



**CITY OF ANAHEIM WATER UTILITY FUND**

Financial Statements

June 30, 2015

(With Independent Auditors' Report Thereon)

# CITY OF ANAHEIM WATER UTILITY FUND

## Table of Contents

	<b>Page</b>
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	3
Financial Statements:	
Statement of Net Position	16
Statement of Revenue, Expenses, and Changes in Net Position	18
Statement of Cash Flows	19
Notes to Financial Statements	21
<b>Required Supplementary Information</b>	
Schedule of Changes in the Net Pension Liability and Related Ratios	44
Schedule of Pension Plan Contributions	45



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## Independent Auditors' Report

The Honorable City Council  
City of Anaheim, California:

### Report on the Financial Statements

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

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

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Utility Fund of the City of Anaheim, California, as of June 30, 2015,



and the changes in its financial position and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

***Emphasis of Matters***

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

As discussed in note 1b to the financial statements, effective July 1, 2014, the Water Utility Fund adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

U.S. generally accepted accounting principles require that management’s discussion and analysis on pages 3 through 15, the schedule of changes in net pension liabilities and related ratios and the schedule of pension plan contributions on pages 44 and 45 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 18, 2015 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City’s internal control over financial reporting and compliance.

**KPMG LLP**

Irvine, California  
December 18, 2015

## CITY OF ANAHEIM WATER UTILITY FUND

### Management's Discussion and Analysis

June 30, 2015

(Unaudited)

(In thousands)

As management of Anaheim Public Utilities, a department of the City of Anaheim, California (the City), we offer the readers of the City of Anaheim Water Utility Fund (Water Utility) financial statements a narrative overview and analysis of the financial statements for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### Financial Highlights

The financial results for fiscal year 2015 reflect the numerous challenges affecting the Water Utility as a result of the severe drought conditions affecting the entire Southern California region. The Water Utility remains committed to providing the safe, reliable, and efficient delivery of high-quality water to its customers while at the same time enhancing its water conservation efforts.

- Retail sales, net of uncollectible accounts were \$62,057 for the year ended June 30, 2015. This was less than the prior year by \$3,125 (4.8%) and reflects a decrease in customer demands resulting from the ongoing conservation efforts of the Water Utility and its customers. These efforts will help the Water Utility meet its state-mandated conservation target of at least 20% by February 2016.
- The Water Utility's total net position for fiscal year 2015 was \$208,993, a decrease of \$6,270. The decrease resulted from the reduced revenue from the sales of water mentioned above, coupled with increased costs imposed by the Utility's water suppliers. In addition, interest expense increased by \$1,831, primarily because of the interest and issuance costs associated with the \$95,885 bond issued in April 2015.
- Net additions to capital assets (before depreciation) were \$9,136, an increase of 2.0%. Major capital projects completed during the year include the following:
  - Well Number 58, a new high-capacity potable water well
  - Supervisory Control and Data Acquisition System (SCADA), the software system used to control, operate, and monitor the entire water system
  - Various other citywide water main replacement projects needed to increase water system reliability by replacing aging infrastructure
- In April 2015, the Water Utility issued California Municipal Finance Authority Water revenue bonds, Series 2015-A in the principal amount of \$95,885 at a premium of \$12,984. Approximately \$41,000 of the bond proceeds is designated for funding improvements and additions to the Water Utility's capital infrastructure, which are needed to ensure the reliability of the water supply and delivery systems. The remainder of the proceeds from these bonds was used to repay other outstanding long-term debt of the Water Utility to ensure stability and flexibility for future financial strategies.

## CITY OF ANAHEIM WATER UTILITY FUND

### Management's Discussion and Analysis

June 30, 2015

(Unaudited)

(In thousands)

- During fiscal year 2015, the Water Utility adopted two accounting pronouncements issued by the Governmental Accounting Standards Board (GASB) related to pension. These Statements established accounting, financial reporting, and disclosure requirements for pension but not established for funding or budgetary standards:
  1. GASB Statement No. 68, *Accounting and Financial Reporting for Pension – an amendment of GASB Statement No. 27*, and
  2. GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

The implementation of these two Statements has significant impacts to the financial reporting of the Water Utility's defined-benefit plans. The accounting changes are as follows:

1. Net unfunded pension liability – this liability is now required to report on a full accrual basis in the Water Utility's financial statements;
2. Measurement Date – the net pension liability as reported in the June 30, 2015 financial statements has a measurement date of June 30, 2014 which reflects a one year lag in reporting the liability;
3. Contributions made subsequent to the measurement date – contributions made during fiscal year 2015 are reflected as deferred outflows of resources for pension and will be applied as a reduction in pension liability in the next fiscal year;
4. Changes in assumptions, projected to actual, and other plan amendments – will be reflected as deferred inflows of resources or deferred outflows of resources depending on the nature of the changes. The amount will be amortized and reflected as a component in pension expense calculation in the period incurred and future fiscal years.

To implement these changes, the Water Utility is required to make prior period adjustments to its July 1, 2014 net position in the financial statements. The adjustments decrease the beginning fiscal year net position by \$25,397, which represents the unfunded net pension liability of June 30, 2013. This amount is partially offset by \$2,120 in pension contributions made by the Water Utility during fiscal year 2014 for a total of \$23,277. The prior period adjustments are reflected in the unrestricted net position on the statement of net position.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Water Utility's financial statements. Because the Water Utility is a business-type activity of the City, an enterprise fund is used to account for its operations. These financial statements include only the activities of the Water Utility and provide comparative information for the prior fiscal year. Information on citywide financial results is available in the City's Comprehensive Annual Financial Report as of June 30, 2015.

## CITY OF ANAHEIM WATER UTILITY FUND

### Management's Discussion and Analysis

June 30, 2015

(Unaudited)

(In thousands)

The Water Utility's financial statements comprise two components: 1) financial statements and 2) notes to the financial statements. Included as part of the financial statements are three separate statements, which taken together indicate the overall financial condition of the Water Utility.

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

The *statements of revenue, expenses, and changes in net position* report the Water Utility's revenue and expenses on an accrual basis. These statements provide information showing how and why the Water Utility's net position changed.

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

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

### Financial Analysis

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

#### Condensed statements of net position

	<u>2015</u>	<u>2014</u> (as restated*)
Current and other assets	\$ 82,302	44,285
Net utility plant	317,947	319,010
Deferred outflows of resources	8,532	2,237
Total assets and deferred outflows of resources	<u>\$ 408,781</u>	<u>365,532</u>
Long-term liabilities, net of current portion	\$ 161,470	115,183
Current liabilities	27,849	28,878
Deferred inflows of resources	10,469	6,208
Total liabilities and deferred inflows of resources	<u>\$ 199,788</u>	<u>150,269</u>
Net investment in capital assets	\$ 217,860	225,520
Restricted	3,815	4,336
Unrestricted	(12,682)	(14,593)
Total net position	<u>\$ 208,993</u>	<u>215,263</u>

\* Restatement due to implementation of GASB Statement No. 68.

## CITY OF ANAHEIM WATER UTILITY FUND

### Management's Discussion and Analysis

June 30, 2015

(Unaudited)

(In thousands)

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

Total assets and deferred outflows of resources as of June 30, 2015 were \$408,781, reflecting an increase of \$43,249 (11.8%), which was primarily due to the following:

- Current and other assets, comprising restricted and unrestricted assets, had a net increase of \$38,017 (85.8%).
  - Restricted assets had an increase of \$43,070 (342.0%) mostly due to the influx of restricted cash and cash equivalents resulting from the proceeds from the issuance of the California Municipal Finance Authority (CMFA) Water revenue bonds, Series 2015-A.
  - Unrestricted assets decreased by \$5,053 (15.9%) primarily due to decreases in unrestricted cash and cash equivalents caused by operating requirements.
- Net Utility Plant decreased \$1,063 (0.3%) due to the increase in depreciation taken on the large amount of prior year additions and upgrades to the water capital infrastructure. Current year additions to the infrastructure were \$9,136, offset by the \$10,199 increase in accumulated depreciation. The Water Utility is continuing its capital infrastructure-building program for additional storage facilities, wells, and distribution facilities in order to ensure that the water supply continues to be safe, reliable, and sufficient to meet future demands. For the year ended June 30, 2015, the Water Utility was in the top national quartile for infrastructure reliability as measured by the number of main breaks per 100 miles of distribution piping. Future year infrastructure spending is assured with the issuance of the \$95,885 CMFA Water revenue bonds, Series 2015-A.
- Deferred outflows of resources, consisting of deferred charge on refunding bonds and deferred pension, increased by \$6,295 (281.4%), primarily because of the \$6,180 deferred charge resulting from the refunding of the 2008 Water revenue bonds with the proceeds of the CMFA Water revenue bonds, Series 2015-A.

