CITY OF ANAHEIM
ELECTRIC UTILITY FUND

Financial Statements

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

CITY OF ANAHEIM
ELECTRIC UTILITY FUND

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KPMG LLP
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20 Pacifica
Irvine, CA 92618-3391

Independent Auditors' Report

The Honorable City Council
City of Anaheim, California:

We have audited the accompanying financial statements of the Electric Utility Fund of the City of Anaheim, California (the Fund), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Utility Fund of the City of Anaheim, California as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in note 1, the financial statements present only the Fund, and do not purport to, and do not, present fairly the financial position of the City of Anaheim, California (City) as of June 30, 2017 and 2016, the changes in its financial position or, where applicable, its cash flows, for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

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KPMG

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–13, the schedule of the Electric Utility's proportionate share of the net pension liability and related ratios and the schedule of Electric Utility pension plan contributions on pages 55 and 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Management has omitted the discussion of 2016 information in the management's discussion and analysis that U.S. generally accepted accounting principles require to supplement, although not required to be part of, the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2017 on our consideration of the City of Anaheim's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Anaheim's internal control over financial reporting and compliance.

KPMG LLP

Irvine, California
December 20, 2017

As management of Anaheim Public Utilities, a department of the City of Anaheim (the City), we offer the readers of the City of Anaheim Electric Utility Fund (Electric Utility) financial statements a narrative overview and analysis of the financial statements for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements.

Financial Highlights

- The Electric Utility's total net position for fiscal year 2017 was $355,821. An increase of $1,973 (0.6%), from the total net position for fiscal year 2016.
- Net investment in capital assets increased by $14,470 (5.2%) as a result of improvements made to the Electric Utility's distribution system.
- The Electric Utility's Public Benefit Program expended $6,695 in community service-related programs for the 2017 fiscal year. The program provides public benefits in the areas of energy efficiency incentives, low-income rate discounts, lighting incentives, and renewable energy for residential and business customers.
- During this fiscal year, the Electric Utility started construction of the new 69-12KV Harbor Substation which total construction cost is estimated at $51,000 including the substation plus the transmission and distribution system. Construction of this substation is necessary in order to meet demand added by new developments within the City. The substation will be located Northeast corner of Katella Avenue and Zyen Street, west of Anaheim Blvd. As of June 30, 2017, 5.6% of total cost has been expended.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Electric Utility's financial statements. Because the Electric Utility is a business-type activity of the City, an enterprise fund is used to account for its operations. These financial statements include only the activities of the Electric Utility and provide comparative information for the last two fiscal years. Information on citywide financial results is available in the City's Comprehensive Annual Financial Report as of June 30, 2017.

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

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

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

(In thousands)

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

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

Financial Analysis

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

Condensed Statements of Net Position

		2017	2016
Current and other assets	$	571,373	491,219
Net utility plant		894,237	881,858
Deferred outflows of resources		30,164	13,014
Total assets and deferred outflows or resources		1,495,774	1,386,091
Long-term liabilities, net of current portion		944,304	853,161
Current liabilities		89,798	81,330
Deferred inflows of resources		105,851	97,752
Total liabilities and deferred inflows of resources		1,139,953	1,032,243
Net investment in capital assets		294,820	280,350
Restricted		43,682	39,200
Unrestricted		17,319	34,298
Total net position	$	355,821	353,848

As of June 30, 2017

Assets and Deferred Outflows of Resources

Total assets and deferred outflows of resources as of June 30, 2017 were $1,495,774 reflecting an increase of $109,683 (7.9%) mainly due to the following:

- Current and other assets, comprising restricted and unrestricted assets, had a net increase of $80,154 (16.3%).
  - – Restricted assets increased by $79,499 mainly due to an increase of $100,000 related to the 2016-AB bond proceeds offsetting by $30,951 spend down of the 2015-B bond proceeds for capital improvement projects.

(Continued)

- Unrestricted assets increased by $655 primarily due to increase in accounts receivable billed to customers.

- Deferred outflows of resources, consisting of deferred charge on refunding bonds and deferred pension related items increased by $17,150 (131.8%), mainly due to an increase of $7,908 from current year addition of deferred charge on refunding bonds $9,529 resulting from the issuance of the 2016-A,B Refunding Revenue bonds offset by the current year amortization of $1,621. Deferred outflows of resources related to pension increased by $9,242 resulting from the Electric Utility's proportion of the unamortized deferred outflow arising from differences between the projected and actual earnings of the pension plan assets of the City's miscellaneous pension plan.

Liabilities and Deferred Inflows of Resources

Total liabilities and deferred inflows of resources as of June 30, 2017 were $1,139,953 reflecting a total net increase of $107,710 (10.4%) due to the following:

- Long-term liabilities, increased by $91,143 (10.68%).
  - The long-term debt, net of current portion, had a net increase of $88,034 (13.3%) primarily due to a net increase of $119,268 in principal and premium from the $289,065 2016-A&B Anaheim Housing Public Improvement Authority (AHPIA) bond issuance which refunded the remaining balance of the 2007-A Anaheim Public Financing Authority (APFA) Revenue bonds ($146,720) and advance refunded the 2009 Revenue bonds ($58,260), offsetting by a reduction of current fiscal year principal due within one year of $20,874 and the current year amortization of $7,341 premium. The Electric Utility is continually strengthening its financial position through refunding old bonds and issuing new bonds at lower rates. (See note 7 of the notes to financial statements for additional information regarding long-term liabilities.)
  - Long-term provision for decommissioning costs decreased a total of $3,517 (2.9%) mainly due to current year's payments toward the related liability.

- Current liabilities, increased by $8,468 (10.4%) mainly due to a $15,877 increase in accounts payable and accrued expenses and increase of $3,125 in current portion of the revenue bonds, offsetting by $13,200 payment in full of the Electric System note during the current fiscal year.

- Deferred inflow of resources, consisting of regulatory credits and deferred pension related items increased by $8,099 (8.3%) due to an increase in regulatory credits of $7,738 and an increase in deferred pension of $361. (See notes 1 and 9 of the notes to financial statements for additional information regarding regulatory credits and pension.)

Net Position

The Electric Utility's net position, which represents the difference between the Electric Utility's total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, may serve over time as a useful indicator of the Electric Utility's financial position. This net position at June 30, 2017, totaled $355,821, an increase of $1,973 (0.7%) mainly due to the following:

- The net investment in capital assets of $294,820 reflects the investment in the Electric Utility's capital assets, less any related outstanding debt used to acquire those assets. This portion increased by $14,470 (5.2%) due to the Electric Utility investing in more capital assets to provide reliable and efficient services to customers. Resources needed to repay the outstanding debt must come from other sources such as operations revenue.
- The restricted net position total of $43,682 represents resources reserved for external restrictions on how they may be used, such as debt service payments, the Public Benefit Program, and other legally restricted purposes. This portion increased by $4,482 (11.4%) primarily due to an increase of $7,730 of resources required for debt service payments related to the 2016A,B bond issuance. This increase is partially offset by a decrease in debt service payments related to the refunding of the 2007A bond issuance of $2,573.
- The unrestricted net position of $17,319 decreased by $16,979. This portion reflects the results of operations and may be used for ongoing operational needs and obligations to our creditors and customers.

(In thousands)

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

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

		2017	2016
Revenue:			
Retail sales, net	$	372,282	372,621
Wholesale sales		24,372	11,568
Rate stabilization account revenue		—	7,000
Surplus natural gas sales		961	312
Transmission revenue		31,457	31,122
Other revenue		4,489	7,862
Interest income		2,244	3,259
Capital contributions		3,023	9,186
Total revenue		438,828	442,930
Expenses:			
Purchased power		263,729	239,863
Fuel and generation		19,337	20,833
Operations, maintenance, and administration		50,128	52,635
Depreciation		56,796	56,019
Interest expense		22,192	21,523
Total expenses		412,182	390,873
Transfers:			
Transfer to the General Fund of the City		(19,032)	(17,358)
Transfer of right-of-way fee to the City		(5,694)	(5,838)
Transfer of land to the City		—	(1,428)
Transfers from other funds of the City		53	110
Total transfers		(24,673)	(24,514)
Changes in net position		1,973	27,543
Net position at beginning of year		353,848	326,305
Net position at end of year	$	355,821	353,848

(Continued)

