KPMG

CITY OF ANAHEIM
ELECTRIC UTILITY FUND

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors’ Report Thereon)

CITY OF ANAHEIM
ELECTRIC UTILITY FUND

Table of Contents

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

Independent Auditors' Report

The Honorable City Council
City of Anaheim, California:

We have audited the accompanying financial statements of the Electric Utility Fund of the City of Anaheim, California (the Fund), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Utility Fund of the City of Anaheim, California as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in note 1 to the financial statements, the financial statements present only the Fund, and do not purport to, and do not, present fairly the financial position of the City of Anaheim, California (City) as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows, where applicable, for the years then ended, in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

As discussed in note 1b to the financial statements, effective July 1, 2015, the Electric Utility Fund adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pension and related assets that are not within the scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statement No. 67 and No 68 and GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4–15, the schedule of changes in the net pension liabilities and related ratios and the schedule of pension plan contributions on pages 56 and 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Management's discussion and analysis does not include a discussion of 2015 information that U.S. generally accepted accounting principles require to supplement, although not required to be part of, the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2016 on our consideration of the City of Anaheim's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Anaheim's internal control over financial reporting and compliance.

KPMG LLP

Irvine, California
December 20, 2016

As management of Anaheim Public Utilities, a department of the City of Anaheim (the City), we offer the readers of the City of Anaheim Electric Utility Fund (Electric Utility) financial statements a narrative overview and analysis of the financial statements for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements.

Financial Highlights

- The Electric Utility's total net position for fiscal year 2016 was $353,848. An increase of $27,543 (8.44%), from the total net position for fiscal year 2015.
- Net investment in capital assets increased by $4,205 (1.52%) as a result of improvements made to the Electric Utility's distribution system.
- Interest expense for fiscal year 2016 was $21,523. A 10.54% decrease reflects improved debt management conditions. The Electric Utility will continue to seek prudent bond refinancing opportunities to help reduce debt service costs.
- The Electric Utility's Public Benefit Program expended $5,806 in community service-related programs for the 2016 fiscal year. The program has provided public benefits in the areas of energy efficiency incentives, low-income rate discounts, lighting incentives, and renewable energy for residential and business customers.
- Purchased power for fiscal year 2016 was $239,863. A decrease of $25,007 reflects the Electric Utility's strategies to procure lower power costs and to comply with Renewable Portfolio Standards (RPS) requirements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Electric Utility's financial statements. Because the Electric Utility is a business-type activity of the City, an enterprise fund is used to account for its operations. These financial statements include only the activities of the Electric Utility and provide comparative information for the last two fiscal years. Information on citywide financial results is available in the City's Comprehensive Annual Financial Report as of June 30, 2016.

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

The statements of net position present information on assets and deferred outflows of resources, and liabilities and deferred inflows of resources with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the Electric Utility is improving or deteriorating.

The statements of revenue, expenses, and changes in net position present the Electric Utility's revenue and expenses during this fiscal year. The statements provide information showing how the Electric Utility's net position changed.

(Continued)

(In thousands)

The statements of cash flows present the flows of cash and cash equivalents provided by and used for operating activities, other cash sources, and uses in capital as well as investing activities during this fiscal year.

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

Financial Analysis

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

Condensed Statements of Net Position

		2016	2015
Current and other assets	$	491,219	476,532
Net utility plant		881,858	879,566
Deferred outflows of resources		13,014	7,956
Total assets and deferred outflows or resources		1,386,091	1,364,054
Long-term liabilities, net of current portion		853,161	839,035
Current liabilities		81,330	110,005
Deferred inflows of resources		97,752	88,709
Total liabilities and deferred inflows of resources		1,032,243	1,037,749
Net investment in capital assets		280,350	276,145
Restricted		39,200	45,483
Unrestricted		34,298	4,677
Total net position	$	353,848	326,305

As of June 30, 2016

Assets and Deferred Outflows of Resources

Total assets and deferred outflows of resources as of June 30, 2016 were $1,386,091 reflecting an increase of $22,037 (1.6%) mainly due to the following:

- Current and other assets, comprising restricted and unrestricted assets, had a net increase of $14,686 (3.1%).
  - Restricted assets decreased by $6,337 mainly due to a decrease of $16,598 payments for SONGS decommissioning costs partially offset by a net increase of $8,664 from unspent bond proceeds.
  - Unrestricted assets increased by $21,023 primarily due to positive operating results.
- Deferred outflows of resources, consisting of deferred charge on refunding bonds and deferred pension increased by $5,058 (63.6%), mainly due to an increase of $1,758 from current year addition of deferred charge on refunding bonds ($2,727) resulting from the issuance of the 2015-B Revenue bonds offset by the current year amortization of $969. Deferred outflows of resources related to pension increased by $3,300 resulting from a change in Electric Utility's proportion in the pension plan.

Liabilities and Deferred Inflows of Resources

Total liabilities and deferred inflows of resources as of June 30, 2016 were $1,032,243 reflecting a total net decrease of $5,506 (0.5%) due to the following:

- Long-term liabilities, increased by $14,126 (1.68%).
  - The long-term debt had a net increase of $9,052 (1.4%) primarily due to net increase of $29,820 from the $92,865 2015-B bond issuance that partially refunded the 2007-A Revenue bonds ($38,145) and current refunded the 2009 Revenue bonds ($24,900), offsetting by a reduction of current fiscal year principal payments of $25,240. The Electric Utility is continually strengthening its financial position through refunding old bonds and issuing new bonds at lower rates. (See note 7 of the notes to financial statements for additional information regarding long-term liabilities.)
  - Long-term provision for decommissioning costs decreased a total of $3,411 (2.8%) mainly due to current year's payments toward the related liability.
- Current liabilities, decreased by $28,675 (26.1%) mainly due to a $20,183 decrease in liabilities associated with retail carbon allowance obligation recognition.
- Deferred inflow of resources, consisting of regulatory credits and deferred pension increased by $9,043 (10.2%) due to an increase in regulatory credits of $15,137 offset by a decrease in deferred pension of $6,094. (See notes 1 and 9 of the notes to financial statements for additional information regarding regulatory credits and pension.)

Net Position

The Electric Utility's net position, which represents the difference between the Electric Utility's total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, may serve over time as a useful indicator of the Electric Utility's financial position. This net position at June 30, 2016, totaled $353,848, an increase of $27,543 (8.4%) mainly due to the following:

- The net investment in capital assets of $280,350 reflects the investment in the Electric Utility's capital assets, less any related outstanding debt used to acquire those assets. This portion increased by $4,205 (1.5%) due to the Electric Utility investing in more capital assets to provide reliable and efficient services to customers. Resources needed to repay the outstanding debt must come from other sources such as operations revenue.
- The restricted net position total of $39,200 represents resources reserved for external restrictions on how they may be used, such as debt service payments, the Public Benefit Program, and other legally restricted purposes. This portion decreased by $6,283 (13.8%) primarily due to $5,311 of resources required for Public Benefit Programs.
- The unrestricted net position of $34,298 increased by $29,621 primarily attributed to positive operating results. This portion may be used for ongoing operational needs and obligations to our creditors and customers.

(In thousands)

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

Condensed Statements of Revenue, Expenses, and Changes in Net Position

		2016	2015
Revenue:			
Retail sales, net	$	372,621	324,207
Wholesale sales		11,568	27,800
Rate stabilization account revenue		7,000	65,000
Surplus natural gas sales		312	937
Transmission revenue		31,122	31,874
Other revenue		7,862	3,879
Interest income		3,259	4,514
Capital contributions		9,186	6,055
Total revenue		442,930	464,266
Expenses:			
Purchased power		239,863	264,870
Fuel and generation		20,833	23,171
Operations, maintenance, and administration		52,635	47,902
Depreciation		56,019	41,568
Interest expense		21,523	24,060
Total expenses		390,873	401,571
Transfers:			
Transfer to the General Fund of the City		(17,358)	(17,151)
Transfer of right-of-way fee to the City		(5,838)	(5,263)
Transfer of land to the City		(1,428)	—
Transfers from other funds of the City		110	4,114
Total transfers		(24,514)	(18,300)
Changes in net position		27,543	44,395
Net position at beginning of year		326,305	281,910
Net position at end of year	$	353,848	326,305

(Continued)

Revenue

Year ended June 30, 2016

Total revenue for the year ended June 30, 2016 was $442,930, a decrease in total revenue of $21,336 (4.6%) mainly due to the following:

- Retail sales, net of bad debt, totaled $372,621. An increase of $48,414 (14.9%) was due to an increase in retail sales resulting from a restructuring of rates effective September 1, 2016 in order to more effectively align the recovery of the Utility's costs with the nature of the costs incurred. This was accomplished by reducing the Power Cost Adjustment (PCA) and the Environmental Mitigation Adjustment (EMA) with corresponding increases to base rates. The restructuring was designed to be revenue neutral to the customer. Retail sales are the primary revenue source for Electric Utility, which represents 84.1% of total revenue. The Electric Utility continues to provide competitive rates for its customers.
- Wholesale sales totaled $11,568. A decrease of $16,232 (58.4%) was mainly due to a decrease in wholesale energy coupled with lower wholesale prices.
- Rate Stabilization Account (RSA) revenue of $7,000 was recognized in this fiscal year in order to maintain at least a $50 million reserve balance, and to retain a sound debt service coverage ratio of 2.80 for the Electric Utility. The amount from the rate stabilization account needed to maintain the Electric Utility Funds high-credit ratings was reduced by $58,000 (89.2%) in fiscal year 2016.
- Transmission revenue was $31,122. A decrease of $752 (2.4%) was due to lower revenue derived from Congestion Revenue Rights (CRR) in the market and lower transmission demand. Transmission revenue is based upon the Electric Utility providing use of its transmission entitlements to CAISO as a participating transmission owner. This revenue is based upon transmission rates charged by CAISO and demand in the participants market.

