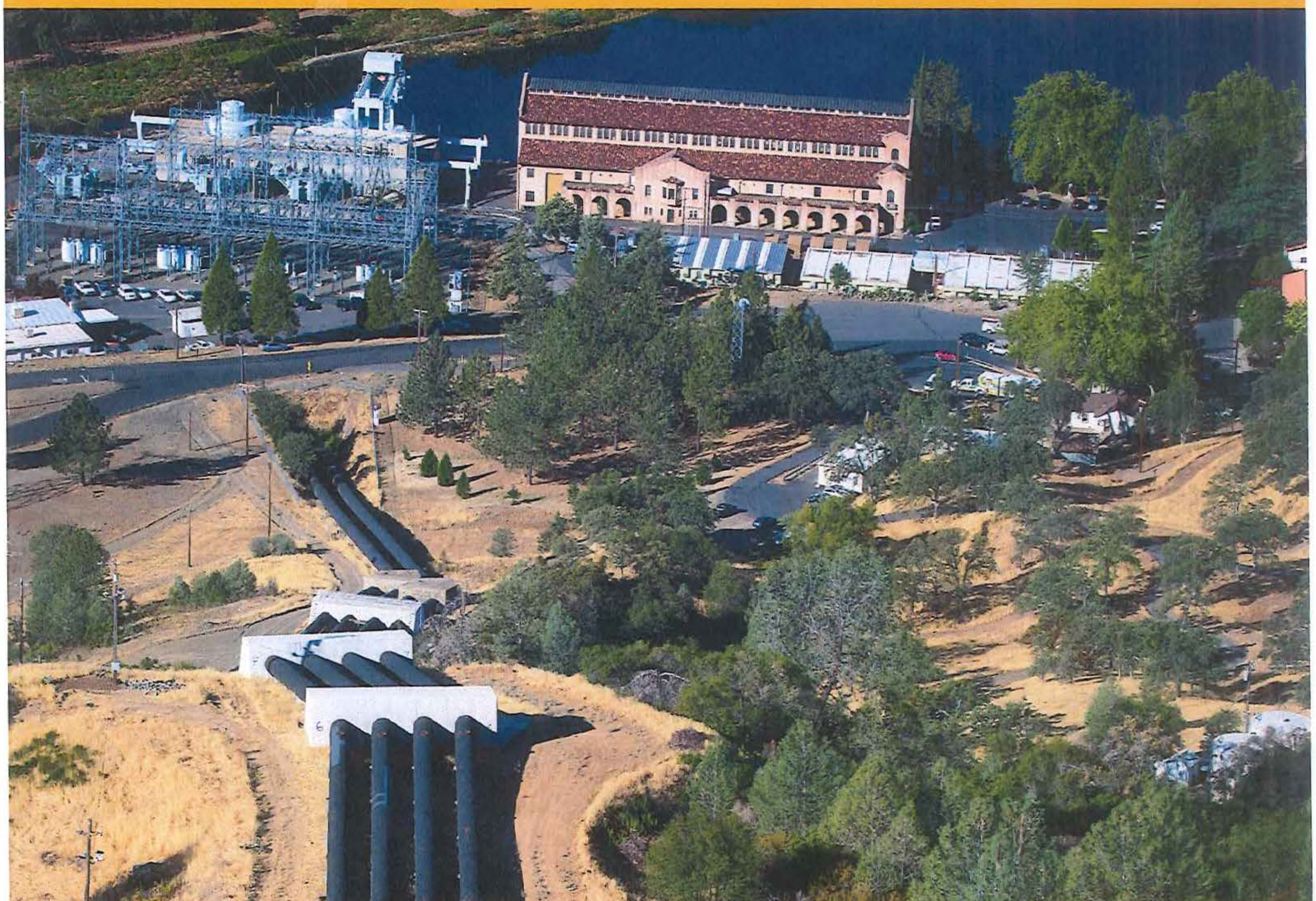
San Francisco
Water Power Sewer
Services of the San Francisco Public Utilities Commission

HETCH HETCHY WATER & POWER & CLEANPOWERSF

Financial Statements June 30, 2017 and 2016
(With Independent Auditors' Report Thereon)



Generating clean energy for vital services.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

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KPMG LLP
Suite 1400
55 Second Street
San Francisco, CA 94105

Independent Auditors' Report

The Honorable Mayor and Board of Supervisors
City and County of San Francisco:

We have audited the accompanying financial statements of the business-type activities and each fund of Hetch Hetchy Water and Power and Clean Power (Hetch Hetchy), an enterprise fund of the City and County of San Francisco, California (the City), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Hetch Hetchy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of each fund of Hetch Hetchy, an enterprise fund of the City and County of San Francisco, California, as of June 30, 2017 and 2016, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1, the financial statements of Hetch Hetchy are intended to present the financial position, the changes in financial position of only that portion of the City that is attributable to the transactions of Hetch Hetchy. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2017 and 2016, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinions are 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 through 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hetch Hetchy's basic financial statements. The Supplemental Schedules for Combined Hetchy Power and CleanPowerSF are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplemental Schedules for Combined Hetchy Power and CleanPowerSF is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Schedules for Combined Hetchy Power and CleanPowerSF is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2017 on our consideration of Hetch Hetchy'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 solely 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 the effectiveness of Hetch Hetchy's 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 Hetch Hetchy's internal control over financial reporting and compliance.

KPMG LLP

San Francisco, California
November 8, 2017

This section presents management's analysis of San Francisco Hetch Hetchy Water and Power and CleanPowerSF Enterprise's (Hetch Hetchy or the Enterprise) financial condition and activities as of and for fiscal years ended June 30, 2017 and 2016. Management's Discussion and Analysis (MDA) is intended to serve as an introduction to the Enterprise's financial statements. This information should be read in conjunction with the audited financial statements that follow this section. All dollar amounts, unless otherwise noted, are expressed in thousands of dollars.

In May 2016, San Francisco Public Utilities Commission (SFPUC or the Commission) launched CleanPowerSF, a Community Choice Aggregation (CCA) program into operation, pooling the electricity demands of their residents and businesses for the purpose of buying electricity on behalf of those customers. CleanPowerSF provides San Francisco with new clean energy alternatives, with its objectives to reduce greenhouse gas emissions, and to provide the City and County of San Francisco's (the City) energy consumers with renewable electricity supplies at competitive rates. The SFPUC intends CleanPowerSF to be financially independent, with ability to set rates and charges with adequate revenues, and to issue debt to support its operations and future projects. CleanPowerSF is discretely presented as a fund of the Enterprise for the fiscal year ended 2017. In fiscal year 2016, CleanPowerSF was presented as part of Hetchy Power with additional analysis separately presented in the *Supplemental Schedules* of the report.

The information in this MDA is presented under the following headings:

- Organization and Business
- Overview of the Financial Statements
- Financial Analysis
- Capital Assets
- Debt Administration
- Rates and Charges
- Request for Information

Organization and Business

SFPUC is a department of the City that is responsible for the maintenance, operation, and development of three utility enterprises: Water, Wastewater, and Hetch Hetchy. The Enterprise was established as a result of the Raker Act of 1913, which granted water and power resource rights-of-way on the Tuolumne River in Yosemite National Park and the Stanislaus National Forest to the City. The Enterprise operates the Hetch Hetchy project, which provides both electricity generation and upcountry water service; and is engaged in the collection and conveyance of approximately 85% of the regional system's water supply and in the generation and transmission of electricity.

In normal rain years, 85% of San Francisco's drinking water starts out as snow falling on 459 square miles of watershed land in Yosemite National Park, and the City may supplement water supply from an additional 191 square miles of watershed in the Stanislaus National Forest during extremely dry years. As the snow melts, it collects in Hetch Hetchy's storage reservoirs. As water flows by gravity through over 150 miles of pipelines and tunnels, it turns the turbines in three hydroelectric powerhouses, generating approximately 1.4 billion kilowatt hours of electricity per year. The electricity travels over 160 miles of transmission and distribution lines from the upcountry powerhouses to the San Francisco Bay Area. Approximately 80% of the electricity generated by Hetchy Power is used to provide electric service to the City's municipal customers (including the San Francisco Municipal Transportation Agency, Recreation and Parks Department, the Port of San Francisco, San Francisco International Airport and its tenants, San Francisco General Hospital, City streetlights, Moscone Convention Center, and the Water and Wastewater Enterprises). The majority of the remaining 20% of electricity generated is sold to other publicly owned utilities, such as the Turlock Irrigation District (TID) and Modesto Irrigation District (MID).

Hetch Hetchy

Hetch Hetchy provides reliable, high quality water and electric energy to the City and other customers, protects watershed resources in cooperation with Federal agencies, operates and maintains facilities to a high standard of safety and reliability, and maximizes revenue opportunities within approved levels of risk.

Hetch Hetchy, a stand-alone enterprise is comprised of three funds: 1) Hetch Hetchy Water (Hetchy Water) upcountry operations and water system; and 2) Hetch Hetchy Power (Hetchy Power), also referred to as the Power Enterprise, which is wholly contained within the Hetch Hetchy fund; and 3) CleanPowerSF, which is a new enterprise fund to aggregate the buying power of customers within San Francisco to purchase renewable energy sources or clean power, is reported as a separate fund of Hetch Hetchy. A number of the facilities are joint assets and used for both water and power generation.

Hetchy Water

For efficiency and to streamline the coordination of upcountry water and power operations, Hetchy Water operates upcountry and joint-asset facilities, managing resources in an environmentally responsible manner to a high standard of safety and reliability while meeting regulatory requirements. It is responsible for operating the Hetch Hetchy Reservoir, the main source of water for the Hetch Hetchy system. Hetchy Water operates, maintains, and improves water and power facilities, smaller dams and reservoirs, water transmission systems, power generation facilities, and power transmission assets, including transmission lines to the Newark substation. Hetchy Water delivers high quality water from upcountry downhill to the Bay Area while optimizing the resulting generation of clean hydropower as water is transported through the system. It maintains land and properties consistent with public health and neighborhood concerns.

Hetchy Power

The core business of Hetchy Power, as a municipal department, is to provide adequate and reliable supplies of electric power to meet the electricity needs of City and County of San Francisco's customers, and to offer, when available, power for the municipal loads and agricultural pumping demands of the MID and TID consistent with prescribed contractual obligations and federal law.

Hetchy Power's portfolio consists of hydroelectric generation, onsite solar at SFPUC and other City facilities, generation using bio-methane produced at SFPUC wastewater treatment facilities, and third-party purchases. Consistent with its commitment to the development of cleaner and greener power, and to address environmental concerns and community objectives, Hetchy Power continues to evaluate and expand its existing resource base to include additional renewables, distributed generation, demand management, and energy efficiency programs. As part of its mission and core functions, Hetchy Power provides reliable energy services at reasonable cost to customers, with attention to environmental effects and community concerns.

Hetch Hetchy Joint Water and Power

A portion of Hetch Hetchy's operating budget, capital program, and assets, provides benefit to both Hetchy Power and Hetchy Water. This is commonly referred to as joint costs and joint assets. Both operating and capital costs that jointly benefit both funds are allocated 55% to Hetchy Power and 45% to Hetchy Water, as has historically been done by the SFPUC.

CleanPowerSF

The core business of CleanPowerSF is to provide greener electricity generation to residential and commercial consumers in San Francisco. Through CleanPowerSF, SFPUC seeks to achieve several complementary goals, including affordable and competitive electricity generation rates, a diverse electricity resource portfolio that is comprised of renewable and other clean sources of supply, and high quality customer service.

Overview of the Financial Statements

Hetch Hetchy's financial statements include the following:

Statements of Net Position present information on Hetch Hetchy's assets, deferred outflows, liabilities, and deferred inflows as of year-end, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Hetch Hetchy is improving or worsening.

While the *Statements of Net Position* provide information about the nature and amount of resources and obligations at year-end, the *Statements of Revenues, Expenses, and Changes in Net Position* present the results of Hetch Hetchy's operations over the course of the fiscal year and information as to how the net position changed during the year. These statements can be used as an indicator of the extent to which Hetch Hetchy has successfully recovered its costs through user fees and other charges. All changes in net position are reported during the period in which the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in these statements from some items that will result in cash flows in future fiscal periods, such as delayed collection of operating revenues and the expenses of employee earned but unused vacation leave.

