



**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

**Table of Contents**

	<b>Page</b>
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	3
Financial Statements:	
Statements of Net Position	19
Statements of Revenues, Expenses, and Changes in Net Position	21
Statements of Cash Flows	22
Notes to Financial Statements	24



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## 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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

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

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

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

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

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

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



### **Opinion**

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

### **Emphasis of Matter**

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

### **Other Matter**

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3 through 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

**KPMG LLP**

December 10, 2014

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

(In thousands)

As management of Anaheim Public Utilities, a department of the City of Anaheim (City), we offer the readers of the City of Anaheim Electric Utility Fund (Electric Utility) financial statements a narrative overview and analysis of the financial statements for the fiscal years ended June 30, 2014 and 2013. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements.

**Financial Highlights**

- The Electric Utility's total net position for fiscal years 2014 and 2013 was \$351,905 and \$349,991, respectively. Net investment in capital assets increased by \$24,206 to improve the distribution system as one of the nation's most reliable electric utilities without adding long-term debt.
- Interest expenses for fiscal years 2014 and 2013 were \$27,340 and \$31,480, respectively. A 13.2% 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 \$5,880 in community service-related programs for the 2014 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.
- The Electric Utility invested \$6,463 installing the largest city-owned and roof-mounted, solar panel system on the Anaheim Convention Center. The system will generate enough energy to power 600 homes for a year and is included in the Electric Utility's renewable energy portfolio. It shows Anaheim's commitment to renewable energy initiatives and clean energy environment.
- Purchased power for fiscal years 2014 and 2013 were \$275,013 and \$279,842, respectively. A decrease of \$4,829 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, 2014.

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 revenues, expenses, and changes in net position, and statements of cash flows.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

(In thousands)

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 revenues, expenses, and changes in net position* present Electric Utility's revenues and expenses during the most recent two fiscal years. The statements provide information showing how the Electric Utility's net position changed.

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

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

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

(In thousands)

**Financial Analysis**

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

**Condensed statements of net position**

	<u>2014</u>	<u>2013</u>	<u>2012 as restated *</u>
Current and other assets	\$ 426,126	499,339	440,017
Net utility plant	855,077	827,439	821,462
Deferred outflows of resources	<u>2,756</u>	<u>3,352</u>	<u>4,099</u>
Total assets and deferred outflows of resources	<u>1,283,959</u>	<u>1,330,130</u>	<u>1,265,578</u>
Long-term liabilities, net of current portion	767,761	794,608	822,714
Current liabilities	75,195	117,568	52,483
Deferred inflows of resources	<u>89,098</u>	<u>67,963</u>	<u>59,392</u>
Total liabilities and deferred inflows of resources	<u>932,054</u>	<u>980,139</u>	<u>934,589</u>
Net investment in capital assets	255,497	231,291	233,903
Restricted	40,283	42,981	36,387
Unrestricted	<u>56,125</u>	<u>75,719</u>	<u>60,699</u>
Total net position	<u>\$ 351,905</u>	<u>349,991</u>	<u>330,989</u>

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

**As of June 30, 2014**

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

Total assets and deferred outflows of resources as of June 30, 2014 were \$1,283,959 reflecting a decrease of \$46,171 (3.5%) mainly due to the following:

- Current and other assets, comprised of restricted and unrestricted assets, had a net decrease of \$73,213 (14.7%).
  - Restricted assets decreased by \$84,833 mainly due to \$61,078 of restricted cash for debt service used to retire the 2002-B Electric Revenue Bonds, and \$29,862 of 2011 bond proceeds to fund capital projects.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

(In thousands)

- Unrestricted assets increased by \$11,620 mainly due to an increase of \$27,005 in prepaid power costs offset by a decrease of the cash reserve fund of \$5,422 for underground capital programs and other unrestricted cash fund.
- Net utility plant increased by \$27,638 (3.3%) mainly due to implementing a new Customer Information System (CIS) and continued improvements in the distribution system to continue Anaheim's recognition as one of the nation's most reliable electric utilities.
- Deferred outflows of resources, consisting of deferred charge on refunding bonds, decreased by \$596 (17.8%) due to current year amortization.

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

Total liabilities and deferred inflows of resources as of June 30, 2014 were \$932,054 reflecting a decrease of \$48,085 (4.9%) due to the following:

- Long-term liabilities, including the current portion of \$23,355 in current liabilities, decreased a total of \$79,287 (9.3%). This decrease occurred through a sustained focus on accelerating principal payments to various long-term liabilities in an effort to continually strengthen the financial position. (See note 7 of the notes to financial statements for additional information regarding long-term liabilities).
- Current liabilities, excluding the current portion of \$23,355 related to debt liabilities increased by \$10,067 (24.1%) mainly due to a \$13,495 increase in accounts payable and accrued expenses resulting from increases in compliance obligation liabilities for the Cap and Trade program.
- Deferred inflow of resources, consisting of regulatory credits increased by \$21,135 (31.1%) due to less revenues were recognized in current year in anticipation of future regulatory and legislatively mandated cost increases. (See note 1 of the notes to financial statements for additional information regarding regulatory credits).

***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, 2014, totaled \$351,905, an increase of \$1,914 (0.5%) mainly due to the following:

- The net investment in capital assets of \$255,497 reflects the investment in the Electric Utility's capital assets, less any related outstanding debt used to acquire those assets. This portion increased by \$24,206 (10.5%) 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.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

(In thousands)

- The restricted net position total of \$40,283 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 \$2,698 (6.3%) primarily due to less resources required for debt service.
- The unrestricted net position of \$56,125 decreased by \$19,594 (25.9%) primarily due to more resources used for investments in capital assets without increases from other revenue resources.

**As of June 30, 2013**

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

Total assets and deferred outflows of resources as of June 30, 2013 and 2012 were \$1,330,130 and \$1,265,578, respectively. The \$64,552 increase was due to a \$59,322 increase in current and other assets and a \$5,977 increase in net utility plant, offset by a \$747 decrease in deferred outflows of resources.

Current and other assets increased 13.5% primarily due to an increase of \$47,202 in cash and investments of which \$44,000 was unspent proceeds from the Revolving Credit Agreement (see statements of cash flows for additional information regarding changes in cash and cash equivalents), and an increase of \$10,026 in prepaid purchase power for various transmission projects, the Magnolia power project in the Southern California Public Power Authority (SCPPA), new Cap and Trade Compliance, and the Intermountain Power Agency (IPA) prepaid estimated power costs being higher than actual costs. Net utility plant increased 0.7% due to current year's net capital asset additions of \$45,946 related to production, distribution, and general utility plant, which was offset by depreciation expense of \$39,969. Deferred outflows of resources, consisting of deferred charge on refunding bonds, decreased by \$747 (18.2%) due to the current year amortization.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

(In thousands)

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

Total liabilities and deferred inflows of resources as of June 30, 2013 and 2012 were \$980,139 and \$934,589, respectively. The \$45,550 increase was due to a \$65,085 increase in current liabilities and an \$8,571 increase in deferred inflow of resource offset by a \$28,106 decrease in long-term liabilities.

Current liabilities increased by \$65,085 was mainly due to a \$60,205 planned early retirement of 2002-B Revenue Bonds in July 2013, and an increase of \$6,151 in accounts payable and accrued expenses resulting from increased purchased power costs. Total long-term debt decreased by \$28,106 was primarily due to the issuance of note payable of \$46,600 under the Revolving Credit Agreement offset by a \$60,205 of long-term debt move to current liabilities for early retirement of 2002-B Revenue Bonds and \$18,995 of the current year principal payments. Deferred inflow of resource, consisting of regulatory credits increased by \$8,571 (14.4%) (See note 1 of the notes to financial statements for additional information regarding regulatory credits).