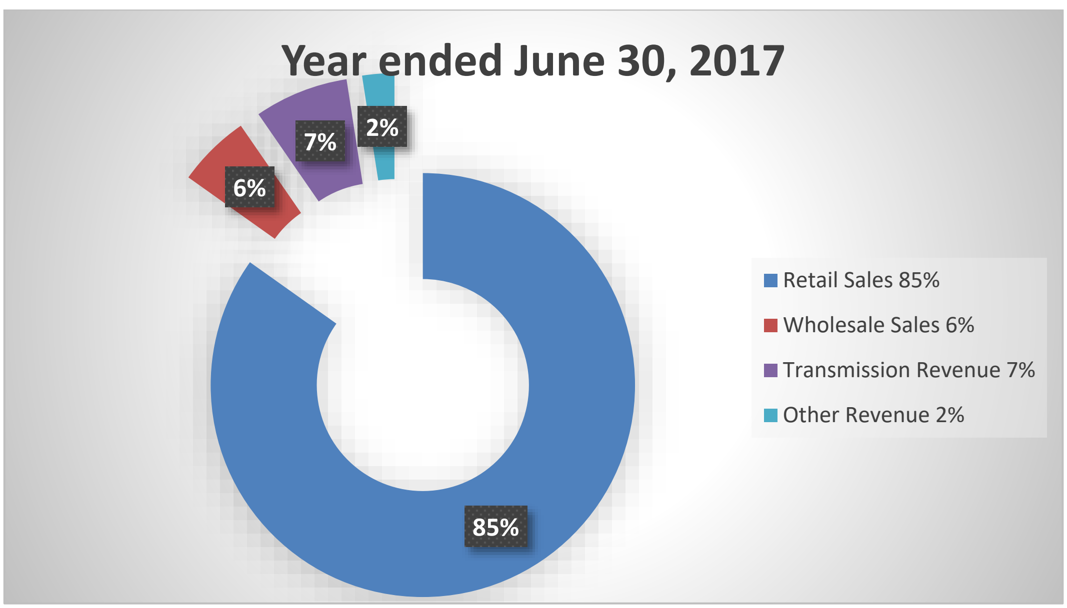
Revenue

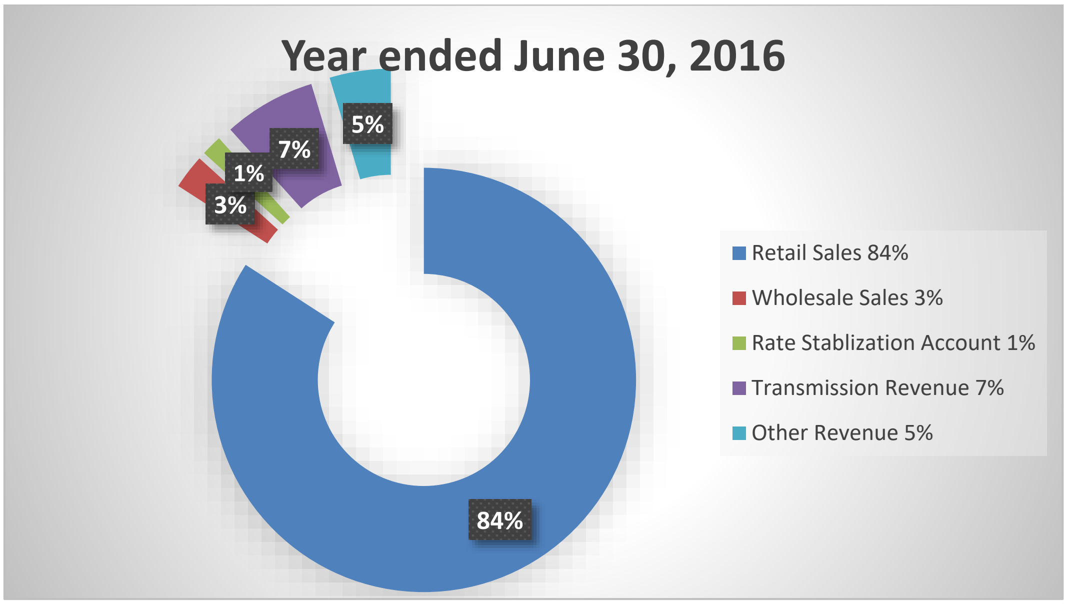
Year ended June 30, 2017

Total revenue for the year ended June 30, 2017 was $438,828, a decrease in total revenue of $4,102 (0.9%) mainly due to the following:

- Wholesale sales totaled $24,372. An increase of $12,804 (110.7%) was mainly due to an increase in wholesale energy sales due to a generally warmer year coupled with higher wholesale prices.
- Rate Stabilization Account (RSA) revenue recognized was $0. A decrease of $7,000 was due to positive operating results which resulted in no need to recognize RSA revenues in order to maintain a minimum reserve balance, and to retain a sound debt service coverage ratio of 2.02 for the Electric Utility Funds stable credit ratings in fiscal year 2017.
- Total Other Revenues, Interest Income and Capital contributions combined were $9,756. A combined decrease of $10,551 (52.0%) was due to lower miscellaneous revenues as well as decreased contributions in aid of construction ($6,163).

Revenue by Source





Expenses

Year ended June 30, 2017

Total expenses for the year ended June 30, 2017 were $412,182, an increase in total expenses of $21,309 (5.5%) mainly due to the following:

- Power costs totaled $263,729. An increase of $23,866 (9.9%) was due primarily to increased use of renewable resources and less recognition of Cap and Trade funds.
- Operation, maintenance, and administration totaled $50,128, a decrease of $2,507 (4.8%) mainly due to lower maintenance costs.
- Interest expense was $22,192, an increase of $669 (3.1%) primarily due to the issuance of the new $219,285 and $69,780 Anaheim Housing and Public Improvements Authority (AHPIA) Electric Refunding Revenue Bonds, Series 2016-A. and Series 2016-B respectively. The increase was partially offset by the advance refunding of the remaining 2007-A Bonds balance in the amount of $146,720 and a portion of the 2009-A Bonds in the amount of $58,260.

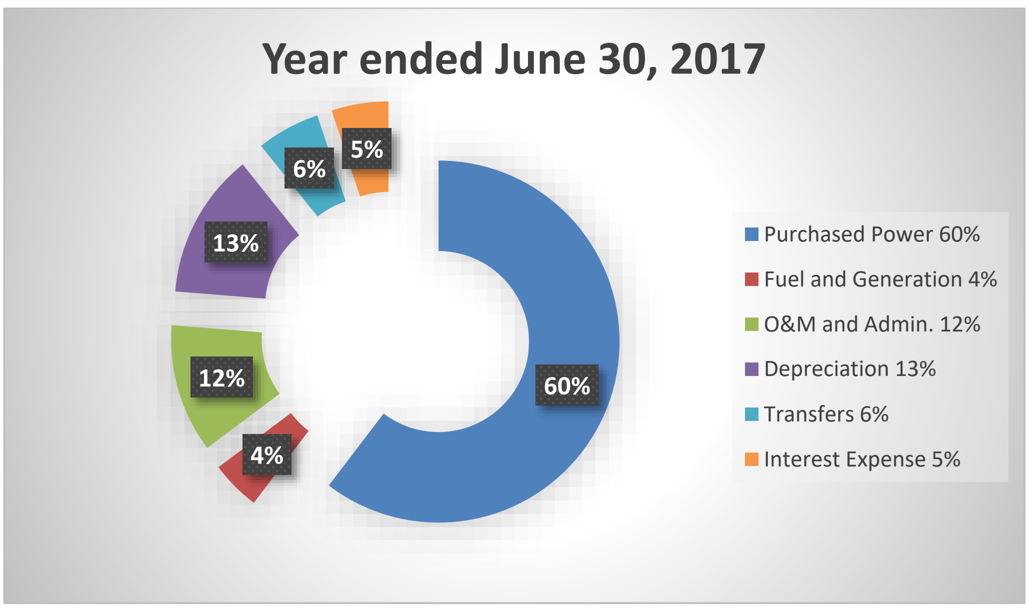
Transfers

Year ended June 30, 2017

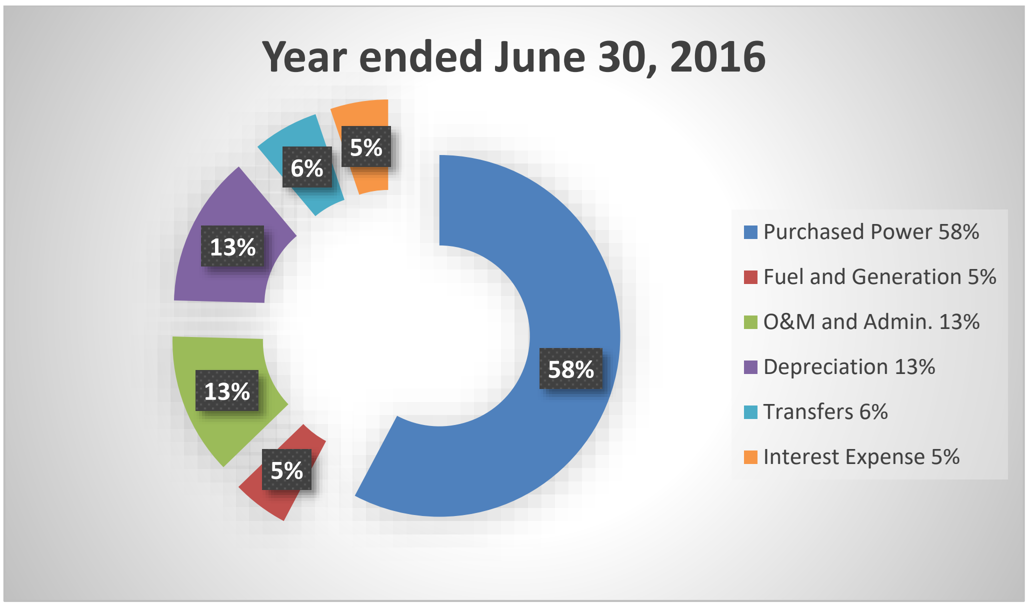
- Transfers to the City's General Fund, as defined by City Charter, are equal to a maximum of 4% of total operating revenue. The transfer to the City's General Fund was $19,032 for fiscal year 2017, which is based on the current year's total operating revenue and true-up adjustments on prior year's total operating revenue. There were no significant changes in the amount of transferred to the City during fiscal year 2017 when compared with prior fiscal year.