The *Statements of Cash Flows* present changes in cash and cash equivalents resulting from operational, capital, non-capital, and investing activities. These statements summarize the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt and exclude non-cash accounting measures of depreciation or amortization of assets.

The *Notes to Financial Statements* provide information that is essential to a full understanding of the financial statements that is not presented on the face of the financial statements.

The *Supplemental Schedules* of this report are presented for the purpose of additional analysis for Hetchy Power and CleanPowerSF, and are not a required part of the financial statements.

Financial Analysis

Financial Highlights for Fiscal Year 2017

Hetch Hetchy

- Total assets of Hetch Hetchy exceeded total liabilities by $553,101, excluding interfund payable and receivable of $7,250 related to working capital loan between Hetchy Power and CleanPowerSF. Net position increased by $65,646 or 12.8% during the fiscal year. Capital assets, net of accumulated depreciation and amortization, increased by $40,472 or 10% to $444,721.

- Operating revenues, excluding interest and investment income, and other non-operating revenues, increased by $25,243 or 15.3% to $189,979.
- Operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by $45,635 or 30.7% to $194,130.

Hetchy Water

- Total assets of Hetchy Water exceeded total liabilities by $157,035. Net position increased by $45,645 or 37.2% during the fiscal year. Capital assets, net of accumulated depreciation and amortization, increased by $13,864 or 12.2% to $127,731.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, decreased by $3,592 or 9.3% to 35,150.
- Operating expenses, excluding other non-operating expenses, increased by $13,563 or 37.1% to $50,099.

Hetchy Power

- Total assets of Hetchy Power exceeded total liabilities by $387,848. Net position increased by $11,783 or 3% during the fiscal year. Capital assets, net of accumulated depreciation and amortization, increased by $26,608 or 9.2% to $316,990.
- Operating revenues, excluding interest and investment income, and other non-operating revenues, decreased by $5,032 or 4.0% to $120,962.
- Operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by $4,976 or 4.4% to $116,935.

CleanPowerSF

- Total assets exceeded total liabilities by $8,218. CleanPowerSF had no capital assets, net of accumulated depreciation and amortization as of June 30, 2017.
- Operating revenues, excluding interest and investment income and other non-operating revenues were $33,867.
- Operating expenses, excluding interest expense were $27,096, of which $1,893 was electricity purchased from Hetchy Power.

(Continued)

Financial Highlights for Fiscal Year 2016

Hetch Hetchy

- Total assets of Hetch Hetchy exceeded total liabilities by $512,968. Net position increased by $25,680 or 5.3% during the fiscal year. Capital assets, net of accumulated depreciation and amortization, increased by $30,913 or 8.3% to $404,249.

- Charges for services, excluding interest and investment income, rental income, and other non-operating revenues increased by $16,902 or 11.5% to $164,474. Operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by $4,572 or 3.2% to $148,495.

Hetchy Water

- Total assets of Hetchy Water exceeded total liabilities by $122,870. Net position increased by $2,300 or 1.9% during the fiscal year. Capital assets, net of accumulated depreciation and amortization, increased by $9,537 or 9.1% to $113,867.

- Charges for services, excluding interest and investment income, rental income, and other non-operating revenues, decreased by $107 or 0.3% to $38,624 due to decreased water assessment fees of $200 or 0.5% from the Water Enterprise to fund upcountry water-related costs, offset by an increase of $93 mainly due to 10% average rate increase for Lawrence Livermore National Laboratory and Groveland Community Services.

- Operating expenses, excluding other non-operating expenses, decreased by $2,165 or 5.6% to $36,536 due to decrease of $2,715 in projects spending for Moccasin Facilities Upgrade and Rim Fire projects, $386 in judgments and claims based on actuarial estimates, $228 in depreciation, and $130 in materials and supplies for water sewage treatment supplies and electrical supplies. These decreases were offset by increases of $626 in personnel services mainly due to cost of living adjustments and pension costs, $485 increase in taxes, licenses, and permits related to national park service, $108 increase in engineering services and $75 increase in services provided by other departments mainly from increased bureau support costs.

Hetchy Power

- Total assets of Hetchy Power exceeded total liabilities by $390,098. Net position increased by $23,380 or 6.4% during the fiscal year. Capital assets, net of accumulated depreciation and amortization, increased by $21,376 or 7.9% to $290,382.

- Charges for services, excluding interest and investment income, rental income, and other non-operating revenues, increased by $17,009 or 15.6% to $125,850. The increase was due to increase in sales of $9,307 or 275,778 MWh to non-City customers as a result of sales of excess power, and $4,356 from City Departments due to 3% adopted average rate increase coupled with increase in consumption of 3%. The remaining $3,346 increase in revenues was from two months of electricity sales to residential and commercial consumers through CleanPowerSF in the amount of $3,749 net of $403 sales between Hetchy Power and CleanPowerSF.

- Operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by $6,737 or 6.4% to $111,959 due to increases of $3,526 in purchased electricity, $2,970 in transmission and distribution power costs mainly due to $2,349 costs incurred by CleanPowerSF, $2,545 in capital project spending for Transmission and Distribution System and Transbay Transit Center projects, $1,418 in services provided by other departments mainly from increased bureau support costs and legal services provided by the City Attorney, $810 in materials and electrical supplies, $392 in personnel services mainly due to cost of living adjustments and pension costs, and $350 higher taxes, licenses, and permits related to national park service. These increases were offset by decreases of $2,359 in contractual services primarily due to closure of the energy bank account with Pacific Gas and Electric Company (PG&E) in prior year, $1,769 in judgments and claims mainly due to prior year one time settlement of franchise tax fees on interconnection agreement, and $1,146 decrease in depreciation.

(Dollars in thousands, unless otherwise stated)

Financial Position

The following tables summarize Hetch Hetchy's changes in net position.

Table 1A - Consolidated Hetch Hetchy
Comparative Condensed Net Position
June 30, 2017, 2016, and 2015

		2017 *	2016 **	2015	2017-2016 Change	2016-2015 Change
Hetch Hetchy						
Total assets:						
Current and other assets	$	336,106	270,562	273,159	65,544	(2,597)
Capital assets, net of accumulated depreciation and amortization		444,721	404,249	373,336	40,472	30,913
Total assets		780,827	674,811	646,495	106,016	28,316
Deferred outflows of resources:						
Pensions		28,132	8,324	6,883	19,808	1,441
Total deferred outflows of resources		28,132	8,324	6,883	19,808	1,441
Liabilities:						
Current liabilities:						
Bonds		2,437	1,692	1,332	745	360
Certificates of participation		331	315	299	16	16
Commercial paper		20,058	—	—	20,058	—
Other liabilities		28,042	29,205	23,290	(1,163)	5,915
Subtotal current liabilities		50,868	31,212	24,921	19,656	6,291
Long-term liabilities:						
Bonds		55,463	58,418	58,843	(2,955)	(425)
Certificates of participation		14,607	14,966	15,313	(359)	(347)
Other liabilities		106,788	57,247	48,967	49,541	8,280
Subtotal long-term liabilities		176,858	130,631	123,123	46,227	7,508
Total liabilities:						
Bonds		57,900	60,110	60,175	(2,210)	(65)
Certificates of participation		14,938	15,281	15,612	(343)	(331)
Commercial paper		20,058	—	—	20,058	—
Other liabilities		134,830	86,452	72,257	48,378	14,195
Total liabilities		227,726	161,843	148,044	65,883	13,799
Deferred inflows of resources:						
Related to pensions		2,973	8,678	18,400	(5,705)	(9,722)
Total deferred inflows of resources		2,973	8,678	18,400	(5,705)	(9,722)
Net position:						
Net investment in capital assets		388,412	369,764	345,814	18,648	23,950
Restricted for debt service		485	306	302	179	4
Restricted for capital projects		—	1,409	4,434	(1,409)	(3,025)
Unrestricted		189,363	141,135	136,384	48,228	4,751
Total net position	$	578,260	512,614	486,934	65,646	25,680

*Eliminated interfund payable and receivable of $7,250 working capital loan between Hetchy Power and CleanPowerSF in fiscal year 2017.
**Eliminated interfund payable and receivable of $8,000 working capital loan between Hetchy Power and CleanPowerSF in fiscal year 2016.

(Dollars in thousands, unless otherwise stated)

Table 1B - Hetchy Water
Comparative Condensed Net Position
June 30, 2017, 2016, and 2015

Hetchy Water	2017	2016	2015	2017-2016 Change	2016-2015 Change
Total assets:					
Current and other assets	$ 80,350	37,195	46,271	43,155	(9,076)
Capital assets, net of accumulated depreciation and amortization	127,731	113,867	104,330	13,864	9,537
Total assets	208,081	151,062	150,601	57,019	461
Deferred outflows of resources:					
Pensions	12,659	3,746	3,097	8,913	649
Total deferred outflows of resources	12,659	3,746	3,097	8,913	649
Liabilities:					
Current liabilities	6,293	4,638	5,493	1,655	(855)
Long-term liabilities	44,753	23,554	19,514	21,199	4,040
Total liabilities	51,046	28,192	25,007	22,854	3,185
Deferred inflows of resources:					
Related to pensions	1,338	3,905	8,280	(2,567)	(4,375)
Total deferred inflows of resources	1,338	3,905	8,280	(2,567)	(4,375)
Net position:					
Net investment in capital assets	127,731	113,867	104,330	13,864	9,537
Restricted for capital projects	—	1,409	4,434	(1,409)	(3,025)
Unrestricted	40,625	7,435	11,647	33,190	(4,212)
Total net position	$ 168,356	122,711	120,411	45,645	2,300

Table 1C - Hetchy Power
Comparative Condensed Net Position
June 30, 2017, 2016, and 2015

Hetchy Power	2017*	2016**	2015	2017-2016 Change	2016-2015 Change
Total assets:					
Current and other assets	$ 243,406	233,367	226,888	10,039	6,479
Capital assets, net of accumulated depreciation and amortization	316,990	290,382	269,006	26,608	21,376
Total assets	560,396	523,749	495,894	36,647	27,855
Deferred outflows of resources:					
Pensions	15,473	4,578	3,786	10,895	792
Total deferred outflows of resources	15,473	4,578	3,786	10,895	792
Liabilities:					
Current liabilities:					
Bonds	2,437	1,692	1,332	745	360
Certificates of participation	331	315	299	16	16
Commercial paper	20,058	—	—	20,058	—
Other liabilities	17,717	24,567	17,797	(6,850)	6,770
Subtotal current liabilities	40,543	26,574	19,428	13,969	7,146
Long-term liabilities:					
Bonds	55,463	58,418	58,843	(2,955)	(425)
Certificates of participation	14,607	14,966	15,313	(359)	(347)
Other liabilities	61,935	33,693	29,453	28,242	4,240
Subtotal long-term liabilities	132,005	107,077	103,609	24,928	3,468
Total liabilities:					
Bonds	57,900	60,110	60,175	(2,210)	(65)
Certificates of participation	14,938	15,281	15,612	(343)	(331)
Commercial paper	20,058	—	—	20,058	—
Other liabilities	79,652	58,260	47,250	21,392	11,010
Total liabilities	172,548	133,651	123,037	38,897	10,614
Deferred inflows of resources:					
Related to pensions	1,635	4,773	10,120	(3,138)	(5,347)
Total deferred inflows of resources	1,635	4,773	10,120	(3,138)	(5,347)
Net position:					
Net investment in capital assets	260,681	255,897	241,484	4,784	14,413
Restricted for debt service	485	306	302	179	4
Unrestricted	140,520	133,700	124,737	6,820	8,963
Total net position	$ 401,686	389,903	366,523	11,783	23,380

*Included $7,250 working capital loan to CleanPowerSF
**CleanPowerSF was presented as part of Hetchy Power in fiscal year 2016.