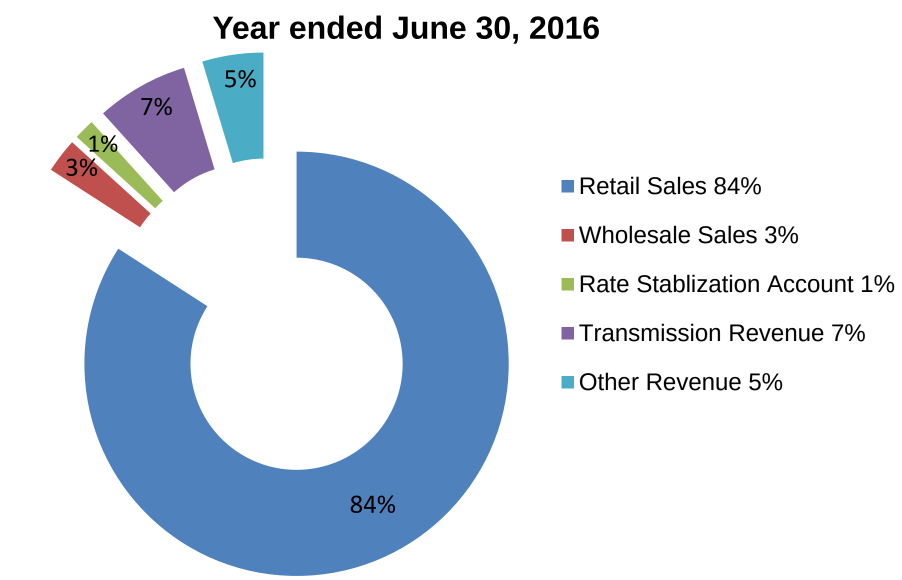
CITY OF ANAHEIM
ELECTRIC UTILITY FUND

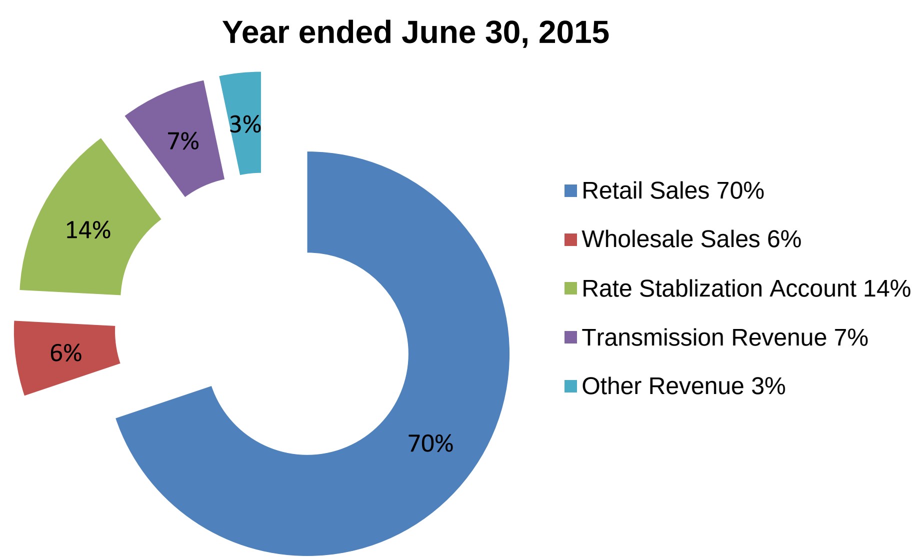
Management's Discussion and Analysis
(Unaudited)

June 30, 2016

(In thousands)

Revenue by Source





(Continued)

Expenses

Year ended June 30, 2016

Total expenses for the year ended June 30, 2016 were $390,873, a decrease in total expenses of $10,696 (2.7%) mainly due to the following:

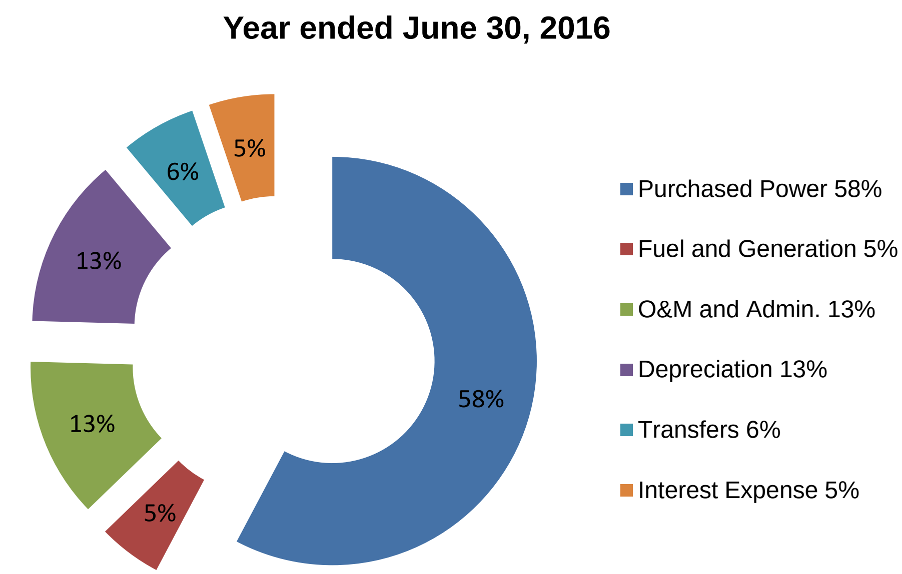
- Power costs totaled $239,863. A decrease of $25,007 (9.4%) was due primarily to lower natural gas prices and a corresponding reduction in wholesale power prices.
- Operation, maintenance, and administration totaled $52,635, an increase of $4,733 (9.9%) mainly due to higher maintenance expenses to ensure reliability of the electric system.
- Interest expense was $21,523, a decrease of $2,537 (10.5%) mainly reflecting lower interest rates from continually reviewing and improving the debt management strategy.

Transfers

Year ended June 30, 2016

- Transfers to the City's General Fund, as defined by City Charter, are equal to a maximum of 4% of total operating revenue. The transfer to the City's General Fund was $17,358 for fiscal year 2016, which is based on the current year's total operating revenue and true-up adjustments on prior year's total operating revenue. There were no significant changes in the amount of transferred to the City during fiscal year 2016 when compared with prior fiscal year.
- The transfer of the right-of-way fee to the City is equal to 1.5% of retail electric revenue of the prior fiscal year. The right-of-way fee transferred to the City was $5,838 for fiscal year 2016. There were no significant changes in the amount of right-of-way fee transferred to the City during fiscal year 2016 when compared with prior fiscal year.
- Transfers from other funds of the City in fiscal year 2016 were $110 as compared with transfers from other funds of $4,114 in the prior fiscal year. The $4,004 decrease was related to reduction in joint capital assets with the Water Utility, which transferred its share to Electric Utility upon completion.

Expenses and Transfers



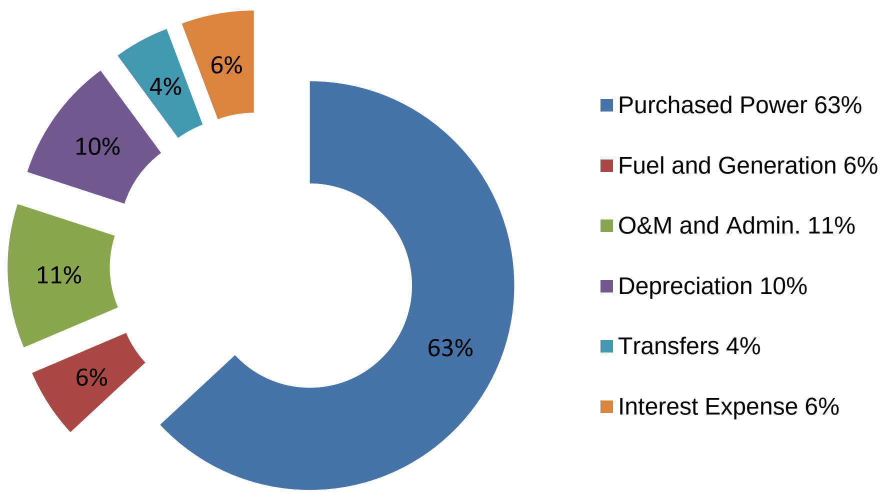
CITY OF ANAHEIM
ELECTRIC UTILITY FUND

Management's Discussion and Analysis
(Unaudited)

June 30, 2016

(In thousands)

Year ended June 30, 2015



Capital Assets and Debt Administration

Capital Assets

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

		2016	2015
Production	$	130,719	130,719
Transmission		96,727	96,400
Distribution		949,811	919,288
General plant		135,633	133,883
Land		34,243	35,671
Construction in progress		84,945	60,646
Total utility plant		1,432,078	1,376,607
Less accumulated depreciation		(550,220)	(497,041)
Net utility plant	$	881,858	879,566

(In thousands)

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

As of June 30, 2016

The Electric Utility’s investment in utility plant, net of accumulated depreciation, was $881,858 as of June 30, 2016. An increase of $2,292 (0.3%) was due to total utility plant increasing by $32,601 (2.6%), which was partially offset by an increase in accumulated depreciation in the amount of $53,179 (10.7%) mainly due to the following:

- Production assets remained unchanged at $130,719.
- Distribution assets totaled $949,811, an increase of $30,523 (3.3%) mainly due to the completion of 2.9 circuit miles of underground conversion on West Westmont and Dale Street, installation of 15,312 feet of direct buried cable and the purchase of 448 new transformers.
- General assets totaled $135,633, an increase of $1,750 (1.3%) mainly due to installation of fiber optic equipment, upgrading communication equipment, and improvements to general facilities. This updated system will provide more efficient and functional services to Anaheim’s customers.
- Construction in progress totaled $84,946, an increase of $24,298, (40.1%) mainly due to the replacement of aging overhead electrical lines with state-of-the-art underground projects such as Phase 2 of Underground District #62 at Miraloma Ave and Phase 2 of Underground District #57 at Dale Ave. as well as the ongoing replacement of aging circuit breakers and switches throughout the City and major improvements at substations.
- Accumulated depreciation of $550,220 increased by $53,179 (10.7%) mainly due to the current year’s depreciation expense of $56,019, which includes $13,778 accelerated depreciation due to the early exit of the San Juan Coal Unit located in New Mexico. There was an offset of $2,864 related to retired assets.

