



**CITY OF ANAHEIM WATER UTILITY FUND**

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

## CITY OF ANAHEIM WATER UTILITY FUND

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KPMG LLP  
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## Independent Auditors' Report

The Honorable City Council  
City of Anaheim, California:

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

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

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

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

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our 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 Water Utility Fund of the City of Anaheim, California as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



**Emphasis of Matters**

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

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

**Other Matters**

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the management’s discussion and analysis on pages 3–12, the schedule of changes in the net pension liabilities and related ratios and the schedule of pension plan contributions on pages 47 and 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Management’s discussion and analysis does not include a discussion of 2015 information that U.S. generally accepted accounting principles require to supplement, although not required to be part of, the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

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

**KPMG LLP**

Irvine, California  
December 20, 2016

## CITY OF ANAHEIM WATER UTILITY FUND

### Management's Discussion and Analysis

June 30, 2016

(Unaudited)

(In thousands)

As management of Anaheim Public Utilities, a department of the City of Anaheim, California (the City), we offer the readers of the City of Anaheim Water Utility Fund (Water Utility) financial statements a narrative overview and analysis of the financial statements for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

#### Financial Highlights

The financial results for fiscal year 2016 reflect the numerous challenges affecting the Water Utility as a result of the severe drought conditions affecting the entire Southern California region. The Water Utility remains committed to providing the safe, reliable, and efficient delivery of high-quality water to its customers while at the same time enhancing its water conservation efforts.

- Retail sales, net of uncollectible accounts were \$56,715 for the year ended June 30, 2016. This was less than the prior year by \$5,342 (8.6%) and reflects a decrease in customer demands resulting from the ongoing conservation efforts of the Water Utility and its customers.
- The Water Utility's total net position for fiscal year 2016 was \$208,890, a decrease of \$103. The decrease resulted from the reduced revenue from the sales of water mentioned above.
- Net additions to capital assets (before depreciation) were \$10,537, an increase of 2.0% from the previous year. Major capital projects completed during the year include the following:
  - Rehabilitation and replacement of various pressure regulating stations (PRS) throughout the city.
  - 12" main replacement project on Lincoln and State College.

#### Overview of the Financial Statements

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

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

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

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

## CITY OF ANAHEIM WATER UTILITY FUND

### Management's Discussion and Analysis

June 30, 2016

(Unaudited)

(In thousands)

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

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

### Financial Analysis

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

#### Condensed Statements of Net Position

	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 68,832	82,302
Net utility plant	319,276	317,947
Deferred outflows of resources	<u>9,750</u>	<u>8,532</u>
Total assets and deferred outflows of resources	<u>\$ 397,858</u>	<u>408,781</u>
Long-term liabilities, net of current portion	\$ 164,936	164,298
Current liabilities	18,601	25,021
Deferred inflows of resources	<u>5,431</u>	<u>10,469</u>
Total liabilities and deferred inflows of resources	<u>\$ 188,968</u>	<u>199,788</u>
Net investment in capital assets	\$ 212,761	217,860
Restricted	4,935	3,815
Unrestricted	<u>(8,806)</u>	<u>(12,682)</u>
Total net position	<u>\$ 208,890</u>	<u>208,993</u>

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

Total assets and deferred outflows of resources as of June 30, 2016 were \$397,858, reflecting a decrease of \$10,923 (2.7%), which was primarily due to the following:

- Current and other assets, comprising restricted and unrestricted assets, had a net decrease of \$13,470 (16.4%).
  - Restricted assets had a decrease of \$12,435 (27.5%) mostly due to spent down of bond proceeds for the construction of water utility infrastructure;

## CITY OF ANAHEIM WATER UTILITY FUND

### Management's Discussion and Analysis

June 30, 2016

(Unaudited)

(In thousands)

- Restricted current assets decreased by \$6,209 (59.6%) is primarily due to the \$7,097 payoff of the State Revolving Fund loan from the bond proceeds of the issuance of the California Municipal Finance Authority (CMFA) Water revenue bonds, Series 2015-A.
- Unrestricted assets increased by \$5,174 (19.4%) primarily due to increases in unrestricted cash and cash equivalents caused by operating requirements.
- Net Utility Plant increased \$1,329 (0.4%) due to upgrades to the water capital infrastructure. Current year additions to the infrastructure were \$10,537, offset by the net \$9,208 increase in accumulated depreciation. The Water Utility is continuing its capital infrastructure-building program for additional storage facilities, wells, and distribution facilities in order to ensure that the water supply continues to be safe, reliable, and sufficient to meet future demands. For the year ended June 30, 2016, the Water Utility was in the top national quartile for infrastructure reliability as measured by the number of main breaks per 100 miles of distribution piping.
- Deferred outflows of resources, consisting of deferred charge on refunding bonds and deferred pension related items, increased by \$1,218 (14.3%), primarily because of the increase of \$1,813 deferred outflows of resources relating to a change of the Water Utility's proportion of the City's net pension liability.

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

Total liabilities and deferred inflows of resources as of June 30, 2016 were \$188,968, which was a decrease of \$10,820 (5.4%) over the prior year. Primary reasons for this decrease were:

- Deferred inflows of resources, consisting of regulatory credits for water rate stabilization purposes and deferred pension, decreased by \$5,038 (48.0%) primarily due to the \$2,841 decrease in the water rate stabilization used for the stabilization of revenues due to the drought restrictions reduction in water revenues. See notes 7 and 9 of the notes to the financial statements for discussion of the Water Utility's pension reporting and additional information regarding regulatory credits.
- Current liabilities decreased by \$6,420 (25.7%) mostly because the Water Utility paid off the outstanding \$6,999 balance of its state revolving fund loan.

#### *Net Position*

The Water Utility's net position, which represents the difference between the Utility's total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, may serve over time as a useful indicator of the Water Utility's financial position. The Water Utility's net position at June 30, 2016 totaled \$208,890, a decrease of \$103 (0.0%), primarily due to the following:

- A major portion, \$212,761 (101.8%), of the Water Utility's net position at June 30, 2016, represents the Water Utility's investment in capital assets, less any related outstanding debt used to acquire those assets. This portion decreased by \$5,099 (2.3%) during fiscal year 2016. The decrease was primarily due to a net increase of accumulated depreciation (\$9,208) resulting from depreciation expense of \$11,074 and capital asset retirements of \$1,866 in the current fiscal year that decreases the net book value of the capital assets. These types of assets are, therefore, not available for future spending. Resources needed to repay the related outstanding debt must come from other sources such as operations.

**CITY OF ANAHEIM WATER UTILITY FUND**

Management's Discussion and Analysis

June 30, 2016

(Unaudited)

(In thousands)

- An additional portion of the Water Utility's net position, amounting to \$4,935 (2.4%) as of June 30, 2016, represents resources that are subject to external restrictions on how they may be used. These restricted amounts consist of \$1,906 for debt service repayments and \$3,029 for the Water Utility's required renewal and replacement reserve.
- The unrestricted portion of the Water Utility's net position, amounting to \$(8,806) (-4.2%) as of June 30, 2016, increased by \$3,876 primarily due to the decreases in the operating costs of the Water Enterprise Fund.