***Net Position***

Total net position as of June 30, 2013 and 2012 were \$349,991 and \$330,989, respectively. Total net position increased by \$19,002 primarily due to an increase in unrestricted net position of \$15,020, and an increase in restricted net position of \$6,549. Unrestricted net position increased 24.7% primarily due to an increase in unrestricted cash and investments from better operating result during this fiscal year. Restricted net position increased 18.1% primarily due to an increase of \$2,903 restricted for debt service and an increase of \$3,342 restricted for public benefit program during fiscal year 2013.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

(In thousands)

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

**Condensed statements of  
revenues, expenses, and changes in net position**

	<u>2014</u>	<u>2013</u>	<u>2012 as restated</u>
Revenues:			
Retail sales, net	\$ 316,916	329,311	313,921
Wholesale sales	42,374	26,322	19,506
Rate Stabilization Account revenues	26,500	41,000	24,000
Surplus natural gas sales	1,107	9,127	2,767
Transmission revenues	34,912	41,854	33,923
Other revenues	4,242	4,344	3,814
Interest income	4,731	1,991	7,662
Capital contributions	4,362	3,782	5,727
Total revenues	<u>435,144</u>	<u>457,731</u>	<u>411,320</u>
Expenses:			
Purchased power	275,013	279,842	245,442
Fuel and generation	23,643	21,987	21,884
Operations, maintenance, and administration	43,079	42,937	46,905
Depreciation	41,770	39,969	38,995
Interest expense	27,340	31,480	32,558
Total expenses	<u>410,845</u>	<u>416,215</u>	<u>385,784</u>
Transfers:			
Transfer to the General Fund of the City	(17,127)	(17,504)	(15,067)
Transfer of right-of-way fee to the City	(5,555)	(5,069)	(4,845)
Transfers from (to) other funds of the City	297	59	(872)
Total transfers	<u>(22,385)</u>	<u>(22,514)</u>	<u>(20,784)</u>
Changes in net position	1,914	19,002	4,752
Net position at beginning of year, as restated	<u>349,991</u>	<u>330,989</u>	<u>326,237</u>
Net position at end of year	<u>\$ 351,905</u>	<u>349,991</u>	<u>330,989</u>

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

(In thousands)

**Revenues**

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

Total revenues for the year ended June 30, 2014 were \$435,144, a decrease in total revenues of \$22,587 (4.9%) mainly due to the following:

- Retail sales, net of bad debt, totaled \$316,916. A decrease of \$12,395 (3.8%) was due to lower retail sales volumes resulting from cooler weather and a continued investment in conservation and efficiency measures during the 2014 fiscal year 2014. Retail sales are the primary revenue source for Electric Utility that represents 72.8% of total revenues. The Electric Utility continues to provide competitive rates for its customers.
- Wholesale sales totaled \$42,374. An increase of \$16,052 (61.0%) was mainly due to a 65% increase in wholesale sales volumes, resulting from competitive rates in the wholesale market, more surplus energy available from the increased renewable resources purchased, and reduced retail sales in the fiscal year.
- Rate Stabilization Account (RSA) revenues of \$26,500 were 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 for the Electric Utility. A decrease of \$14,500 (35.4%) was due to decreased purchased power costs and reduced debt service requirements in the fiscal year.
- Surplus natural gas sales were \$1,107. A decrease of \$8,020 (87.9%) was due to less natural gas available for resale in the spot market and more purchased gas used for Magnolia power plant resulting in an 96% increase in its power production.
- Transmission revenues were \$34,912. A decrease of \$6,942 (16.6%) was due to lower revenue derived from Congestion Revenue Rights (CRR) in the market and lower transmission demand. Transmission revenues are based upon the Electric Utility providing use of its transmission entitlements to the California Independent System Operator (CAISO) as a participating transmission owner. These revenues are based upon transmission rates charged by CAISO and demand in the participants market.

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

Total revenues for the year ended June 30, 2013 were \$457,731 as compared with \$411,320 in the prior year, an increase in total revenues of \$46,411 (11.3%). This increase was primarily due to an increase of \$15,390 in retail sales, an increase of \$6,816 in wholesale sales, an increase of \$17,000 in Rate Stabilization Account (RSA) revenues, and an increase of \$7,931 in transmission revenues.

The increase of 4.9% in retail sales revenue was due to higher sales volumes in the summer months with higher rate during fiscal year of 2013.

The increase of 34.9% in wholesale sales revenue was mainly due to higher wholesale price with more surplus power available from the increasing renewable resource purchased in this fiscal year.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

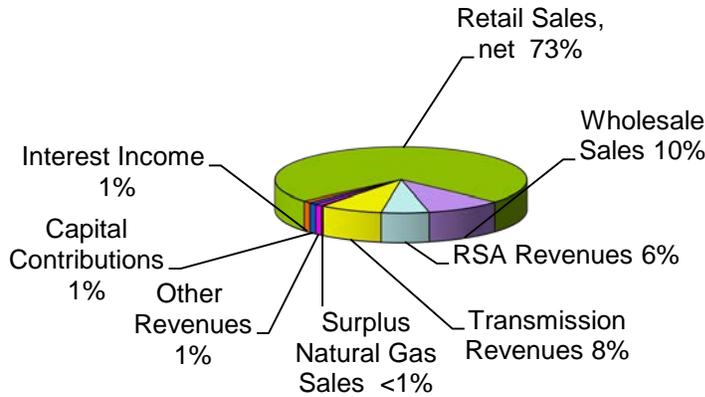
(In thousands)

The increase of 70.8% and \$41,000 in RSA revenues were recognized in this fiscal year in order to maintain approximately \$50 million reserve balance, to retain good debt service coverage ratio for the Electric Utility bond ratings, and to cover increasing purchase power costs.

The increase of 23.4% in transmission revenues was mainly due to a higher price for transmission Congestion Revenue Rights (CRR) in the market when San Onofre Nuclear Generating Station (SONGS) plant was shut down causing heavy traffic congestion in this fiscal year. Transmission revenues are based upon the Electric Utility providing use of its transmission entitlements to the CAISO as a participating transmission owner. These revenues are based upon the transmission rates charged by CAISO and the demand in the participants market.

**Revenues by Source**

**Year ended June 30, 2014**



**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

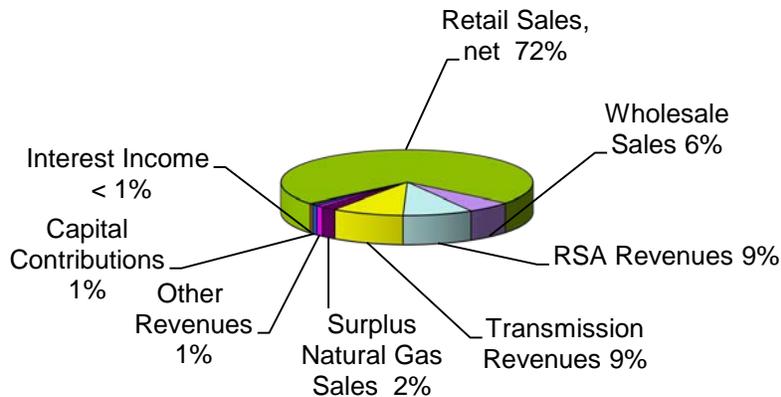
Management's Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

(In thousands)

**Revenues by Source**

**Year ended June 30, 2013**



**Expenses**

**Year ended June 30, 2014**

Total expenses for the year ended June 30, 2014 were \$410,845, a decrease in total expenses of \$5,370 (1.3%) mainly due to the following:

- Power costs totaled \$275,013. A decrease of \$4,829 (1.7%) was due primarily to the combination of strategies to procure lower power costs from renewable resource to comply with RPS requirements, long-term commitments with conventional power supplies and internal power generation.
- Fuel and generation totaled \$23,643, an increase of \$1,656 (7.5%) mainly due to higher decommissioning-related expenses for SONGS.
- Depreciation expense was \$41,770, an increase of \$1,801 (4.5%) reflecting an increase in depreciable capital assets from additions and improvements during the fiscal year.
- Interest expense was \$27,340, a decrease of \$4,140 (13.2%) mainly reflecting a decrease in outstanding bonds and lower interest rates from continually reviewing and improving the debt management strategy.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

(In thousands)

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

Total expenses for the year ended June 30, 2013 were \$416,215 as compared with \$385,784 in the prior year. This \$30,431 (7.9%) increase in total expenses was mainly the result of an increase in purchased power costs of \$34,400, offset by a decrease in operations, maintenance, and administration of \$3,968.