(Continued)

(Dollars in thousands, unless otherwise stated)

Table 1D - CleanPowerSF
Condensed Net Position
June 30, 2017

		2017
CleanPowerSF		
Total assets:		
Current and other assets	$	19,600
Total assets		19,600
Liabilities:		
Current liabilities		6,032
Long-term liabilities		5,350
Total liabilities		11,382 *
Net position:		
Unrestricted		8,218
Total net position	$	8,218

*Included $7,250 working capital loan from Hetchy Power.

Net Position, Fiscal Year 2017

Hetch Hetchy

Hetch Hetchy's net position of $578,260 increased by $65,646 or 12.8% during the year (see Table 1A). Current and other assets were $336,106, a $65,544 or 24.2% increase from prior year with elimination of a $7,250 working capital loan from Hetchy Power to CleanPowerSF. The increases were attributed to $67,896 in restricted and unrestricted cash and investment with City Treasury and outside City Treasury mainly explained by $60,000 transfer from the Water Enterprise to fund upcountry water projects, and $20,058 in commercial paper issuance for Hetchy Power, $420 in vendor prepayments, $193 in other receivables for Distributed Antenna System (DAS), and $201 increase in interest receivables due to higher average cash balance.

These increases were offset by decreases of $1,566 in prior year collections from the Federal Emergency Management Agency (FEMA) and the State Office of Emergency Services for the Rim Fire projects, $1,013 in receivables due from other City departments, as explained by $748 repayments from Mayor's Energy Conservation Account, $549 payment from Water Enterprise for DAS, $103 repayment from the Wastewater Enterprise for the Living Machine System, offset by $387 increase in due from CleanPowerSF for electricity purchased from Hetchy Power.

Other decreases included $259 in receivables for various custom work projects, $75 in inventory due to more issuances than purchases, $17 from advance paid to the Recreation and Parks Department for the Civic Center Garage, and $5 in travel advance. Charges for services receivables decreased by $231, including $2,540 decreased electricity sales primarily from Turlock Irrigation District (TID) due to no sales of excess power and $256 in decreased water consumption from Lawrence Livermore National Laboratory, offset by an increase of $2,565 in charges for services receivable from CleanPowerSF.

Capital assets, net of accumulated depreciation and amortization, increased by $40,472 or 10% to $444,721 primarily due to additions of facilities, improvements, machinery, and equipment for Mountain Tunnel Improvement, Moccasin Facilities New Construction, San Joaquin Pipeline Rehabilitation, and Transbay Transit Center. Deferred outflows of resources increased by $19,808 due to pensions based on actuarial report.

(Continued)

Total liabilities increased by $65,883 or 40.7%, to $227,726. A working capital loan of $7,250 due to Hetchy Power from CleanPowerSF was eliminated upon consolidation. As of June 30, 2017, outstanding debts increased by $17,505 attributable to $20,058 Hetchy Power commercial paper issuance in February 2017, offset by $2,011 in principal repayments, $288 redemption of 2012 New Clean Renewable Energy Bonds (NCREBs), and $254 in amortization of premium and discount. Other liabilities of $134,830, such as payables to vendors, contractors, and other government agencies for goods and services under contractual agreements, increased by $48,378 or 56%. Net pension liability increased by $42,538 due to investment losses, the Appeals Court's elimination of the full funding requirement for certain members, and the impact of the revised demographic assumptions and change in discount rate. See Note 10(a), Pension Plan, for additional details.

Other increases included $4,157 in restricted liabilities for bond fund-projects, $3,053 in other post-employment benefit obligations as a result of higher actuarially determined annual required contribution, $2,891 in unearned revenues, including $1,189 in grant advance received from FEMA and the State Office of Emergency Services for the Rim Fire projects, $566 in credits due to other City departments for work order billings, $391 in credits to MID and TID due to billing true up, $377 in deposits for various custom work projects, $232 in deposits from DAS and the Hunters Point Shipyard project, $130 in utility taxes payable, and $15 in credits for CleanPowerSF retail and commercial customers, offset by a $9 decrease in prepaid rent.

General liability increased by $577 based on actuarial estimates, and due from CleanPowerSF to Hetchy Power increased by $387. The increases were offset by a decrease of $5,224 in outstanding accounts payable to vendors and contractors for services, and a decrease of $1 in bond and loan interest payable. Deferred inflows of resources decreased by $5,705 due to pensions based on actuarial report.

Hetchy Water

Hetchy Water's net position of $168,356 increased by $45,645 or 37.2% resulting from increases of $57,019 in total assets, $8,913 in deferred outflows of resources and a decrease in deferred inflows of resources of $2,567, offset by $22,854 increases in total liabilities (see Table 1B). Increase in current and other assets of $43,155 was attributed to $43,126 increase in restricted and unrestricted cash and investment with City Treasury due primarily to $60,000 transfer from the Water Enterprise to fund upcountry projects, and $336 in vendor prepayments. These increases were offset by decreases of $256 in charges for service receivables primarily from decreased consumption for Lawrence Livermore National Laboratory, $33 in inventory from more issuances than purchases, $14 in interest receivables from pooled investment resulting from lower average cash balance and $4 from advance paid to the Recreation and Parks Department for the Civic Center Garage.

Capital assets, net of accumulated depreciation and amortization, increased by $13,864 or 12.2% to $127,731 primarily due to increases in facilities, improvements, machinery, and equipment for Mountain Tunnel Improvement, Moccasin Facilities New Construction, and San Joaquin Pipeline Rehabilitation. Deferred outflows of resources increased by $8,913 due to pensions based on actuarial report.

Hetchy Water's total liabilities increased by $22,854 or 81.1% to $51,046, as explained by increases of $19,142 in net pension liability due to investment losses, the Appeals Court's elimination of the full funding requirement for certain members, and the impact of the revised demographic assumptions and change in discount rate, $3,767 increase in restricted liabilities related to Water bond-funded upcountry projects, $1,335 in other post-employment benefit obligations as a result of higher actuarially determined annual required contribution, $539 in grant advance received from FEMA and the State Office of Emergency Services for the Rim Fire projects, and $233 in general liability based on actuarial estimates. The increases were offset by decreases of $2,124 in outstanding payables to vendors and contractors for services, and $35 in employee related benefits including workers' compensation, vacation and sick leave, and accrued payroll, and $3 decrease in prepaid rent. Deferred inflows of resources decreased by $2,567 due to pensions based on actuarial report.

Hetchy Power

Hetchy Power's net position of $401,686 increased by $11,783 or 3.0% resulting from an increase of $36,647 in total assets, $10,895 in deferred outflows of resources and a decrease in deferred inflows of resources of $3,138, offset by an increase of $38,897 in total liabilities (see Table 1C). CleanPowerSF is presented as part of Hetchy Power in fiscal year 2016. Current and other assets increased by $10,039 or 4.3%, due primarily to increases of $10,722 in restricted and unrestricted cash and investment with City Treasury and outside City Treasury due to $20,058 commercial paper issuance, offset by $8,174 CleanPowerSF cash and investments with City Treasury from prior year. A working capital loan of $7,250 due to Hetchy Power from CleanPowerSF was eliminated upon consolidation. Interest receivables increased by $198 due to higher averaged cash balance during fiscal year 2017, including $8 from CleanPowerSF in prior year. Other increases included $193 in other receivables for DAS and $77 in vendor prepayments.

Other decreases included $5,503 in charges for services receivables primarily due to $2,963 receivables from CleanPowerSF electricity sales in prior year, and $2,540 decreased electricity sales due to no sales of excess power to TID; $1,566 in prior year collections from the FEMA and the State Office of Emergency Services for the Rim Fire projects, $259 receivables for various custom work projects, $42 in inventory due to more issuances than purchases, $13 from advance paid to the Recreation and Parks Department for the Civic Center Garage, and $5 in travel advance. Receivables due from other City departments decreased by $1,013 as explained by $748 repayments to Mayor's Energy Conservation Account, $549 payment from Water Enterprise for DAS, $103 repayment from the Wastewater Enterprise for the Living Machine System, offset by $387 increase in receivables for electricity sales from Hetchy Power to CleanPowerSF.

Capital assets, net of accumulated depreciation and amortization, increased by $26,608 or 9.2% to $316,990 primarily due to additions of facilities, improvements, machinery, and equipment for Mountain Tunnel Improvement, Moccasin Facilities New Construction, and Transbay Transit Center. Deferred outflows of resources increased by $10,895 due to pensions based on actuarial report.

Hetchy Power's total liabilities of $172,548 increased by $38,897 or 29.1%. As of June 30, 2017, outstanding debts increased by $17,505 attributable to $20,058 commercial paper issuance in February 2017, offset by $2,011 in principal repayments, $288 redemption of 2012 NCREBs, and $254 in amortization of premium and discount. Other liabilities of $79,652, such as payables to vendors, contractors, and other government agencies for goods and services under contractual agreements, increased by $21,392 or 36.7%. Net pension liability increased by $23,396 due to investment losses, the Appeals Court's elimination of the full funding requirement for certain members, and the impact of the revised demographic assumptions and change in discount rate, $2,250 increase in unearned revenues, including $650 in grant advance received from FEMA and the State Office of Emergency Services for the Rim Fire projects, $566 in credits due to other City departments for work order billings, $391 in credits to MID and TID due to billing true up, $377 in deposits for various custom work projects, $232 in deposits from DAS and Hunters Point Shipyard Project, $40 in utility taxes payable, offset by a $6 decrease in prepaid rent. Other increases included $1,631 in other post-employment benefit obligations as a result of higher actuarially determined annual required contribution, $390 in restricted liabilities for bond fund-projects, and $344 in general liability based on actuarial estimates.

The increases in other liability were offset by decreases of $6,580 in accounts payable to vendors and contractors for services, of which $1,722 was related to CleanPowerSF accounts payable in prior year, and $38 in employee related benefits including workers' compensation, vacation and sick leave, and accrued payroll, and slight decrease of $1 in bond and loan interest payable. Deferred inflows of resources decreased by $3,138 due to pensions based on actuarial report.

CleanPowerSF

CleanPowerSF's net position of $8,218 included $19,600 in total assets offset by $11,382 in total liabilities (see Table 1D). Total assets of $19,600 comprised of $14,048 in cash and investment with City Treasury from electricity sales, $5,528 in charges for services receivables from billings, $17 in interest receivables and $7 in vendor prepayment.

Total liabilities of $11,382 comprised of $7,250 working capital loan from Hetchy Power, $3,480 in accounts payable, $387 in payable to Hetchy Power for purchased electricity, $90 in utility tax and electric energy surcharge tax payable from increased electricity sales, $87 in other post-employment benefit obligations as a result of actuarially determined annual required contribution, $73 in employee related benefits including vacation, sick leave and accrued payroll and $15 in unearned revenues for credits to retail and commercial customers.

Net Position, Fiscal Year 2016

Hetch Hetchy

Hetch Hetchy's net position of $512,614 increased by $25,680 or 5.3% during the year (see Table 1A). Current and other assets were $270,562, a $2,597 or 1.0% decrease from prior year due to decreases of $7,852 in restricted and unrestricted cash and investment with City Treasury and outside City Treasury as explained by $7,559 in principal and interest repayments and capital project spending, $514 decrease in receivables due from other City departments attributable to $1,094 repayments from Mayor's Energy Conservation Account, and $102 repayment from Wastewater Enterprise for the Living Machine System, offset by $549 increase in due from Water Enterprise for Distributed Antenna System, and $133 increase in due from Department of Public Works for Hunters Point Shipyard Project, and $4 decrease from advance paid to the Recreation and Parks Department for the Civic Center Garage and prepayments to vendors. These decreases were offset by increase of $5,412 in charges for services receivables including $2,963 from CleanPowerSF electricity sales, $1,376 from MID and TID due to increased sales of excess power, $955 from San Francisco Port tenants and Parking Garage due to lower collection, $118 from water upcountry customers for water sales due to average rate increase of 10%, $215 from custom work receivables for the Hunters Point Shipyard and Candlestick Point projects, $92 inventory from more purchases than issuances, and $54 in interest receivable as a result of higher cash balance.