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

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

	<u>2016</u>	<u>2015</u>
Revenue:		
Sale of water, net	\$ 56,715	62,057
Rate stabilization account revenue	2,900	624
Other operating revenue	894	814
Interest income	1,212	2,023
Capital contributions	293	880
Total revenue	<u>62,014</u>	<u>66,398</u>
Expenses:		
Purchased water	22,891	27,301
Treatment and pumping	8,168	8,485
Operations, maintenance, and administration	14,384	15,932
Depreciation	11,074	11,421
Interest expense	5,150	4,998
Total expenses	<u>61,667</u>	<u>68,137</u>
Transfers:		
Transfer from the General Fund of the City	600	600
Transfer to the General Fund of the City	(110)	(39)
Transfer of right-of-way fee to the City	(940)	(978)
Net transfers to other funds of the City	—	(4,114)
Total transfers	<u>(450)</u>	<u>(4,531)</u>
Changes in net position	(103)	(6,270)
Net position at beginning of year	<u>208,993</u>	<u>215,263</u>
Net position at end of year	<u>\$ 208,890</u>	<u>208,993</u>

**CITY OF ANAHEIM WATER UTILITY FUND**

Management's Discussion and Analysis

June 30, 2016

(Unaudited)

(In thousands)

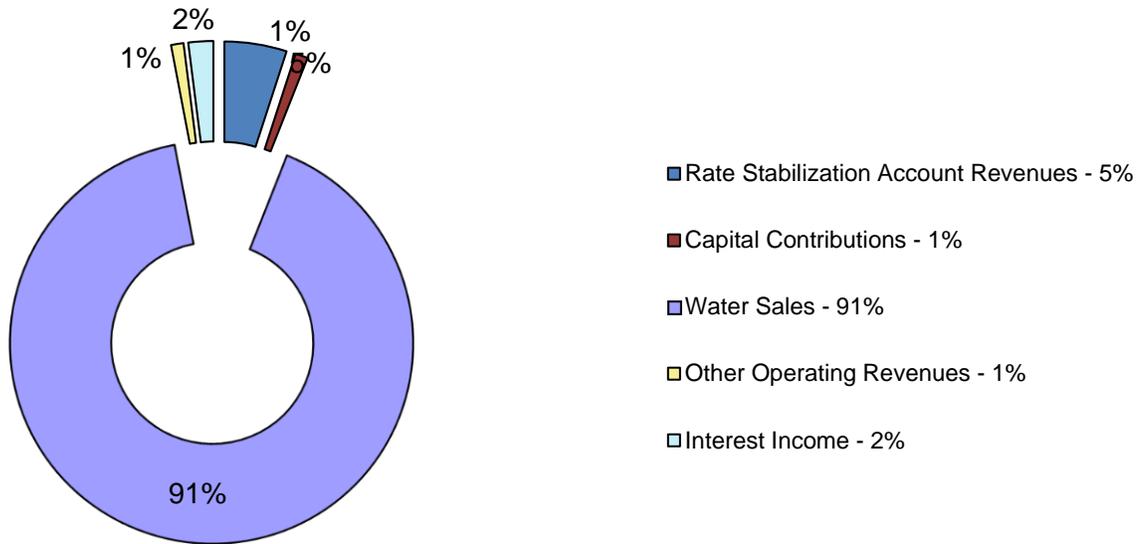
**Revenues**

Total revenues for the fiscal year ended June 30, 2016 were \$62,014, which was a decrease of \$4,384 (6.6%) over the prior year. Primary reasons for this decrease are:

- Revenues from the sale of water decreased by \$5,342 (8.6%). Water sales to retail customers continue to be the primary revenue source for the Water Utility, accounting for 91.5% of total revenues. The decrease in this category of revenue is primarily due to the 11.6% decrease in customer demands during the year – a result of strenuous conservation efforts in response to the ongoing drought conditions throughout the region.
- Rate Stabilization Account revenues recognized increased \$2,276 (364.7%) to reflect additional revenues to offset the sale of water reductions noted above.

**Revenues by Source**

**Year ended June 30, 2016**



## CITY OF ANAHEIM WATER UTILITY FUND

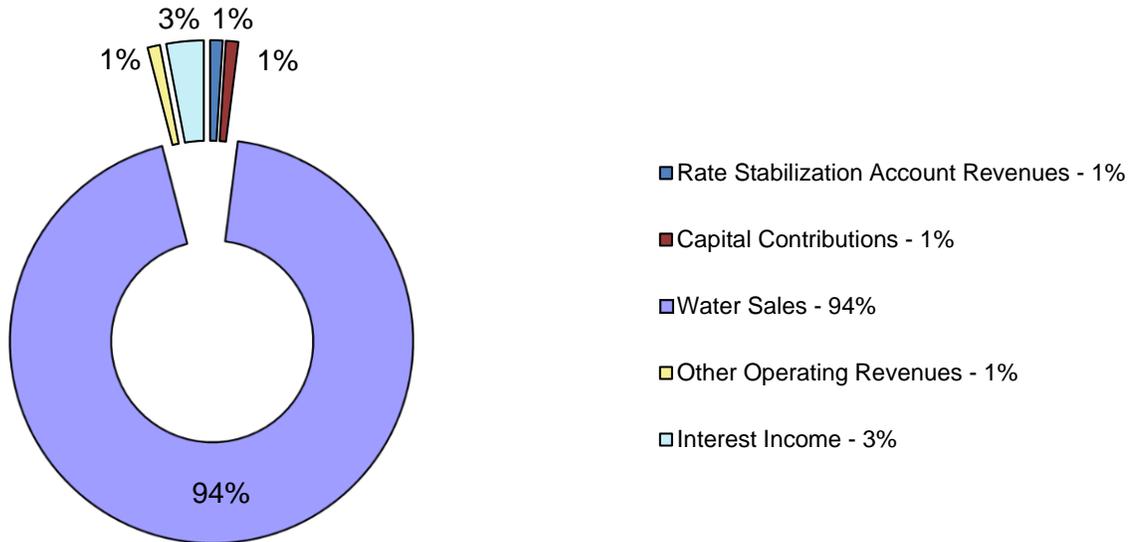
### Management's Discussion and Analysis

June 30, 2016

(Unaudited)

(In thousands)

### Year ended June 30, 2015



### Expenses

Total expenses for the fiscal year ended June 30, 2016 were \$61,667, which was a \$6,470 (9.5%) decrease over the prior fiscal year. Contributing factors of this increase were:

- Purchased water and treatment and pumping costs (which account for 50.4% of total expenses) decreased \$4,727 (13.2%) due to lower demand related to the drought and the conservation efforts that have been successful in reducing water use.
- Operations, maintenance, and administration costs (OM&A) decreased by \$1,548 (9.7%), with most of the decrease (\$483) coming from administrative costs. These costs decreased mainly because the amount of overhead capitalized during the year increased as a result of the increasing balance in the Construction in Progress (CIP) account. The Water Utility's CIP account increased by a net \$7,711 (87.6%) compared to prior year, primarily because several major capital projects were started during the year.
- Interest expense increased by \$152 (3.0%) primarily because of the issuance of the new \$95,885 CMFA Water revenue bonds Series 2015-A.

### Transfers

- The defeat of Measure N in the November 2014 election coupled with settled litigation required that the Water Utility cease making the 4% transfer to the City's General Fund. The \$600 transfer reported in fiscal year 2016 represents only the stipulated return based on the agreement. The Utility made no additional transfers to the City's General Fund.