The 14.0% increase in purchased power costs was due primarily to the combination of increases in the renewable power purchase of \$17,751 to reach the resource mix of 25% by 2016, higher market power purchase of \$10,810 and higher Canyon Power costs of \$5,195 due to the outages from Magnolia and San Juan plants.

The 8.5% decrease in operations, maintenance, and administrative expenses was mainly due to various reductions in administrative expenses, and larger amount of overhead costs being eligible for capitalization. During fiscal year 2013, the Electric Utility added construction work in progress of \$45,717.

**Transfers**

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

- Transfers to the City's General Fund, as defined by City Charter, are equal to a maximum of 4% of total operating revenues. The transfer to the City's General Fund was \$17,127 for fiscal year 2014, which is based on the current year's total operating revenues and true-up adjustments on prior year's total operating revenues. There were no significant changes in the amount of transferred to the City during fiscal year 2014 when compared with fiscal year 2013.
- The transfer of the right-of-way fee to the City is equal to 1.5% of retail electric revenues of the prior fiscal year. The right-of-way fee transferred to the City was \$5,555 for fiscal year 2014. There were no significant changes in the amount of right-of-way fee transferred to the City during fiscal year 2014 when compared with fiscal year 2013.
- Transfers from other funds of the City in fiscal year 2014 were \$297 as compared with transfers from other funds of \$59 in the prior fiscal year. The \$297 was related to joint capital assets with the Water Utility, and transferred its share to Electric Utility upon completion.

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

Transfers to the City's General Fund, as defined by City Charter, are equal to a maximum of 4% of total operating revenues. The transfer to the City's General Fund was \$17,504 for fiscal year 2013, which is based on the current year's total operating revenues and true-up adjustments on prior year's total operating revenues. An increase of \$2,437 was mainly due to the increased operating revenue in the fiscal year 2013.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

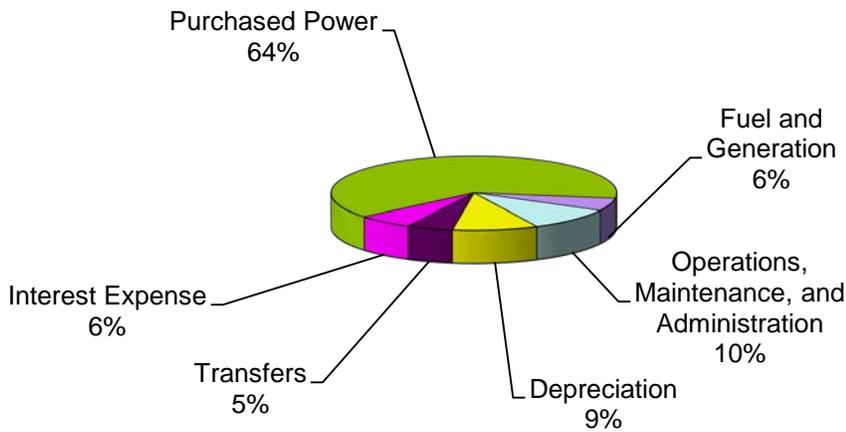
(In thousands)

The transfer of the right-of-way fee to the City is equal to 1.5% of retail electric revenues of the prior fiscal year. The right-of-way fee transferred to the City was \$5,069 for fiscal year 2013. There were no significant changes in the amount of right-of-way fee transferred to the City during fiscal year 2013 when compared with fiscal year 2012.

Transfers from other funds of the City in fiscal year 2013 were \$59 as compared with transfers to other funds of \$872 in the prior fiscal year. There was no significant amount in this fiscal year. The \$872 was capital assets of facility lighting enhancement and Arena Box Office Green Roof construction transferred to the Convention Center in the prior year.

**Expenses and Transfers**

**Year ended June 30, 2014**



**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

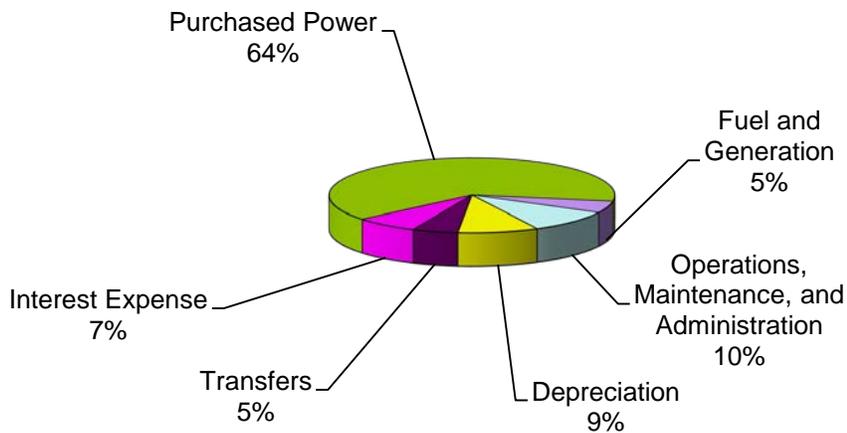
Management's Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

(In thousands)

**Expenses and Transfers**

**Year ended June 30, 2013**



**Capital Assets and Debt Administration**

**Capital Assets**

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Production	\$ 123,622	123,412	119,144
Transmission	94,220	92,323	92,229
Distribution	877,903	851,842	805,703
General plant	127,752	112,045	109,346
Land	35,671	35,671	35,671
Construction in progress	55,001	34,814	46,201
Total utility plant	1,314,169	1,250,107	1,208,294
Less accumulated depreciation	(459,092)	(422,668)	(386,832)
Net utility plant	\$ <u>855,077</u>	<u>827,439</u>	<u>821,462</u>

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

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

(In thousands)

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

The Electric Utility's investment in utility plant, net of accumulated depreciation, was \$855,077 as of June 30, 2014. An increase of \$27,638 (3.3%) was due to total utility plant increasing by \$64,062 (5.1%), and partial offset by \$36,424 (8.6%) in accumulated depreciation mainly due to the following:

- Distribution assets totaled \$877,903, an increase of \$26,061 (3.1%) mainly due to the completion of 2.6 miles of underground conversion on Brookhurst Street and Douglass Road, replacement of 116 high-voltage transformers, 48 high-voltage switches, six 220kV circuit breakers at Lewis Substation, and about 50,000 feet of degraded direct buried cable.
- General assets totaled \$127,752, an increase of \$15,707 (14.0%) mainly due to implementation of a new Customer Information System (CIS) system to replace the 20-year-old existing system. This updated system will provide more efficient and functional services to Anaheim's customers.
- Construction in progress totaled \$55,001, an increase of 20,187 (58.0%) mainly due to the replacement of aging overhead electrical lines with state-of-the-art underground projects on Lincoln Avenue, West Street and Westmont Street; the installation of a photovoltaic system (solar panels) at the Anaheim Convention Center, replacement of aging circuit breakers, and improvements at substations.
- Accumulated depreciation of \$459,092 increased by \$36,424 (8.6%) mainly due to the current year's depreciation expense of \$41,770 offset by \$5,346 from retired assets.