Long-Term Debt

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

		2016	2015
Revenue bonds	$	640,090	624,310
Electric system notes		13,200	24,400
Long-term debt		653,290	648,710
Less:			
Current portion		(28,830)	(25,240)
Unamortized bond premium		37,472	29,410
Total noncurrent long-term debt outstanding	$	661,932	652,880

- The Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio of 1.25. The Utility had a debt service coverage ratio of 2.82 at June 30, 2016. The revenue of the Electric Utility has been pledged to pay the outstanding long-term debt.
- The credit rating of the Electric Utility was AA-by Fitch Ratings, and AA-by Standard & Poor's Corporation. These ratings reflect the Utility's high debt service coverage levels, strong liquidity position, stable financial performance, and mature and diverse customer base. Additional information on the Electric Utility's long-term liabilities can be found in note 7 of the notes to financial statements.

Total long-term debt increased by $4,580 (0.7%) primarily due to net increase of $29,820 from the $92,865 2015-B bond issuance that partially refunded the 2007-A Revenue bonds ($38,145) and current refunded the 2009 Revenue bonds ($24,900), offsetting by a reduction of current fiscal year principal payments of $25,240.

Economic Factors and Rates

California Senate Bill 1X 2 (California Renewable Energy resources Act) signed into law in April 2011 mandated that all California utilities are required to reach 25% renewable power in their power portfolios by 2016, 33% by 2020, and 50% by 2030. The higher renewable power costs will increase future power supply costs, but the Electric Utility has a number of strategies to mitigate the potential cost impacts.

The base electric rates were last revised by Anaheim's City council on September 1, 2015. This action restructured rates by increasing base rates with corresponding decreases to the PCA and EMA. There was no increase or decrease in overall electric rates as a result. There have not been any additional changes to the base rates since September 1, 2015.

Requests for Information

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

CITY OF ANAHEIM
ELECTRIC UTILITY FUND

Statements of Net Position

June 30, 2016 and 2015

(In thousands)

Assets		2016	2015
Utility plant:			
Production	$	130,719	130,719
Transmission		96,727	96,400
Distribution		949,811	919,288
General plant		135,633	133,883
Gross utility plant		1,312,890	1,280,290
Less accumulated depreciation		(550,220)	(497,041)
Net plant in service		762,670	783,249
Land		34,243	35,671
Construction in progress		84,945	60,646
Net utility plant		881,858	879,566
Restricted assets:			
Cash and cash equivalents		66,053	30,718
Investments		160,432	191,370
Total restricted assets		226,485	222,088
Other assets:			
Prepaid purchased power		68,404	65,497
Unamortized prepaid bond insurance		344	529
Total other assets		68,748	66,026
Total noncurrent assets		1,177,091	1,167,680
Current assets:			
Cash and cash equivalents		14,385	10,831
Investments		58,587	35,591
Restricted cash and cash equivalents		4,756	7,229
Restricted investments		23,276	31,537
Accounts receivable, net		50,625	49,365
Accrued interest receivable		1,033	973
Materials and supplies		17,734	16,444
Prepaid purchased power		25,590	36,448
Total current assets		195,986	188,418
Total assets		1,373,077	1,356,098
Deferred outflows of resources:			
Deferred charge of refunding		3,139	1,381
Deferred pension		9,875	6,575
Total deferred outflows of resources		13,014	7,956

(Continued)

CITY OF ANAHEIM
ELECTRIC UTILITY FUND

Statements of Net Position

June 30, 2016 and 2015

(In thousands)

Liabilities		**2016**	**2015**
Long-term liabilities:			
Long-term debt obligation, less current portion	$	661,932	652,880
Net pension liability		71,235	62,750
Provision for decommissioning costs		119,994	123,405
Total long-term liabilities		853,161	839,035
Current liabilities (payable from restricted assets):			
Current portion of long-term debt		18,823	27,139
Line of credit payable		—	1,623
Accounts payable		1,604	2,707
Wages payable		153	173
Arbitrage rebate liabilities		450	361
Accrued interest		7,002	6,763
Total restricted current liabilities		28,032	38,766
Current liabilities (payable from unrestricted current assets):			
Current portion of long-term debt		10,007	9,110
Accounts payable and accrued expenses		39,001	57,851
Wages payable		441	557
Deposits		3,849	3,721
Total unrestricted current liabilities		53,298	71,239
Total liabilities		934,491	949,040
Deferred inflows of resources:			
Deferred regulatory credits		90,480	75,343
Deferred pension		7,272	13,366
Total deferred inflows of resources		97,752	88,709
Net position:			
Net investment in capital assets		280,350	276,145
Restricted for:			
Debt service		14,196	13,983
Renewal and replacement		15,938	16,378
Other purposes		9,066	15,122
Unrestricted		34,298	4,677
Total net position	$	353,848	326,305

See accompanying notes to financial statements.

CITY OF ANAHEIM
ELECTRIC UTILITY FUND

Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2016 and 2015

(In thousands)

		2016	2015
Operating revenue:			
Retail sales of electricity, net	$	372,621	324,207
Wholesale sales of electricity		11,568	27,800
RSA revenue		7,000	65,000
Surplus natural gas sale		312	937
Transmission revenue		31,122	31,874
Other revenue		7,862	3,879
Total operating revenue		430,485	453,697
Operating expenses:			
Purchased power		239,863	264,870
Fuel and generation		20,833	23,171
Operations, maintenance, and administration		52,635	47,902
Depreciation		56,019	41,568
Total operating expenses		369,350	377,511
Operating income		61,135	76,186
Nonoperating revenue (expenses):			
Interest income		3,259	4,514
Interest expense		(21,523)	(24,060)
Transfer of land to the City		(1,428)	—
Total nonoperating expenses		(19,692)	(19,546)
Income before capital contributions and transfers		41,443	56,640
Capital contributions		9,186	6,055
Transfer to the General Fund of the City		(17,358)	(17,151)
Transfer of right of way fee to the City		(5,838)	(5,263)
Transfers from other funds of the City		110	4,114
Changes in net position		27,543	44,395
Net position at beginning of year		326,305	281,910
Net position at end of year	$	353,848	326,305

See accompanying notes to financial statements.

CITY OF ANAHEIM
ELECTRIC UTILITY FUND

Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

		2016	2015
Cash flows from operating activities:			
Receipts from customers and users	$	442,376	432,766
Receipts from services provided to other funds of the City		2,114	1,977
Payments to suppliers		(272,120)	(277,605)
Payments to employees		(43,412)	(41,054)
Payments for services provided by other funds of the City		(11,695)	(9,391)
Net cash provided by operating activities		117,263	106,693
Cash flows from noncapital financing activities:			
Proceeds from short-term borrowings of line of credit		11,008	12,823
Payments on short-term borrowings of line of credit		(12,631)	(11,200)
Payments for decommissioning costs		(16,598)	(1,623)
Transfers to the General Fund and other funds of the City		(23,196)	(22,414)
Net cash used in noncapital financing activities		(41,417)	(22,414)
Cash flows from capital and related financing activities:			
Proceeds from borrowings		106,837	178,959
Principal payments on long-term debt		(25,240)	(24,150)
Transfer to escrow account		(66,973)	(129,632)
Capital purchases		(53,331)	(59,558)
Interest paid		(27,330)	(28,437)
Issuance costs		(424)	(814)
Transfers from other funds of the City for capital purposes		107	340
Capital contributions		5,785	2,439
Net cash used in capital and related financing activities		(60,569)	(60,853)
Cash flows from investing activities:			
Purchases of investment securities		(111,574)	(60,263)
Proceeds from sale and maturity of investment securities		128,438	39,322
Interest income received		4,275	6,453
Net cash provided by (used in) investing activities		21,139	(14,488)
Increase in cash and cash equivalents		36,416	8,938
Cash and cash equivalents at beginning of year		48,778	39,840
Cash and cash equivalents at end of year	$	85,194	48,778

(Continued)

CITY OF ANAHEIM
ELECTRIC UTILITY FUND

Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

		2016	2015
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	61,135	76,186
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		56,019	41,568
Increase in provision for decommissioning costs		441	440
Changes in assets, liabilities, and deferred inflows of resources that provided (used) cash:			
Accounts receivable, net		(1,260)	(5,074)
Materials and supplies inventory		(1,290)	(4,476)
Prepaid purchased power		7,951	(8,471)
Accounts payable and accrued expenses		(19,953)	20,899
Wages payable		(1,045)	(499)
Regulatory credits		15,137	(13,755)
Deposits		128	(125)
Total adjustments		56,128	30,507
Net cash provided by operating activities	$	117,263	106,693
Schedule of noncash investing, capital, and financing activities:			
Capital contributions	$	3,401	3,616
Transfers from other funds of the City		3	3,774
Transfers from other funds of the City		(1,428)	—
Increase in fair value of investments		661	72
Reconciliation of cash and cash equivalents:			
Cash and cash equivalents	$	14,385	10,831
Restricted cash and cash equivalents, current portion		4,756	7,229
Restricted cash and cash equivalents, noncurrent portion		66,053	30,718
Total cash and cash equivalents	$	85,194	48,778

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

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

On July 1, 2015, the city adopted the following new accounting pronouncements issued by the GASB:

- GASB Statement No. 72, *Fair Value Measurement and Application*. *The requirements of this Statement are* effective for financial statements for fiscal years beginning after June 15, 2015.
- GASB Statement No 73, *Accounting and Financial Reporting for Pension and related assets that are not within the scope of GASB Statement No. 68, and Amendments to Certain Provision of GASB Statement No. 67 and No 68*. The requirements of this Statement are effective for fiscal year beginning after June 15, 2015 except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No 68, which are effective for fiscal years beginning after June 15, 2016.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for fiscal year beginning after June 15, 2015.

Implementation of these Statements has no material effect on amounts reported in the City's financial statements for fiscal year ended June 30, 2016.

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

- Statement No. 74, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*. The requirements of this statement are effective for fiscal years beginning after June 15, 2016.
- Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pension Plans*. The requirements of this statement are effective for fiscal years beginning after June 15, 2017.
- Statement No. 77, *Tax Abatement Disclosures*. The requirements of this Statement are effective for fiscal year beginning after December 15, 2015.
- Statement No. 78*, Pensions Provided through Certain Multiple-Employer Defined-Benefit Pension Plans*. The requirements of this Statement are effective for fiscal year beginning after December 15, 2015.