- The transfer of the right-of-way fee to the City is equal to 1.5% of retail electric revenue of the prior fiscal year. The right-of-way fee transferred to the City was $5,694 for fiscal year 2017. There were no significant changes in the amount of right-of-way fee transferred to the City during fiscal year 2017 when compared with prior fiscal year.
- Transfers from other funds of the City in fiscal year 2017 were $53 as compared with transfers from other funds of $110 in the prior fiscal year. The $57 decrease was related to reduction in joint capital assets with the Water Utility, which transferred its share to Electric Utility upon completion.

Expenses and Transfers



(In thousands)



Capital Assets and Debt Administration

Capital Assets

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

		2017	2016
Production	$	130,719	130,719
Transmission		97,235	96,727
Distribution		1,004,757	949,811
General plant		137,459	135,633
Land		34,243	34,243
Construction in progress		91,236	84,945
Total utility plant		1,495,649	1,432,078
Less accumulated depreciation		(601,412)	(550,220)
Net utility plant	$	894,237	881,858

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

(In thousands)

As of June 30, 2017

The Electric Utility's investment in utility plant, net of accumulated depreciation, was $894,237 as of June 30, 2017. An increase of $12,379 (1.4%) was due to total utility plant increasing by $57,280 (4.4%), which was partially offset by an increase in accumulated depreciation in the amount of $51,192 (9.3%) mainly due to the following:

- Distribution assets totaled $1,004,757, an increase of $54,946 (5.8%) mainly due to the completion of 7.83 circuit miles of underground conversion on Miraloma Avenue as well as installation of 14,987 feet of direct buried cable and the purchase of 149 new transformers. General plant assets totaled $137,459, an increase of $1,826 (1.4%) mainly due to installation of fiber optic equipment, upgrading communication equipment, and improvements to general facilities. This updated system will provide more efficient and functional services to Anaheim's customers.
- Construction in progress totaled $91,236, an increase of $6,291, (7.4%) mainly due to the replacement of aging overhead electrical lines with state-of-the-art underground projects such as continued improvements related to Phase 2 of Underground District #62 at Miraloma Ave. as well as the rehabilitation of the underground distribution system in the resort area in addition to the ongoing replacement of aging circuit breakers, poles, transformers and switches throughout the City. Also, during this fiscal year, the Electric Utility started construction of the new 69-12KV Harbor substation located Northeast corner of Katella Ave. and Zyen St.
- Accumulated depreciation of $601,412 increased by $51,192 (9.3%) mainly due to the current year's depreciation expense of $56,796, which includes $13,778 accelerated depreciation due to the early exit of the San Juan Coal Unit located in New Mexico. There was an offset of $5,604 related to retired assets.

Long-Term Debt

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

		2017	2016
Revenue bonds	$	705,225	640,090
Loan		301	—
Electric system notes		—	13,200
Long-term debt		705,526	653,290
Less:			
Current portion		(20,874)	(28,830)
Unamortized bond premium		65,314	37,472
Total noncurrent long-term debt outstanding	$	749,966	661,932

(Continued)

- The Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio of 1.25. The Utility had a debt service coverage ratio of 2.02 at June 30, 2017. The revenue of the Electric Utility has been pledged to pay the outstanding long-term debt.
- The credit rating of the Electric Utility was AA-by Fitch Ratings, and AA-by Standard & Poor's Corporation. These ratings reflect the Utility's high debt service coverage levels, strong liquidity position, stable financial performance, and mature and diverse customer base. Additional information on the Electric Utility's long-term liabilities can be found in note 7 of the notes to financial statements.

The long-term debt had a net increase of $80,078 (11.6%) primarily due to net increase of $119,268 in principal and premium from the $289,065 2016-A&B bond issuance which refunded the remaining balance of the 2007-A Revenue bonds ($146,720) and advance refunded the 2009 Revenue bonds ($58,260), and the issuance of the $316 megahertz communication equipment loan, offsetting by a reduction of current fiscal year principal payments of $32,164.

Economic Factors and Rates

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

Base electric rates were last revised by Anaheim's City Council effective September 1, 2015. On May 1, 2017 administrative modifications to the City's commercial and industrial rate schedules became effective which align the application of demand charges for consistency between the commercial and industrial rates. Other rate schedule modifications that became effective May 1, 2017 include conversion of two developmental rate schedules to permanent rate schedules with modifications to the time-of-use periods for one rate schedule to more closely align with market conditions. Additionally, customer service fees were revised effective May 1, 2017. The combination of these changes are not considered to have a material impact on the utility's revenue.

Requests for Information

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

CITY OF ANAHEIM
ELECTRIC UTILITY FUND

Statement of Net Position

June 30, 2017 and 2016

(In thousands)

Assets		2017	2016
Utility plant:			
Production	$	130,719	130,719
Transmission		97,235	96,727
Distribution		1,004,757	949,811
General plant		137,459	135,633
Gross utility plant		1,370,170	1,312,890
Less accumulated depreciation		(601,412)	(550,220)
Net plant in service		768,758	762,670
Land		34,243	34,243
Construction in progress		91,236	84,945
Net utility plant		894,237	881,858
Restricted assets:			
Cash and cash equivalents		204,229	66,053
Investments		100,659	160,432
Total restricted assets		304,888	226,485
Other assets:			
Prepaid purchased power		68,275	68,404
Unamortized prepaid bond insurance		—	344
Total other assets		68,275	68,748
Total noncurrent assets		1,267,400	1,177,091
Current assets:			
Cash and cash equivalents		16,908	14,385
Investments		58,780	58,587
Restricted Cash and cash equivalents		11,866	4,756
Restricted Investments		17,262	23,276
Accounts receivable, net		48,459	47,528
Accrued interest receivable		1,110	1,033
Interfund receivable		2,752	3,097
Materials and supplies		13,967	17,734
Prepaid items and other assets		15	
Prepaid purchased power		27,091	25,590
Total current assets		198,210	195,986
Total assets		1,465,610	1,373,077
Deferred outflows of resources:			
Deferred charge of refunding		11,047	3,139
Deferred pension related items		19,117	9,875
Total deferred outflows of resources	$	30,164	13,014

(Continued)

CITY OF ANAHEIM
ELECTRIC UTILITY FUND

Statement of Net Position

June 30, 2017 and 2016

(In thousands)

Liabilities		**2017**	**2016**
Long-term liabilities:			
Long-term debt obligation, less current portion	$	749,966	661,932
Net pension liabilities		77,861	71,235
Provision for decommissioning costs		116,477	119,994
Total long-term liabilities		944,304	853,161
Current liabilities (payable from restricted assets):			
Current portion of long-term debt		15,648	18,823
Accounts payable		5,744	1,604
Wages payable		147	153
Arbitrage rebate liabilities		76	450
Accrued interest		7,513	7,002
Total restricted current liabilities		29,128	28,032
Current liabilities (payable from unrestricted current assets):			
Current portion of long-term debt		5,226	10,007
Accounts payable and accrued expenses		50,738	39,001
Wages payable		536	441
Deposits		4,170	3,849
Total unrestricted current liabilities		60,670	53,298
Total liabilities		1,034,102	934,491
Deferred inflows of resources:			
Deferred regulatory credits		98,218	90,480
Deferred pension related items		7,633	7,272
Total deferred inflows of resources		105,851	97,752
Net position:			
Net investment in capital assets		294,820	280,350
Restricted for:			
Debt service		16,748	14,196
Renewal and replacement		16,060	15,938
Other purposes		10,874	9,066
Unrestricted		17,319	34,298
Total net position	$	355,821	353,848

See accompanying notes to financial statements.

CITY OF ANAHEIM
ELECTRIC UTILITY FUND

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2017 and 2016

(In thousands)

		2017	2016
Operating revenues:			
Retail sales of electricity, net	$	372,282	372,621
Wholesale sales of electricity		24,372	11,568
RSA revenues		—	7,000
Surplus natural gas sale		961	312
Transmission revenues		31,457	31,122
Other revenues		4,489	7,862
Total operating revenues		433,561	430,485
Operating expenses:			
Purchased power		263,729	239,863
Fuel and generation		19,337	20,833
Operations, maintenance, and administration		50,128	52,635
Depreciation		56,796	56,019
Total operating expenses		389,990	369,350
Operating income		43,571	61,135
Nonoperating revenues (expenses):			
Interest income		2,244	3,259
Interest expense		(22,192)	(21,523)
Transfer of land to the City		—	(1,428)
Total net nonoperating expenses		(19,948)	(19,692)
Income before capital contributions and transfers		23,623	41,443
Capital contributions		3,023	9,186
Transfer to the General Fund of the City		(19,032)	(17,358)
Transfer of right of way fee to the City		(5,694)	(5,838)
Transfers from other funds of the City		53	110
Changes in net position		1,973	27,543
Net position at beginning of year		353,848	326,305
Net position at end of year	$	355,821	353,848

See accompanying notes to financial statements.