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

Total liabilities and deferred inflows of resources as of June 30, 2015 were \$199,788, which was an increase of \$49,519 (33.0%) over the prior year. Primary reasons for this increase were:

- Long-term liabilities, net of current portion increased by \$46,287 (40.2%) primarily due to the April 2015 issuance of the \$95,885 CMFA Water revenue bonds, Series 2015-A. Approximately \$41,000 of the proceeds from this issuance will be used to finance the capital projects program for improving and safeguarding the Water Utility's water supply infrastructure.
- Deferred inflows of resources, consisting of regulatory credits for water rate stabilization purposes and deferred pension, increased by \$4,261 (68.6%) primarily due to the \$4,729 increase in deferred pension resulting from the required implementation of GASB Statement No. 68. See notes 7 and 9 of the notes to the financial statements for discussion of the Water Utility's pension reporting and additional information regarding regulatory credits.

## CITY OF ANAHEIM WATER UTILITY FUND

### Management's Discussion and Analysis

June 30, 2015

(Unaudited)

(In thousands)

- Current liabilities decreased by \$1,029 (3.6%) mostly because the Water Utility paid off the outstanding \$14,000 balance of its Revolving Credit Agreement with some of the proceeds from the CMFA Water revenue bonds, Series 2015-A, issued in April 2015. In addition, accounts payable and accrued expenses decreased \$2,245 as a result of smaller amounts required to be accrued for the cost of water pumped during the six months ended June 30, 2015. These decreases were partially offset by the \$7,412 increase in total current liabilities payable from restricted assets resulting from the decision to repay the outstanding balance of \$6,999 Note Payable to the State of California State Revolving Fund in July 2015, which resulted in classifying the entire balance of the note as current.

#### **Net Position**

The Water Utility's net position, which represents the difference between the Utility's total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, may serve over time as a useful indicator of the Water Utility's financial position. The Water Utility's net position at June 30, 2015 totaled \$208,993, a decrease of \$6,270 (2.9%), primarily due to the following:

- A major portion, \$217,860 (104.2%), of the Water Utility's net position at June 30, 2015, represents the Water Utility's investment in capital assets, less any related outstanding debt used to acquire those assets. This portion decreased by \$7,660 (3.4%) during fiscal year 2015. The decrease was primarily the result of an increase in outstanding debt, stemming from the issuance of the CMFA Water revenue bonds, Series 2015-A. The proceeds from these bonds will be used to finance additions and improvements to the Water Utility's capital asset infrastructure in order to provide safe, reliable, and efficient services to customers. These types of assets are, therefore, not available for future spending. Resources needed to repay the related outstanding debt must come from other sources such as operations.
- An additional portion of the Water Utility's net position, amounting to \$3,815 (1.8%) as of June 30, 2015, represents resources that are subject to internal and external restrictions on how they may be used. These restricted amounts consist of \$724 for debt service repayments and \$3,091 for the Water Utility's required renewal and replacement reserve.
- The unrestricted portion of the Water Utility's net position, amounting to \$(12,682) (-6.1%) as of June 30, 2015, increased by \$1,911 primarily due to the decreases in the pension obligations of the Water Enterprise Fund.

**CITY OF ANAHEIM WATER UTILITY FUND**

Management's Discussion and Analysis

June 30, 2015

(Unaudited)

(In thousands)

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

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

	<u>2015</u>	<u>2014</u>
Revenue:		
Sale of water, net	\$ 62,057	65,182
Rate Stabilization Account revenue	624	—
Other operating revenue	814	764
Interest income	2,023	988
Grants	—	45
Capital contributions	880	3,531
Total revenue	<u>66,398</u>	<u>70,510</u>
Expenses:		
Purchased water	27,301	28,769
Treatment and pumping	8,485	8,433
Operations, maintenance, and administration	15,932	11,942
Depreciation	11,421	10,534
Interest expense	4,998	3,167
Total expenses	<u>68,137</u>	<u>62,845</u>
Transfers:		
Transfer from the General Fund of the City	600	600
Transfer to the General Fund of the City	(39)	(2,619)
Transfer of right-of-way fee to the City	(978)	(902)
Net transfers to other funds of the City	(4,114)	(297)
Total transfers	<u>(4,531)</u>	<u>(3,218)</u>
Changes in net position	(6,270)	4,447
Net position at beginning of year, as restated	<u>215,263</u>	<u>210,816</u>
Net position at end of year	\$ <u><u>208,993</u></u>	<u><u>215,263</u></u>

# CITY OF ANAHEIM WATER UTILITY FUND

## Management's Discussion and Analysis

June 30, 2015

(Unaudited)

(In thousands)

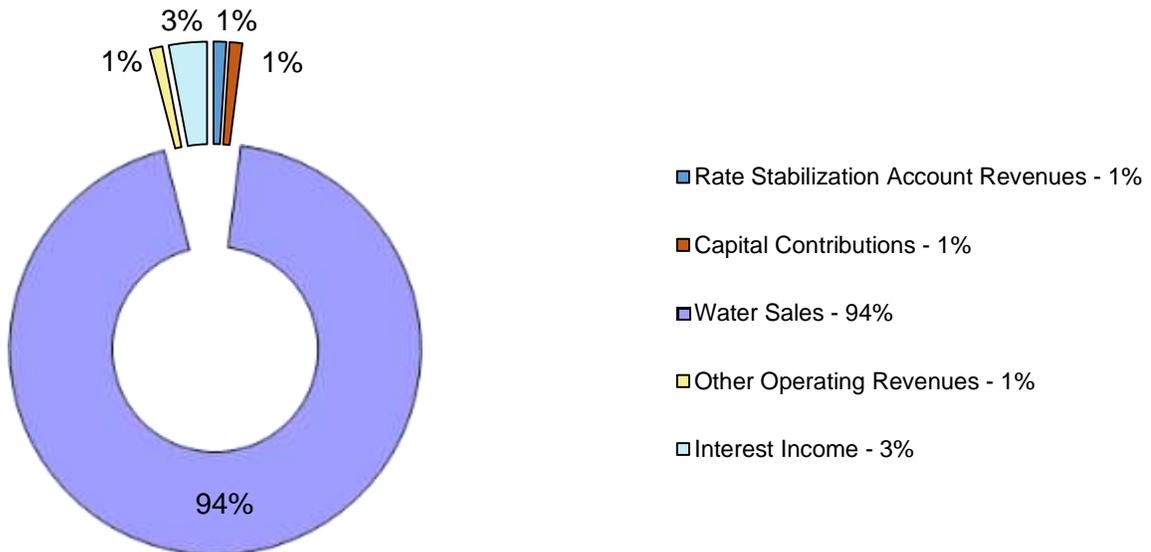
### Revenues

Total revenues for the fiscal year ended June 30, 2015 were \$66,398, which was a decrease of \$4,112 (5.8%) over the prior year. Primary reasons for this decrease are:

- Revenues from the sale of water decreased by \$3,125 (4.8%). Water sales to retail customers continue to be the primary revenue source for the Water Utility, accounting for 93.5% of total revenues. The decrease in this category of revenue is primarily due to the 5.8% decrease in customer demands during the year – a result of strenuous conservation efforts in response to the ongoing drought conditions throughout the region.
- Capital contributions (1.3% of total revenues) decreased by \$2,651 when compared to the prior year. The completion of the state route 91 widening project at Tustin Avenue in the fiscal year ended 2014, which was funded by the California Department of Transportation per a 2012 Utility Agreement, was the primary reason for the decrease.