Capital assets, net of accumulated depreciation and amortization, increased by $30,913 or 8.3% to $404,249 primarily due to additions of facilities, improvements, machinery, and equipment for Moccasin Facilities Upgrade, Transmission and Distribution System, Lower Cherry Aqueduct, Streetlight Replacement, and San Joaquin Pipeline Rehabilitation. Deferred outflows of resources increased by $1,441 due to pensions based on actuarial report.

Total liabilities of current and non-current obligations increased by $13,799 or 9.3%. As of June 30, 2016, outstanding bonds payable of $60,110 and certificates of participation of $15,281 decreased by $396 due to $2,523 redemption of 2012 New Clean Renewable Energy Bonds (NCREBs), $1,722 principal repayments, and $251 amortization of premium and discount for certificates of participation and outstanding debts, offset by $4,100 issuance of 2015 NCREBs in October 2015. Other liabilities of $86,452, such as payables to vendors, contractors, and other government agencies for goods and services under contractual agreements, increased by $14,195 or 19.6%. Increases included $6,337 in net pension liability based on actuarial report, $3,028 increase in deposits from the Hunters Point Shipyard project and Distributed Antenna System master license agreements, $2,582 increase in restricted liabilities related to water upcountry bond-funded projects, Clean Renewable Energy Bonds (CREBs) funded projects and 2015 Series B revenue bond funded projects, $2,324 in other post-employment benefit obligations as a result of higher actuarially determined annual required contribution, $1,722 payable for CleanPowerSF purchase of electricity, $1,109 in employee related benefits including workers' compensation, vacation and sick leave, and accrued payroll, $108 in interest payable of 2015 Series AB power revenue bonds and 2015 NCREBs, $46 in prepayments from custom work projects, and $20 in grant advance received from the Federal Emergency Management Agency and the State Office of Emergency Services for the Rim Fire Projects. These increases were offset by $1,525 decrease in payables to vendors and contractors for services, $1,474 in general liability based on actuarial estimates, and $82 decrease as a result of remittance of electrical energy surcharge tax to the State Board of Equalization. Deferred inflows of resources decreased by $9,722 due to pensions based on actuarial report.

Hetchy Water

Hetchy Water's net position of $122,711 increased by $2,300 or 1.9% resulting from an increase of $1,110 in total assets and deferred outflows of resources, and a decrease of $1,190 in liabilities and deferred inflows of resources (see Table 1B). Contributing to the increase of $461 in total assets was $9,537 increase in capital assets, net of accumulated depreciation and amortization offset by $9,203 decrease in restricted and unrestricted cash and investment with City Treasury primarily due to water infrastructure projects spending, $16 decrease in advances paid to the Recreation and Parks Department for the Civic Center Garage and prepayments to vendors and $16 decrease in interest receivable from pooled investment due to lower average cash balance, offset by $118 increase in charges for service receivables due to average rate increase of 10% mainly from Lawrence Livermore National Laboratory and Groveland Community Services, and $41 increase in inventory from more purchases than issuances. Capital assets, net of accumulated depreciation and amortization, increased by $9,537 or 9.1% to $113,867 primarily due to increased facilities, improvements, machinery, and equipment for Lower Cherry Aqueduct, San Joaquin Pipeline Rehabilitation, and Moccasin Facilities Upgrade. Deferred outflows of resources increased by $649 due to pensions based on actuarial report.

Hetchy Water's liabilities increased by $3,185 or 12.7%, as explained by increases of $2,851 in net pension liability, $1,046 in other post-employment benefit obligations as a result of higher actuarially determined annual required contribution, $371 increase in employee related benefits including workers' compensation, vacation and sick leave, and accrued payroll, and $69 increase in restricted liabilities related to Water bond-funded upcountry projects, offset by $1,103 decrease in payables to vendors and contractors for services, and $49 in general liability based on actuarial estimates. Deferred inflows of resources decreased by $4,375 due to pensions based on actuarial report.

Hetchy Power

Hetchy Power's net position of $389,903 increased by $23,380 or 6.4% resulting from increases in total assets of $27,855, $792 in deferred outflows of resources and decrease in deferred inflows of resources of $5,347 offset by $10,614 increase in total liabilities (see Table 1C). Increase in Hetchy Power's net position included $1,424 unrestricted net position from CleanPowerSF (see Supplemental Schedules for details). The increase in current and other assets of $6,479 was primarily due to increase in charges for services receivables of $2,963 from CleanPowerSF electricity sales and $2,331 from MID and TID due to increased sales of excess power, San Francisco Port tenants due to lower collection, $1,351 in restricted and unrestricted cash and investment with City Treasury and outside City Treasury as explained by $5,935 from Power System Impact Mitigation projects, $4,100 from issuance of 2015 NCREBs in October 2015 and $2,755 deposits for the Hunters Point Shipyard project, offset by $7,559 principal and interest repayments and $3,880 project spending. Other increases included $215 in prepayment for custom work projects, $70 increase in interest receivables as a result of higher cash balance, $51 in inventory from more purchases than issuances, and $12 increase mainly from prepayments to vendors. These increases were offset by decrease of $514 in receivables due from other City departments attributable to $1,094 repayments to Mayor's Energy Conservation Account and $102 repayment from the Wastewater Enterprise for Living Machine System, offset by $549 increase in due from Water Enterprise for

Distributed Antenna System and $133 increase in due from Department of Public Works for Hunters Point Shipyard Project.

Capital assets, net of accumulated depreciation and amortization, increased by $21,376 or 7.9% to $290,382 primarily due to increased facilities, improvements, machinery, and equipment for Transmission and Distribution System and Moccasin Facilities Control and Server Building projects. Deferred outflows of resources increased by $792 due to pensions based on actuarial report.

Hetchy Power's total liabilities of $133,651 increased by $10,614 or 8.6%. Increases in other liabilities of $11,010 included $3,486 in net pension liability based on actuarial report, $3,028 increase in deposits from Hunters Point Shipyard project and Distributed Antenna System master license agreement, $2,513 increase in restricted liabilities related to CREBs and 2015 Series B revenue bond-funded projects, $1,722 increase from CleanPowerSF purchase of electricity, $1,278 in other post-employment benefit obligations as a result of higher actuarially determined annual required contribution, $738 in employee related benefits including workers' compensation, vacation and sick leave, and accrued payroll, $108 in interest payable mainly from 2015 Series AB power revenue bonds issued in prior year and 2015 NCREBs issued in current year, $46 in prepayments from custom work projects and $14 in grant advance received from the Federal Emergency Management Agency (FEMA), and $6 from the State Office of Emergency Services for the Rim Fire recovery projects. These increases were offset by $1,425 in general liability based on actuarial estimates, $422 decrease in payables to vendors and contractors for services, and $82 decrease as a result of remittance of electrical energy surcharge tax to the State Board of Equalization. As of June 30, 2016, outstanding bonds payable of $60,110 and certificates of participation of $15,281 decreased by $396 due to $2,523 redemption of 2012 NCREBs, and $1,973 principal repayments, amortization of premium and discount for certificates of participation and outstanding debts, offset by $4,100 issuance of 2015 NCREBs in October 2015. Deferred inflows of resources decreased by $5,347 due to pensions based on actuarial report.

(Dollars in thousands, unless otherwise stated)

Results of Operations

The following tables summarize Hetch Hetchy's revenues, expenses, and changes in net position:

Table 2A - Consolidated Hetch Hetchy
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2017, 2016, and 2015

		2017	2016 *	2015		2017-2016 Change	2016-2015 Change
Hetch Hetchy							
Revenues:							
Charges for services	$	189,664	164,474	147,572		25,190	16,902
Rents and concessions		315	262	231		53	31
Interest and investment income		1,853	1,280	1,179		573	101
Other non-operating revenues		12,384	12,456	9,552		(72)	2,904
Total revenues		204,216	178,472	158,534		25,744	19,938
Expenses:							
Operating expenses		194,130	148,495	143,923		45,635	4,572
Interest expenses		3,270	3,355	1,815		(85)	1,540
Amortization of premium, discount, and issuance costs		(255)	(122)	893		(133)	(1,015)
Other non-operating expenses		1,476	1,744	2,807		(268)	(1,063)
Total expenses		198,621	153,472	149,438		45,149	4,034
Change in net position before transfers		5,595	25,000	9,096		(19,405)	15,904
Transfers from the City and County of San Francisco		60,100	1,385	2,075		58,715	(690)
Transfers to the City and County of San Francisco		(49)	(705)	(32)		656	(673)
Net transfers		60,051	680	2,043		59,371	(1,363)
Change in net position		65,646	25,680	11,139		39,966	14,541
Net position at beginning of year							
Beginning of year, as previously reported		512,614	486,934	513,550		25,680	(26,616)
Cumulative effect of accounting change		—	—	(37,755)	**	—	37,755
Beginning of year as restated		512,614	486,934	475,795		25,680	11,139
Net position at end of year	$	578,260	512,614	486,934		65,646	25,680

* Excluded $403 electricity sales and electricity purchases between CleanPowerSF and Hetchy Power.
** Cumulative effect of accounting change per GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.*

(Continued)

(Dollars in thousands, unless otherwise stated)

Table 2B - Hetchy Water
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2017, 2016, and 2015

		2017	2016	2015	2017-2016 Change	2016-2015 Change
Hetchy Water						
Revenues:						
Charges for services	$	35,008	38,624	38,731	(3,616)	(107)
Rents and concessions		142	118	104	24	14
Interest and investment income (loss)		46	(38)	(74)	84	36
Other non-operating revenues		616	200	250	416	(50)
Total revenues		35,812	38,904	39,011	(3,092)	(107)
Expenses:						
Operating expenses		50,099	36,536	38,701	13,563	(2,165)
Other non-operating expenses		68	68	313	—	(245)
Total expenses		50,167	36,604	39,014	13,563	(2,410)
Change in net position before transfers		(14,355)	2,300	(3)	(16,655)	2,303
Transfers from the City and County of San Francisco		60,000	—	—	60,000	—
Change in net position		45,645	2,300	(3)	43,345	2,303
Net position at beginning of year						
Beginning of year, as previously reported		122,711	120,411	137,404	2,300	(16,993)
Cumulative effect of accounting change		—	—	(16,990) **	—	16,990
Beginning of year as restated		122,711	120,411	120,414	2,300	(3)
Net position at end of year	$	168,356	122,711	120,411	45,645	2,300

Table 2C - Hetchy Power
Comparative Condensed Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2017, 2016, and 2015

		2017	2016 *	2015	2017-2016 Change	2016-2015 Change
Hetchy Power						
Revenues:						
Charges for services	$	120,789	125,850	108,841	(5,061)	17,009
Rents and concessions		173	144	127	29	17
Interest and investment income		1,718	1,318	1,253	400	65
Other non-operating revenues		11,764	12,256	9,302	(492)	2,954
Total revenues		134,444	139,568	119,523	(5,124)	20,045
Expenses:						
Operating expenses		116,935	111,959	105,222	4,976	6,737
Interest expenses		3,200	3,355	1,815	(155)	1,540
Amortization of premium, discount, and issuance costs		(255)	(122)	893	(133)	(1,015)
Other non-operating expenses		1,408	1,676	2,494	(268)	(818)
Total expenses		121,288	116,868	110,424	4,420	6,444
Change in net position before transfers		13,156	22,700	9,099	(9,544)	13,601
Transfers from the City and County of San Francisco		100	1,385	2,075	(1,285)	(690)
Transfers to the City and County of San Francisco		(49)	(705)	(32)	656	(673)
Net transfers		51	680	2,043	(629)	(1,363)
Change in net position		13,207	23,380	11,142	(10,173)	12,238
Net position at beginning of year						
Beginning of year, as previously reported		389,903	366,523	376,146	23,380	(9,623)
Cumulative effect of accounting change		—	—	(20,765) **	—	20,765
Less: CleanPowerSF beginning net position		(1,424)	—	—	(1,424)	—
Beginning of year as restated		388,479	366,523	355,381	21,956	11,142
Net position at end of year	$	401,686	389,903	366,523	11,783	23,380

* $367 electricity sales and $36 electricity purchases between CleanPowerSF and Hetchy Power excluded in fiscal year 2016.
**Cumulative effect of accounting change per GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.*

(Continued)

(Dollars in thousands, unless otherwise stated)

Table 2D - CleanPowerSF
Condensed Revenues, Expenses, and Change in Net Position
Year ended June 30, 2017

		2017
CleanPowerSF		
Revenues:		
Charges for services	$	33,867
Interest and investment income		89
Other non-operating revenues		4
Total revenues		33,960
Expenses:		
Operating expenses		27,096
Interest expenses		70
Total expenses		27,166
Change in net position		6,794
Net position at beginning of year		1,424
Net position at end of year	$	8,218

Result of Operations, Fiscal Year 2017

Hetch Hetchy

Hetch Hetchy's total revenues were $204,216, an increase of $25,744 or 14.4% over prior year (see Table 2A). Charges for services were $189,664, an increase of $25,190 or 15.3%, due to increases of $30,118 from CleanPowerSF electricity sales to retail and commercial customers, offset by decreases of $5,061 from Hetchy Power due primarily to a $7,480 decrease in electricity sales to non-City customers, $3,749 CleanPowerSF electricity sales from prior year, offset by increases of $3,913 in sales to other City departments and $1,526 in CleanPowerSF electricity purchased from Hetchy Power. CleanPowerSF was presented as part of Hetchy Power in fiscal year 2016. Hetchy Water charges for services decreased by $3,616 mainly due to decreased water assessment fees of $2,000 or 5% from the Water Enterprise to fund upcountry water-related costs, and $1,625 decreased sale of water from Lawrence Livermore National Laboratory. Hetch Hetchy's total expenses were $198,621, an increase of $45,149 or 29.4% over prior year.