CITY OF ANAHEIM
ELECTRIC UTILITY FUND

Statements of Cash Flows

Years ended June 30, 2017 and 2016

(In thousands)

		2017	2016
Cash flows from operating activities:			
Receipts from customers and users	$	437,980	442,376
Receipts from services provided to other funds of the City		2,709	2,114
Payments to suppliers		(262,435)	(272,120)
Payments to employees		(45,293)	(43,412)
Payments for services provided by other funds of the City		(12,762)	(11,695)
Net cash provided by operating activities		120,199	117,263
Cash flows from noncapital financing activities:			
Proceeds from short-term borrowings of line-of-credit		—	11,008
Payments on short-term borrowings of line-of-credit		—	(12,631)
Payments for decommissioning costs		(4,270)	(16,598)
Transfers to the General Fund and other funds of the City		(24,726)	(23,196)
Net cash used for noncapital financing activities		(28,996)	(41,417)
Cash flows from capital and related financing activities:			
Proceeds from borrowings		324,248	106,837
Principal payments on long-term debt		(32,164)	(25,240)
Transfer to escrow account		(214,176)	(66,973)
Capital purchases		(61,208)	(53,331)
Receipt of interfund balance for capital purposes		345	
Interest paid		(29,889)	(27,330)
Issuance costs		(910)	(424)
Transfers from other funds of the City for capital purposes		50	107
Proceeds from issuance of loan		315	—
Capital contributions		2,234	5,785
Net cash used for capital and related financing activities		(11,155)	(60,569)
Cash flows from investing activities:			
Purchases of investment securities		(53,969)	(111,574)
Proceeds from sale and maturity of investment securities		118,055	128,438
Interest income received		3,675	4,275
Net cash provided by investing activities		67,761	21,139
Increase in cash and cash equivalents		147,809	36,416
Cash and cash equivalents at beginning of year		85,194	48,778
Cash and cash equivalents at end of year	$	233,003	85,194

(Continued)

CITY OF ANAHEIM
ELECTRIC UTILITY FUND

Statements of Cash Flows

Years ended June 30, 2017 and 2016

(In thousands)

		2017	2016
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	43,571	61,135
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		56,796	56,019
Increase in provision for decommissioning costs		753	441
Changes in assets, liabilities and deferred inflows of resources that provided (used) cash:			
Accounts receivable, net		(931)	(1,260)
Materials and supplies inventory		3,767	(1,290)
Prepaid purchased power		(1,387)	7,951
Accounts payable and accrued expenses		11,737	(19,953)
Wages payable		(2,166)	(1,045)
Regulatory credits		7,738	15,137
Deposits		321	128
Total adjustments		76,628	56,128
Net cash provided by operating activities	$	120,199	117,263
Schedule of noncash investing, capital, and financing activities:			
Capital contributions	$	789	3,401
Transfers from other funds of the City		53	3
Transfers from other funds of the City		—	(1,428)
Increase (decrease) in fair value of investments		(1,508)	661
Reconciliation of cash and cash equivalents:			
Cash and cash equivalents	$	16,908	14,385
Restricted cash and cash equivalents, current portion		11,866	4,756
Restricted cash and cash equivalents, noncurrent portion		204,229	66,053
Total cash and cash equivalents	$	233,003	85,194

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) *Basis of Accounting*

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

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

On July 1, 2016, the Electric Utility adopted the following new accounting pronouncements issued by the GASB:

- GASB Statement No. 77, Tax Abatement Disclosures. The requirements of this Statement are effective for fiscal year beginning after December 15, 2015.
- GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. The requirements of this Statement are effective for fiscal year beginning after December 15, 2015.
- GASB Statement No. 80, Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14. The requirements of this Statement are effective for fiscal year beginning after June 15, 2016.
- Statement No. 82, Pension Issues – an amendment of GASB Statement No. 67, 68, and 73. The requirements of this Statement are effective for fiscal year beginning after June 15, 2016, except for the provision of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

Implementation of these Statements had no material effect on amounts reported in the Electric Utility's financial statements for fiscal year ended June 30, 2017.

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

- Statement No. 75, Accounting and Financial Reporting for Post-employment Benefits Other Than Pension Plans. The requirements of this statement are effective for fiscal years beginning after June 15, 2017.
- Statement No. 81, Irrevocable Split-Interest Agreement. The requirements of this Statement are effective for fiscal year beginning after December 15, 2016.
- Statement No. 83, Certain Asset Retirement Obligations. The requirements of this Statement are effective for fiscal year beginning after June 15, 2018.

(Continued)

(In thousands)

- Statement No. 86, Certain Debt Extinguishment Issues. The requirements of this statement are effective for reporting periods beginning after June 15, 2017.
- Statement No. 87, Leases. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

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

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

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

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

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

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

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

(e) ***Restricted Assets***

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

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

Deferred outflows of resources represent consumptions of net position that apply to future periods and so will not be recognized as an outflow of resources (expense) until then. In the statements of net position as of June 30, 2017 and 2016, the Electric Utility reported deferred outflows of resources in this category of $30,164 and $13,014 that included $11,047 and $3,139 of deferred charge of refunding and $19,117 and $9,875 of deferred pension, respectively. A deferred charge on refunding results from the difference in the carrying value of debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred pension is the pension contribution made during the current fiscal year that will be applied as a reduction in pension liability in the next fiscal year or other items arising from changes in actuarial assumptions, differences between actual and projected experience, between actual and projected investment gains/losses, or changes in Electric Utility's proportion in the City's pension plan. This amount will be amortized and reported as a component in pension expense in future fiscal years (refer to note 9 in notes to financial statements). The Electric Utility reported $19,117 in this category.

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

Deferred inflows of resources represent acquisitions of net position that apply to future periods and so will not be recognized as an inflow of resources (revenue) until that time. As of June 30, 2017 and 2016, the Electric Utility reported deferred inflow of resources of $105,851 and $97,752 that included $98,218 and $90,480 of regulatory credits and $7,633 and $7,272 of deferred pension, respectively. Regulatory credits represent amounts accumulated from collections, which provide recovery in the current period for costs to be incurred in future periods. Deferred pension arises from changes in pension plan assumptions; differences between actual and projected experience; or differences between actual and projected investment gain/losses. See note 1(j) for further discussion of regulatory credits, and note 9 for pension.

(h) ***Operating Revenue***

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

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

 (Continued)

Unbilled electric service charges are included in accounts receivable at year-end. Unbilled accounts receivable totaled $25,730 and $27,551 at June 30, 2017 and 2016, respectively.

Revenue is reported net of uncollectible amounts. Total uncollectible amounts written off are $723 and $837 for the years ended June 30, 2017 and 2016, respectively. The applicable allowances for uncollectible accounts are $853 and $983 at June 30, 2017 and 2016, respectively. See note 7 for discussion of pledged revenue.

(i) ***Operating Expenses***

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

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

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

(j) ***Regulatory Credits***

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

The Electric Utility restructured its rates effective September 1, 2015 in order to more effectively align the recovery of the Utility's costs with the nature of the costs incurred. This was accomplished by reducing the Power Cost Adjustment (PCA) and the Environmental Mitigation Adjustment (EMA) with corresponding increases to base rates. The restructuring was designed to be revenue neutral to the customer. As of June 30, 2017 and 2016, the Electric Utility recorded deferred inflows of resources for regulatory credits of $22,468 and $23,140, respectively.

As of June 30, 2017, the EMA rates were $0.0005 per kWh for all customers regardless of the amount of energy used. As of June 30, 2017 and 2016, the Electric Utility recorded deferred inflows of resources for regulatory credits of $75,750 and $67,340, respectively. During fiscal year 2017, no RSA revenue was recognized to mitigate the impact of environmental mitigation costs.

(k) ***Provision for Decommissioning***

Federal regulations require the Electric Utility to provide for the future decommissioning costs of its former ownership share of SONGS. The Electric Utility has established a provision for decommissioning costs of SONGS and restoration of the beachfront at San Onofre. A separate irrevocable trust account was established for amounts funded, and these amounts are classified as restricted assets in the accompanying statements of net position. As of June 30, 2017 and 2016, the Electric Utility has recorded a provision for decommissioning costs for SONGS of $110,757 and $114,714, respectively.

On June 7, 2013, Southern California Edison (SCE) announced the permanent retirement of the SONGS plant. The Electric Utility will continue to fund the reserve and recognize the expense until the end of the trust fund. SCE submitted a decommissioning cost analysis study to Nuclear Regulatory Commission (NRC) on September 23, 2014. According to the study for the decommissioning costs of SONGS, the Electric Utility's share of decommissioning costs was $110,756 at September 23, 2014. As of June 30, 2017 and 2016, the Electric Utility has paid $4,270 and $16,598, respectively, in decommissioning-obligations. The Electric Utility will continue to draw funds from the trust to cover its decommissioning-related obligations. The Electric Utility currently has $110,384 in an irrevocable trust for the decommissioning costs. The estimated completion of decommissioning is expected to take approximately 30 to 40 years.

The Electric Utility has a 10.04% ownership interest of SJ. The Electric Utility is providing for the future demolition and reclamation costs of its ownership share of SJ. As of June 30, 2017 and 2016, the Electric Utility has recorded a provision for decommissioning costs for SJ of $5,720 and $5,280, respectively. The Electric Utility currently has $3,848 in irrevocable trust and $1,872 in the City restricted cash account. For the year ended June 30, 2017 and 2016, the Electric Utility has recorded decommissioning costs incurred for SJ of $440 and $440, respectively, which are included in the fuel and generation component.

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

(l) ***Debt Issuance Costs***

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

(m) ***Deferred Charge on Refunding***

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

(n) ***Vacation and Sick Pay***

Vacation and sick pay for all City employees are paid by the General Benefits and Insurance Fund of the City. The General Benefits and Insurance Fund is reimbursed through payroll charges to the Electric Utility based on estimates of benefits to be earned during the year. Vested vacation and sick pay benefits are accrued in the General Benefits and Insurance Fund, and amounted to $1,905 and $1,938 for the Electric Utility at June 30, 2017 and 2016, respectively.

(o) ***Pension plan***

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

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

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

The City Charter provides that transfers to the General Fund of the City shall not exceed 4% of total operating revenue. Such transfers are not in lieu of taxes, and amounted to $19,032 and $17,358 for the years ended June 30, 2017 and 2016, respectively.