### Revenues by Source

#### Year ended June 30, 2015



# CITY OF ANAHEIM WATER UTILITY FUND

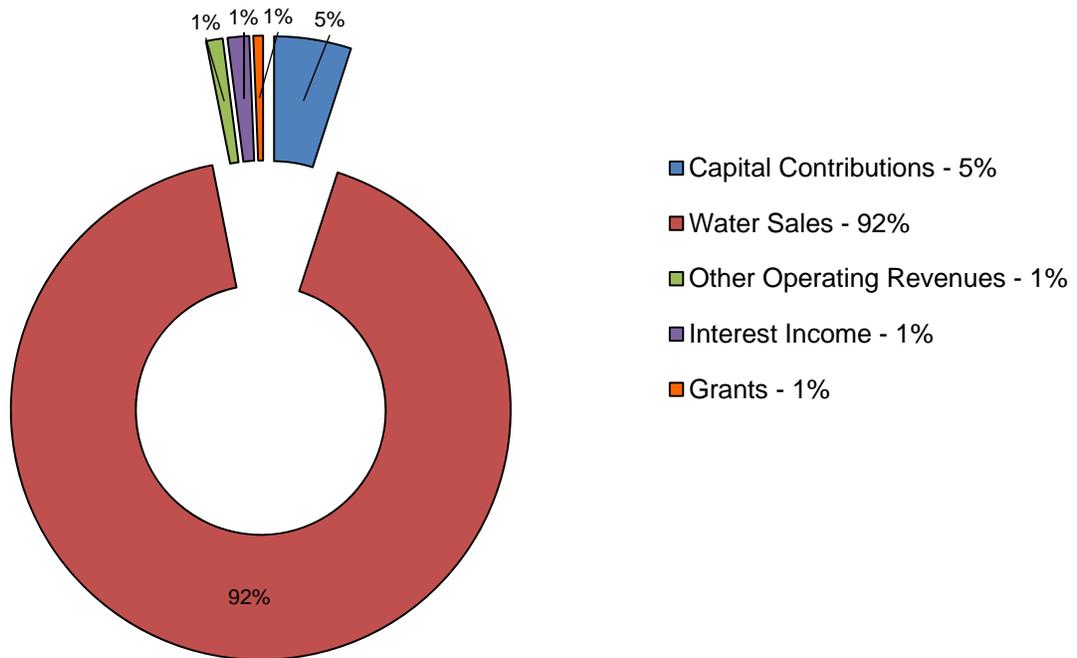
## Management's Discussion and Analysis

June 30, 2015

(Unaudited)

(In thousands)

### Year ended June 30, 2014



### Expenses

Total expenses for the fiscal year ended June 30, 2015 were \$68,137, which was a \$5,292 (8.4%) increase over the prior fiscal year. Contributing factors of this increase were:

- Operations, maintenance, and administration costs (OM&A) increased by \$3,990 (33.4%), with most of the increase (\$2,105) coming from maintenance costs. These costs increased mainly because the amount of overhead capitalized during the year decreased as a result of the declining balance in the Construction in Progress (CIP) account. The Water Utility's CIP account decreased by \$7,361 (45.5%), primarily because several major capital projects were completed and placed in service during the year, and new CIP projects were not started during the year while waiting for funding from the new bond issuance. In addition, overall costs to maintain the Water Utility's reservoirs and tanks increased during the year as part of the effort to preserve the safety and efficiency of these structures. As these direct costs increased, the overhead applied to these maintenance projects also increased. Operations expense also increased during the year by \$1,008, primarily as a result of increases in customer service expenses especially in the areas of customer account supervision, records and collection expense, resulting from the initial implementation and transition to a more sophisticated customer information and billing system.

# CITY OF ANAHEIM WATER UTILITY FUND

## Management's Discussion and Analysis

June 30, 2015

(Unaudited)

(In thousands)

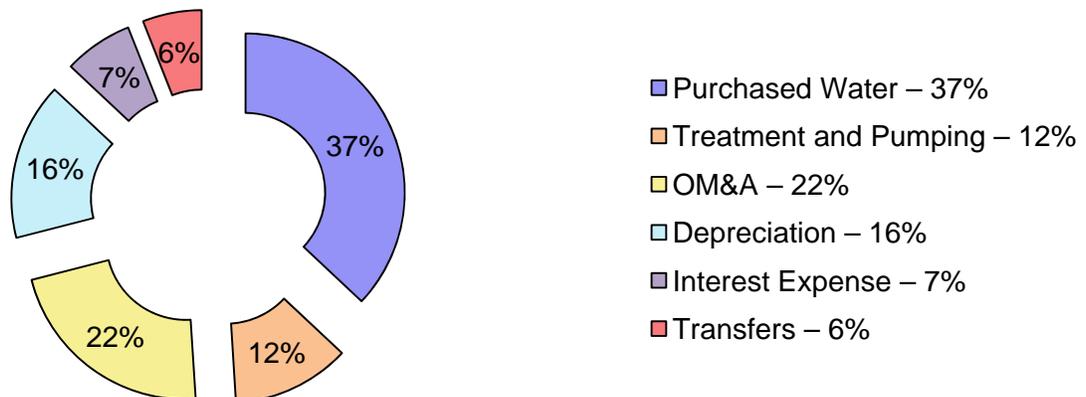
- Interest expense increased by \$1,831 (57.8%) primarily because of the issuance of the new \$95,885 CMFA Water revenue bonds Series 2015-A. Additional interest on the new bonds amounted to \$817 and the costs of issuance for these bonds included in interest expense amounted to \$630.
- The increases described above were partially offset by decreases in purchased water costs, which account for 37.6% of total expenses. Purchased water costs were less than the prior year by \$1,468 (5.1%) primarily as a result of the 5.8% decrease in customer demands.

### Transfers

- The defeat of Measure N in the November 2014 election coupled with settled litigation required that the Water Utility cease making the 4% transfer to the City's General Fund. The \$39 transfer reported in fiscal year 2015 represents only the true-up adjustment based on the prior year's total operating revenue. The Utility made no additional transfers to the City's General Fund.
- The right-of-way fee transferred to the City's General Fund is equal to 1.5% of net revenue of the prior fiscal year. Net revenue is defined as revenue from sale of water less uncollectible accounts. The right-of-way fee transferred to the City amounted to \$978 for fiscal year 2015.
- Upon completion of several joint capital projects, the Water Utility transferred ownership of its share of these projects, valued at \$4,114, to the Electric Utility. Most of this transfer (\$4,042) was for Water Utility's share of the costs the newly implemented customer information billing system.

### Expenses and Transfers

#### Year ended June 30, 2015



**CITY OF ANAHEIM WATER UTILITY FUND**

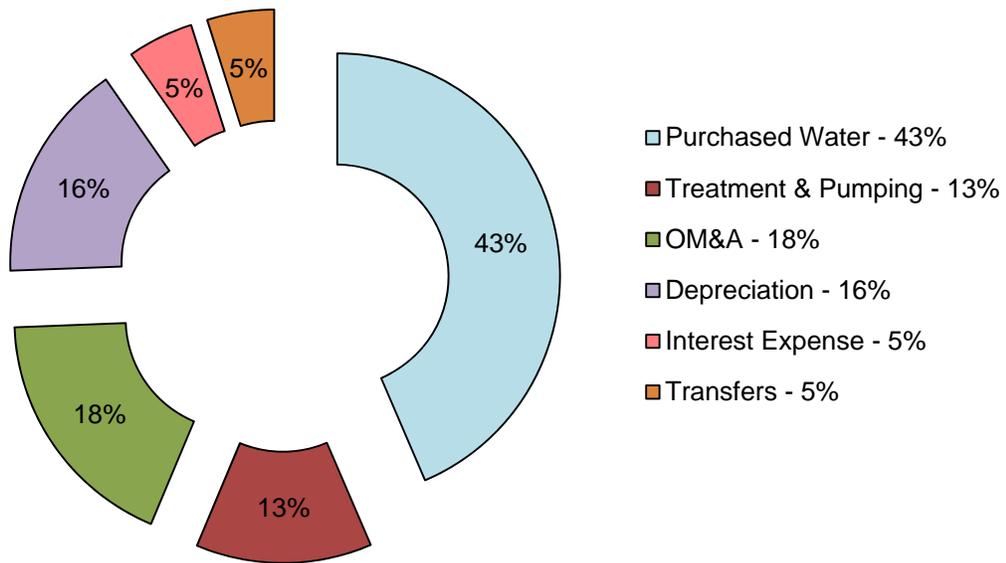
Management's Discussion and Analysis

June 30, 2015

(Unaudited)

(In thousands)

**Year ended June 30, 2014**



**Capital Assets and Debt Administration**

**Capital Assets**

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

	<u>2015</u>	<u>2014</u>
Source of water supply	\$ 48,351	44,142
Pumping plant	79,996	75,236
Transmission and distribution	308,586	301,791
General plant	8,794	8,061
Land	2,339	2,339
Construction in progress	<u>8,801</u>	<u>16,162</u>
Total utility plant	456,867	447,731
Less accumulated depreciation	<u>(138,920)</u>	<u>(128,721)</u>
Net utility plant	<u>\$ 317,947</u>	<u>319,010</u>

## CITY OF ANAHEIM WATER UTILITY FUND

### Management's Discussion and Analysis

June 30, 2015

(Unaudited)