Hetchy Water

Hetchy Water's total revenues were $35,812, a decrease of $3,092 or 7.9% from prior year's revenues (see Table 2B). Charges for services decreased by $3,616 mainly due to decreased water assessment fees of $2,000 from the Water Enterprise to fund upcountry water-related costs, and $1,625 decreased consumption from Lawrence Livermore National Laboratory. The decreases were offset by increases of other non-operating revenues of $416, including $417 from Rim Fire insurance recoveries, $21 in net gain on sale of assets, $10 in miscellaneous revenues, offset by a decrease of $32 from Hunters Point custom work project. Other increases included $84 in interest and investment income and $24 in rent from Moccasin cottage rentals.

Total expenses were $50,167, an increase of $13,563 or 37.1%. Personnel service increased by $9,815 mainly resulting from increased pension expense, $2,977 in other operating expenses due to higher projects spending mainly for San Joaquin Pipeline Rehabilitation Project and Moccasin Facilities New Construction Project, $631 in depreciation and amortization related to increased capitalizable facilities and improvement, and $147 in

(Continued)

general and administrative expenses mainly due to $639 increased judgments and claims based on actuarial estimates, offset by decreases of $510 in taxes, licenses, and permits related to national park service. Contractual services increased by $115 in engineering services. These increases were offset by decreases of $92 in legal services provided by the City Attorney, and $30 in safety and office supplies. Net transfer in of $60,000 was received from the Water Enterprise to fund upcountry projects.

As a result of the above activities, net position for the year ended June 30, 2017 increased by $45,645 or 37.2% compared to prior year.

Hetchy Power

Hetchy Power's total revenues were $134,444, a decrease of $5,124 or 3.7% from prior year's revenues (see Table 2C). Decrease of $5,061 in charges for services mainly explained by $3,749 electricity sales from CleanPowerSF in prior year, net of $403 sales from prior year between Hetchy Power and CleanPowerSF. Other decreases in charges for services included $7,480 decreased sales to non-City customers mainly due to no excess power sales to TID, offset by increased electricity sales of $3,913 to other City departments due to 6% adopted average rate increase, $1,526 to CleanPowerSF, and $326 to Hunters Point and Treasure Island.

Other non-operating revenues decreased by $492 due to $2,148 in collection from Power System Impact Mitigation Projects, $317 of one-time settlement from PG&E received in prior year, $135 in generator rental revenue, $15 from Hunters Point and Candlestick Point custom work project and $8 reduction in Federal interest subsidy due to sequestration. These decreases were offset by increases of $956 from Rim Fire insurance recoveries, $915 in Cap and Trade revenues, $195 in fees collected from DAS, $37 in grant advance received from the FEMA for the Rim Fire projects, $25 in net gain from sales of assets, and $3 in miscellaneous revenues. Interest and investment income increased by $400 due to higher cash balance resulting from $20,058 commercial paper issuance, and rents increased by $29 due to Moccasin cottage rentals.

Total operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by $4,976 or 4.4% to $116,935 due to increases of $11,329 mainly resulting from increased pension expense, $697 in increased capital projects spending for the Mountain Tunnel Improvement Project and Moccasin Facilities New Construction Project, and $586 in depreciation and amortization related to increased capitalizable facilities and improvement. These increases were offset by decreases of $3,063 in purchased electricity due to higher generation from powerhouses, $2,759 in transmission and distribution power costs due to credit received from California Independent System Operator for excess power generated, $681 in legal services provided by the City Attorney, $577 in contractual services primarily due to discontinuance of certain software licenses, $339 in building and construction supplies, $217 in decreased general and administrative expenses due primarily to $160 in taxes, licenses, and permits related to national park service, and $105 in litigation expenses.

Interest expense decreased by $155 was due to higher capitalized interest for capital projects. Amortization of premium, discount, and issuance costs increased by $133 mainly due to issuance cost for 2015 Series AB revenue bond and 2015 NCREBs in prior year. Other non-operating expenses decreased by $268 or 16% to $1,408 due to fewer payments for Solar Incentive Program. Net transfer of $51 included $100 from the Mayor's Office to fund the Tenderloin Streetlight Replacement Project, offset by $32 transfer to the Office of the City's Administrator for the Surety Bond Program and $17 to Sheriff's Department for Lighting Energy Efficiency Retrofit Project.

As a result of the above activities, net position for the year ended June 30, 2017 increased by $11,783 or 3% compared to prior year.

CleanPowerSF

CleanPowerSF's total revenues were $33,960 (see Table 2D). Charges for services were $33,867 which included $33,855 in electricity sales to retail and commercial customers and $12 in electricity sales to Hetchy Power.

Total operating expenses, excluding interest expenses were $27,096. Purchased electricity and transmission, distribution and other power costs were $22,437, including $1,893 in purchase of electricity from Hetchy Power, $1,570 in general and administrative and other mainly from $1,068 for administrative, data, scheduling and procurement support and $502 in taxes, licenses and permits. Other operating expenses included $1,213 in personnel services, $1,141 in contractual services from Calpine (Noble)'s customer billing and administrative support, $734 in services provided by other departments mainly from legal services provided by City Attorney, communication services and Hetchy Power support and $1 in material and supplies.

Other non-operating revenues and expenses were $23 which included $89 in interest earnings and $4 in termination fees collected from customers offset by $70 in interest expenses incurred on loan repayment to Hetchy Power.

As a result of the above activities, net position for the year ended June 30, 2017 was $8,218.

Result of Operations, Fiscal Year 2016

Hetch Hetchy

Hetch Hetchy's total revenues were $178,472, an increase of $19,938 or 12.6% over prior year. Other non-operating revenues were $12,456, an increase of $2,904 or 30.4% which included $4,399 increase in receipts for the Power System Impact Mitigation Project, $788 increase in fees collected from Distributed Antenna System, $319 one-time settlement from PG&E, $242 from Hunters Point and Candlestick Point custom projects, and $18 in damage claims for light poles offset by decreases of $1,827 in federal and state assistance for Rim Fire, $647 in Rim Fire insurance recoveries, $378 in Cap and Trade revenue, and $10 lower fuel revenues. Hetch Hetchy's total expenses were $153,472, an increase of $4,034 or 2.7% over prior year.

Hetchy Water

Hetchy Water's total revenues were $38,904, a decrease of $107 or 0.3% over prior year (see Table 2B). The decrease was due to decreased water assessment fees of $200 or 0.5% from the Water Enterprise to fund upcountry water-related costs, $140 in other non-operating revenues from the Rim Fire insurance recovery, $9 in net gain on sale of asset, $8 in federal and state assistance, and $5 in lower fuel revenues. These decreases were offset by increases of $112 from Hunters Point and Candlestick Point custom projects, $93 in charges for services from Lawrence Livermore National Laboratory and Groveland Community Services due to planned 10% average rate increase, $36 in interest and investment due to prior year's one-time return of $233 of 2011 Series A bonds interest earnings to the Water Enterprise offset by interest income, and $14 increase in rent from higher Moccasin cottage rentals.

Total expenses were $36,604, a decrease of $2,410 or 6.2% due to decrease of $2,715 in projects spending for Moccasin Facilities Upgrade and Rim Fire projects, $386 in judgments and claims based on actuarial estimates, $245 decrease in other non-operating expenses mainly from prior year write-off of non-capitalizable assets, $228 in depreciation, and $130 in materials and supplies for water sewage treatment supplies and electrical supplies. These decreases were offset by increases of $626 in personnel services mainly due to cost of living adjustments and pension costs, $485 increase in taxes, licenses, and permits related to national park service, $108 increase in

(Continued)

engineering services, and $75 increase in services provided by other departments mainly from increased bureau support costs.

As a result of the above activities, net position for the year ended June 30, 2016 increased by $2,300 or 1.9% compared to prior year.

Hetchy Power

Hetchy Power's total revenues were $139,568, an increase of $20,045 or 16.8% over prior year (see Table 2C). The increase was due to $17,009 in charges for services as explained by increase in sales of $9,307, or 275,778 MWh to non-City customers as a result of sales of excess power, and $4,356 from City Departments due to 3% adopted average rate increase coupled with increase in consumption of 3%. The remaining $3,346 increase in revenues was from two months of electricity sales totaling $3,749 from CleanPowerSF net of $403 sales between Hetchy Power and CleanPowerSF. Other increases of $3,036 included $4,399 received from Power System Impact Mitigation Project, $788 increase in fees collected from Distributed Antenna System, $319 increase in one-time settlement mainly from PG&E, $130 from Hunters Point and Candlestick Point custom projects, $65 increase in interest and investment from higher cash balance, $18 in damage claims for light poles, $17 increase in Moccasin cottage rental and $9 from custom work. These increases were offset by decreases of $1,818 in grant revenues from the FEMA and the State Office of Emergency Services for the Rim Fire projects, $507 in Rim Fire insurance recoveries, $378 in Cap and Trade revenues, and $6 in lower fuel revenues.

Total operating expenses, excluding interest expenses, other non-operating expenses, and amortization of premium, discount, and issuance costs, increased by $6,737 or 6.4% to $111,959 due to increases of $3,526 in purchased electricity, $2,970 in transmission and distribution power costs mainly due to $2,349 costs incurred by CleanPowerSF, $2,545 in capital project spending for Transmission and Distribution System and Transbay Transit Center projects, $1,418 in services provided by other departments mainly from increased bureau support costs and legal services provided by the City Attorney, $810 in materials and electrical supplies, $392 in personnel services mainly due to cost of living adjustments and pension costs and $350 higher taxes, licenses and permits related to national park service. These increases were offset by decreases of $2,359 in contractual services primarily due to closure of the energy bank account with PG&E in prior year, $1,769 in judgments and claims mainly due to prior year one-time settlement of franchise tax fees on interconnection agreement, and $1,146 decrease in depreciation. Interest expenses increased by $1,540 due to issuance of 2015 Series AB revenue bonds in prior year and issuance of 2015 NCREBs in current year.