(In thousands)

- Statement No. 79, *Certain External Investment Pools and Pool Participants*. The requirements for this Statement are effective for fiscal year beginning after June 15, 2015, except for provisions in paragraphs 18, 19, 23-26, and 40, which are effective for fiscal year beginning December 15, 2015.
- Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The requirements of this Statement are effective for fiscal year beginning after June 15, 2016.
- Statement No. 81, *Irrevocable Split-Interest Agreement*. The requirements of this Statement are effective for fiscal year beginning after December 15, 2016.
- Statement No. 82, *Pension Issues – an amendment of GASB Statement No. 67, 68, and 73*. The requirements of this Statement are effective for fiscal year beginning after June 15, 2016, except for the provision of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

(c) Electric Utility Plant and Depreciation

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

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

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

(d) Pooled Cash and Investments

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

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

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

(e) Restricted Assets

Certain proceeds of the Electric Utility bonds, as well as certain resources set aside for their repayment, are classified as restricted on the statement of net position because they are maintained in separate bank accounts and their use is limited by applicable debt covenants. Additionally, resources set aside by the Electric Utility for future decommissioning of its former ownership share of the San Onofre Nuclear Generating Station, Units 2 and 3 (SONGS), and the San Juan Generating Station, Unit 4 (SJ) are classified as restricted on the statement of net position. Generally, the Electric Utility would first apply restricted resources when expenses incurred for which both restricted and unrestricted resources are available.

(f) Deferred Outflows of Resources

Deferred outflows of resources represent consumptions of net position that apply to future periods and so will not be recognized as an outflow of resources (expense) until then. In the statements of net position as of June 30, 2016 and 2015, the Electric Utility reported deferred outflows of resources in this category of $13,014 and $7,956 that included $3,139 and $1,381 of deferred charge of refunding and $9,875 and 6,575 of deferred pension, respectively. A deferred charge on refunding results from the difference in the carrying value of debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred pension is the pension contribution made during the current fiscal year that will be applied as a reduction in pension liability in the next fiscal year or other items arising from changes in actuarial assumptions, differences between actual and projected experience, between actual and projected investment gains/losses, or changes in Electric Utility's proportion in the City's pension plan. This amount will be amortized and reported as a component in pension expense in future fiscal years (refer to note 9 in notes to financial statements). The Electric Utility reported $9,875 in this category.

(g) Deferred Inflows of Resources

Deferred inflows of resources represent acquisitions of net position that apply to future periods and so will not be recognized as an inflow of resources (revenue) until that time. As of June 30, 2016 and 2015, the Electric Utility reported deferred inflow of resources of $97,752 and $88,709 that included

$90,480 and $75,343 of regulatory credits and $7,272 and 13,366 of deferred pension, respectively. Regulatory credits represent amounts accumulated from collections, which provide recovery in the current period for costs to be incurred in future periods. Deferred pension arises from changes in pension plan assumptions; differences between actual and projected experience; or differences between actual and projected investment gain/losses. See note 1 (j) for further discussion of regulatory credits, and note 9 for pension.

(h) Operating Revenue

Operating revenue is revenue generally derived from activities that are billable in accordance with the Electric Utility's Rate, Rules, and Regulations.

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

Unbilled electric service charges are included in accounts receivable at year-end. Unbilled accounts receivable totaled $27,551 and $22,323 at June 30, 2016 and 2015, respectively.

Revenue is reported net of uncollectible amounts. Total uncollectible amounts written off are $837 and $733 for the years ended June 30, 2016 and 2015, respectively. The applicable allowances for uncollectible accounts are $534 and $856 at June 30, 2016 and 2015, respectively. See note 7 for discussion of pledged revenue.

(i) Operating Expenses

Purchased power includes all open market purchases of energy, firm contracts for the purchase of energy, and the costs of entitlements for energy and transmission, as discussed in note 11.

Fuel and generation include all costs associated with the City's ownership interest in SJ, the Combustion Turbine located in Anaheim. This includes the amortization of decommissioning costs for SONGS and SJ.

Operations, maintenance, and administration expenses include all costs associated with the distribution of energy, administration, operating, and maintaining the local facilities, customer service, and public benefit programs.

(j) Regulatory Credits

The Electric Utility's Rates, Rules, and Regulations provide for the Rate Stabilization Account (RSA), which contains two components: the Power Cost Adjustment (PCA) that was adopted by City Council on April 1, 2001, and the Environmental Mitigation Adjustment (EMA) that was adopted by the City Council on January 13, 2009. The PCA has mitigated variations in the power supply or fuel costs. The EMA will allow the recovery of environmental mitigation costs, such as greenhouse gas emissions costs, the marginal cost differential between renewable power and traditional-fuel-based power, and environmental mitigation costs. The RSA provides the City with operational and billing flexibility to mitigate material fluctuations in the cost of energy, loss of revenue, or unplanned costs, including unexpected long-term loss of a generating facility, unplanned limits on the ability to transmit energy to the City, or major disasters. The RSA funded by PCA and EMA collections is billed to customers through standard rates. As permitted by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and approved by the City Council, amounts collected for the RSA are deferred and recorded as regulatory credits in the statement of net position.

The Electric Utility restructured its rates effective September 1, 2016 in order to more effectively align the recovery of the Utility's costs with the nature of the costs incurred. This was accomplished by reducing the Power Cost Adjustment (PCA) and the Environmental Mitigation Adjustment (EMA) with corresponding increases to base rates. The restructuring was designed to be revenue neutral to the customer. As of June 30, 2016 and 2015, the Electric Utility recorded deferred inflows of resources for regulatory credits of $23,140 and $14,491, respectively.

As of June 30, 2016, the EMA rates were $0.0045 per kWh for all customers regardless of the amount of energy used. As of June 30, 2016 and 2015, the Electric Utility recorded deferred inflows of resources for regulatory credits of $67,340 and $60,852, respectively. During fiscal year 2016, $7,000 was recognized as RSA revenue to mitigate the impact of environmental mitigation costs.

(k) Provision for Decommissioning Costs

Federal regulations require the Electric Utility to provide for the future decommissioning costs of its former ownership share of SONGS. The Electric Utility has established a provision for decommissioning costs of SONGS and restoration of the beachfront at San Onofre. A separate irrevocable trust account was established for amounts funded, and these amounts are classified as restricted assets in the accompanying statements of net position. As of June 30, 2016 and 2015, the Electric Utility has recorded a provision for decommissioning costs for SONGS of $114,714 and $129,574, respectively.

On June 7, 2013, Southern California Edison (SCE) announced the permanent retirement of the SONGS plant. The Electric Utility will continue to fund the reserve and recognize the expense until the end of the trust fund. SCE submitted a decommissioning cost analysis study to Nuclear Regulatory Commission (NRC) on September 23, 2014. According to the study for the decommissioning costs of SONGS, the Electric Utility's share of decommissioning costs was $114,371 at September 23, 2014. As of June 30, 2016 and 2015, the Electric Utility has paid $16,598 and $1,623, respectively, in decommissioning-obligations. The Electric Utility will continue to draw funds from the trust to cover its decommissioning-related obligations. The Electric Utility currently has $114,714 in an irrevocable trust for the decommissioning costs. The estimated completion of decommissioning is expected to take approximately 30 to 40 years.

The Electric Utility has a 10.04% ownership interest of SJ. The Electric Utility is providing for the future demolition and reclamation costs of its ownership share of SJ. As of June 30, 2016 and 2015, the Electric Utility has recorded a provision for decommissioning costs for SJ of $5,280 and $4,840, respectively. The Electric Utility currently has $1,623 in irrevocable trust and $3,657 in the City restricted cash account. For the year ended June 30, 2016 and 2015, the Electric Utility has recorded

(Continued)

decommissioning costs incurred for SJ of $440 and $440, respectively, which are included in the fuel and generation component.

On July 31, 2015, the Electric Utility and the other Parties involved with the San Juan Generating Plants, agreed to a plan for the closure of two of four units. As coowner of one of the units that is not being closed the Electric Utility is transferring the ownership rights to the parties that will continue in the Plant on December 31, 2017. The Electric Utility has been in discussions with the parties involved in the San Juan Generating Plant for the past several years related to the requirements and costs associated to bringing the plant up to environmental standards being required by the Environmental Protection Agency (EPA) and the State of New Mexico that would have required a significant capital investment in the plant that would make the ensuing power uneconomical. Further, the State of California, has limited investment in carbon producing generating facilities that extend the useful life more than five years. Also, with California renewable requirements being mandated to 50% this plant would further hamper the Electric Utility’s portfolio flexibility. With this information, the Electric Utility decided it would be in the customer’s best interest to divest the Electric Utility interest in the unit and apply these resources to renewable needs. Based on the remaining projected useful service life of the Electric Utility participation in the plant, the Electric Utility is accelerating the depreciation over the period of July 1, 2015 to December 31, 2017 to reflect a write-off period of 30 months.

(l) Debt Issuance Costs

Debt issuance costs, with the exception of prepaid insurance costs, are recognized as an expense in the period when the debt is issued, in accordance with the provisions of GASB 62. Prepaid insurance costs are capitalized and amortized over the lives of the related bond issues on a basis that approximates the effective-interest method.

(m) Deferred Charge on Refunding

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

(n) Vacation and Sick Pay

Vacation and sick pay for all City employees are paid by the General Benefits and Insurance Fund of the City. The General Benefits and Insurance Fund is reimbursed through payroll charges to the Electric Utility based on estimates of benefits to be earned during the year. Vested vacation and sick pay benefits are accrued in the General Benefits and Insurance Fund, and amounted to $1,938 and 1,814 for the Electric Utility at June 30, 2016 and 2015, respectively.

(o) Pension plan

Full-time Electric Utility employees are members of the State of California Public Employees’ Retirement System (CalPERS) through the City’s participation. The City’s policy is to fund all required actuarially determined contribution; such costs to be funded are determined annually as of July 1 by the CalPERS’s actuary. The Electric Utility participates in the City’s Miscellaneous Plan.