(In thousands)

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

The Water Utility's investment in capital assets net of accumulated depreciation was \$317,947, a decrease of \$1,063 (0.3%). The change resulted primarily from \$9,136 in additions of the significant capital items listed below, less \$10,199 from the current year change in accumulated depreciation:

- Source of water supply increase of \$4,209 (9.5%) mostly from the completion of Well Number 58, costing approximately \$4,155. Well Number 58, located in the Canyon Business Center, is a high capacity potable water well designed to produce the highest quality potable water practical. This well is part of the existing city well field at Anaheim Lake and replaces two existing shallow wells. Groundwater produced from this well will be stored in the four million gallon water tank at the Linda Vista Complex.
- Pumping plant increase of \$4,760 (6.3%), mostly from the replacement and upgrade of the Supervisory Control and Data Acquisition System (SCADA) at a cost of approximately \$4,091. This system is used to control and operate the entire water system by monitoring over 140 sites, including the Lenain Water Treatment Plant (Lenain), 18 water wells, 40 booster pumps, 14 reservoirs, 70 pressure regulating stations, and over 750 miles of water mains. In addition to the SCADA software upgrade, this project also included the replacement of the Lenain programmable logic controllers in order to centralize the system.
- Transmission and Distribution capital asset increase of \$6,795 (2.3%) resulting from the completion of the following capital projects:
  - \$1,474 for the rehabilitation and replacement of various pressure regulating stations (PRS) throughout the city. The purpose of the PRS is to provide for the transfer of water from a high-elevation service area to a lower one in order to maintain adequate system pressures and flows.
  - \$607 for the Morningview Drive and Summit Court Water Mains Replacement Project, which replaced approximately 1,000 linear feet of 8-inch and 4-inch iron pipes with polyvinyl chloride pipes. These improvements will increase the service reliability and reduce maintenance expenses of the water system.
  - \$3,340 for the replacement of various transmission and distribution water mains throughout the City. These various projects increase water system reliability by replacing aging infrastructure to minimize the risk of system failures and also to improve fire flow requirements.
- Construction in Progress decrease of \$7,361 resulting from the completion of the numerous large projects described above.

**CITY OF ANAHEIM WATER UTILITY FUND**

Management's Discussion and Analysis

June 30, 2015

(Unaudited)

(In thousands)

**Long-Term Debt**

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

	<u>2015</u>	<u>2014</u>
Water revenue bonds	\$ 132,200	83,870
Notes payable and advances	6,999	7,486
Total long-term debt outstanding	139,199	91,356
Less:		
Current portion	(8,774)	(1,943)
Unamortized bond premium	13,159	374
Total noncurrent long-term debt outstanding	\$ <u>143,584</u>	<u>89,787</u>

- Total long-term debt increased by \$53,797 primarily due to the issuance of \$95,885 CMFA Water revenue bonds, Series 2015-A. \$41,000 was deposited in the project acquisition fund to finance capital improvements to the Utility's infrastructure, while the balance of the proceeds was used to repay or defease other outstanding long- and short-term debts of the Utility. The revenue of the Water Utility has been pledged to pay the outstanding long-term debt.
- The Water Utility's bond indentures require a minimum debt service coverage ratio of 1.0. The Water Utility's debt service coverage ratio was 2.0 as of June 30, 2015.
- The Water Utility maintains an AAA credit rating from both Standard & Poor's and Fitch Ratings. These ratings reflect the Water Utility's strong financial performance, favorable rate structure, and the Water Utility's favorable supply mix along with its stable customer base.

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

**Economic Factors and Rates**

For fiscal year 2016, the Orange County Water District (OCWD) set the Basin Production Percentage (BPP) for all cities and water districts they serve (including Anaheim) at 75%, up from the 72% fiscal year 2015 limit. Consequently, the Water Utility will be able to pump 3.0% more ground water from OCWD without incurring a penalty and purchase 3.0% less from Metropolitan Water District (MWD) in order to fulfill its water supply requirements. Water purchased from MWD is priced higher than ground water pumped from OCWD, so increasing the BPP lessens the impacts of MWD cost increases. The Water Utility's Water Rates, Rules, and Regulations provide for an automatic adjustment of its commodity adjustment when OCWD and MWD increase or decrease the cost per acre foot of water.

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

### **Management's Discussion and Analysis**

June 30, 2015

(Unaudited)

(In thousands)

As approved on March 18, 2008, the Water Utility instituted a charge to all customers for a WSRA. The WSRA is set to \$0.375 per 100 cubic foot, as of February 1, 2015 and will rise to \$0.45 per 100 cubic foot, effective on February 1, 2016. The purpose of this charge is to recover projected capital costs, including rehabilitation and construction of water and reclaimed water system infrastructure and the related debt service payments.

#### **Requests for Information**

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

**CITY OF ANAHEIM WATER UTILITY FUND**

Statement of Net Position

June 30, 2015

(In thousands)

**Assets**

Utility plant:	
Source of water supply	\$ 48,351
Pumping plant	79,996
Transmission and distribution	308,586
General plant	8,794
	<hr/>
Total depreciable utility plant	445,727
Less accumulated depreciation	(138,920)
	<hr/>
Net depreciable utility plant	306,807
Land	2,339
Construction in progress	8,801
	<hr/>
Net utility plant	317,947
	<hr/>
Restricted assets:	
Cash and cash equivalents	7,585
Investments	37,667
	<hr/>
Total restricted assets	45,252
	<hr/>
Other assets:	
Metropolitan Water District Orange County pipeline receivable	20
	<hr/>
Total other assets	20
	<hr/>
Total noncurrent assets	363,219
	<hr/>
Current assets:	
Cash and cash equivalents	4,332
Investments	14,234
Restricted cash and cash equivalents	1,272
Restricted investments	9,138
Accounts receivable, net	6,500
Accrued interest receivable	73
Materials and supplies inventory	615
Purchased water in storage	866
	<hr/>
Total current assets	37,030
	<hr/>
Total assets	400,249
	<hr/>
Deferred outflows of resources:	
Deferred charge on refunding bonds	6,179
Deferred pension – current year contributions	2,353
	<hr/>
Total deferred outflows of resources	8,532
	<hr/>
Total assets and deferred outflows of resources	\$ 408,781
	<hr/> <hr/>

**CITY OF ANAHEIM WATER UTILITY FUND**

Statement of Net Position

June 30, 2015

(In thousands)

**Liabilities**

Long-term liabilities:	
Long-term liabilities, less current portion	\$ 161,470
Total long-term liabilities	<u>161,470</u>
Current liabilities (payable from restricted assets):	
Current portion of long-term liabilities	8,774
Arbitrage rebate liability	244
Accrued interest payable	1,392
Total current liabilities (payable from restricted assets)	<u>10,410</u>
Current liabilities (payable from unrestricted current assets):	
Current portion of long-term liabilities	2,828
Accounts payable and accrued expenses	13,514
Wages payable	267
Customer deposits	830
Total current liabilities (payable from unrestricted current assets)	<u>17,439</u>
Total liabilities	<u>189,319</u>
Deferred inflows of resources:	
Regulatory credits	5,740
Deferred pension – changes in assumptions and projections	4,729
Total deferred inflows of resources	<u>10,469</u>
Net position:	
Net investment in capital assets	217,860
Restricted for:	
Debt service	724
Renewal and replacement	3,091
Unrestricted	(12,682)
Total net position	<u>208,993</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 408,781</u>

See accompanying notes to financial statements.

**CITY OF ANAHEIM WATER UTILITY FUND**

Statement of Revenue, Expenses, and Changes in Net Position

Year ended June 30, 2015

(In thousands)

Operating revenue:	
Sales of water, net	\$ 62,057
Rate Stabilization Account revenue	624
Other operating revenues	814
	<hr/>
Total operating revenue	63,495
Operating expenses:	
Purchased water	27,301
Treatment and pumping	8,485
Operations, maintenance, and administration	15,932
Depreciation	11,421
	<hr/>
Total operating expenses	63,139
Operating income	<hr/>
	356
Nonoperating revenue (expenses):	
Interest income	2,023
Interest expense	(4,998)
	<hr/>
Total net nonoperating expenses	(2,975)
Loss before capital contributions and transfers	<hr/>
	(2,619)
Capital contributions	880
Transfer from the General Fund of the City	600
Transfer to the General Fund of the City	(39)
Transfer of right-of-way fee to the City	(978)
Transfers to other funds of the City	(4,114)
	<hr/>
Change in net position	(6,270)
Net position at beginning of year, as restated	<hr/>
	215,263
Net position at end of year	<hr/>
	\$ 208,993
	<hr/> <hr/>

See accompanying notes to financial statements.