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

The Electric Utility experienced an increase in total utility plant this fiscal year of \$41,813 (3.5%), which includes the expansion or improvement of existing substations, transmission and distribution systems improvements, the replacement of aging overhead electrical lines with state-of-the-art underground projects on Brookhurst street, La Palma street, and between Lincoln and Magnolia streets, and upgrading equipment for San Juan plant.

Accumulated depreciation increased \$35,836 (9.3%) mainly due to current year depreciation expense of \$39,969.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

(In thousands)

**Long-Term Debt**

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenue bonds	\$ 606,885	678,680	701,755
Electric system notes	35,600	44,000	—
Long-term debt	642,485	722,680	701,755
Less:			
Current portion	(23,355)	(78,395)	(18,995)
Unamortized bond premium	14,967	16,390	9,009
Total noncurrent long-term debt outstanding	<u>\$ 634,097</u>	<u>660,675</u>	<u>691,769</u>

- The Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio of 1.25. The Utility's debt service coverage ratios were 2.0 at June 30, 2014 and 2013, respectively. The revenues of the Electric Utility have 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 good debt service coverage levels, strong liquidity position, stable financial performance, and mature and diverse customers in an economy growth area. Additional information on the Electric Utility's long-term liabilities can be found in note 7 of the notes to financial statements.

**As of June 30, 2014**

Total long-term debt decreased by \$80,195 (11.1%) due to the \$60,205 early retirement of the 2002-B Revenue Bonds, \$11,590 of scheduled principal payments for other revenue bonds, and a \$8,400 decrease in Electric system notes.

**As of June 30, 2013**

Total long-term debt outstanding increased \$23,525 (3.4%) due to new debt from revolving credit agreement of \$46,600 offset by current year principal payments of \$18,995 and pay-down of \$4,080 on the refunded 2002-B Revenue Bonds by the 2012-A Revenue Bonds. The revenues of the Electric Utility have been pledged to pay the outstanding long-term debt.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Management's Discussion and Analysis  
(Unaudited)

June 30, 2014 and 2013

(In thousands)

**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, and 33% by 2020. 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.

There have not been any base rate increases since fiscal year 2012.

**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, 2014 and 2013

(In thousands)

<b>Assets and Deferred Outflows of Resources</b>	<b>2014</b>	<b>2013</b>
Utility plant:		
Production	\$ 123,622	123,412
Transmission	94,220	92,323
Distribution	877,903	851,842
General plant	127,752	112,045
Total depreciable utility plant	1,223,497	1,179,622
Less accumulated depreciation	(459,092)	(422,668)
Net depreciable utility plant	764,405	756,954
Land	35,671	35,671
Construction in progress	55,001	34,814
Net utility plant	855,077	827,439
Restricted assets:		
Cash and cash equivalents	22,846	33,688
Investments	192,757	209,461
Total restricted assets	215,603	243,149
Other assets:		
Prepaid purchased power	62,064	56,519
Unamortized prepaid bond insurance	1,103	1,254
Total other assets	63,167	57,773
Total noncurrent assets	1,133,847	1,128,361
Current assets:		
Cash and cash equivalents	10,006	17,538
Investments	28,549	36,354
Restricted cash and cash equivalents	6,988	62,515
Restricted investments	16,179	17,939
Accounts receivable, net	41,205	43,220
Accrued interest receivable	1,051	1,218
Materials and supplies inventory	11,968	9,683
Prepaid purchased power	31,410	9,950
Total current assets	147,356	198,417
Total assets	1,281,203	1,326,778
Deferred outflows of resources:		
Deferred charge of refunding bonds	2,756	3,352
Total deferred outflows of resources	2,756	3,352
Total assets and deferred outflows of resources	\$ 1,283,959	1,330,130

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Statements of Net Position

June 30, 2014 and 2013

(In thousands)

<b>Liabilities and Deferred Inflows of Resources</b>	<b>2014</b>	<b>2013</b>
Long-term liabilities:		
Long-term debt obligation, less current portion	\$ 634,097	663,275
Provision for decommissioning costs	133,664	131,333
Total long-term liabilities	767,761	794,608
Current liabilities (payable from restricted assets):		
Current portion of long-term debt	11,916	68,898
Accounts payable	3,566	3,133
Wages payable	125	134
Arbitrage rebate liabilities	337	158
Accrued interest payable	7,223	8,131
Total current liabilities (payable from restricted assets)	23,167	80,454
Current liabilities (payable from unrestricted current assets):		
Current portion of long-term debt	11,439	9,497
Accounts payable and accrued expenses	36,093	23,031
Interfund payable	—	104
Wages payable	650	391
Deposits	3,846	4,091
Total current liabilities (payable from unrestricted current assets)	52,028	37,114
Total liabilities	842,956	912,176
Deferred inflows of resources:		
Deferred regulatory credits	89,098	67,963
Total deferred inflows of resources	89,098	67,963
Total liabilities and deferred inflows of resources	932,054	980,139
Net position:		
Net investment in capital assets	255,497	231,291
Restricted for:		
Debt service	12,263	16,536
Renewal and replacement	16,001	15,852
Other purposes	12,019	10,593
Unrestricted	56,125	75,719
Total net position	351,905	349,991
Total liabilities, deferred inflows of resources, and net position	\$ 1,283,959	1,330,130

See accompanying notes to financial statements.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

(In thousands)

	<b>2014</b>	<b>2013</b>
Operating revenues:		
Retail sales of electricity, net	\$ 316,916	329,311
Wholesale sales of electricity	42,374	26,322
Rate Stabilization Account revenues	26,500	41,000
Surplus natural gas sales	1,107	9,127
Transmission revenues	34,912	41,854
Other operating revenues	4,242	4,344
Total operating revenues	426,051	451,958
Operating expenses:		
Purchased power	275,013	279,842
Fuel and generation	23,643	21,987
Operations, maintenance, and administration	43,079	42,937
Depreciation	41,770	39,969
Total operating expenses	383,505	384,735
Operating income	42,546	67,223
Nonoperating revenues (expenses):		
Interest income	4,731	1,991
Interest expense	(27,340)	(31,480)
Net nonoperating expenses	(22,609)	(29,489)
Income before capital contributions and transfers	19,937	37,734
Capital contributions	4,362	3,782
Transfer to the General Fund of the City	(17,127)	(17,504)
Transfer of right-of-way fee to the City	(5,555)	(5,069)
Transfers from (to) other funds of the City	297	59
Change in net position	1,914	19,002
Net position at beginning of year	349,991	330,989
Net position at end of year	\$ 351,905	349,991

See accompanying notes to financial statements.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Statements of Cash Flows

Years ended June 30, 2014 and 2013

(In thousands)

	<b>2014</b>	<b>2013</b>
Cash flows from operating activities:		
Receipts from customers and users	\$ 446,926	457,545
Receipts from services provided to other funds of the City	2,030	2,019
Payments to suppliers	(309,304)	(305,121)
Payments to employees	(37,615)	(35,790)
Payments for services provided by other funds of the City	(8,030)	(8,808)
Net cash provided by operating activities	94,007	109,845
Cash flows from noncapital financing activities:		
Proceeds from short-term borrowings of line-of-credit	7,400	2,600
Payments on short-term borrowings of line-of-credit	(10,000)	—
Transfers to the General Fund and other funds of the City	(22,682)	(22,573)
Net cash used for noncapital financing activities	(25,282)	(19,973)
Cash flows from capital and related financing activities:		
Proceeds from borrowings	—	147,984
Principal payments on long-term debt	(80,195)	(18,995)
Transfer to escrow account	—	(96,603)
Capital purchases	(66,491)	(46,101)
Interest paid	(30,542)	(33,880)
Issuance costs	—	(470)
Transfers from other funds of the City for capital purposes	297	110
Capital contributions	3,138	3,169
Net cash used for capital and related financing activities	(173,793)	(44,786)
Cash flows from investing activities:		
Purchases of investment securities	(50,336)	(93,116)
Proceeds from sale and maturity of investment securities	76,761	83,249
Interest income received	4,742	6,709
Net cash provided by (used for) investing activities	31,167	(3,158)
(Decrease) increase in cash and cash equivalents	(73,901)	41,928
Cash and cash equivalents at beginning of year	113,741	71,813
Cash and cash equivalents at end of year	\$ 39,840	113,741