(Continued)

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's CalPERS plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

The City Charter provides that transfers to the General Fund of the City shall not exceed 4% of total operating revenue. Such transfers are not in lieu of taxes, and amounted to $17,358 and $17,151 for the years ended June 30, 2016 and 2015, respectively.

The transfer of right-of-way fees to the City represents the City Council approved transfer of 1.5% of retail electric revenue of the prior fiscal year to the General Fund of the City. Bond disclosure requirements designate that this transfer must be recognized as an expense in the calculation of bond coverage. The transfer of right-of-way fee to the City amounted to $5,838 and $5,263 for the years ended June 30, 2016 and 2015, respectively.

Other transfers from other funds of the City are either cash transfers or capital asset transfers between City funds. There was a transfer of land to the City of $1,428 for the year ended June 30, 2016. In addition, the Electric Utility reported the amount of transfers related to capital assets transfer from Water of $110 and $4,144 for the years ended June 30, 2016 and 2015, respectively.

(q) Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation. Such reclassifications had no effects on the previously reported changes on the Electric Utility's financial statements.

(r) Use of Estimates

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

(2) Deposits and Investments

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

The City's pooled investment fund has been reviewed by Standard and Poor's Corporation (S&P) and received a credit rating of AAf/S1 in September 2014.

(Continued)

(In thousands)

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

The Electric Utility maintains cash equivalents and investments at June 30, 2016 and 2015 with the following carrying amounts:

		2016	2015
Cash equivalents and investments pooled with the Treasurer	$	123,650	100,433
Investments held with trustee		203,839	206,843
	$	327,489	307,276

At June 30, 2016 and 2016, the Electric Utility's cash equivalents and investments are recorded as follows:

		2016	2015
Restricted assets – cash equivalents and investments	$	254,517	260,854
Unrestricted assets – cash equivalents and investments		72,972	46,422
	$	327,489	307,276

(a) Investments

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

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

(In thousands)

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

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

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

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

The City's pooled investments comply with the requirements of the investment policy. GAAP requires disclosure of certain investments in any one issuer that exceeds five percent concentration of the total investments.

(In thousands)

At June 30, 2016 and 2015, the following investments represent five percent or more of the City's total pooled investments:

Issuer	Investment type	2016 Fair value	2016 Percentage	2015 Fair value	2015 Percentage
Federal National Mortgage Association	U.S. agency securities	$ 99,445	21%	$ 109,447	25%
LAIF	LAIF	63,669	14	70,445	16
Federal Home Loan Bank	U.S. agency securities	30,426	7	45,607	10
Federal Home Loan Mortgage Corporation	U.S. agency securities	65,949	14	34,804	8
Federal Farm Credit Bank	U.S. agency securities	28,488	6	34,142	8

(c) Investments Authorized by Debt Agreements

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

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

(In thousands)

At June 30, 2016 and 2015, the following investments represent five percent or more of the City's total investments controlled by bond trustees:

Issuer	Investment type	2016 Fair value	2016 Percentage	2015 Fair value	2015 Percentage
Deutsche Bank	Guaranteed investment agreement	$ 155,498	28%	$ 227,723	36%
Morgan Stanley	Flexible repurchase agreement	71,432	13	66,831	11
Federal National Mortgage Association	U.S. agency securities	30,943	6	61,682	19
Natixis Funding Corporation	Guaranteed investment agreement	75,341	14	45,023	7
LAIF	LAIF	32,562	6	34,818	6
Federated	Money Market Mutual Funds	40,809	7		

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

(d) Custodial Credit Risk

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

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

(e) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City 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 City Treasurer uses the segmented-time distribution method to identify and manage interest rate risk. In accordance with the City investment policy, the City Treasurer monitors the segmented time distribution of its investment portfolio and analysis of cash flow demand.

Investments held by bond trustees are typically long-term securities, which are not adversely affected by interest rate changes. Guaranteed investment contracts for construction funds are usually limited to three years or less. Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following tables that show the distribution of the City's investments by maturity at June 30, 2016 and 2015. Information about the sensitivity of the fair values of the Electric Utility's investments (including investments held by bond trustees) to market interest rate fluctuations for the fiscal years 2016 and 2015 is provided by the following table.

(In thousands)

The distribution of the Electric Utility's investments by maturity at June 30, 2016 and 2015 is as follows:

Investments	Credit rating (S&P/ Moody's)	Fair value, June 30, 2016	12 months or less	13 to 24 months	25 to 36 months	37 to 60 months	More than 60 months
Treasurer's pooled investments:							
U.S. agency securities	AA+/Aaa	$ 59,502	9,301	28,869	10,816	10,516	—
U.S. Treasuries	AA+/Aaa	13,326	—	5,318	8,008	—	—
Medium-term notes	AAA/Aaa	5,722	—	3,295	1,338	1,089	—
Medium-term notes	AA+/Aaa	2,657	2,657	—	—	—	—
Medium-term notes	AA+/A1	1,337	1,337	—	—	—	—
Medium-term notes	AA-/A1	4,071	1,327	—	—	2,744	—
Medium-term notes	AA-/Aa2	3,480	—	3,480	—	—	—
Medium-term notes	AA-/Aa3	2,665	1,330	1,335	—	—	—
Medium-term notes	A+/A1	2,181	—	804	—	1,377	—
Medium-term notes	A/A2	5,056	1,327	3,729	—	—	—
Medium-term notes	A/A1	1,467	1,467	—	—	—	—
Commercial paper	A-1+/P-1	2,651	2,651	—	—	—	—
Commercial paper	A-1/P-1	2,382	2,382	—	—	—	—
Money market mutual funds	AAA/Aaa	263	263	—	—	—	—
LAIF	Unrated	16,890	16,890	—	—	—	—
Total investments controlled by City Treasurer		123,650	40,932	46,830	20,162	15,726	—
Investments controlled by bond trustees:							
U.S. agency securities	AA+/Aaa	73,532	4,440	43,690	25,402	—	—
Guaranteed investment contracts	Unrated	56,142	32,897	—	—	8,353	14,892
Collateralized investment contracts	Unrated	—	—	—	—	—	—
Flexible repurchase agreements	Unrated	13,346	—	—	—	—	13,346
Money market mutual funds	AAA/Aaa	60,819	60,819	—	—	—	—
Total investments controlled by bond trustees		203,839	98,156	43,690	25,402	8,353	28,238
Total Electric Utility investments		$ 327,489	180,020	137,350	65,726	39,805	28,238

(In thousands)

Investments	Credit rating (S&P/ Moody's)	Fair value, June 30, 2015	12 months or less	13 to 24 months	25 to 36 months	37 to 60 months	More than 60 months
Treasurer's pooled investments:							
U.S. agency securities	AA+/Aaa	$ 51,569	4,045	11,518	27,835	8,171	—
Medium-term notes	AAA/Aaa	5,847	1,853	1,151	2,843	—	—
Medium-term notes	AA+/Aaa	1,149	—	1,149	—	—	—
Medium-term notes	AA+/A1	2,336	1,150	1,186	—	—	—
Medium-term notes	AA/Aa1	2,310	461	—	1,849	—	—
Medium-term notes	AA/Aa2	682	682	—	—	—	—
Medium-term notes	AA-/Aa3	1,144	—	—	1,144	—	—
Medium-term notes	AA-/Aa1	1,435	—	1,435	—	—	—
Medium-term notes	AA-/Aa3	690	690	—	—	—	—
Medium-term notes	A+/A1	692	—	—	692	—	—
Medium-term notes	A+/A2	3,680	230	2,302	1,148	—	—
Medium-term notes	A/A3	1,151	1,151	—	—	—	—
Medium-term notes	A-/A3	1,169	1,169	—	—	—	—
Commercial paper	A-1/P-1	10,038	10,038	—	—	—	—
Money market mutual funds	AAA/Aaa	338	338	—	—	—	—
LAIF	Unrated	16,203	16,203	—	—	—	—
Total investments controlled by City Treasurer		100,433	38,010	18,741	35,511	8,171	—
Investments controlled by bond trustees:							
U.S. agency securities	AA+/Aaa	120,088	26,705	9,467	53,761	30,155	—
Guaranteed investment contracts	Unrated	48,357	31,712	—	—	—	16,645
Collateralized investment contracts	Unrated	—	—	—	—	—	—
Flexible repurchase agreements	Unrated	13,052	—	—	—	—	13,052
Money market mutual funds	AAA/Aaa	25,346	25,346	—	—	—	—
Total investments controlled by bond trustees		206,843	83,763	9,467	53,761	30,155	29,697
Total Electric Utility investments		$ 307,276	162,705	75,038	109,434	54,052	29,697

(f) Fair Value Measurement

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for the City's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The Water Utility groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the City has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability. This valuation is accomplished using management's best estimate of fair value, with inputs into the determination of fair value that require significant management judgment or estimation. The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

(Continued)

(In thousands)

The City has the following recurring measurements as of June 30, 2016 and 2015:

Investment by fair value level	June 30, 2016	Fair value measurement using: Quoted prices in active markets for identical assets (Level 1)	Not required to be leveled
Debt securities:			
U.S. agency securities	$ 133,034	133,034	—
U.S. Treasuries	13,326	13,326	—
Medium-term corporate notes	28,636	28,636	—
LAIF	16,890	—	16,890
Total investment measured at fair value	191,886	$ 174,996	16,890
Investments measured at amortized costs:			
Commercial paper	5,033		
Total investment measured at amortized costs	5,033		
Investments measured at cost-based:			
Guaranteed investment contracts	56,142		
Flexible repurchase agreement	13,346		
Money market mutual funds	61,082		
Total investment measured at cost-based	130,570		
Total pooled and bond trustee investments	$ 327,489		

(In thousands)

Investment by fair value level	June 30, 2015	Fair value measurement using Quoted prices in active markets for identical assets (Level 1)	Not required to be leveled
Debt securities:			
U.S. agency securities	$ 171,657	171,657	—
Medium-term corporate notes	22,285	22,285	—
LAIF	16,203	—	16,203
Total investment measured at fair value	210,145	$ 193,942	16,203
Investments measured at amortized costs:			
Commercial paper	10,038		
Total investment measured at amortized costs	10,038		
Investments measured at cost-based:			
Guaranteed investment contracts	48,357		
Flexible repurchase agreement	13,052		
Money market mutual funds	25,684		
Total investment measured at cost-based	87,093		
Total pooled and bond trustee investments	$ 307,276		