## CITY OF ANAHEIM WATER UTILITY FUND

Statement of Cash Flows  
Year ended June 30, 2015  
(In thousands)

Cash flows from operating activities:	
Receipts from customers and users	\$ 63,594
Receipts from services provided to other funds of the City	374
Payments to suppliers	(37,956)
Payments to employees	(15,092)
Payments for services provided by other funds of the City	(4,934)
Net cash provided by operating activities	<u>5,986</u>
Cash flows from noncapital financing activities:	
Transfers to the General Fund and other funds of the City	(1,017)
Transfers from the General Fund of the City	600
Net cash used in noncapital financing activities	<u>(417)</u>
Cash flows from capital and related financing activities:	
Proceeds from borrowings, net of premium	108,673
Proceeds from short-term borrowings from line of credit	4,900
Capital purchases	(8,711)
Principal payments on long-term debt	(1,447)
Transfer to escrow account	(52,743)
Payment of short-term borrowing from line of credit	(14,000)
Issuance and discount costs	(377)
Interest paid	(4,399)
Transfers to other funds of the City for capital purposes	(340)
Capital contributions	100
Net cash provided by capital and related financing activities	<u>31,656</u>
Cash flows from investing activities:	
Purchases of investment securities	(42,183)
Proceeds from sale and maturity of investment securities	6,793
Interest income received	2,055
Net cash used in investing activities	<u>(33,335)</u>
Increase in cash and cash equivalents	3,890
Cash and cash equivalents at beginning of year	<u>9,299</u>
Cash and cash equivalents at end of year	<u>\$ 13,189</u>

**CITY OF ANAHEIM WATER UTILITY FUND**

Statement of Cash Flows  
Year ended June 30, 2015  
(In thousands)

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 356
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	11,421
Changes in assets and liabilities that provided (used) cash:	
Accounts receivable, net	920
Materials and supplies inventory	(39)
Purchased water in storage	349
Accounts payable and accrued expenses	(6,442)
Wages and benefits payable	(132)
Customer deposits	21
Regulatory credits	(468)
Total adjustments	<u>5,630</u>
Net cash provided by operating activities	<u>\$ 5,986</u>
Schedule of noncash investing, capital, and financing activities:	
Capital contributions	\$ 780
Transfers out of capital assets	(3,774)
Decrease in fair value of investments	(17)
Reconciliation of cash and cash equivalents:	
Cash and cash equivalents	\$ 4,332
Restricted cash and cash equivalents, current portion	1,272
Restricted cash and cash equivalents, noncurrent portion	<u>7,585</u>
Total cash and cash equivalents	<u>\$ 13,189</u>

See accompanying notes to financial statements.

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2015

(In thousands)

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

**(a) Basis of Accounting**

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

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

On July 1, 2014, the Water Utility adopted the following new accounting pronouncements issued by the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 68, *Accounting and Financial Reporting for Pension; an amendment of GASB Statement No. 27*. The requirements of this statement are effective for financial statements for fiscal years beginning after June 15, 2014.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. The requirements of this Statement 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.

Implementation of GASB Statement No. 69 has no material effect on amounts reported in the Water Utility's financial statements. The requirements of GASB Statement No. 68 caused the Water Utility to restate prior year net positions by reducing the beginning net positions by the amount of net pension obligation net of deferred outflows of resources for pension contribution.

Net position at June 30, 2014, as previously reported	\$	238,540
Reduction of net position from implementation of GASB 68:		
Deferred outflows of resources		2,120
Net pension liabilities		<u>(25,397)</u>
Net position at June 30, 2014, as restated	\$	<u><u>215,263</u></u>

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2015

(In thousands)

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

- GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this statement are effective for financial statements reporting periods beginning after June 15, 2015.
- GASB Statement No. 73, *Accounting and Financial Reporting for Pension and related assets that are not within the scope of GASB Statement No. 68, and Amendments to Certain Provision of GASB Statement No. 67 and No. 68*. The provisions of this Statement are effective for fiscal year beginning after June 15, 2015 except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The provisions of this statement are effective for plans in fiscal years beginning after June 15, 2016.
- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. The provisions of this statement are effective for employers in fiscal years beginning after June 15, 2017.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The provisions of this statement are effective for reporting periods beginning after June 15, 2015.

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

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

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

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

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2015

(In thousands)

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

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

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

#### **(e) Restricted Assets**

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

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

Deferred outflows of resources represent consumptions of net position that apply to future periods and so will not be recognized as an outflow of resources (expense) until then. In the statements of net position as of June 30, 2015, the Water Utility reported two items in this category:

- 1) Deferred charges on refunding bonds of \$6,179. A deferred charge on refunding bonds results from the difference in the carrying value of debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt and
- 2) Deferred outflows of resources related to pension that represents the current fiscal year contribution to the pension plans that will be applied as a reduction in the net pension

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2015

(In thousands)

liability in the next fiscal year or other items arising from changes in actuarial assumptions, differences between actual and projected experience, or between actual and projected investment gains/losses. This amount will be amortized and reported as a component in pension expense in future fiscal years (refer to note 7 in notes to financial statements). The Water Utility reported \$2,353 in this category.

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

Deferred inflows of resources represent acquisitions of net position that apply to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Water Utility included it's the following items in this category:

- 1) 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, 2015, the amounts recorded for regulatory credits totaled \$5,740. See note 9 for further discussion of regulatory credits.
- 2) Deferred inflows of resources related to pension – the balances arise from changes in actuarial assumptions; differences between actual and projected experience; or differences between actual and projected investment gains/losses. The amount is amortized and reported as a component of pension expense in future fiscal years. (See note 7 for further discussion of Pension Plans). The Water Utility reported \$4,729 in this category.

#### **(h) *Operating Revenue***

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

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

Revenue is recorded in the period earned. The Water Utility accrues estimated unbilled revenue for water sold but not billed at the end of a fiscal period, which amounted to approximately \$3,802 for fiscal year 2015. Residential and smaller commercial accounts are billed bimonthly, and all other customers are billed monthly.

Revenue is reported net of uncollectible amounts. Total uncollectible amounts written off are \$56 for the fiscal year ended June 30, 2015. The applicable allowances for uncollectible amounts are \$94 at June 30, 2015. See note 6 for discussion of pledged revenue.

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2015

(In thousands)

**(i) Operating Expenses**

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

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

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

**(j) Debt Issuance Costs**

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

**(k) Bond Refunding Costs**

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

**(l) Vacation and Sick Pay**

Vacation and sick pay for all City employees are paid by the General Benefits and Insurance Fund of the City. The General Benefits and Insurance Fund is reimbursed through payroll charges to the Water Utility based on estimates of benefits to be earned during the year. Vested vacation and sick pay benefits are accrued in the General Benefits and Insurance Fund and amounted to \$640 for the Water Utility at June 30, 2015.

**(m) Pension Plan**

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

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's CalPERS plans (Plans) and additions to/deductions from the Plans' fiduciary net

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2015

(In thousands)

position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### **(n) Transfers (to) from Other Funds of the City**

The transfer of right-of-way fees to the City represents the City Council approved transfer of 1.5% of net water revenue of the prior fiscal year to the General Fund of the City. Net revenue is defined as revenue from the sale of water, less uncollectible amounts. Bond disclosure requirements designate that this transfer must be recognized as an expense in the calculation of bond coverage. The transfer of right-of-way fee to the City amounted to \$978 for the fiscal year ended June 30, 2015.

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

During the fiscal year ended June 30, 2015, the Water Utility participated in several joint projects with the Electric Utility. The Water Utility was responsible for its share of the costs while the projects were ongoing. Upon completion, the Water Utility transferred ownership of its share of the projects to the Electric Utility, valued at \$4,114 for fiscal year 2015.

On December 9, 2014, the Anaheim City Council certified the official results of the California General Election held on November 4, 2014. Measure N, Anaheim Local Services Measure, which among other things, was to ratify and amend subdivision (e) of Charter Section 1221 to clarify the City authority to transfer up to 4% of the "operating revenue" earned by the Water and Electric Utilities to the City's General Fund instead of the "gross revenue" was not approved by a majority of voters so it did not pass. Prior to these results, the City Charter had provided that the Water Utility could transfer to the General Fund of the City an amount not to exceed 4% of total revenue. Such transfers were not in lieu of taxes and amounted to \$39 for the fiscal year ended June 30, 2015.