**CITY OF ANAHEIM WATER UTILITY FUND**

Management's Discussion and Analysis

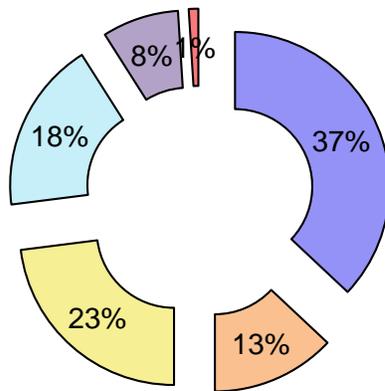
June 30, 2016

(Unaudited)

(In thousands)

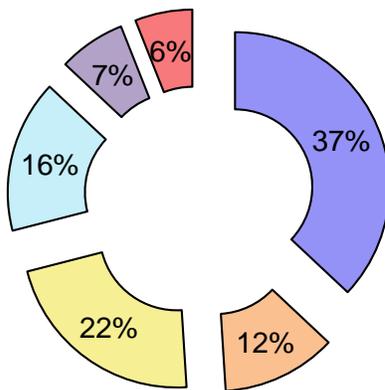
**Expenses and Transfers**

**Year ended June 30, 2016**



- Purchased Water – 37%
- Treatment and Pumping – 13%
- OM&A – 23%
- Depreciation – 18%
- Interest Expense – 8%
- Transfers – 1%

**Year ended June 30, 2015**



- Purchased Water – 37%
- Treatment and Pumping – 12%
- OM&A – 22%
- Depreciation – 16%
- Interest Expense – 7%
- Transfers – 6%

**CITY OF ANAHEIM WATER UTILITY FUND**

Management's Discussion and Analysis

June 30, 2016

(Unaudited)

(In thousands)

**Capital Assets and Debt Administration**

*Capital Assets*

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

	<u>2016</u>	<u>2015</u>
Source of water supply	\$ 46,363	46,634
Pumping plant	81,132	81,539
Transmission and distribution	311,795	308,621
General plant	9,263	8,933
Land	2,339	2,339
Construction in progress	<u>16,512</u>	<u>8,801</u>
Total utility plant	467,404	456,867
Less accumulated depreciation	<u>(148,128)</u>	<u>(138,920)</u>
Net utility plant	<u>\$ 319,276</u>	<u>317,947</u>

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

The Water Utility's investment in capital assets net of accumulated depreciation was \$319,276, an increase of \$1,329 (0.4%). The change resulted primarily from \$10,537 in additions of the significant capital items listed below, less \$9,208 from the current year change in accumulated depreciation:

- Source of water supply decrease of \$271 (0.6%) is due to the retirement of several assets replaced with the completion of Well Number 58.
- Pumping plant decrease of \$407 (0.5%), is primarily due to the retirement of assets replaced during the year.
- Transmission and Distribution capital asset increase of \$3,174 (1.0%) resulting from the completion of the following capital projects:
  - \$700 for the rehabilitation and replacement of various pressure regulating stations (PRS) throughout the city. The purpose of the PRS is to provide for the transfer of water from a high-elevation service area to a lower one in order to maintain adequate system pressures and flows.
  - \$1,602 for the 12" main replacement project on Lincoln and State College. These improvements will increase the service reliability and reduce maintenance expenses of the water system.

**CITY OF ANAHEIM WATER UTILITY FUND**

Management's Discussion and Analysis

June 30, 2016

(Unaudited)

(In thousands)

- \$960 for the replacement of various transmission and distribution water mains throughout the City. These various projects increase water system reliability by replacing aging infrastructure to minimize the risk of system failures and also to improve fire flow requirements.
- Construction in Progress net increase of \$7,711 is a result of the use of bond funds to increase capacity and reliability within the system.

*Long-Term Liabilities*

The Water Utility's outstanding long-term liabilities as of June 30 are as follows:

	<u>2016</u>	<u>2015</u>
Water revenue bonds	\$ 130,425	132,200
Notes payable and advances	—	6,999
Total long-term debt outstanding	130,425	139,199
Pension liability	24,808	20,714
Less:		
Current portion	(2,620)	(8,774)
Unamortized bond premium	12,323	13,159
Total noncurrent long-term debt outstanding	\$ <u>164,936</u>	<u>164,298</u>

- Total long-term liabilities increased by \$638 primarily due to changes to the pension liability. The revenues of the Water Utility have been pledged to pay the outstanding long-term debt.
- Pension liability increased \$4,094 primarily based on actuarial calculations reflecting changing assumptions and earnings estimates.
- The Water Utility's bond indentures require a minimum debt service coverage ratio of 1.0. The Water Utility's debt service coverage ratio was 2.0 as of June 30, 2016.
- The Water Utility maintained an AAA credit rating from Fitch Ratings and an AA+, as of June 30, 2016 credit rating from Standard & Poor's. These ratings reflect the Water Utility's strong financial performance, favorable rate structure, and the Water Utility's favorable supply mix along with its stable customer base.

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

**Economic Factors and Rates**

For fiscal year 2016, the Orange County Water District (OCWD) set the Basin Production Percentage (BPP) for all cities and water districts they serve (including Anaheim) at 75%. The Water Utility's Water Rates, Rules, and Regulations provide for an automatic adjustment of its commodity adjustment when OCWD and MWD increase or decrease the cost per acre foot of water.

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

### Management's Discussion and Analysis

June 30, 2016

(Unaudited)

(In thousands)

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

#### **Requests for Information**

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

**CITY OF ANAHEIM WATER UTILITY FUND**

Statements of Net Position

June 30, 2016 and 2015

(In thousands)

	<u>2016</u>	<u>2015</u>
Assets:		
Utility plant:		
Source of water supply	\$ 46,363	46,634
Pumping plant	81,132	81,539
Transmission and distribution	311,794	308,621
General plant	<u>9,264</u>	<u>8,933</u>
Total depreciable utility plant	448,553	445,727
Less accumulated depreciation	<u>(148,128)</u>	<u>(138,920)</u>
Net depreciable utility plant	300,425	306,807
Land	2,339	2,339
Construction in progress	<u>16,512</u>	<u>8,801</u>
Net utility plant	<u>319,276</u>	<u>317,947</u>
Restricted assets:		
Cash and cash equivalents	1,023	7,585
Investments	<u>31,794</u>	<u>37,667</u>
Total restricted assets	<u>32,817</u>	<u>45,252</u>
Other assets:		
Metropolitan Water District Orange County pipeline receivable	<u>20</u>	<u>20</u>
Total other assets	<u>20</u>	<u>20</u>
Total noncurrent assets	<u>352,113</u>	<u>363,219</u>
Current assets:		
Cash and cash equivalents	4,868	4,332
Investments	19,553	14,234
Restricted cash and cash equivalents	1,086	1,272
Restricted investments	3,115	9,138
Accounts receivable, net	4,919	6,500
Accrued interest receivable	89	73
Materials and supplies inventory	776	615
Purchased water in storage	<u>1,589</u>	<u>866</u>
Total current assets	<u>35,995</u>	<u>37,030</u>
Total assets	<u>388,108</u>	<u>400,249</u>
Deferred outflows of resources:		
Deferred charge on refunding bonds	5,709	6,179
Deferred pension related items	<u>4,041</u>	<u>2,353</u>
Total deferred outflows of resources	<u>9,750</u>	<u>8,532</u>