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Statements of Cash Flows

Years ended June 30, 2014 and 2013

(In thousands)

	<b>2014</b>	<b>2013</b>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 42,546	67,223
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	41,770	39,969
Increase in provision for decommissioning costs	2,331	388
Changes in assets, liabilities and deferred inflows of resources that provided (used) cash:		
Accounts receivable, net	2,015	(951)
Materials and supplies inventory	(2,285)	(1,378)
Prepaid purchased power	(27,005)	(10,026)
Accounts payable and accrued expenses	13,495	6,047
Wages payable	250	16
Regulatory credits	21,135	8,571
Deposits	(245)	(14)
Total adjustments	51,461	42,622
Net cash provided by operating activities	\$ 94,007	109,845
Schedule of noncash investing, capital, and financing activities:		
Capital contributions	\$ 1,224	613
Transfers from other funds of the City	—	51
Increase (decrease) in fair value of investments	156	(4,593)
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 10,006	17,538
Restricted cash and cash equivalents, current portion	6,988	62,515
Restricted cash and cash equivalents, noncurrent portion	22,846	33,688
Total cash and cash equivalents	\$ 39,840	113,741

See accompanying notes to financial statements.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

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

**(a) Basis of Accounting**

The Electric Utility Fund (Electric Utility) of the City of Anaheim, California (City) was established on June 30, 1971, at which time the portion of the City's General Fund net 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, 2013, the Electric Utility adopted the following new accounting pronouncements issued by the Governmental Accounting Standards Board (GASB):

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

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

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

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

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

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

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

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

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

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

**(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, 2014 and 2013, the Electric Utility reported deferred charges on refunding bonds in this category of \$2,756 and \$3,352, 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.

**(g) Deferred Inflows of Resources**

Deferred inflows of resources represent acquisitions of net position that apply to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Electric Utility included its regulatory credits in this category. Regulatory credits represent amounts accumulated from collections, which provide recovery in the current period for costs to be incurred in future periods. At June 30, 2014 and 2013, the amounts recorded for regulatory credits totaled \$89,098 and \$67,963, respectively. See note 1 (j) for further discussion of regulatory credits.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

**(h) Operating Revenues**

Operating revenues are revenues 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 revenues for energy sold but not billed at the end of a fiscal period. Most residential and some smaller commercial accounts are billed bimonthly, and all other customers are billed monthly.

Unbilled electric service charges are included in accounts receivable at year-end. Unbilled accounts receivable totaled \$22,479 and \$20,923 at June 30, 2014 and 2013, respectively.

Revenues are reported net of uncollectible amounts. Total uncollectible amounts written off are \$786 and \$771 for the years ended June 30, 2014 and 2013, respectively. The applicable allowances for uncollectible accounts are \$616 and \$366 at June 30, 2014 and 2013, respectively. See note 6 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, and the City's portion of SONGS spent fuel storage costs and insurance premiums after the sale of SONGS on December 29, 2006. 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 fossil-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 revenues, or unplanned costs including unexpected long-term loss of a generating facility, unplanned

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

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.

As of August 1, 2013, the PCA rates were the same as \$0.0150 per kWh for all domestic retail customers, excluding residential lifeline customers, and as \$0.0100 per kWh for all commercial, industrial, municipal customers, and large Time-of-Use (TOU) customers. As of June 30, 2014 and 2013, the Electric Utility recorded deferred inflows of resources for regulatory credits of \$45,602 and \$40,707, respectively. During fiscal years 2014 and 2013, \$16,825 and \$40,756, respectively, was recognized as RSA revenues to mitigate the impact of energy costs and operation costs.

As of August 1, 2013, the EMA rates were the same as \$0.0150 per kWh for all domestic customers and as \$0.0100 per kWh for all other customers, including large TOU customers. As of June 30, 2014 and 2013, the Electric Utility recorded deferred inflows of resources for regulatory credits of \$43,496 and \$27,256, respectively. During fiscal years 2014 and 2013, \$9,675 and \$244, respectively, was recognized as RSA revenues 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 statement of net position. As of June 30, 2014 and 2013, the Electric Utility has recorded a provision for decommissioning costs for SONGS of \$129,264 and \$127,373, respectively. For the years ended June 30, 2014 and 2013, the Electric Utility has recorded decommissioning costs incurred for SONGS of \$1,891 and \$52, respectively, which are included in the fuel and generation component in operating expenses.

On June 7, 2013, the 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 new decommissioning study is approved by the Nuclear Regulatory Commission (NRC). SCE submitted a decommissioning cost analysis study to NRC on September 23, 2014. According to the new study for the decommissioning costs of SONGS, the Electric Utility's share of decommissioning costs is \$108,860 for June 30, 2014. The Electric Utility currently has \$129,264 in an irrevocable trust for the decommissioning costs, which is about 18% more than the study's requirement.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

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, 2014 and 2013, the Electric Utility has recorded a provision for decommissioning costs for SJ of \$4,400 and \$3,960, respectively. Electric Utility currently has \$580 in irrevocable trust and \$3,820 in the City restricted cash account. For the years ended June 30, 2014 and 2013, the Electric Utility has recorded decommissioning costs incurred for SJ of \$440 and \$440, respectively, which are included in the fuel and generation component of operating expenses. Based on cost projections, it is estimated that \$440 will be required per year until 2027 to fund this obligation.

**(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) Bond Refunding Costs**

Bond refunding costs are deferred and amortized over the life of the old debt or the life of the new debt, whichever is shorter, on a basis that approximates the effective-interest method. 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 \$1,803 and \$1,801 for the Electric Utility at June 30, 2014 and 2013, respectively.

**(o) 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 revenues. Such transfers are not in lieu of taxes, and amounted to \$17,127 and \$17,504 for the years ended June 30, 2014 and 2013, respectively.

The transfer of right-of-way fees to the City represents the City Council approved transfer of 1.5% of retail electric revenues of the prior fiscal year to the General Fund of the City. Bond disclosure requirements designate that this transfer must be recognized as an expense in the calculation of bond coverage. The transfer of right-of-way fee to the City amounted to \$5,555 and \$5,069 for the years ended June 30, 2014 and 2013, respectively.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

Other transfers to or from other funds of the City are either cash transfers or capital asset transfers between City funds. The net amount of transfers from was \$297 and \$59 for the years ended June 30, 2014 and 2013, respectively.

**(p) Use of Estimates**

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

**(2) Deposits and Investments**

The City maintains a cash and investment pool, which includes the cash balances of all 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 August 2013.

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 with the following carrying amounts:

	<b>2014</b>	<b>2013</b>
Cash equivalents and investments pooled with the Treasurer	\$ 96,459	137,913
Investments held with trustee	180,866	239,582
	\$ 277,325	377,495

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

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

	<b>2014</b>	<b>2013</b>
Restricted assets – cash equivalents and investments	\$ 238,770	323,603
Unrestricted assets – cash equivalents and investments	38,555	53,892
	\$ 277,325	377,495

**(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.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(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.