The transfer of right-of-way fees to the City represents the City Council approved transfer of 1.5% of retail electric revenue of the prior fiscal year to the General Fund of the City. Bond disclosure requirements designate that this transfer must be recognized as an expense in the calculation of bond coverage. The transfer of right-of-way fee to the City amounted to $5,694 and $5,838 for the years ended June 30, 2017 and 2016, respectively.

Other transfers from other funds of the City are either cash transfers or capital asset transfers between City funds. In addition, the Electric Utility reported the amount of transfers related to capital assets transfer from Water of $53 and $110 for the years ended June 30, 2017 and 2016, respectively.

(q) ***Reclassifications***

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 financial statement presentation. Such reclassifications had no effects on the previously reported Electric Utility's financial statements.

(r) ***Use of Estimates***

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

(2) Deposits and Investments

The City maintains a cash and investment pool, which includes the cash balances of all funds, and is invested by the 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.

(In thousands)

The Electric Utility maintains cash equivalents and investments at June 30, 2017 and 2016 with the following carrying amounts:

		2017	2016
Cash equivalents and investments pooled with the Treasurer	$	128,801	123,650
Investments held with trustee		280,903	203,839
	$	409,704	327,489

At June 30, 2017 and 2016, the Electric Utility's cash equivalents and investments are recorded as follows:

		2017	2016
Restricted assets – cash equivalents and investments	$	334,016	254,517
Unrestricted assets – cash equivalents and investments		75,688	72,972
	$	409,704	327,489

(a) ***Investments***

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

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

(Continued)

(In thousands)

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

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

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

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

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

(In thousands)

At June 30, 2017 and 2016, the following investments represent five percent or more of the City's total pooled investments:

Issuer	Investment type	2017 Fair value	2017 Percentage	2016 Fair value	2016 Percentage
U.S. Treasury	U.S. agency securities	$ 89,520	17 %	$ 50,234	11 %
LAIF	LAIF	79,986	15	63,669	14
Federal National Mortgage Association	U.S. agency securities	72,286	14	99,445	21
Federal Home Loan Mortgage Corporation	U.S. agency securities	63,008	12	65,949	14
Federal Farm Credit Bank	U.S. agency securities	33,324	6	28,488	6
Federal Home Loan Bank	U.S. agency securities	—	—	30,426	7

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

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

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

(In thousands)

At June 30, 2017 and 2016, the following investments represent five percent or more of the City's total investments controlled by bond trustees:

Issuer	Investment type	2017 Fair value	2017 Percentage	2016 Fair value	2016 Percentage
U.S. Bank	Money Market Mutual Funds	$ 248,477	41 %	$ —	— %
Morgan Stanley	Flexible repurchase agreement	90,294	15	71,432	13 %
Deutsche Bank Association	Guaranteed investment agreement	61,037	10	155,498	28
Federated	Money Market Mutual Funds	59,427	10	40,809	7
Federal National Mortgage Association	U.S. agency securities	30,511	5	30,943	6
Dreyfus Treasury	Money Market Mutual Funds	27,963	5	N/A	N/A
Natixis Funding Corporation	Guaranteed investment agreement	—	—	75,341	14
LAIF	LAIF	—	—	32,562	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 bond trustee is the risk that the City will not be able to recover the value of investment securities that are in the possession of an outside party. All securities held by the bond trustee are in the name of the bond issue in trust for safekeeping with the bond trustee, which is different from the City's primary bank.

(e) *Interest Rate Risk*

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

(In thousands)

Investments held by bond trustees are typically long-term securities, which are not adversely affected by interest rate changes. Guaranteed investment contracts for construction funds are usually limited to three years or less. Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following tables that show the distribution of the City's investments by maturity at June 30, 2017 and 2016. Information about the sensitivity of the fair values of the Electric Utility's investments (including investments held by bond trustees) to market interest rate fluctuations for the fiscal years 2017 and 2016 is provided by the following table.

The distribution of the Electric Utility's investments by maturity at June 30, 2017 and 2016 is as follows:

Investments	Credit rating (S&P/ Moody's)	Fair value, June 30, 2017	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	$ 46,888	18,657	11,210	9,661	7,360	—
U.S. Treasuries	AA+/Aaa	22,243	—	7,421	—	14,822	—
Medium-term notes	AAA/Aaa	7,238	2,519	1,240	1,228	2,251	—
Medium-term notes	AA+/Aa1	1,738	—	—	1,738	—	—
Medium-term notes	AA-/A1	4,995	—	—	2,520	2,475	—
Medium-term notes	AA-/Aa2	3,235	3,235	—	—	—	—
Medium-term notes	AA-/Aa3	2,482	1,240	—	1,242	—	—
Medium-term notes	A+/Aa3	1,235	—	—	1,235	—	—
Medium-term notes	A+/A1	5,009	746	—	1,248	3,015	—
Medium-term notes	A+/A2	1,501	—	—	—	1,501	—
Medium-term notes	A/A2	4,954	1,242	—	2,461	1,251	—
Medium-term notes	A/A2	993	993	—	—	—	—
Medium-term notes	A/A3	2,492	—	1,245	1,247	—	—
Medium-term notes	A/A1	1,489	1,489	—	—	—	—
Commercial paper	A-1+/P-1	1,241	1,241	—	—	—	—
Commercial paper	A-1/P-1	1,243	1,243	—	—	—	—
Money market mutual funds	AAA/Aaa	200	200	—	—	—	—
LAIF	Unrated	19,625	19,625	—	—	—	—
Total investments controlled by City Treasurer		128,801	52,430	21,116	22,580	32,675	—
Investments controlled by bond trustees:							
U.S. agency securities	AA+/Aaa	51,701	26,276	25,178	247	—	—
US Treasury Obligations	Aaa	2,973	250	744	743	1,236	—
Guaranteed investment contracts	Unrated	8,353	—	—	8,353	—	—
Flexible repurchase agreements	Unrated	13,646	—	—	—	—	13,646
Money market mutual funds	AAA/Aaa	204,230	204,230	—	—	—	—
Total investments controlled by bond trustees		280,903	230,756	25,922	9,343	1,236	13,646
Total electric utility investments		$ 409,704	283,186	47,038	31,923	33,911	13,646

(In thousands)

Investments	Credit rating (S&P/ Moody's)	Fair value, June 30, 2016	12 months or less	13 to 24 months	25 to 36 months	37 to 60 months	More than 60 months
Treasurer's pooled investments:							
U.S. agency securities	AA+/Aaa	$ 59,502	9,301	28,869	10,816	10,516	—
U.S. Treasuries	AA+/Aaa	13,326	—	5,318	8,008	—	—
Medium-term notes	AAA/Aaa	5,722	—	3,295	1,338	1,089	—
Medium-term notes	AA+/Aaa	2,657	2,657	—	—	—	—
Medium-term notes	AA+/A1	1,337	1,337	—	—	—	—
Medium-term notes	AA-/A1	4,071	1,327	—	—	2,744	—
Medium-term notes	AA-/Aa2	3,480	—	3,480	—	—	—
Medium-term notes	AA-/Aa3	2,665	1,330	1,335	—	—	—
Medium-term notes	A+/A1	2,181	—	804	—	1,377	—
Medium-term notes	A/A2	5,056	1,327	3,729	—	—	—
Medium-term notes	A/A1	1,467	1,467	—	—	—	—
Commercial paper	A-1+/P-1	2,651	2,651	—	—	—	—
Commercial paper	A-1/P-1	2,382	2,382	—	—	—	—
Money market mutual funds	AAA/Aaa	263	263	—	—	—	—
LAIF	Unrated	16,890	16,890	—	—	—	—
Total investments controlled by City Treasurer		123,650	40,932	46,830	20,162	15,726	—
Investments controlled by bond trustees:							
U.S. agency securities	AA+/Aaa	73,532	4,440	43,690	25,402	—	—
Guaranteed investment contracts	Unrated	56,142	32,897	—	—	8,353	14,892
Collateralized investment contracts	Unrated	—	—	—	—	—	—
Flexible repurchase agreements	Unrated	13,346	—	—	—	—	13,346
Money market mutual funds	AAA/Aaa	60,819	60,819	—	—	—	—
Total investments controlled by bond trustees		203,839	98,156	43,690	25,402	8,353	28,238
Total electric utility investments		$ 327,489	139,088	90,520	45,564	24,079	28,238

(f) *Fair Value Measurement*

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

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

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

(Continued)

(In thousands)

The City has the following recurring measurements as of June 30, 2017 and 2016:

Investment by fair value level	June 30, 2017	Fair value measurement using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable Inputs (Level 2)	Not required to be leveled
Debt securities:				
U.S. agency securities	$ 98,589	—	98,589	—
U.S. Treasury Obligations	25,216	25,216	—	—
Commercial Paper	2,730	—	2,730	—
Negotiable Certificate of Deposit	1,243	—	1,243	—
Medium-term corporate notes	35,872	—	35,872	—
LAIF	19,625	—	—	19,625
Total investment measured at fair value	183,275	$ 25,216	138,434	19,625
Investments measured at cost-based:				
Guaranteed investment contracts	8,353			
Flexible repurchase agreement	13,646			
Money market mutual funds	204,430			
Total investment measured at cost-based	226,429			
Total pooled and bond trustee investments	$ 409,704			

(In thousands)