**CITY OF ANAHEIM WATER UTILITY FUND**

Statements of Net Position

June 30, 2016 and 2015

(In thousands)

	<u>2016</u>	<u>2015</u>
Liabilities:		
Long-term liabilities:		
Long-term debt obligations, less current portion	\$ 140,128	143,584
Net pension liability	24,808	20,714
Total long-term liabilities	<u>164,936</u>	<u>164,298</u>
Current liabilities (payable from restricted assets):		
Current portion of long-term debt	2,620	8,774
Arbitrage rebate liability	58	244
Accrued interest payable	1,523	1,392
Total current liabilities (payable from restricted assets)	<u>4,201</u>	<u>10,410</u>
Current liabilities (payable from unrestricted current assets):		
Accounts payable and accrued expenses	13,508	13,514
Wages payable	198	267
Customer deposits	694	830
Total current liabilities (payable from unrestricted current assets)	<u>14,400</u>	<u>14,611</u>
Total liabilities	<u>18,601</u>	<u>25,021</u>
Deferred inflows of resources:		
Regulatory credits	2,899	5,740
Deferred pension related items	2,532	4,729
Total deferred inflows of resources	<u>5,431</u>	<u>10,469</u>
Net position:		
Net investment in capital assets	212,761	217,860
Restricted for:		
Debt service	1,906	724
Renewal and replacement	3,029	3,091
Unrestricted	(8,806)	(12,682)
Total net position	\$ <u><u>208,890</u></u>	\$ <u><u>208,993</u></u>

See accompanying notes to financial statements.

**CITY OF ANAHEIM WATER UTILITY FUND**

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2016 and 2015

(In thousands)

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Sales of water, net	\$ 56,715	62,057
RSA Revenues	2,900	624
Other operating revenues	894	814
Total operating revenues	<u>60,509</u>	<u>63,495</u>
Operating expenses:		
Purchased water	22,891	27,301
Treatment and pumping	8,168	8,485
Operations, maintenance, and administration	14,384	15,932
Depreciation	11,074	11,421
Total operating expenses	<u>56,517</u>	<u>63,139</u>
Operating income	<u>3,992</u>	<u>356</u>
Nonoperating revenues (expenses):		
Interest income	1,212	2,023
Interest expense	(5,150)	(4,998)
Total net nonoperating expenses	<u>(3,938)</u>	<u>(2,975)</u>
Income before capital contributions and transfers	54	(2,619)
Capital contributions	293	880
Transfer from the General Fund of the City	600	600
Transfer to the General Fund of the City	(110)	(39)
Transfer of right-of-way fee to the City	(940)	(978)
Transfers from other funds of the City	—	(4,114)
Change in net position	<u>(103)</u>	<u>(6,270)</u>
Net position at beginning of year	<u>208,993</u>	<u>215,263</u>
Net position at end of year	\$ <u><u>208,890</u></u>	\$ <u><u>208,993</u></u>

See accompanying notes to financial statements.

**CITY OF ANAHEIM WATER UTILITY FUND**

Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 58,821	63,594
Receipts from services provided to other funds of the City	292	374
Payments to suppliers	(27,194)	(37,956)
Payments to employees	(14,284)	(15,092)
Payments for services provided by other funds of the City	<u>(4,563)</u>	<u>(4,934)</u>
Net cash provided by operating activities	<u>13,072</u>	<u>5,986</u>
Cash flows from noncapital financing activities:		
Transfers to the General Fund and other funds of the City	(940)	(1,017)
Transfers from the General Fund and other funds of the City	<u>600</u>	<u>600</u>
Net cash used for noncapital financing activities	<u>(340)</u>	<u>(417)</u>
Cash flows from capital and related financing activities:		
Proceeds from borrowings, net of premium	—	108,673
Proceeds from short term borrowings from line of credit	—	4,900
Capital purchases	(12,050)	(8,711)
Principal payments on long-term debt	(8,774)	(1,447)
Transfer to escrow account	—	(52,743)
Payment of short-term borrowing from line of credit	—	(14,000)
Issuance of discount costs	—	(377)
Interest paid	(6,037)	(4,399)
Transfers to other funds of the City for capital purposes	(107)	(340)
Capital contributions	<u>251</u>	<u>100</u>
Net cash provided by (used for) capital and related financing activities	<u>(26,717)</u>	<u>31,656</u>
Cash flows from investing activities:		
Purchases of investment securities	(12,797)	(42,183)
Proceeds from sale and maturity of investment securities	19,473	6,793
Interest income received	<u>1,097</u>	<u>2,055</u>
Net cash provided by (used for) investing activities	<u>7,773</u>	<u>(33,335)</u>
Increase (decrease) in cash and cash equivalents	(6,212)	3,890
Cash and cash equivalents at beginning of year	<u>13,189</u>	<u>9,299</u>
Cash and cash equivalents at end of year	\$ <u><u>6,977</u></u>	\$ <u><u>13,189</u></u>

**CITY OF ANAHEIM WATER UTILITY FUND**

Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

	<u>2016</u>	<u>2015</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 3,992	356
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	11,074	11,421
Changes in assets liabilities and deferred inflows that provided (used) cash:		
Accounts receivable, net	1,581	920
Materials and supplies inventory	(161)	(39)
Purchased water in storage	(723)	349
Accounts payable and accrued expenses	146	(6,442)
Wages and benefits payable	140	(132)
Customer deposits	(136)	21
Regulatory credits	<u>(2,841)</u>	<u>(468)</u>
Total adjustments	<u>9,080</u>	<u>5,630</u>
Net cash provided by operating activities	\$ <u>13,072</u>	<u>5,986</u>
Schedule of noncash investing, capital, and financing activities:		
Capital contributions	\$ 43	780
Transfers in (out) of capital assets	3	(3,774)
Increase (decrease) in fair value of investments	99	(17)
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 4,868	4,332
Restricted cash and cash equivalents, current portion	1,086	1,272
Restricted cash and cash equivalents, noncurrent portion	<u>1,023</u>	<u>7,585</u>
Total cash and cash equivalents	\$ <u>6,977</u>	<u>13,189</u>

See accompanying notes to financial statements.

## CITY OF ANAHEIM WATER UTILITY FUND

Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

### (1) Summary of Significant Accounting Policies

#### (a) Basis of Accounting

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

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

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

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

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

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

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

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

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

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

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

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

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

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

The City pools available cash from all funds for the purpose of enhancing investment income through investment activities. Investments in U.S. Treasury obligations, U.S. agency securities, and corporate notes are carried at fair value based on quoted market prices. Participating guaranteed investment

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

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

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

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

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

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

Deferred outflows of resources represent consumptions of net position that apply to future periods and so will not be recognized as an outflow of resources (expense) until then. In the statements of net position as of June 30, 2016 and 2015, the Water Utility reported two items in this category:

- 1) Deferred charges on refunding bonds of \$5,709 and \$6,179, respectively. A deferred charge on refunding bonds results from the difference in the carrying value of debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt and
- 2) Deferred outflows of resources related to pension that represents the current fiscal year contribution to the pension plans that will be applied as a reduction in the net pension 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 of the Water Utility's proportion of the pension plan. This amount will be amortized and reported as a component in pension expense in future fiscal years (refer to note 7 in notes to financial statements). The Water Utility reported \$4,041 and \$2,353, respectively in this category.