(In thousands)

(3) Electric Utility Plant

The following is a summary of changes in capital assets:

	Balance as of June 30, 2014	Additions	Deletions	Balance as of June 30, 2015	Additions	Deletions	Balance as of June 30, 2016
Production	$ 123,622	7,097	—	130,719	—	—	130,719
Transmission	94,220	2,190	(11)	96,400	328	(1)	96,727
Distribution	877,903	43,726	(2,341)	919,288	32,073	(1,550)	949,811
General plant	127,752	7,398	(1,267)	133,883	3,039	(1,289)	135,633
Depreciable utility plant	1,223,497	60,411	(3,619)	1,280,290	35,440	(2,840)	1,312,890
Less accumulated depreciation	(459,092)	(41,568)	3,619	(497,041)	(56,019)	2,840	(550,220)
Net depreciable utility plant	764,405	18,843	—	783,249	(20,579)	—	762,670
Land	35,671	—	—	35,671	5	(1,433)	34,243
Construction in progress	55,001	77,172	(71,527)	60,646	53,671	(29,372)	84,945
Nondepreciable utility plant	90,672	77,172	(71,527)	96,317	53,676	(30,805)	119,188
Net utility plant	$ 855,077	96,015	(71,527)	879,566	33,097	(30,805)	881,858

(4) Operating Expenses

Total operating expenses shared with the City’s Water Utility Fund amounted to $31,066 and $30,033 for the year ended June 30, 2016 and 2015, respectively, of which $24,606 and $22,225 were allocated to the Electric Utility.

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

(5) Jointly Owned Utility Projects

(a) SONGS

The City sold its 3.16% ownership interest of SONGS to SCE on December 29, 2006. As such, the Electric Utility ceased recording all related operating expenses, except marine mitigation costs, and spent fuel storage charges, as of December 29, 2006. Based on the SONGS settlement agreement, the Electric Utility is responsible for the City’s share of marine mitigation costs up to $2,300, and SCE is responsible for costs between approximately $2,300 and $7,300. The Electric Utility is responsible for spent fuel storage charges until the federal government takes possession. The Decommissioning Trust Fund will continue pay for spent fuel storage charges.

(In thousands)

As a former participant in SONGS, the Electric Utility is subject to assessment of retrospective insurance premiums in the event of a nuclear incident at SONGS or any other licensed reactor in the United States of America.

(b) San Juan Generating Station

The Electric Utility also owns a 10.04% ownership interest in the existing coal-fired SJ, Unit 4, located near Waterflow, New Mexico. Other participants include Public Service of New Mexico, 45.485%; the City of Farmington, 8.475%; the County of Los Alamos, 7.200%; and M-S-R Public Power Agency, 28.800%. The Electric Utility's original purchase cost and cumulative share of ongoing construction costs included in utility plant at June 30, 2016 amounted to $84,616. There are no separate financial statements for this venture, as each participant's interest is reflected in its respective financial statements. On July 31, 2015, the Electric Utility and the other Parties involved with the San Juan Generating Plants, agreed to a plan for the closure of two of four units. As coowner of one of the units that is not being closed the Electric Utility is transferring the ownership rights to the parties that will continue in the Plant on December 31, 2017. Based on the remaining projected useful service life of the Electric Utility participation in the plant, the Electric Utility is accelerating the depreciation over the period of July 1, 2015 to December 31, 2017 to reflect a write-off period of 30 months.

(6) Short-Term Borrowings

The Electric Utility had a Revolving Credit Agreement with Wells Fargo Bank, National Association in the form of short-term taxable notes. The Electric Utility has drawn $11,008 for current year's capital projects. In April 2015, the Electric Utility repaid the full amount with proceeds from 2015-A Revenue Bonds.

At June 30, 2016 and 2015, the Electric Utility has drawn additional funds from the above-mentioned note as follows:

FY 2016	Beginning of year	Additions	Retirements	End of year	Due within one year
Electric system note	$ 1,623	11,008	(12,631)	—	
Total short-term liabilities	$ 1,623	11,008	(12,631)	—	—

FY 2015	Beginning of year	Additions	Retirements	End of year	Due within one year
Electric system note	$ —	12,823	(11,200)	1,623	1,623
Total short-term liabilities	$ —	12,823	(11,200)	1,623	1,623

(In thousands)

(7) Long-Term Liabilities

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

June 30, 2016	Beginning of year	Additions	Retirements	End of year	Due within one year
Anaheim Public Financing Authority Revenue Bonds	$ 624,310	92,865	(77,085)	640,090	17,630
Electric system note	24,400	—	(11,200)	13,200	11,200
Pension obligation (note 9)	62,750	8,485	—	71,235	—
Provision for decommissioning costs (note 1k)	134,414	2,178	(16,598)	119,994	—
	845,874	103,528	(104,883)	844,519	$ 28,830
Less current portion	(36,249)	(28,830)	36,249	(28,830)	
Add unamortized bond premium	29,410	14,149	(6,087)	37,472	
Total long-term liabilities	$ 839,035	88,847	(74,721)	853,161	

June 30, 2015	Beginning of year	Additions	Retirements	End of year	Due within one year
Anaheim Public Financing Authority Revenue Bonds	$ 606,885	159,350	(141,925)	624,310	14,040
Electric system note	35,600	—	(11,200)	24,400	11,200
Pension Obligation	75,985	6,121	(19,356)	62,750	—
Provision for decommissioning costs	133,664	2,373	(1,623)	134,414	11,009
	852,134	167,844	(174,104)	845,874	$ 36,249
Less current portion	(23,355)	(36,249)	23,355	(36,249)	
Add unamortized bond premium	14,967	19,921	(5,478)	29,410	
Total long-term liabilities	$ 843,746	151,516	(156,227)	839,035	

(In thousands)

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

	2016	2015
Anaheim Public Financing Authority Revenue Bonds, issue of 1999, with an initial interest rate of 4.625%, dated September 1, 1999, sold on September 29, 1999 in the amount of $45,000. On July 21, 2015, $27,435 aggregate principal amount of the 1999 Bonds remained outstanding. A portion of the proceeds from the 2015B Bonds issue dated July 21, 2015 was used to refund all of the $27,435 maturing on or after October 1, 2016.	$ —	27,435
Anaheim Public Financing Authority Revenue Bonds, issue of 2007, TIC 4.49%, dated and sold on February 7, 2007 in the amount of $206,035, of which: (1) $73,000 was issued as serial bonds. The remaining principal of $58,705 at rates ranging from 4.00% to 5.00% is maturing from October 1, 2015 through 2028 in annual principal installments ranging from $3,365 to $11,530; (2) $24,410 was issued as term bonds at a rate of 4.75% maturing on October 1, 2026 and 2027 in annual principal installments from $11,685 to $12,725; (3) $36,675 was issued as term bonds at a rate of 4.50% maturing from October 1, 2029 through 2032 in annual principal installments from $7,665 to $12,550; and (4) $71,950 was issued as term at a rate of 4.50% maturing from October 1, 2033 through 2037 in annual principal installments ranging from $13,125 to $15,715. Of the remaining principal amount outstanding as of July 21, 2015, $38,145 maturing on October 1, 2018 through October 1, 2027 were refunded by the bond issue 2015B dated July 1, 2015 at rates ranging from 4.00% to 5.00% with principal payment ranging from $2,385 to $15,250. The total debt service is $254,215 to maturity.	150,230	191,740
Anaheim Public Financing Authority Revenue Bonds, issue of 2009, TIC 4.98%, dated and sold on March 10, 2009 in the amount of $70,000, of which: (1) $37,405 was issued as serial bonds. The remaining principal of $31,465 at rates ranging from 4.00% to 5.00% is maturing from October 1, 2016 through 2030 in annual principal installments ranging from $1,425 to $2,765; (2) $12,610 was issued as term bonds at a rate of 5.25% maturing on October 1, 2031 through 2034 in annual principal installments from $2,910 to $3,405; and (3) $19,985 was issued as term bonds at a rate of 5.25% maturing from October 1, 2035 through 2039 in annual principal installments ranging from $3,590 to $4,430. The total debt service is $109,046 to maturity.	62,705	64,060

(In thousands)

		2016	2015
Anaheim Public Financing Authority Revenue Bonds, issue of 2011, TIC 4.91%, dated and sold on May 11, 2011 in the amount of $90,390, of which: (1) $63,005 was issued as serial bonds. The remaining principal of $63,005 at rates ranging from 3.00% to 5.25% is maturing from October 1, 2016 through 2031 in annual principal installments ranging from $1,825 to $5,880 and (2) $27,385 was issued as term bonds at a rate of 5.375% maturing October 1, 2032 through 2036 in annual principal installments from $4,905 to $6080. The total debt service is $147,886 to maturity.	$	90,390	90,390
Anaheim Public Financing Authority Revenue Bonds, issue of 2012, TIC 3.38%, dated and sold on September 19, 2012 in the amount of $92,130, issued as serial bonds at rates ranging from 3.125% to 5.00% is maturing from October 1, 2021 through 2031 in annual principal installments ranging from $1,455 to $17,080. The total debt service is $140,013 to maturity.		92,130	92,130
California Municipal Finance Authority, Revenue Bonds issue of 2014, TIC 1.89%, dated and sold on October 8, 2014 in the amount of $109,350, issued as serial bonds at rates ranging from 2.00% to 5.00% maturing from October 1, 2016 through 2025 in annual principal installments ranging from $7,025 to $13,390 The total debt service is $128,663 to maturity.		101,770	108,555
California Municipal Finance Authority Revenue Bonds, issue of 2015-A, TIC 3.54%, dated and sold on April 21, 2015 in the amount of $50,000 issued at variable rates due on the first business day of each month, commencing May 1, 2015 until mandatory purchase date of April 8, 2018. The principal of $50,000 at planning rate of 3.50% maturing from October 1, 2015 through 2045 in annual principal installments ranging from $4,245 to $5,830. The total debt service is $94,256 to maturity.		50,000	50,000
California Municipal Finance Authority Revenue Bonds, issue of 2015-B, TIC 3.58%, dated and sold on July 21, 2015 in the amount of $92,865, issued issued as serial bonds at rates ranging from 3.00% to 5.00% maturing from October 1, 2015 until October 1, 2035 in annual principal payments ranging from $1,825 to $11,945. The total debt service is $131,839 to maturity.		92,865	—
Total Anaheim Public Financing Authority and California Municipal Finance Authority	$	640,090	624,310