Investment by fair value level		June 30, 2016		Fair value measurement using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Not required to be leveled
Debt securities:						
U.S. agency securities	$	133,034		—	133,034	—
U.S. Treasuries		13,326		13,326	—	—
Medium-term corporate notes		28,636		—	28,636	—
LAIF		16,890		—	—	16,890
Total investment measured at fair value		191,886	$	13,326	161,670	16,890
Investments measured at amortized costs:						
Commercial paper		5,033				
Total investment measured at amortized costs		5,033				
Investments measured at cost-based:						
Guaranteed investment contracts		56,142				
Flexible repurchase agreement		13,346				
Money market mutual funds		61,082				
Total investment measured at cost-based		130,570				
Total pooled and bond trustee investments	$	327,489				

(In thousands)

(3) Electric Utility Plant

The following is a summary of changes in capital assets:

	Balance as of June 30, 2015	Additions	Deletions	Balance as of June 30, 2016	Additions	Deletions	Balance as of June 30, 2017
Production	$ 130,719	—	—	130,719	—	—	130,719
Transmission	96,400	328	(1)	96,727	514	(6)	97,235
Distribution	919,288	32,073	(1,550)	949,811	57,772	(2,826)	1,004,757
General plant	133,883	3,039	(1,289)	135,633	4,598	(2,772)	137,459
Depreciable utility plant	1,280,290	35,440	(2,840)	1,312,890	62,884	(5,604)	1,370,170
Less accumulated depreciation	(497,041)	(56,019)	2,840	(550,220)	(56,796)	5,604	(601,412)
Net depreciable utility plant	783,249	(20,579)	—	762,670	6,088	—	768,758
Land	35,671	5	(1,433)	34,243	—		34,243
Construction in progress	60,646	53,671	(29,372)	84,945	65,837	(59,546)	91,236
Nondepreciable utility plant	96,317	53,676	(30,805)	119,188	65,837	(59,546)	125,479
Net utility plant	$ 879,566	33,097	(30,805)	881,858	71,925	(59,546)	894,237

(4) Operating Expenses

Total operating expenses shared with the City’s Water Utility Fund amounted to $33,900 and $31,066 for the year ended June 30, 2017 and 2016, respectively, of which $27,120 and $24,606 were allocated to the Electric Utility.

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

(5) Jointly Owned Utility Projects

(a) *Songs*

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

(Continued)

(In thousands)

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

(b) ***San Juan Generating Station***

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

(6) Short-Term Borrowings

The Electric Utility had a Revolving Credit Agreement with Wells Fargo Bank, National Association in the form of short-term taxable notes.

At June 30, 2017, the Electric Utility has not drawn additional funds from the above-mentioned note. The following is a rollforward of the short-term borrowings for the year ended June 30, 2016.

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

(In thousands)

(7) Long-Term Liabilities

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

June 30, 2017	Beginning of year	Additions	Retirements	End of year	Due within one year
Electric Revenue Bonds	$ 640,090	289,065	(223,930)	705,225	20,845
Electric system note	13,200	—	(13,200)	—	—
Proceeds from Loan	—	315	(14)	301	29
Net pension liability (note 9)	71,235	13,333	(6,707)	77,861	—
Provision for decommissioning costs (note 1k)	119,994	753	(4,270)	116,477	—
	844,519	303,466	(248,121)	899,864	$ 20,874
Less current portion	(28,830)	(20,874)	28,830	(20,874)	
Add unamortized bond premium	37,472	35,183	(7,341)	65,314	
Total long-term liabilities	$ 853,161	317,775	(226,632)	944,304	

June 30, 2016	Beginning of year	Additions	Retirements	End of year	Due within one year
Electric Revenue Bonds	$ 624,310	92,865	(77,085)	640,090	17,630
Electric system note	24,400	—	(11,200)	13,200	11,200
Net pension liability (note 9)	62,750	15,060	(6,575)	71,235	—
Provision for decommissioning costs (note 1k)	134,414	2,178	(16,598)	119,994	—
	845,874	110,103	(111,458)	844,519	$ 28,830
Less current portion	(36,249)	(28,830)	36,249	(28,830)	
Add unamortized bond premium	29,410	14,149	(6,087)	37,472	
Total long-term liabilities	$ 839,035	95,422	(81,296)	853,161	

(In thousands)

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

		2017	2016
Anaheim Public Financing Authority Revenue Bonds, issue of 2007-A, TIC 4.49%, dated and sold on February 7, 2007 in the amount of $206,035, of which: (1) $73,000 was issued as serial bonds. The remaining principal of $58,705 at rates ranging from 4.00% to 5.00% (2) $24,410 was issued as term bonds at a rate of 4.75% (3) $36,675 was issued as term bonds at a rate of 4.50% and (4) $71,950 was issued as term at a rate of 4.50%. Of the remaining principal amount of $146,720 outstanding as of October 19, 2016, maturing on October 1, 2018 through October 1, 2037, $77,290 were refunded by the bond issue 2016A dated October 19, 2016 at rates ranging from 3.00% to 5.00% with principal payments ranging from $690 to $27,885. The remaining principal amount of $69,430 was refunded by the 2016-B Bond issue dated October 19,2016 at rates ranging from 0.80% to 2.71% with principal payments ranging from $1,320 to $8,205.	$	—	150,230
Anaheim Public Financing Authority Revenue Bonds, issue of 2009, TIC 4.98%, dated and sold on March 10, 2009 in the amount of $70,000, of which: (1) $37,405 was issued as serial bonds. The remaining principal of $31,465 at rates ranging from 4.00% to 5.00% (2) $12,610 was issued as term bonds at a rate of 5.25% and (3) $19,985 was issued as term bonds at a rate of 5.25%. Of the remaining principal amount outstanding as of October 19, 2016, $58,260 maturing on October 1, 2019 through October 1, 2039 were refunded by the bond issue 2016-A dated October 19, 2016 at rates ranging from 3.00% to 5.00% with principal payments ranging from $690 to $27,885. Total debt service is $3,020 to maturity.		3,020	62,705
Anaheim Public Financing Authority Revenue Bonds, issue of 2011, TIC 4.91%, dated and sold on May 11, 2011 in the amount of $90,390, of which: (1) $63,005 was issued as serial bonds. The remaining principal of $63,005 at rates ranging from 3.00% to 5.25% is maturing from October 1, 2017 through 2031 in annual principal installments ranging from $1,890 to $5,880 and (2) $27,385 was issued as term bonds at a rate of 5.375% maturing October 1, 2032 through 2036 in annual principal installments from $4,905 to $6080. The total debt service is $141,490 to maturity.		88,565	90,390
Anaheim Public Financing Authority Revenue Bonds, issue of 2012, TIC 3.38%, dated and sold on September 19, 2012 in the amount of $92,130, issued as serial bonds at rates ranging from 3.125% to 5.00% is maturing from October 1, 2021 through 2031 in annual principal installments ranging from $1,455 to $17,080. The total debt service is $136,106 to maturity.		92,130	92,130

(Continued)

(In thousands)

		2017	2016
California Municipal Finance Authority, Revenue Bonds issue of 2014, TIC 1.89%, dated and sold on October 8, 2014 in the amount of $109,350, issued as serial bonds at rates ranging from 2.00% to 5.00% maturing from October 1, 2017 through 2025 in annual principal installments ranging from $7,385 to $13,390 The total debt service is $116,760 to maturity.	$	94,745	101,770
California Municipal Finance Authority Revenue Bonds, issue of 2015-A, TIC 3.54%, dated and sold on April 21, 2015 in the amount of $50,000 issued at variable rates due on the first business day of each month, commencing May 1, 2015 until mandatory purchase date of April 8, 2018. The principal of $50,000 at planning rate of 3.50% maturing from October 1, 2017 through 2045 in annual principal installments ranging from $4,245 to $5,830. The total debt service is $92,507 to maturity.		50,000	50,000
California Municipal Finance Authority Revenue Bonds, issue of 2015-B, TIC 3.58%, dated and sold on July 21, 2015 in the amount of $92,865, issued as serial bonds at rates ranging from 3.00% to 5.00% maturing from October 1, 2017 through October 1, 2035 in annual principal payments ranging from $1,825 to $11,945. The total debt service is $123,572 to maturity.		89,020	92,865
Anaheim Housing and Public Improvements Authority Tax -Exempt Revenue Bonds, issue of 2016-A, TIC 3.71% dated and sold on October 19, 2016 in the amount of $219,285 of which (1) $190,765 was issued as serial bonds at rates ranging from 3.00% to 5.00% maturing from October 1, 2017 through October 1, 2036 in annual principal payments ranging from $690 to $27,885 and (2) $28,520 issued as term bonds at a rate of 5.00% maturing from October 1, 2037 to October 1, 2041 in annual principal installments ranging from $4,485 to $9,145. The total debt service is $219,285.		219,285	—
Anaheim Housing and Public Improvements Authority Revenue Bonds, Taxable Revenue Bonds, issue of 2016-B, TIC 2.38% dated and sold on October 19, 2016 in the amount of $69,780 issued as serial bonds at rates ranging from 0.80% to 2.71% maturing from October 1, 2015 through October 1, 2028 in annual principal payments ranging from $1,320 to $8,205. The total debt service is $79,384 to maturity.		68,460	—
Total Anaheim Public Financing Authority and California Municipal Finance Authority	$	705,225	640,090

(In thousands)

Annual debt service requirements for long-term obligation at June 30, 2017 to maturity are as follows:

		Principal	Interest	Total
Fiscal year(s) ending June 30:				
2018	$	20,845	31,441	52,286
2019		21,660	30,616	52,276
2020		25,585	29,601	55,186
2021		26,755	28,466	55,221
2022		29,445	27,227	56,672
2023–2027		162,235	114,719	276,954
2028–2032		180,740	77,236	257,976
2033–2037		163,685	35,477	199,162
2038–2042		52,145	9,056	61,201
2043–2047		22,130	1,454	23,584
	$	705,225	385,293	1,090,518

On January 1, 2016, the Electric Utility renewed March 1, 2013 the Revolving Credit Agreement (Agreement) with Wells Fargo Bank, National Association at a maximum loan amount not to exceed $100,000 of which $86,000 is made available for Electric Utility and $14,000 for Water Utility. The note has five-year term at a variable interest rate based on LIBOR Daily Index Rate and a spread. The annual commitment fee is based on 0.175% on the total note amount of $100,000. During fiscal year 2017, the Electric Utility repaid the remaining outstanding balance of $13,200, which was drawn on July 13, 2013 to retire the 2012-B Electric Revenue Bonds.