The Measure N election results coupled with settled litigation now require the Water Utility to cease making the up to 4% transfer to the City's General Fund and the City to reimburse the Water Utility \$3 million plus the transferred funds held by the City for fiscal year ended 2015, in equal installments of no less than \$600 beginning January 1, 2014 and by June 30 of each fiscal end for approximately nine years or sooner depending upon when the funds have been fully reimbursed. During the fiscal year ended June 30, 2015, \$600 was transferred from the City's general fund to the Water Utility pursuant to this Water Transfer settlement.

#### **(o) Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2015

(In thousands)

statements and the reported amounts of revenue and expenses during the reporting period. As such, actual results could differ from those estimates.

**(2) Deposits and Investments**

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

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

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

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

Cash equivalents and investments pooled with the treasurer	\$	24,017
Cash equivalents and investments held with trustee		<u>50,211</u>
	\$	<u><u>74,228</u></u>

At June 30, 2015, the Water Utility's cash equivalents and investments are recorded as follows:

Restricted assets – cash equivalents and investments	\$	55,662
Unrestricted assets – cash equivalents and investments		<u>18,566</u>
	\$	<u><u>74,228</u></u>

**(a) Investments**

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

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2015

(In thousands)

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 Treasurer's policy is more restrictive than Government Code.

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

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

<u>Authorized investment type</u>	<u>Maximum maturity</u>	<u>Maximum percentage of portfolio*</u>	<u>Maximum investment in one issuer</u>	<u>Minimum rating (S&amp;P/Moody's/Fitch)</u>
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 (2 accounts)	N/A	\$ 50 million per account	50 million per account	None
Time certificates of deposit (TCD)	1 year	20%	5%	None

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

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

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2015

(In thousands)

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

<u>Issuer</u>	<u>Investment type</u>	<u>Fair value</u>	<u>Percentage</u>
Federal National Mortgage Association	U.S. agency securities	\$ 109,447	25%
LAIF	LAIF	70,445	16
Federal Home Loan Mortgage Corporation	U.S. agency securities	45,607	10
Federal Home Loan Bank	U.S. agency securities	34,804	8
Federal Farm Credit Bank	U.S. agency securities	34,350	8

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

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

<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's investment portfolio	None	None	None

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2015

(In thousands)

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

<u>Issuer</u>	<u>Investment type</u>	<u>Fair value</u>	<u>Percentage</u>
Deutsche Bank Association	Flexible repurchase agreement	\$ 227,723	36%
Morgan Stanley	Flexible repurchase agreement	66,831	11
Federal National Mortgage Association	U.S. agency securities	61,823	10
Natixis Funding Corporation	Guaranteed investment agreement	45,023	7
LAIF	LAIF	34,818	6

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

**(d) Custodial Credit Risk**

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

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

**(e) Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Treasurer mitigates this risk by investing in longer-term securities only with funds that are not needed for current cash flow purposes and holding these securities to maturity. The Treasurer uses the segmented-time distribution method to identify and manage interest rate risk. In accordance with the City's investment policy, the Treasurer monitors the segmented time distribution of its investment portfolio and analysis of cash flow demand.

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2015

(In thousands)

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

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

The distribution of the Water Utility's proportionate share of cash and investments by maturity at June 30, 2015 is as follows:

Investments	Credit rating (S&P/ Moody's)	Fair value, June 30, 2015	12 months or less	13 to 24 months	25 to 36 months	37 to 60 months	More than 60 months
Treasurer's pooled investments:							
U.S. agency securities	AA+/Aaa	\$ 12,333	967	2,755	6,657	1,954	—
Medium-term corporate notes	AAA/Aaa	1,398	443	275	680	—	—
Medium-term corporate notes	AA+/Aaa	275	—	275	—	—	—
Medium-term corporate notes	AA+/A1	559	275	284	—	—	—
Medium-term corporate notes	AA/Aa1	552	110	—	442	—	—
Medium-term corporate notes	AA/Aa2	163	163	—	—	—	—
Medium-term corporate notes	AA/Aa3	274	—	—	274	—	—
Medium-term corporate notes	AA-/Aa1	343	—	343	—	—	—
Medium-term corporate notes	AA-/Aa3	165	165	—	—	—	—
Medium-term corporate notes	A+/A1	165	—	—	165	—	—
Medium-term corporate notes	A+/A2	880	55	550	275	—	—
Medium-term corporate notes	A/A3	275	275	—	—	—	—
Medium-term corporate notes	A-/A3	279	279	—	—	—	—
Commercial paper	A-1/P-1	2,400	2,400	—	—	—	—
Money market mutual funds	AAA/Aaa	81	81	—	—	—	—
LAIF	Unrated	3,875	3,875	—	—	—	—
Total investments controlled by City Treasurer		24,017	9,088	4,482	8,493	1,954	—
Investments controlled by bond trustees:							
Guaranteed investment agreements	Unrated	41,415	—	41,001	—	—	414
Collateralized investment contracts	Unrated	1,211	1,211	—	—	—	—
Money market mutual funds	AAA/Aaa	7,585	7,585	—	—	—	—
Total investments controlled by bond trustees		50,211	8,796	41,001	—	—	414
Total investments		\$ 74,228	17,884	45,483	8,493	1,954	414

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2015

(In thousands)

**(3) Water Utility Plant**

The following is a summary of changes in capital assets:

	<b>Balance as of June 30, 2014</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance as of June 30, 2015</b>
Source of water supply	\$ 44,142	4,210	(1)	48,351
Pumping plant	75,236	4,793	(33)	79,996
Transmission and distribution	301,791	7,983	(1,188)	308,586
General plant	<u>8,061</u>	<u>733</u>	<u>—</u>	<u>8,794</u>
Depreciable utility plant	429,230	17,719	(1,222)	445,727
Less accumulated depreciation	<u>(128,721)</u>	<u>(11,421)</u>	<u>1,222</u>	<u>(138,920)</u>
Net depreciable utility plant	<u>300,509</u>	<u>6,298</u>	<u>—</u>	<u>306,807</u>
Land	2,339	—	—	2,339
Construction in progress	<u>16,162</u>	<u>12,990</u>	<u>(20,351)</u>	<u>8,801</u>
Nondepreciable utility plant	<u>18,501</u>	<u>12,990</u>	<u>(20,351)</u>	<u>11,140</u>
Net utility plant	<u>\$ 319,010</u>	<u>19,288</u>	<u>(20,351)</u>	<u>317,947</u>

**(4) Operating Expenses**

Total operating expenses shared with the City's Electric Utility amounted to \$30,033 for the fiscal year ended June 30, 2015, of which \$7,809 of shared operating expenses were allocated to the Water Utility.

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

**(5) Short-term Borrowings**

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

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2015

(In thousands)

For the Water Utility, the purpose of this agreement is to provide temporary financing for the costs of acquisition and construction of additions to and improvements of the Utility's water system, which qualify for reimbursement under the City Council's Resolution No. 2012-111 "Official Intent to Reimburse Certain Water Utility Fund Expenditures from the Proceeds of Bonds or Other Obligations." During fiscal year 2015, the Utility made a drawdown of \$4,900 for such qualifying capital expenditures, bringing the total used to the maximum \$14,000. In April 2015, the total \$14,000 outstanding balance was paid in full from the proceeds of the Utility's \$95,885 Water revenue bonds Series 2015-A.