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

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

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

- 1) Regulatory credits represent amounts accumulated from collections, which provide recovery in the current period for costs to be incurred in future periods. At June 30, 2016 and 2015, the amounts recorded for regulatory credits totaled \$2,899 and \$5,740, respectively. See note 9 for further discussion of regulatory credits.
- 2) Deferred inflows of resources related to pension – the balances arise from changes in actuarial assumptions; differences between actual and projected experience; or differences between actual and projected investment gains/losses. The amount is amortized and reported as a component of pension expense in future fiscal years. (See note 7 for further discussion of Pension Plans). The Water Utility reported \$2,532 and \$4,729, respectively in this category.

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

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

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

Revenue is recorded in the period earned. The Water Utility accrues estimated unbilled revenue for water sold but not billed at the end of a fiscal period, which amounted to approximately \$1,551 and \$3,802, respectively, for fiscal years ended June 30, 2016 and 2015. Residential and smaller commercial accounts are billed bimonthly, and all other customers are billed monthly.

Revenue is reported net of uncollectible amounts. Total uncollectible amounts written off are \$47 and \$56, respectively, for the fiscal years ended June 30, 2016 and 2015. The applicable allowances for uncollectible amounts are \$104 and \$94, respectively, at June 30, 2016 and 2015. See note 6 for discussion of pledged revenue.

#### **(i) Operating Expenses**

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

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

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

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

**(j) Debt Issuance Costs**

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

**(k) Bond Refunding Costs**

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

**(l) Vacation and Sick Pay**

Vacation and sick pay for all City employees are paid by the General Benefits and Insurance Fund of the City. The General Benefits and Insurance Fund is reimbursed through payroll charges to the Water Utility based on estimates of benefits to be earned during the year. Vested vacation and sick pay benefits are accrued in the General Benefits and Insurance Fund and amounted to \$613 and \$640, respectively, for the Water Utility at June 30, 2016 and 2015.

**(m) Pension Plan**

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

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

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

The transfer of right-of-way fees to the City represents the City Council approved transfer of 1.5% of net water revenue of the prior fiscal year to the General Fund of the City. Net revenue is defined as revenue from the sale of water, less uncollectible amounts. Bond disclosure requirements designate that this transfer must be recognized as an expense in the calculation of bond coverage. The transfer of right-of-way fee to the City amounted to \$940 and \$978, respectively, for the fiscal years ended June 30, 2016 and 2015.

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

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

During the fiscal years ended June 30, 2016 and 2015, the Water Utility participated in several joint projects with the Electric Utility. The Water Utility was responsible for its share of the costs while the projects were ongoing. Upon completion, the Water Utility transferred ownership of its share of the projects to the Electric Utility, valued at \$3 and \$4,114, respectively for fiscal years June 30, 2016 and 2015.

On December 9, 2014, the Anaheim City Council certified the official results of the California General Election held on November 4, 2014. The Measure N election results coupled with settled litigation now require the Water Utility to cease making the up to 4% transfer to the City's General Fund and the City to reimburse the Water Utility \$3 million plus the transferred funds held by the City for fiscal year ended 2016, in equal installments of no less than \$600 beginning January 1, 2014 and by June 30 of each fiscal end for approximately nine years or sooner depending upon when the funds have been fully reimbursed. During the fiscal years ended June 30, 2016 and 2015, \$600 and \$600, respectively, was transferred from the City's general fund to the Water Utility pursuant to this Water Transfer settlement.

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

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

#### **(p) Reclassifications**

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

### **(2) Deposits and Investments**

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

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

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

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

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

	<u>2016</u>	<u>2015</u>
Cash equivalents and investments pooled with the Treasurer	\$ 28,358	24,017
Cash equivalents and investments held with trustee	<u>33,081</u>	<u>50,211</u>
	<u>\$ 61,439</u>	<u>74,228</u>

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

	<u>2016</u>	<u>2015</u>
Restricted assets – cash equivalents and investments	\$ 37,018	55,662
Unrestricted assets – cash equivalents and investments	<u>24,421</u>	<u>18,566</u>
	<u>\$ 61,439</u>	<u>74,228</u>

**(a) Investments**

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

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

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2016 and 2015

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

<b>Authorized investment type</b>	<b>Maximum maturity</b>	<b>Maximum percentage of portfolio*</b>	<b>Maximum investment in one issuer</b>	<b>Minimum rating (S&amp;P/Moody's/Fitch)</b>
U.S. Treasury obligations	5 years	100%	100%	None
U.S. agency securities	5 years	100	40	None
Bankers' acceptances	180 days	40	5	None
Commercial paper	270 days	25	5	A-1/P-1/F-1
Negotiable certificates of deposit	360 days	25	5	None
Repurchase agreements	1 year	30	None	None
Reverse repurchase agreements	90 days	20	None	None
Medium-term corporate notes	5 years	30	5	A
Money market mutual funds	N/A	20	10	None
LAIF (2 accounts)	N/A	\$ 50 million per account	50 million per account	None
Time certificates of deposit (TCD)	1 year	20%	5%	None

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

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

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

Issuer	Investment type	2016		2015	
		Fair value	Percentage	Fair value	Percentage
Federal National Mortgage Association	U.S. agency securities	\$ 99,445	21%	\$ 109,447	25%
LAIF	LAIF	63,669	14	70,445	16
Federal Home Loan Mortgage Corporation	U.S. agency securities	65,949	14	45,607	14
U.S. Treasury	U.S. agency securities	50,234	11	N/A	N/A
Federal Home Loan Bank	U.S. agency securities	30,426	7	34,804	8
Federal Farm Credit Bank	U.S. agency securities	28,488	6	34,350	8

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

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

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's investment portfolio	None	None	None

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

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

Issuer	Investment type	2016		2015	
		Fair value	Percentage	Fair value	Percentage
Deutsche Bank Association	Guaranteed Investment agreement	\$ 155,498	28%	\$ 227,723	36%
Natixis Funding Corporation	Guaranteed investment agreement	75,341	14	45,023	7
Morgan Stanley	Flexible repurchase agreement	71,432	13	66,831	11
Federated	Money Market Mutual Funds	40,809	7	N/A	N/A
LAIF	LAIF	32,562	6	34,818	6
Federal National Mortgage Association	U.S. agency securities	30,943	6	61,823	10