Interest costs of $3,035 from long-term financing have been capitalized to utility plant for the year ended June 30, 2017 (note 3).

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

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

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

The Electric Utility has pledged future electric revenue to repay a total of $1,090,518 outstanding long-term obligations, principal, and interest for the year ended June 30, 2017. Proceeds from bonds provide

(Continued)

financing for various capital improvements, primarily distribution assets. The Electric Utility's bonds are payable solely from electric net revenue and are payable through fiscal year 2046. As of June 30, 2017, the annual principal and interest payments on the bonds, excluded early retired bond, are 46.7% of net revenue. Bond debt service paid and total net revenue was $47,898 and $102,611 for the year ended June 30, 2017, respectively.

On October 19, 2016, the Electric Utility issued Anaheim Housing and Public Improvements Authority Revenue Refunding Bonds Series 2016-A in the principal amount of $219,285 at a premium of $35,183. The true interest cost is 3.7%. A portion of the bonds $190,765 will mature serially from October 1, 2017 through 2036 in annual principal installments ranging from $690 to $27,885. The remaining $28,520 will mature from October 1, 2,037 through October 1, 2,041 in annual principal installments ranging from $4,485 to $9,145. The proceeds from the bonds were used to refund a portion of the 2007 bonds in the amount of $77,290 and partially refund the 2009 bonds in the amount of $58,260. The proceeds of $100,000 will be used for capital improvements related to the distribution system. The total debt service is $397,884 to maturity.

On October 19, 2016, the Electric Utility issued Anaheim Housing and Public Improvements Authority Revenue Refunding Bonds Series 2016-B in the principal amount of $69,780. The true interest cost is 2.4%. This will mature serially from April 1, 2017 through October 1, 2028 in annual principal installments ranging from $1,320 to $8,205. The proceeds from the bonds were used to refund a portion of the 2007 bonds in the amount of $69,430. The total debt service is $79,384 to maturity.

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

800 Megahertz Communication Equipment

On November 30, 2016, the Electric Utility participated in a loan agreement together with the City of Anaheim with Banc of America Public Capital Corp. to finance the acquisition of the 800 Megahertz communication radio, The loan amount is $6,840 payable over 10 years and bears interest of 1.87% per annum. The Electric Utility's proportionate share is $315. Principal and interest is due semi-annually beginning on May 30, 2017, until November 30, 2026. The outstanding balance at June 30, 2017 was $301.

(In thousands)

Loan debt service requirements to maturity are as follows:

		Principal	Interest	Total
Electric Utility fiscal year ending June 30:				
2018	$	29	6	35
2019		30	5	35
2020		30	4	34
2021		31	4	35
2022		32	3	35
2023–2026		149	7	156
Total notes and loans	$	301	29	330

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

		2017	2016
Held by fiscal agent:			
Bond reserve fund	$	63,136	54,383
Bond service fund		1,116	531
Bond construction fund		102,419	32,961
Decommissioning reserve		114,232	115,964
Held by Treasurer:			
Bond service account		23,146	20,668
Renewal and replacement account		16,060	15,938
Decommissioning and fuel reserves		1,872	3,657
Public benefit program fees		11,959	9,966
Restricted rebate		76	450
	$	334,016	254,518

The Electric Utility’s interest and other finance charges, excluding capitalized interest, for the year ended June 30, 2017 were $22,192.

(8) Advance Refundings

When conditions have warranted in prior years, the Electric Utility has sold various issues of bonds to provide for the refunding of previously issued obligations. The proceeds received from the sales of the bond issues were used to refund the outstanding bond issues or to deposit in an irrevocable escrow fund held by the escrow agent, an amount, which, when combined with interest earnings thereon, is at least equal to the sum of the outstanding principal amount of the bonds, the interest to accrue thereon, and including the first optional redemption date thereof, and the premium required to redeem the bonds outstanding on such date. Accordingly, the trust account assets and the liability for defeased bonds are not included in the Electric Utility's financial statements. Amount of defeased debt still outstanding at June 30, 2017 was $58,260 of the 2009-A bonds.

(In thousands)

(9) Pension Plan

(a) *Plan Description*

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

(b) *Benefits Provided*

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

The Plan' provisions and benefits in effect at June 30, 2017 and 2016 are summarized as follows:

	June 30, 2017 Miscellaneous		June 30, 2016 Miscellaneous	
Hire date	Prior to January 1, 2013	On or after January 1, 2013	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.7% @ 55	2.0% @ 62	2.7% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50–55	52–65	50–55	52–65
Monthly benefits, as a% of eligible compensation	2.70 %	2.00 %	2.70 %	2.00 %
Required employee contribution rates	8.00	6.75	8.00	6.75
Required employer contribution rates	28.415	28.415	26.371	26.371

(c) ***Contributions***

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Electric Utility is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employees are required to contribute 8.00% of their annual salary. The City's contractually required contribution rate is 28.415% and 26.371% of annual payroll for the fiscal years ended June 30, 2017 and 2016, respectively.

Contribution to the pension plan from the Electric Utility was $7,159 and $6,707 for the fiscal year ended June 30, 2017 and 2016, respectively.

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

The Electric Utility reported net pension liability of $77,861 and $71,235 for its proportionate share of the net pension liability of the City's Miscellaneous Plan for the fiscal years ended June 30, 2017 and 2016, respectively. The net pension liability was measured as of June 30, 2016 and 2015, respectively, and the total liability used to calculate the net pension was determined by an actuarial valuation as of that date. The Electric Utility's portion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating funds of the City. At June 30, 2017, the Electric Utility's proportionate share was 21.520%, which was a decrease of 0.316% from its proportionate share of 21.836% at June 30, 2016 measured as of June 30, 2015.

(In thousands)

For fiscal years ended June 30, 2017 and 2016, the Electric Utility recognized pension expense of $4,905 and $4,754 respectively. The Electric Utility reported the following deferred outflows of resources and deferred inflows of resources related to pension:

	June 30, 2017		June 30, 2016	
	Deferred outflows of resources	**Deferred inflows of resources**	**Deferred outflows of resources**	**Deferred inflows of resources**
Difference between expected and actual experience	$ —	5,304	—	2,372
Changes of assumptions	—	1,524	—	3,093
Net difference between projected and actual earnings on pension plan investments	10,374	—	—	1,807
Changes in proportion	1,584	805	3,168	—
Contributions subsequent to the measurement date	7,159		6,707	—
	$ 19,117	7,633	9,875	7,272

The $7,159 and $6,707 reported as deferred outflows of resources related to pensions resulting from the Electric Utility contributions subsequent to the measurement date are (will be) recognized as a reduction of the net pension liability in the year ended June 30, 2018 and 2017, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	June 30, 2017
Year ending June 30:	
2018	$ (2,159)
2019	(1,010)
2020	4,775
2021	2,719
Total	$ 4,325

(In thousands)

		June 30, 2016
Year ending June 30:		
2017	$	(2,446)
2018		(2,446)
2019		(1,296)
2020		2,084
Total	$	(4,104)

(e) ***Actuarial Assumptions***

The June 30, 2015 valuation of the City's miscellaneous plan was rolled forward to determine the June 30, 2016 total pension liability based on the following actuarial methods and assumptions:

Valuation date (VD)	June 30, 2015
Measurement date (MD)	June 30, 2016
Measurement period	July 1, 2015 to June 30, 2016
Reporting date (RD)	June 30,2017
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB 68
Actuarial assumptions:	
Discount rate	7.65%
Inflation	2.75
Salary increase	Varies by Entry Age and Service
Investment rate of return	7.50% Net of Pension Plan Investment Expenses, includes inflation
Mortality rate table[1]	Derived using CalPERS' Membership Data for all Funds
Postretirement benefit increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

(In thousands)

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

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

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

(f) ***Discount Rate***

The discount rate used to measure the total pension liability was as of the measurement date of June 30, 2016 and 2015 were 7.65% and 7.65%, respectively. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund.