**(6) Long-Term Liabilities**

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

<u>June 30, 2015</u>	<u>Beginning of year</u>	<u>Additions</u>	<u>Retirements</u>	<u>End of year</u>	<u>Due within one year</u>
Water revenue bonds	\$ 83,870	95,885	(47,555)	132,200	1,775
Notes payable	7,486	—	(487)	6,999	6,999
Pension obligation (note 7)	25,396	2,166	(6,848)	20,714	2,828
	116,752	98,051	(54,890)	159,913	\$ 11,602
Less current portion	(1,943)	(11,602)	1,943	(11,602)	
Add unamortized bond premium	374	12,984	(199)	13,159	
Total long-term liabilities	\$ 115,183	99,433	(53,146)	161,470	

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

Water revenue bonds, 2015-A Series, true interest cost (TIC) 3.392062%, dated and sold on April 21, 2015, in the amount of \$95,885 of which (1) \$58,205 was issued as serial bonds at rates ranging from 2.000% to 5.000%, maturing from October 1, 2015 through 2034 in annual principal installments ranging from \$775 to \$4,560; (2) \$24,535 was issued as term bonds at a rate of \$4.000%, \$24,535 was issued as term bonds at a rate of \$4.000%, maturing from October 1, 2035 through 2040 in annual principal installments ranging from \$2,160 to \$5,330; (3) \$13,145 was issued as term bonds at a rate of (3) \$13,145 was issued as term bonds at a rate of 5.250%, maturing from October 1, 2041 through 2045 in annual principal installments of \$2,360 to \$2,910. The total remaining debt service is \$168,893 to maturity

\$ 95,885

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2015

(In thousands)

Water revenue bonds, 2010 Series, true interest cost (TIC) 3.5361%, dated and sold on October 28, 2010, in the amount of \$34,525, of which: (1) \$4,835 was issued as serial bonds at rates ranging from 2.0000% to 4.7500%, maturing from October 1, 2013 through 2021 in annual principal installments ranging from \$120 to \$815; (2) \$1,690 was issued as term bonds at a rate of 4.3460%, maturing on October 1, 2022 and 2023 in annual principal installments of \$840 and \$850, respectively; (3) \$1,750 was issued as term bonds at a rate of 4.8660%, maturing on October 1, 2024 and 2025 in annual principal installments of \$865 and \$885, respectively; (4) \$9,925 was issued as term bonds at a rate of 5.5250% maturing from October 1, 2026 through 2034 in annual principal installments 2026 through 2034 in annual principal installments ranging from \$910 to \$1,245; and (5) \$16,625 was issued as term bonds at a rate of 5.6850%, maturing issued as term bonds at a rate of 5.6850%, maturing from October 1, 2035 through 2040 in annual principal installments ranging from \$1,300 to \$5,645. The total debt debt service is \$67,584 to maturity	\$ 34,280
Water revenue bonds, 2008 Series, TIC 4.8594%, dated July 1, 2008, sold on July 9, 2008 in the amount of \$48,580, maturing serially beginning October 1, 2013 through October 1, 2038, of which \$46,595 was refunded through the issuance of the Water revenue bonds, 2015-A Series on April 21, 2015. The remaining annual principal installments range from \$285 to \$405 at rates ranging from 4.0000% to 5.0000%. Total remaining debt service is \$1,570 to maturity	1,445
Water revenue bonds, 2004 Series, TIC 3.5629%, dated May 1, 2004, sold on May 26, 2004 in the amount of \$12,105, maturing serially through October 1, 2016. The annual principal installments range from \$5 to \$950 at rates ranging from 4.0000% to 4.50000%. Total remaining debt service is \$603 to maturity	<u>590</u>
Total water revenue bonds	\$ <u><u>132,200</u></u>
Note payable to State of California Revolving Fund, interest rate of 2.8%, issued June 12, 2001, in the amount of \$18,063, semiannual principal and interest payments of \$592 through July 31, 2021; total remaining debt service is \$7,097 to maturity	\$ <u>6,999</u>
Total notes payable	\$ <u><u>6,999</u></u>

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2015

(In thousands)

Annual debt service requirements for the Water Utility's revenue bonds and notes payable at June 30, 2015 to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year(s) ending June 30:			
2016	\$ 8,774	5,983	14,757
2017	2,620	6,055	8,675
2018	2,710	5,972	8,682
2019	2,810	5,869	8,679
2020	2,800	5,747	8,547
2021–2025	16,775	26,598	43,373
2026–2030	21,530	21,946	43,476
2031–2035	26,875	16,103	42,978
2036–2040	33,260	9,582	42,842
2041–2045	18,135	2,617	20,752
2046	2,910	76	2,986
	<u>\$ 139,199</u>	<u>106,548</u>	<u>245,747</u>

Interest costs of \$502 have been capitalized for the fiscal year ended June 30, 2015.

In April 2015, the Water Utility issued Series 2015-A Water revenue bonds in the principal amount of \$95,885 at a premium of \$12,984. The \$108,869 total proceeds along with the \$5,323 balance of the Series 2008 Water revenue bonds Reserve fund and the \$1,276 balance of the 2001 State Revolving Fund Note Payable Reserve account were used as follows:

- \$41,000 was deposited in the project acquisition fund to finance capital improvements to the Utility's infrastructure;
- \$52,742 was deposited in an escrow fund to refund \$46,595 of the \$48,040 principal outstanding on the 2008 Water revenue bonds;
- \$14,000 was used to repay outstanding short-term borrowings from the Revolving Credit Agreement with Wells Fargo Bank;
- \$7,097 was deposited in a Bond Trustee account scheduled to prepay the outstanding balance of the Note Payable to State of California Revolving Fund on July 1, 2015;
- \$630 was deposited in the cost of issuance fund.

The Water Utility defeased the following bonds prior to June 30, 2015:

	<b><u>Outstanding</u></b>
	<b><u>June 30, 2015</u></b>
Series 2008 water system revenue bonds	\$ 46,595

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2015

(In thousands)

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

The Water Utility obtained an economic gain of \$3,775 as a result of the refunding described above. The total debt service payments over the life of the Series 2015-A bonds through fiscal year 2046 will be \$168,893. There is no required reserve fund for these bonds.

In accordance with the bond resolutions, a reserve for maximum annual debt service has been established and a reserve for renewal and replacement is being accumulated in an amount equal to a maximum of 1% of the depreciated book value of the utility plant in service.

The bond resolutions for the Water revenue bonds, the 2008 Series and the 2004 Series, require the establishment of a bond service account accumulating monthly one-sixth of the interest, which will become due and payable on the outstanding bonds within the next 6 months, and by one-twelfth of the principal amount, which will mature and be payable on the outstanding bonds within the next 12 months. Those amounts have been recorded as restricted for debt service on the accompanying statement of net position.

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

The Water Utility has pledged future revenue to repay a total of \$238,650 of outstanding long-term obligations, principal, and interest for the year ended June 30, 2015. Proceeds from bonds provide financing for various capital improvements, primarily distribution assets. The Water Utility's bonds are payable solely from water net revenue and are payable through fiscal year 2046. As of June 30, 2015, the annual principal and interest payments on the bonds are 37.2% of net revenue. Debt service paid and total net revenue were \$5,138 and \$5,137 for the year ended June 30, 2015.

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

Held by fiscal agent:		
Bond reserve fund	\$	9,026
Bond construction fund		41,185
Held by Treasurer:		
Bond service account		2,361
Renewal and replacement account		3,090
	\$	<u>55,662</u>

The Water Utility's interest and other finance charges, excluding capitalized interest, for the fiscal year ended June 30, 2015 were \$4,998.

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2015

(In thousands)

**(7) Pension Plan**

***General Information about the Plan***

**(a) *Plan Description***

The Water Utility provides pension benefits to eligible full-time employees through its participation in the City's Miscellaneous Pension Plan. This plan is an agent multiple-employer public employee defined-benefit plan and is administered through the CalPERS, which acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS Web site @www.calpers.ca.gov.

**(b) *Benefits Provided***

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

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

	<b>Miscellaneous</b>	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.7% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50-55	52-65
Monthly benefits, as a% of eligible compensation	2.70%	2.00%
Required employee contribution rates	8.00	6.75
Required employer contribution rates	24.27	24.27

**(c) *Contributions***

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2015

(In thousands)

contributions for the Miscellaneous Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate applied to annual payroll is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Water Utility is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

The pension plan expense is recognized in the Water Utility's financial statements on an accrual basis of accounting.

The net pension liability in the statement of net position represents the Water Utility's share of the City's excess of the total pension liability over the fiduciary net position reflected on the Valuation Reports provided by CalPERS. The net pension is measured as of the prior fiscal year. Changes in net pension liability are recorded as pension expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change.

The changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective pension plan and are recorded as a component of pension expense beginning with the period in which the difference incurred.

Projected earnings on pension investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

#### **(d) Net Pension Liability**

The Water Utility's proportionate share of the City's net pension liability for its pension plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability is measured as of June 30, 2014. Liabilities are based on the results of the actuarial valuation performed as of June 30, 2013 and were rolled forward to June 30, 2014. Fiduciary net position is based on fair value of investments as of June 30, 2014. A summary of principal assumptions and methods used to determine the net pension liability is show below.