Amortization of premium, discount, and issuance costs decreased by $1,015 due to the issue costs of 2015 Series AB revenue bonds in May of prior year. Other non-operating expenses decreased by $818 or 32.8% to $1,676 due to $304 decrease from prior year's write-off of non-capitalizable assets and $514 less payments to Solar Incentive Program and Summer Youth Program for the Garden Project. Transfers from the City and County of San Francisco decreased by $690 due to prior year's one-time transfer of $800 from the Mayor's Office to fund the Tenderloin Lighting and Traffic Safety project, offset by $110 increase in transfer from the General Fund for Energy Efficiency project. Transfers to the City and County of San Francisco increased by $673, of which included $366 to art museum for Lighting Energy Efficiency project, $167 to Police Department for Heating, Ventilating and Air Conditioning (HVAC) Improvement project, and $140 to Real Estate Department for HVAC Upgrade project.

As a result of the above activities, net position for the year ended June 30, 2016 increased by $23,380 or 6.4% compared to prior year.

(Dollars in thousands, unless otherwise stated)

Capital Assets

The following tables summarize Hetch Hetchy's changes in capital assets.

Table 3A - Capital Assets, Net of Accumulated Depreciation and Amortization
As of June 30, 2017, 2016 and 2015

	2017	2016	2015	2017-2016 Change	2016-2015 Change
Hetch Hetchy					
Facilities, improvements, machinery, and equipment	$ 315,880	286,898	254,274	28,982	32,624
Intangible assets	26,776	27,237	27,720	(461)	(483)
Land and rights-of-way	4,787	4,665	4,665	122	—
Construction work in progress	97,278	85,449	86,677	11,829	(1,228)
Total	444,721	404,249	373,336	40,472	30,913
Hetchy Water					
Facilities, improvements, machinery, and equipment	86,787	72,737	54,799	14,050	17,938
Intangible assets	11,410	11,618	11,825	(208)	(207)
Land and rights-of-way	3,055	3,003	3,003	52	—
Construction work in progress	26,479	26,509	34,703	(30)	(8,194)
Total	127,731	113,867	104,330	13,864	9,537
Hetchy Power					
Facilities, improvements, machinery, and equipment	229,093	214,161	199,475	14,932	14,686
Intangible assets	15,366	15,619	15,895	(253)	(276)
Land and rights-of-way	1,732	1,662	1,662	70	—
Construction work in progress	70,799	58,940	51,974	11,859	6,966
Total	$ 316,990	290,382	269,006	26,608	21,376

Capital Assets, Fiscal Year 2017

Hetch Hetchy

Hetch Hetchy has capital assets of $444,721, net of accumulated depreciation and amortization, invested in both water and power utility capital assets as of June 30, 2017 (see Table 3A). This amount represents an increase of $40,472 or 10%, resulting from increases of $28,982 in facilities, improvements, machinery, and equipment, $11,829 in construction work in progress, and $122 in land and rights-of-way; offset by a decrease of $461 in amortization of intangible assets. The investment in capital assets includes land, buildings, improvements, hydropower facilities, dams, transmission lines, machinery, and equipment.

(Dollars in thousands, unless otherwise stated)

Major additions to construction work in progress, depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service, including transfers of completed projects from construction work in progress, during the year ended June 30, 2017 include the following:

Table 3B - Hetch Hetchy
Major Additions to Construction Work in Progress and
Facilities, Improvements, Intangible Assets, Machinery, and Equipment Placed in Service
Year ended June 30, 2017

	Hetchy Water	Hetchy Power	Total 2017
Mountain Tunnel Improvement	$ 5,369	6,561	11,930
Moccasin Facilities New Construction	3,513	4,293	7,806
San Joaquin Pipeline Rehabilitation	6,816	—	6,816
Transbay Transit Center	—	5,012	5,012
Streetlight Light-Emitting Diode (LED) Conversion	—	2,089	2,089
Other project additions individually below $2,000	2,682	21,831	24,513
Additions to Construction Work in Progress	18,380	39,786	58,166
Mountain Tunnel Improvement	3,668	4,484	8,152
Streetlight LED Conversion	—	3,090	3,090
San Joaquin Pipeline Rehabilitation	3,051	—	3,051
3rd Street Corridor Rehabilitation	—	1,615	1,615
O'Shaughnessy Dam Drum Gate Automation	602	735	1,337
Other project additions individually below $1,200	11,026	17,980	29,006
Facilities, Improvements, Intangible Assets, Machinery, and Equipment Placed in Service	$ 18,347	27,904	46,251

Hetchy Water

Hetchy Water has capital assets of $127,731, net of accumulated depreciation and amortization, invested in a broad range of utility capital assets as of June 30, 2017 (see Table 3A). This amount represents an increase of $13,864 or 12.2%, primarily due to increases of $14,050 in facilities, improvements, machinery, and equipment, and $52 in land and rights-of-way; offset by decreases of $208 in amortization of intangible assets, and $30 in construction work in progress.

For the year ended June 30, 2017, Hetchy Water's major additions to construction work in progress totaled $18,380. Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service totaled $18,347 (see Table 3B).

Hetchy Power

Hetchy Power has capital assets of $316,990, net of accumulated depreciation and amortization, invested in utility capital assets as of June 30, 2017 (see Table 3A). This amount represents an increase of $26,608 or 9.2%, primarily due to increases of $14,932 in facilities, improvements, machinery, and equipment, $11,859 in construction work in progress, and $70 in land and rights-of-way; offset by a decrease of $253 in amortization of intangible assets.

(Dollars in thousands, unless otherwise stated)

For the year ended June 30, 2017, Hetchy Power's major additions to construction work in progress totaled $39,786. Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service totaled $27,904 (see Table 3B).

CleanPowerSF

CleanPowerSF had no capital assets as of June 30, 2017 and 2016.

See Note 4 for additional information about capital assets.

Capital Assets, Fiscal Year 2016

Hetch Hetchy

Hetch Hetchy has capital assets of $404,249, net of accumulated depreciation and amortization, invested in both water and power utility capital assets as of June 30, 2016 (see Table 3A). This amount represents an increase of $30,913 or 8.3%, resulting from an increase of $32,624 in facilities, improvements, machinery, and equipment, offset by decreases of $1,228 in construction work in progress and $483 in amortization of intangible assets. The investment in capital assets includes land, buildings, improvements, hydropower facilities, dams, transmission lines, machinery, and equipment.

Major additions to construction work in progress, depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service, including transfers of completed projects from construction work in progress, during the year ended June 30, 2016 include the following:

Table 3C - Hetch Hetchy
Major Additions to Construction Work in Progress and
Facilities, Improvements, Intangible Assets, Machinery, and Equipment Placed in Service
Year ended June 30, 2016

	Hetchy Water	Hetchy Power	Total 2016
Transmission and Distribution System	$ —	6,693	6,693
Microwave System	2,958	3,616	6,574
San Joaquin Pipeline Rehabilitation	4,279	—	4,279
Transbay Transit Center	—	2,938	2,938
Moccasin Facilities Upgrade and New Construction	2,275	2,780	5,055
Other project additions individually below $2,000	5,773	19,943	25,716
Additions to Construction Work in Progress	15,285	35,970	51,255
Transmission and Distribution System	—	7,175	7,175
Lower Cherry Aqueduct	6,576	—	6,576
San Joaquin Pipeline Rehabilitation	2,703	—	2,703
Moccasin Control and Server Building	1,028	1,256	2,284
Other project additions individually below $2,000	11,298	18,618	29,916
Facilities, Improvements, Intangible Assets, Machinery, and Equipment Placed in Service	$ 21,605	27,049	48,654

Hetchy Water

Hetchy Water has capital assets of $113,867, net of accumulated depreciation and amortization, invested in a broad range of utility capital assets as of June 30, 2016 (see Table 3A). This amount represents an increase of $9,537 or 9.1%, primarily due to increases of $17,938 in facilities, improvements, machinery, and equipment, offset by decreases of $8,194 in construction work in progress and $207 in amortization of intangible assets.

As of June 30, 2016, Hetchy Water's major additions to construction work in progress totaled $15,285. Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service totaled $21,605 (see Table 3C).

Hetchy Power

Hetchy Power has capital assets of $290,382, net of accumulated depreciation and amortization, invested in power utility capital assets as of June 30, 2016 (see Table 3A). This amount represents an increase of $21,376 or 7.9%, primarily due to an increase of $14,686 in facilities, improvements, machinery, and equipment and $6,966 in construction work in progress offset by $276 in intangible assets.

For the year ended June 30, 2016, Hetchy Power's major additions to construction work in progress totaled $35,970. Major depreciable facilities, improvements, intangible assets, machinery, and equipment placed in service totaled $27,049 (see Table 3C).

See Note 4 for additional information about capital assets.

Debt Administration

Hetch Hetchy

As of June 30, 2017, Hetch Hetchy has outstanding certificates of participation, Clean Renewable Energy Bonds (CREBs), Qualified Energy Conservation Bonds (QECBs), New Clean Renewable Energy Bonds (NCREBs), 2015 Series AB revenue bonds, and commercial paper. The aforementioned debts are obligations of the Power Enterprise. See Hetchy Power section below for more details.

Hetchy Water

Hetchy Water did not have debt outstanding as of June 30, 2017 and 2016. Debt, including bond issuances, associated with the funding of water-related, upcountry infrastructure capital improvements is issued through the Water Enterprise, and is reflected in the Water Enterprise's financial statements.

Hetchy Power

As of June 30, 2017 and 2016, Hetchy Power had outstanding debt of $92,896 and $75,391, respectively, as shown in Table 4. More detailed information about the Hetchy Power's debt activity is presented in Notes 6, 7 and 8 to the financial statements.

CleanPowerSF

CleanPowerSF did not have debt outstanding as of June 30, 2017 and 2016.

(Dollars in thousands, unless otherwise stated)

Table 4 - Hetchy Power
Outstanding Debt, Net of Unamortized Costs
As of June 30, 2017, 2016 and 2015

	2017	2016	2015	2017-2016 Change	2016-2015 Change
Clean Renewable Energy Bonds 2008	$ 2,453	2,861	3,269	(408)	(408)
Certificates of Participation 2009 Series C	2,345	2,688	3,019	(343)	(331)
Certificates of Participation 2009 Series D (BABs)	12,593	12,593	12,593	—	—
Qualified Energy Conservation Bonds 2011	5,817	6,334	6,845	(517)	(511)
New Clean Renewable Energy Bonds 2012	1,839	2,661	5,674	(822)	(3,013)
New Clean Renewable Energy Bonds 2015	3,877	4,100	—	(223)	4,100
2015 Series A Revenue Bonds	35,851	35,976	36,096	(125)	(120)
2015 Series B Revenue Bonds	8,063	8,178	8,291	(115)	(113)
Commercial Paper	20,058	—	—	20,058	—
Total	$ 92,896	75,391	75,787	17,505	(396)

In November 2008, $6,325 CREBs were issued in accordance with the Energy Tax Incentives Act of 2005 to fund solar photovoltaic projects. These bonds qualified as no interest, tax credit bonds with a term of 15 years. Annual payments in the amount of $422 are due on December 15 beginning in 2008.

QECBs in the amount of $8,291 were issued in December 2011 to fund qualified green energy efficiency projects for the SFPUC's 525 Golden Gate Headquarters project. QECBs have a tax credit Internal Revenue Service (IRS) subsidy and a term of 15 years.

2012 NCREBs were issued for $6,600 in April 2012 to fund certain qualified facilities that will provide clean, renewable energy at Davies Symphony Hall, City Hall, and University Mound Reservoir. NCREBs have a tax credit IRS subsidy and a term of 16 years. $2,523 and $288 were repaid in July 2015 and February 2017, respectively.

2015 NCREBs were issued for $4,100 in October 2015, to fund certain qualified clean, renewable energy solar generation facilities at the Marina Middle School and the San Francisco Police Academy. The 2015 NCREBs have a tax credit IRS subsidy and have a term of 17 years.

Power Revenue Bonds 2015 Series A (Green) in the par amount of $32,025 were issued in May 2015 to finance a rewind of hydro-generating units at Moccasin Powerhouse and for reconstruction or replacement of other Hetch Hetchy project generation facilities. The 2015 Series A were issued as tax-exempt bonds with serial and term maturities, coupons ranging from 4.0% to 5.0% and a final maturity of November 2045. Series 2015 A bonds were designated "Green Bonds" to allow investors to invest directly in bonds, which finance environmentally beneficial projects.