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

**(d) Custodial Credit Risk**

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

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

**(e) Interest Rate Risk**

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

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

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

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

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

<u>Investments</u>	<u>Credit rating (S&amp;P/ Moody's)</u>	<u>Fair value, June 30, 2016</u>	<u>12 months or less</u>	<u>13 to 24 months</u>	<u>25 to 36 months</u>	<u>37 to 60 months</u>	<u>More than 60 months</u>
Treasurer's pooled investments:							
U.S. agency securities	AA+/Aaa	\$ 13,647	2,134	6,621	2,480	2,412	—
U.S. Treasuries	AA+/Aaa	3,057	—	1,220	1,837	—	—
Medium-term corporate notes	AAA/Aaa	1,313	—	756	307	250	—
Medium-term corporate notes	AA+/Aaa	609	609	—	—	—	—
Medium-term corporate notes	AA+/A1	307	307	—	—	—	—
Medium-term corporate notes	AA-/A1	933	304	—	—	629	—
Medium-term corporate notes	AA-/Aa2	798	—	798	—	—	—
Medium-term corporate notes	AA-/Aa3	611	305	306	—	—	—
Medium-term corporate notes	A+/A1	500	—	184	—	316	—
Medium-term corporate notes	A/A2	1,159	304	855	—	—	—
Medium-term corporate notes	A/A1	337	337	—	—	—	—
Commercial paper	A-1+/P-1	608	608	—	—	—	—
Commercial paper	A-1/P-1	546	546	—	—	—	—
Money market mutual funds	AAA/Aaa	60	60	—	—	—	—
LAIF	Unrated	3,873	3,873	—	—	—	—
Total investments controlled by City Treasurer		28,358	9,387	10,740	4,624	3,607	—
Investments controlled by bond trustees:							
Guaranteed investment agreements	Unrated	30,484	—	30,070	—	—	414
Collateralized investment contracts	Unrated	1,211	1,211	—	—	—	—
Money market mutual funds	AAA/Aaa	1,386	1,386	—	—	—	—
Total investments controlled by bond trustees		33,081	2,597	30,070	—	—	414
Total investments		\$ 61,439	11,984	40,810	4,624	3,607	414

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

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

## CITY OF ANAHEIM WATER UTILITY FUND

Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

### **(f) Fair Value Measurement**

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

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

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

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

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

<u>Investment by fair value level</u>	<u>June 30, 2016</u>	<u>Fair value measurement using Quoted prices in active markets for identical assets (Level 1)</u>	<u>Not required to be leveled</u>
Debt securities:			
U.S. agency securities	\$ 13,647	13,647	—
U.S. Treasuries	3,056	3,056	—
Medium term corporate notes	6,568	6,568	—
LAIF	3,873	—	3,873
	<hr/>	<hr/>	<hr/>
Total investment measured at fair value	27,144	\$ 23,271	3,873
	<hr/>	<hr/>	<hr/>
Investments measured at amortized costs:			
Commercial paper	1,154		
	<hr/>		
Total investment measured at amortized costs	1,154		
	<hr/>		
Investments measured at cost-based:			
Guaranteed investment contracts	30,484		
Collateralized investment contracts	1,211		
Money market mutual funds	1,446		
	<hr/>		
Total investment measured at cost-based	33,141		
	<hr/>		
Total pooled and bond trustee investments	\$ 61,439		
	<hr/>		

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

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

<b>Investment by fair value level</b>	<b>June 30, 2015</b>	<b>Fair value measurement using Quoted prices in active markets for identical assets (Level 1)</b>	<b>Not required to be leveled</b>
Debt securities:			
U.S. agency securities	\$ 12,333	12,333	—
Medium term corporate notes	5,328	5,328	—
LAIF	3,875	—	3,875
Total investment measured at fair value	<u>21,536</u>	\$ <u>17,661</u>	<u>3,875</u>
Investments measured at amortized costs:			
Commercial paper	<u>2,400</u>		
Total investment measured at amortized costs	<u>2,400</u>		
Investments measured at cost-based:			
Guaranteed investment contracts	41,415		
Collateralized investment contracts	1,211		
Money market mutual funds	<u>7,666</u>		
Total investment measured at cost-based	<u>50,292</u>		
Total pooled and bond trustee investments	\$ <u>74,228</u>		

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

**(3) Water Utility Plant**

The following is a summary of changes in capital assets:

	<u>Balance as of June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance as of June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance as of June 30, 2016</u>
Source of water supply	\$ 44,142	2,493	(1)	46,634	139	(410)	46,363
Pumping plant	75,236	6,336	(33)	81,539	93	(500)	81,132
Transmission and distribution	301,791	8,018	(1,188)	308,621	4,116	(942)	311,795
General plant	8,061	872	—	8,933	344	(14)	9,263
Depreciable utility plant	429,230	17,719	(1,222)	445,727	4,692	(1,866)	448,553
Less accumulated depreciation	(128,721)	(11,421)	1,222	(138,920)	(11,074)	1,866	(148,128)
Net depreciable utility plant	300,509	6,298	—	306,807	(6,382)	—	300,425
Land	2,339	—	—	2,339	—	—	2,339
Construction in progress	16,162	12,990	(20,351)	8,801	12,115	(4,404)	16,512
Nondepreciable utility plant	18,501	12,990	(20,351)	11,140	12,115	(4,404)	18,851
Net utility plant	\$ <u>319,010</u>	<u>19,288</u>	<u>(20,351)</u>	<u>317,947</u>	<u>5,733</u>	<u>(4,404)</u>	<u>319,276</u>

**(4) Operating Expenses**

Total operating expenses shared with the City's Electric Utility amounted to \$31,066 and \$30,033 for the fiscal years ended June 30, 2016 and 2015, of which \$6,213 and \$7,809, respectively, of shared operating expenses were allocated to the Water Utility.

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

**(5) Short-term Borrowings**

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

For the Water Utility, the purpose of this agreement is to provide temporary financing for the costs of acquisition and construction of additions to and improvements of the Utility's water system, which qualify for reimbursement under the City Council's Resolution No. 2012-111 "Official Intent to Reimburse Certain Water Utility Fund Expenditures from the Proceeds of Bonds or Other Obligations." During fiscal year

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

2016, the Utility made no drawdowns for such qualifying capital expenditures, leaving the total unused to the maximum \$14,000.

**(6) Long-Term Liabilities**

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

<b>June 30, 2016</b>	<b>Beginning of year</b>	<b>Additions</b>	<b>Retirements</b>	<b>End of year</b>	<b>Due within one year</b>
Water revenue bonds	\$ 132,200	—	(1,775)	130,425	2,620
Notes payable	6,999	—	(6,999)	—	—
Pension obligation (note 7)	<u>20,714</u>	<u>4,094</u>	<u>—</u>	<u>24,808</u>	<u>—</u>
	159,913	4,094	(8,774)	155,233	\$ <u><u>2,620</u></u>
Less current portion	(8,774)	(2,620)	8,744	(2,650)	
Add unamortized bond premium	<u>13,159</u>	<u>—</u>	<u>(836)</u>	<u>12,323</u>	
Total long-term liabilities	\$ <u><u>164,298</u></u>	<u><u>1,474</u></u>	<u><u>(866)</u></u>	<u><u>164,906</u></u>	
<b>June 30, 2015</b>	<b>Beginning of year</b>	<b>Additions</b>	<b>Retirements</b>	<b>End of year</b>	<b>Due within one year</b>
Water revenue bonds	\$ 83,870	95,885	(47,555)	132,200	1,775
Notes payable	7,486	—	(487)	6,999	6,999
Pension obligation	<u>25,396</u>	<u>2,166</u>	<u>(6,848)</u>	<u>20,714</u>	<u>—</u>
	116,752	98,051	(54,890)	159,913	\$ <u><u>8,774</u></u>
Less current portion	(1,943)	(8,774)	1,943	(8,774)	
Add unamortized bond premium	<u>374</u>	<u>12,984</u>	<u>(199)</u>	<u>13,159</u>	
Total long-term liabilities	\$ <u><u>115,183</u></u>	<u><u>102,261</u></u>	<u><u>(53,146)</u></u>	<u><u>164,298</u></u>	