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2015

(In thousands)

**Actuarial Assumptions:** The total pension liabilities for the Water Utility's proportionate share of the City's pension plan in the June 30, 2013 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date (VD)	June 30, 2013
Measurement Date (MD)	June 30, 2014
Reporting Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal Cost Method
Actuarial assumptions:	
Discount rate	7.50%
Inflation	2.75
Salary increase	Varies by Entry Age and Service
Investment rate of return	7.5% Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table <sup>1</sup>	Derived using CalPERS Membership Data for all Funds
Post retirement benefit increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

#### (e) **Discount Rate**

The discount rate used to measure the total pension liability was 7.50%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50% is applied to all plans in the Public Employees Retirement Fund.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long term (11–60 years) using a building-block approach. Using the expected nominal returns for both short term and long term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2015

(In thousands)

same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<b>Asset class</b>	<b>New strategic allocation</b>	<b>Real return years 1–10 <sup>1</sup></b>	<b>Real return years 11+ <sup>2</sup></b>
Global equity	47.00%	5.25%	5.71%
Global fixed income	19.00	0.99	2.43
Inflation sensitive	6.00	0.45	3.36
Private equity	12.00	6.83	6.95
Real estate	11.00	4.50	5.13
Infrastructure and forestland	3.00	4.50	5.09
Liquidity	2.00	(0.55)	(1.05)

<sup>1</sup> An expected inflation of 2.5% used for this period

<sup>2</sup> An expected inflation of 3.0% used for this period

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2015

(In thousands)

**(f) Change in the Net Pension Liability**

The following table shows the Water Utility's proportionate share of the changes in net pension liability reported for the year ending June 30, 2015 for the City's Miscellaneous Plan recognized over the measurement period:

<u>Miscellaneous plan</u>	<u>Total pension liability (a)</u>	<u>Plan fiduciary net position (b)</u>	<u>Net position liability (asset) (c)=(a)-(b)</u>
Balance at June 30, 2013 (VD)	\$ 79,488	54,091	25,397
Changes recognized for the measurement period:			
Service cost	1,622	—	1,622
Interest on the total pension liability	6,533	—	6,533
Contribution from the employer	—	1,820	(1,820)
Contributions from employees	—	679	(679)
Net investment income	—	10,339	(10,339)
Benefit Payments, including refunds of employee contributions	<u>(4,087)</u>	<u>(4,087)</u>	<u>—</u>
Net changes during 2013–2014	<u>4,068</u>	<u>8,751</u>	<u>(4,683)</u>
Balance at June 30, 2014 (MD)	\$ <u>83,556</u>	<u>62,842</u>	<u>20,714</u>

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

The following presents the net pension liability of the City's Miscellaneous Plan as of the measurement date, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.50%) or one percentage-point higher (8.50%) than the current rate:

<u>Plan's net pension liability</u>	<u>Discount rate -1% (6.50%)</u>	<u>Discount rate (7.50%)</u>	<u>Discount rate +1% (8.50%)</u>
Miscellaneous	\$ 31,255	20,714	11,962

**(h) Pension Plan Fiduciary Net Position**

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

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2015

(In thousands)

**(i) Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

For the fiscal year ended June 30, 2015, the Water Utility recognized pension expense of \$2,166. At June 30, 2015, the Water Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Pension contributions subsequent to measurement date	\$ 2,353	—
Net difference between projected and actual earnings on plan investments	—	4,729
Total	<u>\$ 2,353</u>	<u>4,729</u>

\$2,353 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Amount reported in deferred inflows of resources related to pensions will be recognized as a component in pension expense as follows:

Fiscal year ending June 30:	
2016	\$ 1,182
2017	1,182
2018	1,182
2019	<u>1,183</u>
Total	<u>\$ 4,729</u>

**(8) Self-Insurance Program**

The Water Utility participates in the City's self-insured workers' compensation and general liability program. The liability for such claims, including claims incurred but not reported, is transferred to the City in consideration of self-insurance premiums paid by the Water Utility. Premiums for workers' compensation and general liability programs are charged to the Water Utility by the City based on various allocation methods that include actual cost, claims experience, exposure base, and number of participants. Premiums charged and paid were \$579 for the fiscal year ended June 30, 2015.

At June 30, 2015, the City was fully funded for self-insured workers' compensation and general liability claims (self-insured retention levels of \$750 per occurrence for workers' compensation claims and \$1,000 per occurrence for general liability claims). Above these self-insured retention levels, the City's potential liability is covered through various commercial insurance and intergovernmental risk pooling programs. Settled claims have not exceeded total insurance coverage in any of the past three years, nor does management believe that there are any claims pending that will exceed total insurance coverage.

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2015

(In thousands)

**(9) Regulatory Credits**

The Water Utility's Rates, Rules, and Regulations provide for a water regulatory credits account to reflect variations in the cost of water to the Water Utility and provide more stable retail water rates to the customers of the City's Water Utility. This rate stabilization account (RSA) provides increased flexibility by allowing the Water Utility to maintain financial performance indicators and goals specified in bond covenants. The account is funded through expense reimbursements such as water supply cost refunds received from the MWD and OCWD and other miscellaneous credits and revenue. As permitted by GASB Statements No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and No. 65, *Items Previously Reported as Assets and Liabilities*, and as approved by the City Council, revenue from amounts collected is deferred and recorded as regulatory credits under deferred inflows of resources in the statements of net position. At June 30, 2015, the amounts recorded for regulatory credits totaled \$5,740. In fiscal year 2015, the Water Utility funded this account through a variety of miscellaneous credits. During fiscal year 2015, the Utility recognized \$624 in order to mitigate the impact of increased costs.

**(10) Commitments and Contingencies**

**(a) Litigation**

A number of claims and suits are pending against the City for alleged damages to persons and property and for other alleged liabilities arising out of matters usually incidental to the operation of a utility such as the water system of the City. In the opinion of management, the exposure under these claims and suits would not materially affect the financial position of the Water Utility as of June 30, 2015.

**(b) Construction Commitments**

At June 30, 2015, the Water Utility had the following commitments with respect to unfinished capital projects:

<u>Capital project</u>	<u>Construction commitment</u>	<u>Estimated completion date</u>
Water Main Relocation – Tustin Avenue	\$ 199	2015
Water Main Replacement – Country Glen Way	1,381	2016
Well #58 at Anaheim Lake – Equipping	169	2015
Vehicle Acquisitions	289	2015
	<u>\$ 2,038</u>	

**CITY OF ANAHEIM WATER UTILITY FUND**

Schedule of Changes in the Net Pension Liability and Related Ratios  
for Last 10 Fiscal Years <sup>1</sup>

(In thousands)

<b>Measurement Period <sup>3</sup></b>	<b>Miscellaneous 2013–2014</b>
	<u>                    </u>
Total pension liability:	
Service cost	\$ 1,622
Interest on the total pension liability	6,533
Benefit payments, including refunds of employee contributions	<u>(4,087)</u>
Net change in total pension liability	4,068
Total pension liability – beginning	<u>79,488</u>
Total pension liability – ending (a)	<u>83,556</u>
Plan fiduciary net position:	
Contributions – employer	1,820
Contributions – employees	679
Net investment income <sup>2</sup>	10,339
Benefit payments, including refunds of employee contributions	<u>(4,087)</u>
Net change in fiduciary net position	8,751
Plan fiduciary net position – beginning	<u>54,091</u>
Plan fiduciary net position – ending (b)	<u>62,842</u>
Plan net pension liability – ending (a)-(b)	<u>\$ 20,714</u>
Plan fiduciary net position as a percentage of the total pension liability	75.21%
Covered-employee payroll	\$ 8,011
Plan net pension liability as a percentage of covered employee payroll	258.57%

<sup>1</sup> Historical information is required only for measurement periods for which GASB 68 is applicable

<sup>2</sup> Net of administrative expenses

<sup>3</sup> The corresponding reporting period was the fiscal year ending June 30, 2015

See accompanying independent auditors' report.

**CITY OF ANAHEIM WATER UTILITY FUND**

Schedule of Pension Plan Contributions  
for Last 10 Years <sup>1</sup>

(In thousands)

<b>Measurement Period <sup>2</sup></b>	<b>Miscellaneous 2013-2014</b>
Actuarially determined contribution	\$ 1,820
Contributions in relation to the actuarially determined contribution	<u>(1,820)</u>
Contribution deficiency (excess)	<u>\$ —</u>
Covered-employee payroll	\$ 8,011
Plan net pension liability/(asset) as a percentage of covered employee payroll	22.72%

<sup>1</sup> Historical information is required only for measurement periods for which GASB 68 is applicable

<sup>2</sup> The corresponding reporting period was the fiscal year ending June 30, 2015

**Notes to schedule:**

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2013-14 were from the June 30, 2011 public agency valuations.

Actuarial Cost Method	Entry Age Normal
Amortization Method/period	Level Percent of Payroll
Asset Valuation Method	Actuarial Value of Assets
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

See accompanying independent auditors' report.