Power Revenue Bonds 2015 Series B in the par amount of $7,530 was issued in May 2015 to finance the rehabilitation of Hetch Hetchy project transmission and distribution lines. The 2015 Series B were issued as tax exempt bonds with serial maturities, coupons ranging from 3.0% to 4.0% and a final maturity of November 2026. The 2015 Series B Bonds were not designated as "Green Bonds."

Credit Ratings and Bond Insurance – The Enterprise's 2015 Series AB Power Revenue Bonds have been rated "AA-" and "A+" by Fitch Inc. and Standard and Poor's (S&P), respectively, as of June 30, 2017 and 2016.

Debt Service Coverage – Pursuant to the Indenture, the Enterprise is required to collect sufficient net revenues each fiscal year, together with any Available Funds (except Bond Reserve Funds) which include unappropriated fund balances and reserves, and cash and book value of investments held by the Treasurer for the Hetchy Power, that the SFPUC reasonably expects would be available, to pay principal and interest becoming due and payable on all outstanding bonds as provided in the Indenture, less any refundable credits, at least equal to 1.25 times annual debt service for said fiscal year. The Series 2015 AB power revenue bonds represent the first series of senior lien revenue bonds of the Hetchy Power. Pursuant to Power's Master Trust Indenture, senior lien debt service coverage excludes debt service on subordinate obligations, such as the Hetchy Power's existing CREBS, NCREBs, and QECBs. Because interest on the Series 2015 AB power revenue bonds is capitalized, Hetchy Power will not be obligated to make debt service payments on the Series 2015 AB power revenue bonds until fiscal year 2018. Therefore, Hetchy Power is not required to calculate and report the Indenture-based debt service coverage ratio in fiscal year 2017. During fiscal year 2017, the Enterprise's net revenues, together with fund balances available to pay debt service and not budgeted to be expended, were sufficient to meet the rate covenant requirements under the Enterprise's Indenture (see Note 8).

Debt Authorization – Pursuant to Charter Section 9.107(6), the Enterprise can incur indebtedness upon three-fourths vote of the Board of Supervisors, for the purpose of the reconstruction or replacement of existing water facilities and electric power facilities, or combinations thereof, under the jurisdiction of the Public Utilities Commission. Pursuant to Charter Section 9.107(8), the Enterprise can issue revenue bonds, without voter approval, upon an affirmative vote of the Board of Supervisors, for the purpose of the acquisition, construction, installation, equipping, improvement, or rehabilitation of equipment or facilities for renewable energy and energy conservation. As of June 30, 2017 and 2016, $39,555 of Hetchy Power revenue bonds were issued and remained outstanding against existing authorization of $144,830.

Cost of Debt Capital – The Enterprise's outstanding long-term senior lien debt consists of the 2015 Series AB Power Revenue Bonds issued in May 2015, which are the first series of bonds issued under the Master Indenture, and are senior in lien to all of the other Enterprise's outstanding debt obligations. Coupon interest rates range from 3.0% to 5.0%. The Enterprise has previously issued and incurred debt service on Tax Credit Bonds and certificates of participation, which constitute subordinate obligations. Interest rates on the Tax Credit Bonds, which include QECBs and NCREBs, range from 1.2% to 1.5% (net of the federal tax subsidy). Certificates of participation carried interest rates range from 2.0% to 6.5%.

Rates and Charges

Hetchy Water

Assessment fees from the Water Enterprise, which cover the water-related upcountry costs, will decrease by $2,000 or 5.8% from $34,600 to $32,600 as reflected in the fiscal year 2018 adopted budget. Hetch Hetchy charges for services related to the storage and delivery of water, including providing electricity to contractual and municipal customers. Fund transfers, related to water-related revenue-funded operating costs, from the Water Enterprise are forecast to level out in fiscal year 2018.

Hetchy Power

Hetchy Power charges for services related to the storage and delivery of water, as well as generating and delivering electricity to contractual and municipal customers. For municipal power services, Enterprise department customers generally pay rates based on the projected PG&E equivalent rate based on customer class.

General Fund department customers generally pay subsidized rates. The Commission adopted General Fund rates averaging $0.0675 and $0.0725 in fiscal years 2016 and 2017, respectively. On May 10, 2016, the Commission adopted an increase in the General Fund rates by $0.005/kWh in fiscal year 2018. City enterprise departments are charged at the PG&E scheduled rates. For fiscal year 2017, the MID and TID class one rates were $0.05126/KWh and $0.04644/KWh, respectively. MID and TID rates are trued up every year based on actual costs.

The Commission approved new schedule of retail electric rates, fees, and charges for residential, commercial, and industrial customers where Hetch Hetchy has been designated as the power provider for retail customers to be applied to meter readings on or after July 1, 2016. Total bundled service charges for residential service rates and low-income residential service rates are calculated using the total rates, on a monthly basis, based on monthly meter reading, plus any applicable taxes.

To date, Hetchy Power has prepared service standards, developed system plans and specifications, acquired materials and equipment, and initiated construction of primary distribution facilities.

Pursuant to City and County of San Francisco Charter Section 8B.125, an independent rate study is performed at least once every five years. The rate study is undertaken to examine future revenue requirements and cost-of-service of the Enterprise. In fall 2015, SFPUC engaged a consultant to perform a cost-of-service study. The informed rate setting from this study resulted in recommendation and approval by the Commission in the spring 2016 for rates to be effective July 1, 2016. Power rates schedule is available at http://sfwater.org/modules/showdocument.aspx?documentid=7743.

CleanPowerSF

CleanPowerSF began offering services in May 2016, giving residential and commercial electricity consumers in San Francisco a choice of having their electricity supplied from clean renewable sources, such as solar and wind, at competitive rates. Through resolution 17-0074, the Commission approved rates and charges for CleanPowerSF on April 11, 2017. Effective July 1, 2017 and each successive July 1 thereafter, the Commission authorizes SFPUC General Manager to adjust rates not otherwise adjusted by Commission action. The Rate schedule is available at http://sfwater.org/index.aspx?page=993.

CleanPowerSF revenues are adequate to support its own operations; the SFPUC intends that these rates be sufficient to pay for impending projects, and be financially independent from Hetch Hetchy in the future. CleanPowerSF is subject to Section 8B.125 of the City Charter, which requires an independent rate study be performed at least once every five years, and the Commission sets rates and charges for the program. The first cost-of-service rates study is scheduled to commence in 2021.

Request for Information

This report is designed to provide our citizens, customers, investors, and creditors with an overview of Hetch Hetchy's finances and to demonstrate Hetch Hetchy's respective accountability for the money it receives. Questions regarding any of the information provided in this report or requests for additional financial information should be addressed to San Francisco Public Utilities Commission, Chief Financial Officer, 525 Golden Gate Avenue, 13th Floor, San Francisco, CA 94102. This report is available at http://www.sfwater.org/index.aspx?page=347.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Statements of Net Position

June 30, 2017 and 2016

(In thousands)

	Hetchy Water	Hetchy Power	CleanPowerSF	Elimination*	2017 Total	Hetchy Water	Hetchy Power **	2016 Total
Assets								
Current assets:								
Cash and investments with City Treasury	$ 75,345	174,633	14,048	—	264,026	34,704	160,002	194,706
Cash and investments outside City Treasury	2	8	—	—	10	2	8	10
Receivables:								
Charges for services (net of allowance for doubtful accounts from CleanPowerSF of $50 as of June 30, 2017 and $0 as of June 30, 2016)	42	8,373	5,528	—	13,943	298	13,244	13,542
Due from other City departments, current portion	—	3,282	—	(2,000)	1,282	—	1,533	1,533
Due from other governments	—	244	—	—	244	—	1,810	1,810
Interest	53	191	17	—	261	67	130	197
Total current receivables	95	12,090	5,545	(2,000)	15,730	365	16,717	17,082
Prepaid charges, advances, and other receivables, current portion	399	415	7	—	821	63	389	452
Inventory	186	215	—	—	401	219	257	476
Restricted cash and investments outside City Treasury, current portion	—	3,783	—	—	3,783	—	2,933	2,933
Total current assets	76,027	191,144	19,600	(2,000)	284,771	35,353	180,306	215,659
Non-current assets:								
Restricted cash and investments with City Treasury	4,154	35,998	—	—	40,152	1,669	38,180	39,849
Restricted cash and investments outside City Treasury, less current portion	—	—	—	—	—	—	2,577	2,577
Restricted interest receivable	—	268	—	—	268	—	131	131
Capital assets, not being depreciated and amortized	29,540	73,962	—	—	103,502	29,518	62,033	91,551
Capital assets, net of accumulated depreciation and amortization	98,191	243,028	—	—	341,219	84,349	228,349	312,698
Charges for services, less current portion	—	28	—	—	28	—	660	660
Prepaid charges, advances, and other receivables, less current portion	169	804	—	—	973	173	817	990
Due from other City departments, less current portion	—	15,164	—	(5,250)	9,914	—	10,696	10,696
Total non-current assets	132,054	369,252	—	(5,250)	496,056	115,709	343,443	459,152
Total assets	208,081	560,396	19,600	(7,250)	780,827	151,062	523,749	674,811
Deferred outflows of resources:								
Pensions	12,659	15,473	—	—	28,132	3,746	4,578	8,324
Total deferred outflows of resources	12,659	15,473	—	—	28,132	3,746	4,578	8,324
Liabilities								
Current liabilities:								
Accounts payable	433	6,904	3,480	—	10,817	2,557	13,484	16,041
Accrued payroll	686	1,647	35	—	2,368	624	1,565	2,189
Accrued vacation and sick leave, current portion	741	1,388	25	—	2,154	806	1,469	2,275
Accrued workers' compensation, current portion	185	363	—	—	548	188	367	555
Damage claims liability, current portion	218	773	—	—	991	127	471	598
Due to other City departments, current portion	—	—	2,387	(2,000)	387	—	—	—
Unearned revenues, refunds, and other, current portion	3	3,141	105	—	3,249	76	4,099	4,175
Bond and loan interest payable	—	533	—	—	533	—	534	534
Bonds, current portion	—	2,437	—	—	2,437	—	1,692	1,692
Certificates of participation, current portion	—	331	—	—	331	—	315	315
Commercial paper	—	20,058	—	—	20,058	—	—	—
Current liabilities payable from restricted assets	4,027	2,968	—	—	6,995	260	2,578	2,838
Total current liabilities	6,293	40,543	6,032	(2,000)	50,868	4,638	26,574	31,212
Long-term liabilities:								
Other post-employment benefits obligations	11,280	16,855	87	—	28,222	9,945	15,224	25,169
Net pension liability	31,235	38,177	—	—	69,412	12,093	14,781	26,874
Accrued vacation and sick leave, less current portion	447	1,009	13	—	1,469	481	1,051	1,532
Accrued workers' compensation, less current portion	814	1,607	—	—	2,421	809	1,600	2,409
Damage claims liability, less current portion	368	1,079	—	—	1,447	226	1,037	1,263
Due to other City departments, less current portion	—	—	5,250	(5,250)	—	—	—	—
Bonds, less current portion	—	55,463	—	—	55,463	—	58,418	58,418
Unearned revenues, refunds, and other, less current portion	609	3,208	—	—	3,817	—	—	—
Certificates of participation, less current portion	—	14,607	—	—	14,607	—	14,966	14,966
Total long-term liabilities	44,753	132,005	5,350	(5,250)	176,858	23,554	107,077	130,631
Total liabilities	51,046	172,548	11,382	(7,250)	227,726	28,192	133,651	161,843
Deferred inflows of resources:								
Related to pensions	1,338	1,635	—	—	2,973	3,905	4,773	8,678
Total deferred inflows of resources	1,338	1,635	—	—	2,973	3,905	4,773	8,678
Net position:								
Net investment in capital assets	127,731	260,681	—	—	388,412	113,867	255,897	369,764
Restricted for debt service	—	485	—	—	485	—	306	306
Restricted for capital projects	—	—	—	—	—	1,409	—	1,409
Unrestricted	40,625	140,520	8,218	—	189,363	7,435	133,700	141,135
Total net position	$ 168,356	401,686	8,218	—	578,260	122,711	389,903	512,614

*Included interfund loan receivable and loan payable of $7,250 for fiscal year 2017, between Hetchy Power and CleanPowerSF.