<b>Authorized investment type</b>	<b>Maximum maturity</b>	<b>Maximum percentage of portfolio*</b>	<b>Maximum investment in one issuer</b>	<b>Minimum rating (S&amp;P/Moody's/Fitch)</b>
U.S. Treasury obligations	5 years	100	100	None
U.S. agency securities	5 years	100	40	None
Bankers' acceptances	180 days	40	5	None
Commercial paper	270 days	25	5	A-1/P-1/F-1
Negotiable certificates of deposit	360 days	25	5	None
Repurchase agreements	1 year	30	None	None
Reverse repurchase agreements	90 days	20	None	None
Medium-term corporate notes	5 years	30	5	A
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.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

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

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

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

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

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

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

At June 30, 2014, the following investments represent five percent or more of the City's total investments controlled by bond trustees:

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

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

**(d) Custodial Credit Risk**

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

Custodial credit risk for investments held by 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.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

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 table that shows the distribution of the City's investments by maturity at June 30, 2014. 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 2014 and 2013 is provided by the following tables.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

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

<u>Investments</u>	<u>Credit rating (S&amp;P/ Moody's)</u>	<u>Fair value, June 30, 2014</u>	<u>12 months or less</u>	<u>13 to 24 months</u>	<u>25 to 36 months</u>	<u>37 to 60 months</u>	<u>More than 60 months</u>
Treasurer's pooled investments:							
U.S. agency securities	AA+/Aaa	\$ 49,605	7,527	4,020	10,173	27,885	—
Medium term notes	AAA/Aaa	5,814	—	4,182	1,133	499	—
Medium term notes	AA+/Aaa	1,134	—	—	1,134	—	—
Medium term notes	AA+/A1	3,484	1,143	1,146	1,195	—	—
Medium term notes	AA/Aa1	2,557	—	456	1,416	685	—
Medium term notes	AA/Aa2	680	—	680	—	—	—
Medium term notes	AA-/Aa3	683	—	683	—	—	—
Medium term notes	A+/A1	681	—	—	—	681	—
Medium term notes	A+/A2	1,359	229	—	—	1,130	—
Medium term notes	A/A3	2,519	1,382	1,137	—	—	—
Medium term notes	A-/A3	1,589	—	1,589	—	—	—
Medium term notes	A-/Baa1	1,180	—	1,180	—	—	—
Commercial paper	A-1/P-1	9,821	9,821	—	—	—	—
Money market mutual funds	AAA/Aaa	1,477	1,477	—	—	—	—
LAIF	Unrated	13,876	13,876	—	—	—	—
Total investments controlled by City Treasurer		96,459	35,455	15,073	15,051	30,880	—
Investments controlled by bond trustees:							
U.S. agency securities	AA+/Aaa	128,165	8,308	27,143	9,446	83,268	—
Guaranteed investment contracts	Unrated	24,145	—	7,500	—	—	16,645
Collateralized investment contracts	Unrated	3,669	—	—	—	—	3,669
Flexible repurchase agreements	Unrated	10,082	10,082	—	—	—	—
Money market mutual funds	AAA/Aaa	14,805	14,805	—	—	—	—
Total investments controlled by bond trustees		180,866	33,195	34,643	9,446	83,268	20,314
Total Electric Utility investments		\$ 277,325	68,650	49,716	24,497	114,148	20,314

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

<u>Investments</u>	<u>Credit rating (S&amp;P/ Moody's)</u>	<u>Fair value, June 30, 2013</u>	<u>12 months or less</u>	<u>13 to 24 months</u>	<u>25 to 36 months</u>	<u>37 to 60 months</u>	<u>More than 60 months</u>
Treasurer's pooled investments:							
U.S. agency securities	AA+/Aaa	\$ 70,672	12,171	13,682	15,093	29,726	—
Medium term notes	A-/A3	1,633	—	—	1,633	—	—
Medium term notes	A/A2	3,504	—	1,950	1,554	—	—
Medium term notes	A+/A1	923	—	—	—	923	—
Medium term notes	A+/A2	1,842	—	316	—	1,526	—
Medium term notes	AA/Aa1	1,556	—	—	626	930	—
Medium term notes	AA/Aa2	943	—	—	943	—	—
Medium term notes	AA+/A1	4,825	—	3,178	—	1,647	—
Medium term notes	AA+/Aa3	934	—	—	934	—	—
Medium term notes	AAA/Aaa	6,757	946	—	5,811	—	—
Commercial paper	A-1/P-1	17,745	17,745	—	—	—	—
Money market mutual funds	AAA/Aaa	7,727	7,727	—	—	—	—
LAIF	Unrated	18,852	18,852	—	—	—	—
Total investments controlled by City Treasurer		<u>137,913</u>	<u>57,441</u>	<u>19,126</u>	<u>26,594</u>	<u>34,752</u>	<u>—</u>
Investments controlled by bond trustees:							
U.S. agency securities	AA+/Aaa	126,652	49,190	8,492	27,437	41,533	—
Guaranteed investment contracts	Unrated	30,320	—	—	7,500	—	22,820
Collateralized investment contracts	Unrated	3,669	—	—	—	—	3,669
Flexible repurchase agreements	Unrated	10,082	—	10,082	—	—	—
Money market mutual funds	AAA/Aaa	68,859	68,859	—	—	—	—
Total investments controlled by bond trustees		<u>239,582</u>	<u>118,049</u>	<u>18,574</u>	<u>34,937</u>	<u>41,533</u>	<u>26,489</u>
Total Electric Utility investments		<u>\$ 377,495</u>	<u>175,490</u>	<u>37,700</u>	<u>61,531</u>	<u>76,285</u>	<u>26,489</u>

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

**(3) Electric Utility Plant**

The following is a summary of changes in capital assets:

	<u>Balance as of June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance as of June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance as of June 30, 2014</u>
Production	\$ 119,144	4,268	—	123,412	210	—	123,622
Transmission	92,229	129	(35)	92,323	1,906	(9)	94,220
Distribution	805,703	48,644	(2,505)	851,842	30,290	(4,229)	877,903
General plant	109,346	2,699	—	112,045	16,816	(1,109)	127,752
Depreciable utility plant	1,126,422	55,740	(2,540)	1,179,622	49,222	(5,347)	1,223,497
Less accumulated depreciation	(386,832)	(39,969)	4,133	(422,668)	(41,770)	5,346	(459,092)
Net depreciable utility plant	739,590	15,771	1,593	756,954	7,452	(1)	764,405
Land	35,671	—	—	35,671	—	—	35,671
Construction in progress	46,201	45,717	(57,104)	34,814	68,066	(47,879)	55,001
Nondepreciable utility plant	81,872	45,717	(57,104)	70,485	68,066	(47,879)	90,672
Net utility plant	\$ 821,462	61,488	(55,511)	827,439	75,518	(47,880)	855,077

**(4) Operating Expenses**

Total operating expenses shared with the City's Water Utility Fund amounted to \$29,679 and \$28,788 for the years ended June 30, 2014 and 2013, respectively, of which \$22,556 and \$21,879, respectively, were allocated to the Electric Utility.

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

**(5) Jointly Owned Utility Projects**

**(a) SONGS**

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.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(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, 2014 and 2013 amounted to \$84,616 and \$84,407, respectively. There are no separate financial statements for this venture, as each participant's interest is reflected in its respective financial statements.

**(6) Short-Term Debt**

The Electric Utility had Revolving Credit Agreement with Wells Fargo Bank, National Association in the form of short-term taxable notes for financing the Cap-and-Trade program.