(In thousands)

Annual debt service requirements for long-term obligation at June 30, 2016 to maturity are as follows:

		Principal	Interest	Total
Fiscal year(s) ending June 30:				
2017	$	17,630	29,351	46,981
2018		18,325	28,624	46,949
2019		19,165	27,770	46,935
2020		23,110	26,734	49,844
2021		24,330	25,548	49,878
2022–2026		145,770	107,053	252,823
2027–2031		154,240	71,310	225,550
2032–2036		134,310	36,841	171,151
2037–2041		76,015	10,018	86,033
2042–2046		27,195	2,288	29,483
	$	640,090	365,537	1,005,627

On January 28, 2016, the Electric Utility renewed the Revolving Credit Agreement (Agreement) with Wells Fargo Bank, National Association at a maximum loan amount not to exceed $100,000 of which $86,000 is made available for Electric Utility and $14,000 for Water Utility. The note has three-year term at a variable interest rate based on LIBOR Daily Index Rate and a spread. The annual commitment fee is based on 0.204% on the total note amount of $100,000.

The Electric Utility used $44,000 from the proceeds of the Agreement to retire the outstanding principal balance of $60,205 of the 2002-B Electric Revenue Bonds. The Electric Utility repaid $11,200 during fiscal year 2016. At June 30, 2016, the outstanding balance of the long-term portion of the Agreement was $13,200.

Interest costs of $3,005 from long-term financing have been capitalized to utility plant for the year ended June 30, 2016 (note 6).

In accordance with the bond resolutions, a reserve for maximum annual debt service has been established, and a reserve for renewals and replacements is being accumulated in an amount equal to a maximum of 2% of the depreciated book value of the Electric Utility plant in service.

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

(Continued)

(In thousands)

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

The Electric Utility has pledged future electric revenue to repay a total of $1,005,627 outstanding long-term obligations, principal, and interest for the year ended June 30, 2016. Proceeds from bonds provide financing for various capital improvements, primarily distribution assets. The Electric Utility's bonds are payable solely from electric net revenue and are payable through fiscal year 2046. As of June 30, 2016, the annual principal and interest payments on the bonds, excluded early retired bond, are 34.91% of net revenue. Bond debt service paid and total net revenue was $42,035 and $124,415 for the year ended June 30, 2016.

On July 21, 2015, the Electric Utility issued California Municipal Finance Authority Revenue Refunding Bonds Series 2015-B in the principal amount of $92,865 at a premium of $14,149. The true interest cost is 2.98%. The bonds will mature serially from October 1, 2016 through 2035 in annual principal installments ranging from $1,825 to $11,945. The proceeds from the bonds were used to refund the 1999 bonds in the amount of $24,900 and partially refund the 2007 bonds in the amount of $38,145. The proceeds of $35,000 will be used for capital improvements related to the distribution system. The total debt service is $131,839 to maturity. The 2015-B refunding bonds will reduce the Electric Utility's total debt service payments by $8,830 at the net present value of $6,713

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

		2016	2015
Held by fiscal agent:			
Bond reserve fund	$	54,383	48,129
Bond service fund		531	2,897
Bond construction fund		32,961	24,298
Decommissioning reserve		115,964	131,519
Held by Treasurer:			
Bond service account		20,668	17,849
Renewal and replacement account		15,938	16,378
Decommissioning and fuel reserves		3,657	4,145
Public benefit program fees		9,966	15,278
Restricted rebate		450	361
	$	254,518	260,854

The Electric Utility's interest and other finance charges, excluding capitalized interest, for the year ended June 30, 2016 were $21,523.

(8) Advance Refundings

When conditions have warranted in prior years, the Electric Utility has sold various issues of bonds to provide for the refunding of previously issued obligations. The proceeds received from the sales of the bond issues were used to refund the outstanding bond issues or to deposit in an irrevocable escrow fund held by the escrow agent, an amount, which, when combined with interest earnings thereon, is at least equal to the sum of the outstanding principal amount of the bonds, the interest to accrue thereon, and including the first optional redemption date thereof, and the premium required to redeem the bonds outstanding on such date. Accordingly, the trust account assets and the liability for defeased bonds are not included in the Electric Utility's financial statements. Amount of defeased debt still outstanding at June 30, 2016 was $38,145 of the 2007-A bonds.

(9) Pension Plan

(a) Plan Description

The Electric Utility provides pension benefits to eligible full-time employees through its participation in the City's Miscellaneous Plan. This plan is an agent multiple-employer public employee defined-benefit plans and is administered through the California Public Employees' Retirement System (CalPERS), which 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. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS Web site @www.calpers.ca.gov.

(b) Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for nonduty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employee's Retirement Law.

(In thousands)

The Plan' provisions and benefits in effect at June 30, 2016 and 2015 are summarized as follows:

	June 30, 2016 Miscellaneous		June 30, 2015 Miscellaneous	
Hire date	Prior to January 1, 2013	On or after January 1, 2013	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.7% @ 55	2.0% @ 62	2.7% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50–55	52–65	50–55	52–65
Monthly benefits, as a % of eligible compensation	2.70 %	2.00 %	2.70 %	2.00 %
Required employee contribution rates	8.00 %	6.75 %	8.00 %	6.75 %
Required employer contribution rates	26.371 %	26.371 %	24.271 %	24.271 %

(c) Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Electric Utility is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employees are required to contribute 8.00% of their annual salary. The City's contractually required contribution rate is 26.371% and 24.271% of annual payroll for the fiscal years ended June 30, 2016 and 2015, respectively.

Contribution to the pension plan from the Electric Utility was $6,707 and $5,532 for the fiscal year ended June 30, 2016 and 2015, respectively.

(d) Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions

The Electric Utility reported net pension liability of $71,235 and $62,750 for its proportionate share of the net pension liability of the City's Miscellaneous Plan for the fiscal years ended June 30, 2016 and 2015, respectively. The net pension liability was measured as of June 30, 2015 and 2014, respectively, and the total liability used to calculate the net pension was determined by an actuarial valuation as of that date. The Electric Utility's portion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating funds of the City. At June 30, 2015, the Electric Utility's proportionate share was 21.8360%, which was 1.4904% increase from its proportionate share of 20.3456% at June 30, 2015 measured as of June 30, 2014.

(In thousands)

For fiscal years ended June 30, 2016 and 2015, the Electric Utility recognized pension expense of \$4,754 and \$6,122 respectively. The Electric Utility reported the following deferred outflows of resources and deferred inflows of resources related to pension:

	June 30, 2016		June 30, 2015	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ —	2,372	—	—
Changes of assumptions	—	3,093	—	—
Net difference between projected and actual earnings on pension plan investments	—	1,807	—	13,366
Changes in proportion	3,168	—	—	—
Contributions subsequent to the measurement date	6,707	—	6,575	—
	\$ 9,875	7,272	6,575	13,366

The \$6,707 and \$6,575 reported as deferred outflows of resources related to pensions resulting from the Electric Utility contributions subsequent to the measurement date are (will be) recognized as a reduction of the net pension liability in the year ended June 30, 2017 and 2016 respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	June 30, 2016
Year ending June 30:	
2017	\$ (2,446)
2018	(2,446)
2019	(1,296)
2020	2,085
Total	\$ (4,103)

(In thousands)

		June 30, 2015
Year ending June 30:		
2016	$	(3,342)
2017		(3,342)
2018		(3,342)
2019		(3,340)
Total	$	(13,366)

(e) Actuarial Assumptions

The total pension liabilities for the City's Miscellaneous Plan in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation date (VD)	June 30, 2014
Measurement date (MD)	June 30, 2015
Measurement period	July 1, 2014 to June 30, 2015
Reporting date (RD)	June 30,2016
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB 68
Actuarial assumptions:	
Discount rate	7.65%
Inflation	2.75%
Salary increase	Varies by Entry Age and Service
Investment rate of return	7.65% Net of Pension Plan Investment Expenses, includes inflation
Mortality rate table[1]	Derived using CalPERS' Membership Data for all Funds
Postretirement benefit increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

[1] The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report. All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period f rom 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' Web site under Forms and Publications.

(In thousands)

The total pension liabilities for the City's Miscellaneous Plans in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date (VD)	June 30, 2013
Measurement Date (MD)	June 30, 2014
Actuarial Cost Method	Entry Age Normal Cost Method
Actuarial assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.5% Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table[1]	Derived using CalPERS' Membership Data for all Funds
Postretirement benefit increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

[1] The Mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' Web site.

(f) Change of Assumptions

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension investment expense but without reduction for pension plan administrative expense. The discount rate of 7.5% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

(g) Discount Rate

The discount rate used to measure the total pension liability was as of the measurement date of June 30, 2015 and 2014 7.65% and 7.5%, respectively. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund.

(In thousands)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11–60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by CalPERS effective July 1, 2014.