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

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

	<u>2016</u>	<u>2015</u>
Water revenue bonds, 2015-A Series, true interest cost (TIC) 3.392062%, dated and sold on April 21, 2015, in the amount of \$95,885 of which (1) \$58,205 was issued as serial bonds at rates ranging from 2.000% to 5.000%, maturing from October 1, 2015 through 2034 in annual principal installments ranging from \$775 to \$4,560; (2) \$24,535 was issued as term bonds at a rate of \$4.000%, \$24,535 was issued as term bonds at a rate of \$4.000%, maturing from October 1, 2035 through 2040 in annual principal installments ranging from \$2,160 to \$5,330; (3) \$13,145 was issued as term bonds at a rate of (3) \$13,145 was issued as term bonds at a rate of 5.250%, maturing from October 1, 2041 through 2045 in annual principal installments of \$2,360 to \$2,910. The total remaining debt service is \$164,122 to maturity	\$ 95,110	95,885
Water revenue bonds, 2010 Series, true interest cost (TIC) 3.5361%, dated and sold on October 28, 2010, in the amount of \$34,525, of which: (1) \$4,835 was issued as serial bonds at rates ranging from 2.0000% to 4.7500%, maturing from October 1, 2013 through 2021 in annual principal installments ranging from \$120 to \$815; (2) \$1,690 was issued as term bonds at a rate of 4.3460%, maturing on October 1, 2022 and 2023 in annual principal installments of \$840 and \$850, respectively; (3) \$1,750 was issued as term bonds at a rate of 4.8660%, maturing on October 1, 2024 and 2025 in annual principal installments of \$865 and \$885, respectively; (4) \$9,925 was issued as term bonds at a rate of 5.5250% maturing from October 1, 2026 through 2034 in annual principal installments 2026 through 2034 in annual principal installments ranging from \$910 to \$1,245; and (5) \$16,625 was issued as term bonds at a rate of 5.6850%, maturing issued as term bonds at a rate of 5.6850%, maturing from October 1, 2035 through 2040 in annual principal installments ranging from \$1,300 to \$5,645. The total debt service is \$65,631 to maturity	34,150	34,280

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

	<u>2016</u>	<u>2015</u>
Water revenue bonds, 2008 Series, TIC 4.8594%, dated July 1, 2008, sold on July 9, 2008 in the amount of \$48,580, maturing serially beginning October 1, 2013 through October 1, 2038, of which \$46,595 was refunded through the issuance of the Water revenue bonds, 2015-A Series on April 21, 2015. The remaining annual principal installments range from \$285 to \$405 at rates ranging from 4.0000% to 5.0000%. Total remaining debt service is \$1,231 to maturity	\$ 1,160	1,445
Water revenue bonds, 2004 Series, TIC 3.5629%, dated May 1, 2004, sold on May 26, 2004 in the amount of \$12,105, maturing serially through October 1, 2016. The annual principal installments range from \$5 to \$950 at rates ranging from 4.0000% to 4.50000%. Total remaining debt service is \$5 to maturity	<u>5</u>	<u>590</u>
Total water revenue bonds	<u>\$ 130,425</u>	<u>132,200</u>
Note payable to State of California Revolving Fund, interest rate of 2.8%, issued June 12, 2001, in the amount of \$18,063, semiannual principal and interest payments of \$592 through July 31, 2021; total paid off in July 2015	\$ —	6,999
Total notes payable	<u>\$ —</u>	<u>6,999</u>

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

Annual debt service requirements for the Water Utility's revenue bonds and notes payable at June 30, 2016 to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year(s) ending June 30:			
2017	\$ 2,620	6,055	8,675
2018	2,710	5,972	8,682
2019	2,810	5,869	8,679
2020	2,800	5,747	8,547
2021	2,940	5,611	8,551
2022–2026	17,745	25,803	43,548
2027–2031	22,565	20,821	43,386
2032–2036	27,970	14,896	42,866
2037–2041	35,120	7,993	43,113
2042–2046	13,145	1,797	14,942
	<u>\$ 130,425</u>	<u>100,564</u>	<u>230,989</u>

Interest costs of \$466 and \$502, respectively, have been capitalized for the fiscal years ended June 30, 2016 and 2015.

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

The Water Utility has pledged future revenue to repay a total of \$230,989 of outstanding long-term obligations, principal, and interest for the year ended June 30, 2016. Proceeds from bonds provide financing for various capital improvements, primarily distribution assets. The Water Utility's bonds are payable solely from water net revenue and are payable through fiscal year 2046. As of June 30, 2016, the annual principal and interest payments on the bonds are 47.1% of net revenue. Debt service paid and total net revenue were \$7,662 and \$16,278, and \$5,138 and \$13,624 for the years ended June 30, 2016 and 2015, respectively.

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

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

	<u>2016</u>	<u>2015</u>
Held by fiscal agent:		
Bond reserve fund	\$ 1,436	9,026
Bond construction fund	30,070	41,185
Held by Treasurer:		
Bond service account	2,484	2,361
Renewal and replacement account	<u>3,028</u>	<u>3,090</u>
	<u>\$ 37,018</u>	<u>55,662</u>

The Water Utility's interest and other finance charges, excluding capitalized interest, for the fiscal years ended June 30, 2016 and 2015 were \$5,150 and \$4,998, respectively.

**(7) Pension Plan**

**(a) Plan Description**

The Water 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 website @[www.calpers.ca.gov](http://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.

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

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

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

**(c) Contributions**

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

Contribution to the pension plan from the Water Utility was \$2,228 and \$1,927 for the fiscal years ended June 30, 2016 and 2015 respectively.

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

The Water Utility reported net pension liability of \$24,808 and \$20,714 for its proportionate share of the net pension liability of the City's Miscellaneous Plan for the fiscal years ended June 30, 2016 and 2015 respectively. The net pension liability was measured as of June 30, 2015 and 2014 respectively, and the total liability used to calculate the net pension was determined by an actuarial valuation as of that date. The Water Utility's portion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating Funds of the City. At June 30, 2015, the Water Utility's proportionate share was 7.6045%

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

which was 0.8883% increase from its proportionate share of 6.7162% at June 30, 2015 measured as of June 30, 2014.

For fiscal years ended June 30, 2016 and 2015, the Water Utility recognized pension expense of \$2,011 and \$2,166 respectively. The Water Utility reported the following deferred outflows of resources and deferred inflows:

	June 30, 2016		June 30, 2015	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ —	826	—	—
Changes of assumptions	—	1,077	—	—
Net difference between projected and actual earnings on pension plan investments	—	629	—	4,729
Changes in proportion	1,813	—	—	—
Contributions subsequent to the measurement date	2,228	—	2,353	—
	<u>\$ 4,041</u>	<u>2,532</u>	<u>2,353</u>	<u>4,729</u>

The \$2,228 and \$2,353 reported as deferred outflows of resources related to pensions resulting from the Water Utility contributions subsequent to the measurement date are (will be) recognized as a reduction of the net pension liability in the years ended June 30, 2017 and 2016, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Measurement date	
	June 30, 2015	June 30, 2016
Year ending June 30:		
2017	\$ (497)	1,182
2018	(497)	1,182
2019	(451)	1,183
2020	726	—
	<u>\$ (719)</u>	<u>3,547</u>

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

**(e) Actuarial Assumptions**

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

Valuation Date (VD)	June 30, 2014
Measurement Date (MD)	June 30, 2015
Measurement Period	July 1, 2014 to June 30, 2015
Reporting Date (RD)	June 30, 2016
Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB 68
Actuarial assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.65% Net of Pension Plan Investment Expenses, includes inflation
Mortality Rate Table <sup>1</sup>	Derived using CalPER's Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

<sup>1</sup> The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. 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' website under Forms and Publications.

