repository, the Annual Report delivered to it by the City; provided that the City shall deliver information satisfying the requirements of Section 4 of this Disclosure Agreement. The City shall deliver to the Trustee the Annual Report either as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). It is expressly agreed that the Dissemination Agent shall have no duty or liability whatsoever to determine whether the City shall have satisfied Section 4 of this Disclosure Agreement and shall be fully indemnified by the City in connection with the Dissemination Agent's obligations hereunder.

(b) Not later than 15 Business Days prior to the date specified in paragraph (a), the City shall provide its Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to inquire if the City is in compliance with the first sentence of this paragraph (b). The Dissemination Agent shall have no duty to review such Annual Report. If the City is unable to provide to the Dissemination Agent an Annual Report by the date required in paragraph (a), the City shall provide a notice to the Dissemination Agent for distribution to each Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each Repository; and

(ii) confirm in writing to the City that the Annual Report has been filed as required hereunder, stating the date filed and listing the Repositories to which the Annual Report was filed.

Section 4. Content of Annual Reports. The City's Annual Report shall contain or include by reference the following, updated to incorporate information for the most recent fiscal or calendar year, as applicable (the tables referred to below are those appearing in the Official Statement, unless otherwise noted below):

(a) The audited financial statements of the City for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time-to-time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Table 1 – Number of Billing Units.

(c) Table 2 – Percentage of Customer Billings by Customer Class.

(c) Table 3 – Ten Largest Sewer Accounts.

(d) Table 4 – Sewer Fee Rate by User Category.

(f) Table 5 – Summary of Revenues and Expenses.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Provided that the Dissemination Agent shall have received express written notice of the same by the City, except for clauses (i), (iv), (v), (viii), (ix), (x) and (xi), the Dissemination Agent shall, subject to paragraph (c) below, give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds to (i) each National Repository or the Municipal Securities Rulemaking Board; and (ii) the State Depository, if any unless the City shall have provided the Dissemination Agent with a legal opinion of counsel acceptable to the Dissemination Agent expressly concluding that such event is not material:

(i) principal and interest payment delinquencies;

(ii) nonpayment related defaults;

(iii) modifications to rights of bondholders;

(iv) optional, contingent or unscheduled bond calls;

(v) defeasances;

(vi) rating changes;

(vii) adverse tax opinions or events affecting the tax-exempt status of the Bonds;

(viii) unscheduled draws on the debt service reserves reflecting financial difficulties;

(ix) unscheduled draws on credit enhancements reflecting financial difficulties;

(x) substitution of the credit or liquidity providers or their failure to perform; and

(xi) release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever a Listed Event occurs with respect to the Bonds, the City shall as soon as possible, but in no event more than 10 days following such event, determine if such event would be material under applicable federal securities laws.

(c) If the City determines that a Listed Event would be material under applicable federal securities laws, the City shall promptly provide the Dissemination Agent written notice of such occurrence to be distributed by the Dissemination Agent to the Municipal Securities Rulemaking Board and the State Repository. Notwithstanding the foregoing, notice of Listed Events described in clauses (a)(iv) and (v) need not be given under this subsection any earlier than the notice, if any, of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

(d) The Trustee, if not the Dissemination Agent, shall, within 10 Business Days of obtaining actual knowledge of the occurrence of any of the Listed Events (with no obligation to determine the materiality thereof), contact the City, inform such person of the event, and request that the City promptly notify the Dissemination Agent, or if there is no Dissemination Agent, the Trustee, in writing whether or not to report the event pursuant to paragraph (b). For the purpose of this Disclosure Agreement "actual knowledge" means actual knowledge at the principal corporate trust office of the Trustee by an officer of the Trustee with responsibility for matters related to the administration of the Indenture.

Section 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment of amounts fully sufficient to pay and discharge the Bonds, or upon delivery to the Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 7. Dissemination Agent. The City may, from time-to-time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible or liable in any manner whatsoever for the content of any notice or report prepared by the City pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The initial Dissemination Agent shall be The Bank of New York Trust Company, N.A. The sole remedy of any party against the Dissemination Agent shall be nonmonetary and specific performance.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived; provided that all of the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Section 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, change in law (including rules or regulations) or in interpretations thereof, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) the undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders; or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Agreement, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture or the Installment Purchase Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the City or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are expressly and specifically set forth in this Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any claims, losses, expenses and liabilities which such Dissemination Agent may incur arising out of or in the exercise or performance of the powers and duties given to the Dissemination Agent hereunder, including the costs and expenses (including attorneys' fees) of defending, in any manner or forum, against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct, subject to the Indenture. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time-to-time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Filing With Central Post Office. Any filing under this Disclosure Agreement may alternatively be made by transmitting such filing to the Texas Municipal Advisory Council as provided at http:www.disclosureusa.org unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the Texas Municipal Advisory Council dated September 7, 2004.