At June 30, 2014, the Electric Utility has drawn \$7,400 from this note and repaid \$10,000 for Cap-and-Trade program as follows:

<u>June 30, 2014</u>	<u>Beginning of year</u>	<u>Additions</u>	<u>Retirements</u>	<u>End of year</u>	<u>Due within one year</u>
Electric system note	\$ 2,600	7,400	(10,000)	—	—
Total short-term liabilities	\$ 2,600	7,400	(10,000)	—	—

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

**(7) Long-Term Liabilities**

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

<u>June 30, 2014</u>	<u>Beginning of year</u>	<u>Additions</u>	<u>Retirements</u>	<u>End of year</u>	<u>Due within one year</u>
Anaheim Public Financing					
Authority Revenue Bonds	\$ 678,680	—	(71,795)	606,885	12,155
Electric system note	44,000	—	(8,400)	35,600	11,200
Provision for decommissioning costs	131,333	2,331	—	133,664	—
	<u>854,013</u>	<u>2,331</u>	<u>(80,195)</u>	<u>776,149</u>	<u>\$ 23,355</u>
Less current portion	(75,795)	(23,355)	75,795	(23,355)	
Add unamortized bond premium	16,390	—	(1,423)	14,967	
	<u>794,608</u>	<u>(21,024)</u>	<u>(5,823)</u>	<u>767,761</u>	
Total long-term liabilities	<u>\$ 794,608</u>	<u>(21,024)</u>	<u>(5,823)</u>	<u>767,761</u>	
<u>June 30, 2013</u>	<u>Beginning of year</u>	<u>Additions</u>	<u>Retirements</u>	<u>End of year</u>	<u>Due within one year</u>
Anaheim Public Financing					
Authority Revenue Bonds	\$ 701,755	92,130	(115,205)	678,680	71,795
Electric system note	—	44,000	—	44,000	4,000
Provision for decommissioning costs	130,945	388	—	131,333	—
	<u>832,700</u>	<u>136,518</u>	<u>(115,205)</u>	<u>854,013</u>	<u>\$ 75,795</u>
Less current portion	(18,995)	(75,795)	18,995	(75,795)	
Add unamortized bond premium	9,009	9,254	(1,873)	16,390	
	<u>822,714</u>	<u>69,977</u>	<u>(98,083)</u>	<u>794,608</u>	
Total long-term liabilities	<u>\$ 822,714</u>	<u>69,977</u>	<u>(98,083)</u>	<u>794,608</u>	

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

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

	<b>2014</b>	<b>2013</b>
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 the conversion date, October 2, 2005, the 1999 bond was remarked in the amount of \$43,010. The remaining principal of \$29,930 at rates ranging from 4.00% to 5.00% is maturing from October 1, 2014 through 2027 in annual principal installments ranging from \$1,535 to \$2,795. The total debt service is \$39,385 to maturity.	\$ 29,930	32,315
Anaheim Public Financing Authority Revenue Bonds, issue of 2002, TIC 4.97%, dated February 15, 2002, sold on March 12, 2002 in the amount of \$178,705. The remaining principal of \$60,205 was pay-off by electric system note on July 15, 2013.	—	60,205
Anaheim Public Financing Authority Revenue Bonds, issue of 2003, TIC 3.99%, dated April 1, 2003, sold on April 9, 2003 in the amount of \$60,415. The Series 2003-A was issued in the amount of \$37,735 as serial bond. The remaining principal of \$27,725 at rate of 5% maturing from October 1, 2013 to 2022 in annual principal installments ranging from \$2,045 to \$3,590. The Series 2003-B was issued in the amount of \$22,680. There is no remaining principal. The total debt service is \$35,362 to maturity.	25,680	27,725
Anaheim Public Financing Authority Revenue Bonds, issue of 2004, TIC 4.99%, dated June 1, 2004, sold June 30, 2004 in the amount of \$131,265, of which: (1) \$97,060 was issued as serial bonds. The remaining principal of \$77,065 at rates ranging from 4.00% to 5.25% is maturing from October 1, 2013 to 2025 in annual principal installments ranging from \$2,830 to \$9,595; (2) \$13,325 was issued as term bonds at a rate of 5.00% maturing from October 1, 2026 through 2029 in annual principal installments from \$3,085 to \$3,585; and (3) \$20,880 was issued as term bonds at a rate of 5.00% maturing from October 1, 2026 through 2034 in annual principal installments ranging from \$3,770 to \$4,605. The total debt service is \$173,792 to maturity.	108,440	111,270

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

	2014	2013
<p>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 \$65,030 at rates ranging from 4.00% to 5.00% is maturing from October 1, 2013 through 2028 in annual principal installments ranging from \$3,100 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 bonds at a rate of 4.50% maturing from October 1, 2033 through 2037 in annual principal installments ranging from \$13,125 to \$15,715. The total debt service is \$343,566 to maturity.</p>	\$	194,965
<p>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 \$32,755 at rates ranging from 4.00% to 5.00% is maturing from October 1, 2013 through 2030 in annual principal installments ranging from \$1,230 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 \$122,679 to maturity.</p>		66,580
<p>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 on October 1, 2032 and 2036 in annual principal installments from \$4,905 to \$6,080. The total debt service is \$161,683 to maturity.</p>		90,390

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

	<b>2014</b>	<b>2013</b>
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 \$151,733 to maturity.	\$ <u>92,130</u>	<u>92,130</u>
Total Anaheim Public Financing Authority Revenue Bonds	\$ <u><u>606,885</u></u>	<u><u>678,680</u></u>

Annual debt service requirements, excluding amounts for decommissioning costs, at June 30, 2014 to maturity are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Fiscal year(s) ending June 30:			
2015	\$ 12,155	28,632	40,787
2016	12,690	28,078	40,768
2017	15,115	27,438	42,553
2018	15,810	26,735	42,545
2019	16,570	25,978	42,548
2020–2024	117,380	113,843	231,223
2025–2029	152,630	80,329	232,959
2030–2034	160,410	42,536	202,946
2035–2039	99,695	10,742	110,437
2040–2041	4,430	116	4,546
	\$ 606,885	384,427	991,312

On March 1, 2013, the Electric Utility entered into a Revolving Credit 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 0.175% on the total note amount of \$100,000.

On July 13, 2013, the Electric Utility used \$44,000 from the proceeds of the Revolving Credit Agreement with Wells Fargo Bank, National Association, together with funds from the 2002-B Electric Revenue Bonds reserve and debt service balances of \$10,030 and funds of \$7,053 from the City, to retire the outstanding principal balance of \$60,205 and interest balance of \$878 on the 2002-B Electric Revenue Bonds.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

On June 30, 2014, the Electric Utility has repaid \$8,400 of the tax-exempt note, and has outstanding debt of \$35,600.

Interest costs of \$1,798 and \$1,779 have been capitalized to utility plant for the years ended June 30, 2014 and 2013, respectively.

In accordance with the bond resolutions, a reserve for maximum annual debt service has been established, and a reserve for 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 statement of net position.

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.

Electric Utility has pledged future electric revenues to repay a total of \$991,312 and \$1,093,145 outstanding long-term obligations, principal, and interest for the years ended June 30, 2014 and 2013, respectively. Proceeds from bonds provide financing for various capital improvements, primarily distribution assets. The Electric Utility's bonds are payable solely from electric net revenues and are payable through fiscal year 2040. As of June 30, 2014 and 2013, the annual principal and interest payments on the bonds, excluded early retired bond, are 46.7% and 47.9% of net revenues, respectively. Bond debt service paid and total net revenues were \$41,629 and \$89,047, and \$52,331 and \$109,183 for the years ended June 30, 2014 and 2013, respectively.