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

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

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

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

#### **(f) Change of Assumptions**

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

#### **(g) Discount Rate**

The discount rate used to measure the total pension liability was 7.65%. 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.

**CITY OF ANAHEIM WATER UTILITY FUND**

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June 30, 2016 and 2015

(In thousands)

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

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

Asset class	June 30, 2015 measurement date			June 30, 2014 measurement date		
	New strategic allocation	Real return years 1-10 <sup>1</sup>	Real return years 11+ <sup>2</sup>	New strategic allocation	Real return years 1-10 <sup>1</sup>	Real return years 11+ <sup>2</sup>
Global equity	51.00%	5.25%	5.71%	47.00%	5.25%	5.71%
Global fixed income	19.00	0.99	2.43	19.00	0.99	2.43
Inflation sensitive	6.00	0.45	3.36	6.00	0.45	3.36
Private equity	10.00	6.83	6.95	12.00	6.83	6.95
Real estate	10.00	4.50	5.13	11.00	4.50	5.13
Infrastructure and forestland	2.00	4.50	6.09	3.00	4.50	5.09
Liquidity	2.00	(0.55)	(1.05)	2.00	(0.55)	(1.05)
	<u>100.00%</u>			<u>100.00%</u>		

1 An expected inflation of 2.5% used for this period

2 An expected inflation of 3.0% used for this period

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

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

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

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

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

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

The following presents the net pension liability of the City's Miscellaneous Plan of the measurement date of June 30, 2015 and 2015 calculated using the discount rate of 7.65% and 7.5%, 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:

	<u>June 30, 2015 measurement date</u>		
	<u>Discount rate -1% (6.65%)</u>	<u>Discount rate (7.65%)</u>	<u>Discount rate +1% (8.65%)</u>
Water Utility's proportionate share of the net pension liability	\$ 37,035	24,808	42,198

	<u>June 30, 2014 measurement date</u>		
	<u>Discount rate -1% (6.50%)</u>	<u>Discount rate (7.50%)</u>	<u>Discount rate +1% (8.50%)</u>
Water Utility's proportionate share of the net pension liability	\$ 31,255	20,714	11,962

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

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

## CITY OF ANAHEIM WATER UTILITY FUND

### Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

#### **(8) Self-Insurance Program**

The Water Utility participates in the City's self-insured workers' compensation and general liability program. The liability for such claims, including claims incurred but not reported, is transferred to the City in consideration of self-insurance premiums paid by the Water Utility. Premiums for workers' compensation and general liability programs are charged to the Water Utility by the City based on various allocation methods that include actual cost, claims experience, exposure base, and number of participants. Premiums charged and paid were \$623 and \$579, respectively, for the fiscal years ended June 30, 2016 and 2015.

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

#### **(9) Regulatory Credits**

The Water Utility's Rates, Rules, and Regulations provide for a water regulatory credits account to reflect variations in the cost of water to the Water Utility and provide more stable retail water rates to the customers of the City's Water Utility. This rate stabilization account (RSA) provides increased flexibility by allowing the Water Utility to maintain financial performance indicators and goals specified in bond covenants. The account is funded through expense reimbursements such as water supply cost refunds received from the MWD and OCWD and other miscellaneous credits and revenue. As permitted by GASB Statements No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and No. 65, *Items Previously Reported as Assets and Liabilities*, and as approved by the City Council, revenue from amounts collected is deferred and recorded as regulatory credits under deferred inflows of resources in the statements of net position. At June 30, 2016 and 2015, the amounts recorded for regulatory credits totaled \$2,899 and \$5,740, respectively. In fiscal years 2016 and 2015, the Water Utility funded this account through a variety of miscellaneous credits. During fiscal years 2016 and 2015, the Utility recognized \$2,900 and \$624, respectively, in order to mitigate the impact of increased costs and reduced revenues.

#### **(10) Commitments and Contingencies**

##### **(a) Litigation**

A number of claims and suits are pending against the City for alleged damages to persons and property and for other alleged liabilities arising out of matters usually incidental to the operation of a utility such as the water system of the City. In the opinion of management, the exposure under these claims and suits would not materially affect the financial position of the Water Utility as of June 30, 2016 and 2015.

**CITY OF ANAHEIM WATER UTILITY FUND**

Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

**(b) Construction Commitments**

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

<u>Capital project</u>	<u>Construction commitment</u>	<u>Estimated completion date</u>
La Palma Reservoir and Pump Station Replacement	\$ 9,332	2018
Windy Ridge Water Storage tank	9,882	2018
Well #59 and destruction of Well 36	1,486	2016
Downtown Anaheim Recycled Water Project	687	2017
	<u>\$ 21,387</u>	

**(11) Subsequent Event**

On October 19, 2016, The Water Utility issued Anaheim Housing and Public Improvements Authority Revenue Bonds Series 2016-A in the principal amount of \$35,225 at a premium of \$5,230. The true interest cost is 3.82%. The bonds will mature serially from April 1, 2017 and October 1, 2017 through 2036 in annual principal installments ranging from \$760 to \$1,485. Additionally, term bonds will be due on October 1, 2041 for a principal amount of \$6,945 and October 1, 2046 for a principal amount of \$7,655. The proceeds of \$40,000 will be used for capital improvements related to the transmission, distribution and storage system. The total debt service is \$65,458 to maturity.

**CITY OF ANAHEIM WATER UTILITY FUND**

Schedule of Changes in the Net Pension Liability and Related Ratios <sup>1</sup>

(In thousands)

<b>Measurement Period</b>	<b>Miscellaneous 2014-2015</b>	<b>Miscellaneous 2013-2014</b>
Total pension liability:		
Electric Utility's portion of the net pension liability	7.6045 %	6.7162 %
Electric Utility's proportionate share of the net pension liability	\$ 24,808	20,714
Electric Utility's covered employee payroll	8,894	7,882
Electric Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll	278.93 %	262.80 %
Plan fiduciary net position as a percentage of the total pension liability	73.3600 %	74.5200 %

<sup>1</sup> 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 WATER UTILITY FUND**

Schedule of Pension Plan Contributions <sup>1</sup>

(In thousands)

	<b>Miscellaneous 2014-2015</b>	<b>Miscellaneous 2013-2014</b>
	<u>                    </u>	<u>                    </u>
Actuarially determined contribution	\$ 1,927	1,820
Contributions in relation to the actuarially determined contribution	<u>(1,927)</u>	<u>(1,820)</u>
Contribution deficiency (excess)	<u>\$ —</u>	<u>—</u>
Electric Utility's covered-employee payroll	\$ 8,894	7,882
Plan net pension liability/(asset) as a percentage of covered-employee payroll	21.67 %	23.09 %

<sup>1</sup> 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.