Section 14. Notices. Any notice required to be delivered to a party under this Disclosure Agreement shall be deemed to have been sufficiently given or served for all purposes by being delivered or sent by telex or by being deposited, postage prepaid, in a post office letter box, addressed, as the case may be, as set forth below, or such other addresses as may have been filed in writing with the Dissemination Agent.

to the Trustee/ Dissemination Agent:	The Bank of New York Trust Company, N.A. Suite 500 700 South Flower Street Los Angeles, CA 90017 Attention: Corporate Trust Department
to the City:	City of Anaheim Anaheim Civic Center 200 South Anaheim Boulevard Anaheim, CA 92805 Attention: Finance Director

Section 15. Counterparts. This Disclosure Agreement may be execution in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the City and the Dissemination Agent shall preserve undestroyed, shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parities hereto have each caused this Continuing Disclosure Agreement to be executed by their duly authorized officers.

Dated: May 23, 2007

THE BANK OF NEW YORK TRUST COMPANY, N.A., as Dissemination Agent

By______________________________

Name______________________________

Title______________________________

CITY OF ANAHEIM, CALIFORNIA

By ______________________________

Name ______________________________

Title ______________________________

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Anaheim Public Financing Authority
Name of Bond Issue:	$47,710,000 Anaheim Public Financing Authority Sewer Revenue Bonds, Series 2007
Name of Obligated Person:	City of Anaheim, California
Date of Issuance:	May 23, 2007

NOTICE IS HEREBY GIVEN that the City of Anaheim (the "City") has not provided an Annual Report with respect to the above named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated as of May 23, 2007, between the City and The Bank of New York Trust Company, N.A., as dissemination agent. [The City anticipates that the Annual Report will be filed by ___________.]

Dated: _________

THE BANK OF NEW YORK TRUST COMPANY, N.A., as Dissemination Agent, on behalf of the CITY OF ANAHEIM, CALIFORNIA

By ________________________________
Authorized Signatory

cc: City of Anaheim

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX F

PROPOSED FORM OF OPINION OF BOND COUNSEL

May 23, 2007

Anaheim Public Financing Authority
Anaheim, California

Re: Anaheim Public Financing Authority Sewer Revenue Bonds, Series 2007
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Anaheim Public Financing Authority (the "Authority") in connection with the issuance by the Authority of $47,710,000 aggregate principal amount of Anaheim Public Financing Authority Sewer Revenue Bonds, Series 2007 (the "Bonds"), issued pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California and pursuant to the Indenture of Trust, dated as of May 1, 2007 (the "Indenture"), between the Authority and The Bank of New York Trust Company, National Association, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

In such connection, we have reviewed the Indenture, the Installment Purchase Agreement, dated as of May 1, 2007 (the "Agreement"), between the City of Anaheim, (the "City") and the Authority, the Tax Certificate, dated the date hereof (the "Tax Certificate"), certificates of the Authority, the City, the Trustee, and others, opinions of counsel to the Authority, the City and the Trustee, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority and the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents and of the legal conclusions contained in the opinions referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Agreement and the Tax Certificate, including without limitation covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or subject to the lien of the Indenture or Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding special obligations of the Authority.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge to secure the payment of the principal of and interest on the Bonds of the Purchase Price Installments and any other amounts (including certain proceeds of the sale of the Bonds) held by the Trustee in any fund established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture, permitting the application thereof for the purposes and on the terms and conditions set forth therein.

3. The Bonds are not payable from, or secured by a legal or equitable pledge of, or lien or charge upon, any property of the Authority or any of its income or receipts except the Trust Estate, which pledge is subject to the provisions of the Indenture permitting the application thereof the purposes and on the terms and conditions set forth therein. Neither the faith and credit nor the taxing power of the State, the Authority, the City or any other public agency is pledged to the payment of the principal or Redemption Price of, or the interest on, the Bonds. The issuance of the Bonds shall not directly, indirectly or contingently obligate the Authority, the State or any public agency thereof, including the City, to levy or pledge any form of taxation or to make any appropriation for the payment of the Bonds. The payment of the principal or Redemption Price of, or interest on, the Bonds does not constitute a debt, liability or obligation of the State or any public agency, including the City other than the special obligation of the Authority as provided in the Indenture.

4. The Agreement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority and the City, respectively.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings in calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

APPENDIX G

FORM OF FINANCIAL GUARANTY INSURANCE POLICY

[THIS PAGE INTENTIONALLY LEFT BLANK]

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

President

Assistant Secretary

STD-R-CA-7
01/05

[THIS PAGE INTENTIONALLY LEFT BLANK]