On September 19, 2012, the Electric Utility issued 2012-A Electric Revenue Refunding Bonds in the principal amount of \$92,130 at a premium of \$9,254. The proceeds totaled \$101,384 together with balance of the 2002-A Electric Revenue Bonds Reserve fund of \$6,047 and Bond Service fund of \$2,003 were deposited in escrow funds to refund the outstanding balance of \$96,210 on the 2002-A Electric Revenue Bonds and to fund the 2012-A required reserve fund of \$10,102. The true interest cost is 3.38% maturing serially from October 1, 2021 to 2023. The total debt service payments over the life of the bonds until fiscal year 2032 will be \$153,817. The Electric Utility obtained an economic gain of \$17,815.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

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

	<b>2014</b>	<b>2013</b>
Held by fiscal agent:		
Bond reserve fund	\$ 48,877	48,468
Bond service fund	2,586	63,878
Bond construction fund	8,634	38,496
Decommissioning reserve	129,403	127,236
Held by Treasurer:		
Bond service account	16,900	14,819
Renewal and replacement account	16,001	15,852
Decommissioning and fuel reserves	3,820	3,508
Public benefit program fees	12,212	11,188
Restricted rebate	337	158
	\$ 238,770	323,603

The Electric Utility's interest and other finance charges, excluding capitalized interest, for the years ended June 30, 2014 and 2013 were \$27,340 and \$31,480, respectively.

**(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, 2014 and 2013 were \$0.

**(9) Pension Plan**

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

For both years ended June 30, 2014 and 2013, as a condition of participation, employees are required to contribute 8% of their annual covered salary to PERS. The City pays 7% of the employees' required contributions and the employees pay the remaining 1%. For management employees hired after January 10, 2012, the entire 8% is paid by employees. Management and

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

I.B.E.W. employees who are hired on or after January 1, 2013 and who have no prior membership in any California public retirement system, are required to contribute employee rate of 6.75% of their annual covered salary to PERS. The entire 6.75% is paid by employees. The City is required to contribute the remaining amounts necessary to fund PERS, using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The Electric Utility is allocated its portion of the City's required contribution, as determined by PERS actuaries. This allocation is based on eligible employee wages.

The Electric Utility contributed 100% of its allocated required contributions of \$7,164, \$7,104, and \$6,700 to PERS for the years ended June 30, 2014, 2013, and 2012, respectively.

Information is not available separately for the Electric Utility as to the cost of benefits funded, the actuarially computed present value of vested and nonvested accumulated plan benefits, the related assumed rates of return used, and the actuarially computed value of vested benefits over the related pension fund assets. Refer to the City's Comprehensive Annual Financial Report as of June 30, 2014 for further information.

**(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. Premiums charged and paid were \$1,603 and \$1,459 for the years ended June 30, 2014 and 2013, respectively.

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

**(11) Commitments and Contingencies**

**(a) Take-or-Pay Contracts**

**Intermountain Power Agency**

The Electric Utility has entered into a power purchases contract with the Intermountain Power Agency (IPA) for delivery of electric power. The share of IPA power is equal to 13.225% of the generation output of IPA's two recently updated coal-fueled generating

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

units located in Delta, Utah (Unit 1 and 2 net output is 900 mega watts each). The Electric Utility is obligated for the following percentage of electrical facilities at IPA:

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

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

**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:

	<u>Entitlement</u>	<u>Expiration</u>
Transmission:		
Southern Transmission System (STS)	17.6%	2027
Mead-Adelanto Project (MAP)	13.5	2030
Mead-Phoenix Project (MPP)	24.2	2030
Generation:		
Hoover Dam Upgrading (Hoover)	42.6%	2018
Magnolia Generating Station (Magnolia)	38.0	2037
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

**Take-or-Pay Commitments**

As part of the take-or-pay commitments with IPA and SCPPA, the Electric Utility has agreed to pay its share of current and long-term obligations. Payment for these obligations will be made from the operating revenues received during the year that the payment is due. A long-term obligation has not been recorded on the accompanying financial statements, 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

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

amount of debt service that is due and payable by the Electric Utility for each project and the final maturity date:

<u>Fiscal year(s)</u>	<u>IPA</u>	<u>STS</u>	<u>MAP</u>	<u>MPP</u>	<u>Hoover</u>	<u>Magnolia</u>	<u>Natural gas</u>	<u>Canyon</u>	<u>Total</u>
2015	\$ 37,201	11,732	2,799	1,507	869	6,315	5,729	6,385	72,537
2016	30,101	14,579	3,016	1,611	957	8,548	7,091	12,769	78,672
2017	27,584	14,322	2,994	1,606	957	8,550	6,831	19,504	82,348
2018	24,741	14,108	2,971	1,596	957	6,658	6,081	19,505	76,617
2019	29,555	13,955	2,946	1,580	—	6,659	5,457	19,505	79,657
2020–2024	88,334	70,723	5,108	2,735	—	33,454	21,385	97,504	319,243
2025–2029	—	25,456	—	—	—	37,796	14,560	97,517	175,329
2030–2034	—	—	—	—	—	39,054	8,274	97,513	144,841
2035–2039	—	—	—	—	—	42,318	—	97,514	139,832
2040–2041	—	—	—	—	—	—	—	39,009	39,009
	<u>\$ 237,516</u>	<u>164,875</u>	<u>19,834</u>	<u>10,635</u>	<u>3,740</u>	<u>189,352</u>	<u>75,408</u>	<u>506,725</u>	<u>1,208,085</u>

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 2014 and 2013 billings for fuel, O&M, A&G, and other costs at these projects are as follows:

<u>Fiscal year</u>	<u>IPA</u>	<u>STS</u>	<u>MAP</u>	<u>MPP</u>	<u>Hoover</u>	<u>Magnolia</u>	<u>Natural gas</u>	<u>Canyon</u>	<u>Total</u>
2014	\$ 49,586	6,034	321	355	449	22,424	1,134	6,545	86,848
2013	48,886	5,681	351	319	519	17,297	1,207	7,461	81,721

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

**(b) Prepaid Purchased Power**

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

	<b>2014</b>	<b>2013</b>
SCPPA – Stabilization fund prepayment	\$ 39,220	36,482
SCPPA – Magnolia power prepayment	21,866	19,060
SCPPA – Ormat prepayment	450	450
SCPPA – Canyon prepayment	2,225	2,225
SCPPA – building fund	528	528
SJ – fuel acquisition prepayment	561	—
Cap and Trade Compliance	21,124	2,697
IPA – power prepayment	7,500	5,027
Prepaid purchased power	\$ 93,474	66,469

**(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.

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 \$5,740 to reduce renewable energy costs for retail customers. The compliance obligation for the wholesale sales requires the allowance to be obtained through the auction or in the secondary market quarterly. At June 30, 2014, the value of prepaid Cap and Trade allowance is \$21,124, and the value of the Cap and Trade obligation is \$13,506.

**(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, 2014 and 2013.

**CITY OF ANAHEIM  
ELECTRIC UTILITY FUND**

Notes to Financial Statements

June 30, 2014 and 2013

(In thousands)

**(e) Construction Commitments**

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

<u>Capital project</u>	<u>Remaining construction commitment</u>	<u>Expected completion date</u>
Vehicle Acquisitions	\$ 287	2014
Electric Equipment Acquisitions	2,111	2014
Smart Grid Project	855	2014
Underground District # 57 PH1, Lincoln Avenue	3,066	2015
Underground District # 60 West/Westmont	4,417	2015
Transformers Acquisitions	1,654	2014

At June 30, 2013, the Electric Utility has construction commitments totaling \$14,044.

**(12) Subsequent Event**

On October 8, 2014, the Electric Utility issued 2014-A Revenue Refunding Bonds in a principal amount of \$109,350 at a premium of \$19,921 to refund the outstanding balances of \$23,490 on the 2003-A Revenue Bond and \$105,485 on the 2004-A Revenue Bond. The true interest cost is 1.89% maturing serially from April 1, 2015 to October 1, 2025. Annual debt service requirements, beginning April 1, 2015, range from \$3,279 to \$15,223 at rates ranging from 2.0% to 5.0%. This 2014A refunding bond will reduce the Electric Utility's total debt service payments by \$44,999 at the net present value of \$32,405.