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

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

(In thousands)

	June 30, 2016 Measurement date			June 30, 2015 Measurement date		
	New strategic allocation	Real return years 1–10 [1]	Real return years 11 [2]	New strategic allocation	Real return years 1–10	Real return years 11
Asset class:						
Global equity	47.00 %	5.25 %	5.25 %	51.00 %	5.25 %	5.71 %
Global fixed income	19.00	0.99	2.43	19.00	0.99	2.43
Inflation sensitive	6.00	0.45	3.36	6.00	0.45	3.36
Private equity	12.00	6.83	6.95	10.00	6.83	6.95
Real estate	11.00	4.50	5.13	10.00	4.50	5.13
Infrastructure and forestland	3.00	4.50	5.09	2.00	4.50	6.09
Liquidity	2.00	(0.55)	(1.05)	2.00	(0.55)	(1.05)
	100.00 %			100.00 %		

1 An expected inflations of 2% used for this period
2 An expected inflations of 3% used for this period

The CalPERS Board of Administration voted in December 2016 to lower the discount rate used in its actuarial assumptions from 7.65% to 7.15% (including administrative expenses) effective July 1, 2017 over three year period. As shown in the table on page 49, a similar reduction to the discount rate in accordance with GASB Statement No 68 will increase the net pension liability. This increase will be amortized over the expected remaining service lives of all employees provided by benefits through the pension plans.

(g) ***Recognition of Gains and Losses***

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

(In thousands)

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

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

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

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

	June 30, 2016 Measurement date			June 30, 2015 Measurement date		
	Discount rate - 1% (6.65%)	Discount rate (7.65%)	Discount rate + 1% (8.65%)	Discount rate - 1% (6.65%)	Discount rate (7.65%)	Discount rate + 1% (8.65%)
Electric Utility's proportionate share of the net pension liability	$ 112,464	77,861	49,204	106,343	71,235	42,198

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

The Pension Plan Fiduciary Net Position as a percentage of the total pension liability for miscellaneous City employees for the fiscal year ended June 30, 2016 and 2015, is 70.95% and 73.36%, respectively.

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

(Continued)

(In thousands)

(10) Self-Insurance Program

The Electric Utility participates in the City's self-insured workers' compensation and general liability program. The liability for such claims, including claims incurred but not reported, is transferred to the City in consideration of self-insurance premiums paid by the Electric Utility. Premiums for workers' compensation and general liability programs are charged to the Electric Utility by the City based on various allocation methods that include actual cost, trends in claims experience, exposure base, and number of participants. Premium charged and paid was $1,981 for the year ended June 30, 2017.

At June 30, 2017, the City was fully funded for self-insured workers' compensation and general liability claims (self-insured retention levels of $1,000 per occurrence for workers' compensation claims and $1,000 per occurrence for general liability claims). Above these self-insured retention levels, the City's potential liability is covered through various commercial insurance and intergovernmental risk pooling programs. Settled claims have not exceeded total insurance coverage in any of the past three years, nor does management believe that there are any pending claims that will exceed total insurance coverage.

(11) Commitments and Contingencies

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

(i) Intermountain Power Agency

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

	Entitlement	Expiration
Generation:		
Intermountain Power Project	13.225 %	2027

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

(In thousands)

(ii) Southern California Public Power Authority

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

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

(iii) Take-or-Pay Commitments

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

Fiscal year(s)	IPA	STS	MAP	MPP	Hoover	Magnolia	Natural gas	Canyon	Total
2018	$ 21,125	13,746	2,909	1,562	932	6,595	5,984	17,109	69,962
2019	28,011	13,704	2,881	1,555	—	6,593	5,360	17,521	75,625
2020	30,798	12,003	2,859	1,538	—	6,593	4,895	17,491	76,177
2021	31,725	13,761	2,136	1,142	—	6,589	4,514	19,527	79,394
2022	12,788	16,403	—	—	—	6,591	4,169	19,531	59,482
2023–2027	10,038	41,980	—	—	—	35,641	16,601	96,924	201,184
2028–2032	—	5,650	—	—	—	38,087	11,345	96,458	151,540
2033–2037	—	—	—	—	—	57,293	1,781	96,500	155,574
2038–2042	—	—	—	—	—	—	—	76,933	76,933
	$ 134,485	117,247	10,785	5,797	932	163,982	54,649	457,994	945,871

(In thousands)

In addition to the take-or-pay commitments referenced above, the City's entitlement requires the payment for fuel costs, operations and maintenance costs (O&M), administration and general costs (A&G), and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service; however, prior experience indicates that annual costs are generally consistent from year to year. The fiscal year 2017 billings for fuel, O&M, A&G, and other costs at these projects are as follows:

Fiscal year(s)		IPA	STS	MAP	MPP	Hoover	Magnolia	Natural gas	Canyon	Total
2017	$	41,090	4,968	680	349	1,034	22,931	637	8,823	80,512
2016		40,447	5,742	314	330	133	21,567	913	4,968	74,414

(b) *Prepaid Purchased Power*

The Electric Utility has prepaid purchased power costs for the following take-or-pay contracts as of June 30, 2017:

		2017	2016
SCPPA – Stabilization fund prepayment	$	38,066	39,068
SCPPA – Magnolia power prepayment		28,017	27,546
SCPPA – Ormat prepayment		450	450
SCPPA – Canyon prepayment		2,275	2,225
SCPPA – building fund		857	857
SJ – Fuel acquisition prepayment		974	991
Cap and Trade Compliance		18,903	17,990
IPA – Power prepayment		4,538	3,933
Prepaid RPS RC Power		1,286	934
Prepaid purchased power	$	95,366	93,994

(c) *Cap-and-Trade Program*

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

The Cap-and-Trade program (Program) was implemented in the beginning January 1, 2013. This Program requires Electric Utilities to have GHG allowances on an annual basis to offset GHG emissions associated with generating electricity. CARB will provide a free allocation of GHG allowance to each electric utility to mitigate retail rate impacts. This free allocation of GHG allowances is expected to be sufficient to meet the Electric Utility's GHG compliance obligations for retail sales. During this fiscal year, an unused portion of retail allowance was sold for $12,272 to reduce future renewable energy costs for retail customers. The compliance obligation for the wholesale sales requires the allowance to be obtained through an auction or in the secondary market quarterly. At June 30, 2017, the value of prepaid Cap and Trade allowance is $18,903, and the value of the Cap and Trade obligation is $13,324.

(In thousands)

(d) *Litigation*

A number of claims and suits are pending against the City for alleged damages to persons and property and for other alleged capital expenditures liabilities arising out of matters usually incidental to the operation of a utility such as the electric system of the City. In the opinion of management, the exposure under these claims and suits would not materially affect the financial position of the Electric Utility as of June 30, 2017.

(e) *Construction Commitments*

At June 30, 2017, the Electric Utility had the following commitments with respect to unfinished capital projects:

Capital project		Remaining construction commitment	Expected completion date
Anaheim Resort Electric Line Extension	$	5,321	2018
Harbor 69 12KV Substation		25,189	2019
Underground District #63 – Lincoln & Rio Vista		7,393	2018
Underground District #64 – Orangewood		9,428	2018
Yorba Substation 12KV Upgrade		3,194	2018

(12) Subsequent Event

On December 6, 2017, Standard and Poor's (S&P) raised the City's Treasurer Investment Pool Fund credit quality rating to `AA+f' from `AAf and reaffirmed its `S1' fund volatility rating.

On December 18, 2017, the Electric Utility remarketed the variable rate 2015-A California Municipal Finance Authority Revenue Bonds in the principal amount of $50,000. The remarketing provides a three year extension of the call protection date as well as a reduction in the interest rate of 15 basis point or 0.15%.

On December 12, 2017, the Electric Utility entered into a bond purchase Agreement with Underwriters for the negotiated sale of Anaheim Housing and Public Improvements Authority Revenue (AHPIA) Refunding Bonds Series 2017 A & B (Electric Utility Distribution System Refunding), $42,995 and $194,790 principal, respectively, to refund a portion of certain outstanding Qualified Obligations of the Electric System. The proceeds of these issues will be used, together with certain other available moneys, to refund a portion of the outstanding AHPIA Revenue Refunding Bonds Series 2016 A & B (Electric Utility Distribution System Refunding and Improvements), Anaheim Public Financing Authority (APFA) Series 2011-A (City of Anaheim Electric System Distribution Facilities) bonds, APFA Series 2012-A (Electric Distribution System Refunding) bonds and are scheduled to close on December 21, 2017.

CITY OF ANAHEIM
ELECTRIC UTILITY FUND

Schedule of the Electric Utility's Proportionate Share of the
Net Pension Liability and Related Ratios [1]

(In thousands)

Measurement period		Miscellaneous 2015–2016	Miscellaneous 2014–2015	Miscellaneous 2013–2014
Total pension liability:				
Electric Utility’s proportionate share of the net pension liability		21.5200 %	21.8360 %	20.3456 %
Electric Utility’s proportionate share of the net pension liability	$	77,861	71,235	62,750
Electric Utility’s covered payroll		23,973	24,465	22,546
Electric Utility’s proportionate share of the net pension liability as a percentage of its covered payroll		324.79 %	291.17 %	278.32 %
Plan fiduciary net position as a percentage of the total pension liability		70.95 %	73.36 %	74.52 %

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

See accompanying independent auditors’ report.

CITY OF ANAHEIM
ELECTRIC UTILITY FUND

Schedule of Electric Utility Pension Plan Contributions [1]

(In thousands)

		Miscellaneous 2016–2017	Miscellaneous 2015–2016	Miscellaneous 2014–2015	Miscellaneous 2013–2014
Actuarially determined contribution	$	7,159	6,707	5,532	5,143
Contributions in relation to the actuarially determined contribution		(7,159)	(6,707)	(5,532)	(5,143)
Contribution deficiency (excess)	$	—	—	—	—
Electric Utility's covered payroll	$	25,195	23,973	24,465	22,546
Contribution as a percentage of covered payroll		28.41 %	27.98 %	22.61 %	22.81 %

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

See accompanying independent auditors' report.