	June 30, 2015 Measurement Date			June 30, 2014 Measurement Date		
Asset Class	New Strategic Allocation	Real Return Years 1-10	Real Return Years 11	New Strategic Allocastion	Real Return Years 1-10	Real Return Years 11
Global Equity	51.00 %	5.25 %	5.71 %	47.00 %	5.25 %	5.71 %
Global Fixed Income	19.00	0.99	2.43	19.00	0.99	2.43
Inflation Sensitive	6.00	0.45	3.36	6.00	0.45	3.36
Private Equity	10.00	6.83	6.95	12.00	6.83	6.95
Real Estate	10.00	4.50	5.13	11.00	4.50	5.13
Infrastructure and Forestland	2.00	4.50	6.09	3.00	4.50	6.09
Liquidity	2.00	(0.55)	(1.05)	2.00	(0.55)	(1.05)
	100.00 %			100.00 %		

(h) Recognition of Gains and Losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

(In thousands)

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

Difference between projected and actual earnings on investments	5-year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period

(i) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City's Miscellaneous Plans of the measurement date, calculated using the discount rate of 7.65% and 7.5% as of June 30, 2016 and 2015, respectively, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	June 30, 2015 Measurement Date			June 30, 2014 Measurement Date		
	Discount Rate - 1% (6.65%)	Discount Rate (7.65%)	Discount Rate + 1% (8.65%)	Discount Rate - 1% (6.50%)	Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
Electric Utility's proportionate share of the net pension liability	$ 106,343	71,235	42,198	94,683	62,750	36,236

(j) Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

(10) Self-Insurance Program

The Electric Utility participates in the City's self-insured workers' compensation and general liability program. The liability for such claims, including claims incurred but not reported, is transferred to the City in consideration of self-insurance premiums paid by the Electric Utility. Premiums for workers' compensation and general liability programs are charged to the Electric Utility by the City based on various allocation methods that include actual cost, trends in claims experience, exposure base, and number of participants. Premium charged and paid was $1,821 for the year ended June 30, 2016.

At June 30, 2016, the City was fully funded for self-insured workers' compensation and general liability claims (self-insured retention levels of $1,000 per occurrence for workers' compensation claims and $1,000 per occurrence for general liability claims). Above these self-insured retention levels, the City's potential liability is covered through various commercial insurance and intergovernmental risk pooling programs. Settled claims have not exceeded total insurance coverage in any of the past three years, nor does management believe that there are any pending claims that will exceed total insurance coverage.

(11) Commitments and Contingencies

(a) Take-or-Pay Contracts

(i) Intermountain Power Agency

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

	Entitlement	Expiration
Generation:		
Intermountain Power Project	13.225%	2027

The contract constitutes an obligation of the Electric Utility to make payments from revenue 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.

(In thousands)

(ii) Southern California Public Power Authority

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

	Entitlement	Expiration
Transmission:		
Southern Transmission System (STS)	17.6%	2027
Mead-Adelanto Project (MAP)	13.5	2030
Mead-Phoenix Project (MPP)	24.2	2030
Generation:		
Hoover Dam Uprating (Hoover)	42.6%	2018
Magnolia Generating Station (Magnolia)	39.7	2037
Canyon Power Project (Canyon)	100.0	2040
Natural gas reserves project (Natural Gas):		
SCPPA Natural gas project-Pinedale, Wyoming	35.7%	2033
SCPPA Natural gas project-Barnett, Texas	45.5	2033

(iii) 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 revenue received during the year that the payment is due. A long-term obligation has not been recorded on the accompanying financial statements, as these commitments do not represent an obligation of the Electric Utility until the year the power is available to be delivered to the Electric Utility. 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(s)	IPA	STS	MAP	MPP	Hoover	Magnolia	Natural gas	Canyon	Total
2017	$ 26,851	14,257	3,058	1,727	934	8,787	6,723	18,282	80,619
2018	22,321	13,975	3,264	2,079	932	6,933	5,984	19,325	74,813
2019	28,880	13,813	3,252	2,095	—	6,930	5,360	19,353	79,683
2020	30,683	12,112	3,228	2,076	—	6,930	4,895	19,323	79,247
2021	31,617	14,415	2,504	1,679		6,927	4,514	19,292	80,948
2022–2026	22,419	54,656	1,834	2,673	—	36,437	17,939	96,308	232,266
2027–2031	—	11,299	1,824	2,655	—	39,531	12,245	91,610	159,164
2032–2036	—	—	—	—	—	40,797	3,711	96,120	140,628
2037–2041	—	—	—	—	—	26,794	—	95,833	122,627
	$ 162,771	134,527	18,964	14,984	1,866	180,066	61,371	475,446	1,049,995

(In thousands)

In addition to debt service, the City's entitlement requires the payment for fuel costs, operations and maintenance costs (O&M), administration and general costs (A&G), and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service; however, prior experience indicates that annual costs are generally consistent from year to year. The fiscal year 2016 billings for fuel, O&M, A&G, and other costs at these projects are as follows:

Fiscal year(s)		IPA	STS	MAP	MPP	Hoover	Magnolia	Natural gas	Canyon	Total
2016	$	40,447	5,742	314	330	133	21,567	913	4,968	74,414
2015		48,041	5,249	292	602	108	22,778	1,140	6,832	85,042

(b) Prepaid Purchased Power

The Electric Utility has prepaid purchased power costs for the following take-or-pay contracts as of June 30, 2016:

		2016	2015
SCPPA – Stabilization fund prepayment	$	39,068	39,852
SCPPA – Magnolia power prepayment		27,546	24,344
SCPPA – Ormat prepayment		450	450
SCPPA – Canyon prepayment		2,225	2,225
SCPPA – building fund		857	528
SJ – Fuel acquisition prepayment		991	585
Cap and Trade Compliance		17,990	29,353
IPA – Power prepayment		3,933	4,179
Prepaid RPS RC Power		934	429
Prepaid purchased power	$	93,994	101,945

(c) Cap-and-Trade Program

California Senate Bill (AB) 32 requires that Utilities in California reduce their greenhouse gas (GHG) emissions to 1990 level by the year 2020. It directed the California Air Resources Board (CARB) to develop regulations of GHG that became effective January 2012. Emission compliance obligations under the Cap-and-Trade regulation began in January 2013.

(In thousands)

The Cap-and-Trade program (Program) was implemented in the beginning January 1, 2013. This Program requires Electric Utilities to have GHG allowances on an annual basis to offset GHG emissions associated with generating electricity. CARB will provide a free allocation of GHG allowance to each electric utility to mitigate retail rate impacts. This free allocation of GHG allowances is expected to be sufficient to meet the Electric Utility's GHG compliance obligations for retail sales. During this fiscal year, an unused portion of retail allowance was sold for $16,208 to reduce future renewable energy costs for retail customers. The compliance obligation for the wholesale sales requires the allowance to be obtained through an auction or in the secondary market quarterly. At June 30, 2016, the value of prepaid Cap and Trade allowance is $17,990, and the value of the Cap and Trade obligation is $8,438.

(d) Litigation

A number of claims and suits are pending against the City for alleged damages to persons and property and for other alleged capital expenditures liabilities arising out of matters usually incidental to the operation of a utility such as the electric system of the City. In the opinion of management, the exposure under these claims and suits would not materially affect the financial position of the Electric Utility as of June 30, 2016.

(e) Construction Commitments

At June 30, 2016, the Electric Utility had the following commitments with respect to unfinished capital projects:

Capital project	Remaining construction commitment	Expected completion date
Underground District #57 Phase I	$ 1,118	2016
Underground District #62 – Miraloma Ave	9,369	2017
Underground District #63 – Lincoln & Rio Vista	11,840	2018

(In thousands)

(12) Subsequent Event

On October 19, 2016, the Electric Utility issued Anaheim Housing and Public Improvements Authority Revenue Tax-Exempt Bonds Series 2016-A in the principal amount of $219,285 at a premium of $35,183 to refund $77,290 of the outstanding balance on the 2007A bonds and the remaining outstanding balance of $58,260 on the 2009A bonds. The true interest cost is 3.71%. The bonds will mature serially from April 1, 2017 and October 1, 2017 through 2041 in annual principal installments ranging from $690 to $27,885. Additionally, term bonds will be due on October 1, 2041 for a principal amount of $28,520. The proceeds of $100,000 will be used for capital improvements related to the transmission, distribution, and storage system. The total debt service is $402,762 to maturity.

On October 19, 2016, the Electric Utility issued Anaheim Housing and Public Improvements Authority Revenue Taxable Bonds Series 2016-B in the principal amount of $69,780 to refund the remaining outstanding balance of $69,430 on the 2007A bonds. The true interest cost is 2.38%. The bonds will mature serially from April 1, 2017 and October 1, 2017 through 2029 in annual principal installments ranging from $1,320 to $8,205. The total debt service is $81,351 to maturity.

The 2016-A and 2016-B Bonds will reduce the Electric Utility's total debt service payments by $39,948 over the life of the refunded 2007-A and 2009-A revenue bonds with a net present value savings of $29,647.

Bonds proceeds of the 2016-A and 2016-B, together with the prior debt service reserve funds of $15,289 totaled were deposited as follows:

		2016-A	2016-B
Project fund	$	100,000	—
Deposited in escrow for the refunding bonds:			
2007-A Bonds		78,868	—
2009-A bonds		64,417	—
2007-A Bonds		—	70,892
Debt service reserve		18,399	5,855
Cost of issuance		843	263
	$	262,527	77,010

CITY OF ANAHEIM
ELECTRIC UTILITY FUND

Schedule of Changes in the Net Pension Liability and Related Ratios [1]

(In thousands)

Measurement Period	Miscellaneous 2014-2015	Miscellaneous 2013-2014
Total pension liability:		
Electric Utility’s portion of the net pension liability	21.8360 %	20.3456 %
Electric Utility’s proportionate share of the net pension liability	71,235	62,750
Electric Utility’s covered employee payroll	25,538	23,878
Electric Utility’s proportionate share of the net pension liability as a percentage of its covered-employee payroll	278.94 %	262.79 %
Plan fiduciary net position as a percentage of the total pension liability	73.3600 %	74.5200 %

[1] Historical information is required only for measurement periods for which GASB 68 is applicable. Additional years will be presented as they become available.

See accompanying independent auditors' report

CITY OF ANAHEIM
ELECTRIC UTILITY FUND

Schedule of Pension Plan Contributions [1]

(In thousands)

		Miscellaneous 2014-2015	Miscellaneous 2013-2014
Actuarially determined contribution	$	5,532	5,143
Contributions in relation to the actuarially determined contribution		(5,532)	(5,143)
Contribution deficiency (excess)	$	—	—
Electric utility's covered-employee payroll	$	25,538	23,878
Plan net pension liability/(asset) as a percentage of covered employee payroll		21.66 %	21.54 %

[1] Historical information is required only for measurement periods for which GASB 68 is applicable. Additional years will be presented as they become available.

See accompanying independent auditors' report