**CleanPowerSF was presented as part of Hetchy Power in fiscal year 2016.

See accompanying notes to financial statements.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2017 and 2016

(In thousands)

	Hetchy Water	Hetchy Power	CleanPowerSF	2017 Total	Hetchy Water	Hetchy Power *	2016 Total
Operating revenues:							
Charges for services	$ 35,008	120,789	33,867	189,664	38,624	125,850	164,474
Rents and concessions	142	173	—	315	118	144	262
Total operating revenues	35,150	120,962	33,867	189,979	38,742	125,994	164,736
Operating expenses:							
Personnel services	21,998	44,961	1,213	68,172	12,183	33,632	45,815
Contractual services	1,017	4,916	1,141	7,074	902	5,493	6,395
Transmission/distribution and other power costs	—	18,447	214	18,661	—	21,206	21,206
Purchased electricity	—	2,523	22,223	24,746	—	5,586	5,586
Materials and supplies	1,161	1,510	1	2,672	1,191	1,849	3,040
Depreciation and amortization	4,505	13,225	—	17,730	3,874	12,639	16,513
Services provided by other departments	1,962	6,716	734	9,412	2,054	7,397	9,451
General and administrative and other	19,456	24,637	1,570	45,663	16,332	24,157	40,489
Total operating expenses	50,099	116,935	27,096	194,130	36,536	111,959	148,495
Operating income (loss)	(14,949)	4,027	6,771	(4,151)	2,206	14,035	16,241
Non-operating revenues (expenses):							
Federal and state grants	—	37	—	37	—	—	—
Interest and investment income (loss)	46	1,718	89	1,853	(38)	1,318	1,280
Interest expenses	—	(3,200)	(70)	(3,270)	—	(3,355)	(3,355)
Amortization of premium, discount, and issuance costs	—	255	—	255	—	122	122
Net gain from sale of assets	21	26	—	47	—	1	1
Other non-operating revenues	595	11,701	4	12,300	200	12,255	12,455
Other non-operating expenses	(68)	(1,408)	—	(1,476)	(68)	(1,676)	(1,744)
Net non-operating revenues	594	9,129	23	9,746	94	8,665	8,759
Change in net position before transfers	(14,355)	13,156	6,794	5,595	2,300	22,700	25,000
Transfers from the City and County of San Francisco	60,000	100	—	60,100	—	1,385	1,385
Transfers to the City and County of San Francisco	—	(49)	—	(49)	—	(705)	(705)
Net transfers	60,000	51	—	60,051	—	680	680
Change in net position	45,645	13,207	6,794	65,646	2,300	23,380	25,680
Net position at beginning of year	122,711	389,903	1,424	514,038	120,411	366,523	486,934
Less: CleanPowerSF beginning net position	—	(1,424)	—	(1,424)	—	—	—
Net position at end of year	$ 168,356	401,686	8,218	578,260	122,711	389,903	512,614

*CleanPowerSF was presented as part of Hetchy Power in fiscal year 2016.

See accompanying notes to financial statements.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF
Statements of Cash Flows
Years ended June 30, 2017 and 2016
(In thousands)

		Hetchy Water	Hetchy Power	CleanPowerSF	2017 Total	Hetchy Water	Hetchy Power*	2016 Total
Cash flows from operating activities:								
Cash received from customers, including cash deposits	$	35,264	126,062	31,407	192,733	38,503	124,431	162,934
Cash received from tenants for rent		139	169	—	308	121	148	269
Cash paid to employees for services		(12,813)	(33,376)	(1,053)	(47,242)	(12,712)	(33,710)	(46,422)
Cash paid to suppliers for goods and services		(24,465)	(60,730)	(24,495)	(109,690)	(18,975)	(60,010)	(78,985)
Cash paid for judgments and claims		(1,045)	(2,150)	—	(3,195)	(692)	(3,948)	(4,640)
Net cash provided by (used in) operating activities		(2,920)	29,975	5,859	32,914	6,245	26,911	33,156
Cash flows from non-capital and related financing activities:								
Cash received from grants		540	2,254	—	2,794	—	19	19
Cash received for license fees		—	3,148	—	3,148	—	2,279	2,279
Cash received from miscellaneous revenues		595	8,438	4	9,037	200	8,512	8,712
Cash received from settlements		—	3	—	3	—	321	321
Cash paid for rebates, program incentives, and other		(68)	(1,408)	—	(1,476)	(68)	(1,676)	(1,744)
Cash paid for Hetchy Power loan interest		—	—	(70)	(70)	—	—	—
Transfers from and to the City and County of San Francisco		60,000	51	—	60,051	—	680	680
Net cash provided by (used in) non-capital financing activities		61,067	12,486	(66)	73,487	132	10,135	10,267
Cash flows from capital and related financing activities:								
Acquisition and construction of capital assets		(15,101)	(40,063)	—	(55,164)	(15,558)	(34,025)	(49,583)
Proceeds from sale of capital assets		21	26	—	47	—	1	1
Issuance costs paid on long-term debt		—	—	—	—	—	(130)	(130)
Principal payments on long-term debt		—	(2,298)	—	(2,298)	—	(4,245)	(4,245)
Proceeds from revenue bonds		—	—	—	—	—	4,100	4,100
Proceeds from commercial paper borrowings		—	20,058	—	20,058	—	—	—
Interest paid on long-term debt		—	(3,460)	—	(3,460)	—	(3,313)	(3,313)
Federal interest income subsidy		—	532	—	532	—	664	664
Net cash used in capital and related financing activities		(15,080)	(25,205)	—	(40,285)	(15,558)	(36,948)	(52,506)
Cash flows from investing activities:								
Interest income received		112	1,747	87	1,946	9	1,319	1,328
Proceeds from sale of investments outside City Treasury		—	3,051	—	3,051	—	16,665	16,665
Purchases of investments outside City Treasury		—	(3,056)	—	(3,056)	—	(19,242)	(19,242)
Net cash provided by (used in) investing activities		112	1,742	87	1,941	9	(1,258)	(1,249)
Increase (decrease) in cash and cash equivalents		43,179	18,998	5,880	68,057	(9,172)	(1,160)	(10,332)
Cash and cash equivalents:								
Beginning of year		36,367	192,923	8,174	237,464	45,539	202,257	247,796
End of year	$	79,546	211,921	14,054	305,521	36,367	201,097	237,464
Reconciliation of cash and cash equivalents to the statements of net position:								
Cash and investments with City Treasury:								
Unrestricted	$	75,345	174,633	14,048	264,026	34,704	160,002	194,706
Restricted		4,154	35,998	—	40,152	1,669	38,180	39,849
Cash and investments outside City Treasury:					—			
Unrestricted		2	8	—	10	2	8	10
Restricted		—	3,783	—	3,783	—	5,510	5,510
Less: Restricted (with maturity more than 90 days - see table in Note 3)		—	(2,582)	—	(2,582)	—	(2,577)	(2,577)
Less: Unrealized (gain) loss on investments		45	81	6	132	(8)	(26)	(34)
Cash and cash equivalents at end of year on statements of cash flows	$	79,546	211,921	14,054	305,521	36,367	201,097	237,464

*CleanPowerSF was presented as part of Hetchy Power in fiscal year 2016.

HETCH HETCHY WATER AND POWER AND CLEANPOWERSF
Statements of Cash Flows
Years ended June 30, 2017 and 2016
(In thousands)

	Hetchy Water	Hetchy Power	CleanPowerSF	2017 Total	Hetchy Water	Hetchy Power*	2016 Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	$ (14,949)	4,027	6,771	(4,151)	2,206	14,035	16,241
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation and amortization	4,505	13,225	—	17,730	3,874	12,639	16,513
Provision for uncollectible accounts	—	—	50	50	—	—	—
Write-off of capital assets	499	983	—	1,482	2,216	2,692	4,908
Changes in operating assets and liabilities:							
Receivables:							
Charges for services	256	2,540	(2,615)	181	(118)	(5,294)	(5,412)
Prepaid charges, advances, and other	(332)	(13)	(7)	(352)	16	(227)	(211)
Due from other City departments	—	1,130	—	1,130	—	961	961
Inventory	33	42	—	75	(41)	(51)	(92)
Accounts payable	(2,124)	(4,858)	1,758	(5,224)	(1,103)	1,300	197
Accrued payroll	62	82	35	179	102	409	511
Other post-employment benefits obligations	1,335	1,631	87	3,053	1,046	1,278	2,324
Pension obligations	7,662	9,363	—	17,025	(2,173)	(2,653)	(4,826)
Accrued vacation and sick leave	(99)	(123)	38	(184)	118	145	263
Accrued workers' compensation	2	3	—	5	151	184	335
Damage claims liability	233	344	—	577	(49)	(1,425)	(1,474)
Due to other City departments	—	—	(363)	(363)	—	—	—
Unearned revenues, refunds, and other liabilities	(3)	1,599	105	1,701	—	2,918	2,918
Total adjustments	12,029	25,948	(912)	37,065	4,039	12,876	16,915
Net cash provided by (used in) operating activities	$ (2,920)	29,975	5,859	32,914	6,245	26,911	33,156
Noncash transactions:							
Accrued capital asset costs	$ 4,027	2,968	—	6,995	260	2,578	2,838
Payables to Hetchy Power	—	—	7,637	7,637	—	—	—
Receivables from CleanPowerSF	—	7,637	—	7,637	—	—	—

*CleanPowerSF was presented as part of Hetchy Power in fiscal year 2016.

See accompanying notes to financial statements.

(1) Description of Reporting Entity

San Francisco Hetch Hetchy Water and Power (Hetch Hetchy or the Enterprise) was established as a result of the Raker Act of 1913, which granted water and power resources rights-of-way on the Tuolumne River in Yosemite National Park and Stanislaus National Forest to the City and County of San Francisco (the City). CleanPowerSF, launched in May 2016, provides green electricity from renewable sources to residential and commercial customers in San Francisco and was reported as part of Hetchy Power in fiscal year 2016. Hetch Hetchy is a stand-alone enterprise comprised of three funds, Hetchy Power (aka the Power Enterprise), CleanPowerSF and Hetchy Water, the portion of the Water Enterprise's operations, specifically the upcountry water supply and transmission service. Hetch Hetchy accounts for the activities of Hetch Hetchy Water and Power and is engaged in the collection and conveyance of approximately 85% of the City's water supply and in the generation and transmission of electricity from that resource, as well as the City Power services including energy efficiency and renewables.

Approximately 80% of the electricity generated by Hetchy Power is used to provide electric service to the City's municipal customers (including the San Francisco Municipal Transportation Agency, Recreation and Parks Department, the Port of San Francisco, the San Francisco International Airport and its tenants, San Francisco General Hospital, streetlights, Moscone Convention Center, and the Water and Wastewater Enterprises). The majority of the remaining 20% balance of electricity is sold to other utility districts, such as the Turlock and Modesto Irrigation Districts (the Districts). As a result of the 1913 Raker Act, energy produced above the City's Municipal Load is sold first to the Districts to cover their agricultural pumping and municipal load needs and any remaining energy is either sold to other municipalities and/or government agencies (not for resale) or sold into the California Independent System Operator (CAISO). Hetch Hetchy operation is an integrated system of reservoirs, hydroelectric power plants, aqueducts, pipelines, and transmission lines.

Hetch Hetchy also purchases wholesale electric power from various energy providers that are used in conjunction with owned hydro resources to meet the power requirements of its customers. Operations and business decisions can be greatly influenced by market conditions, state and federal power matters before the California Public Utilities Commission (CPUC), the CAISO, and the Federal Energy Regulatory Commission (FERC). Therefore, Hetch Hetchy serves as the City's representative at CPUC, CAISO, and FERC forums and continues to monitor regulatory proceedings.

Until August 1, 2008, the San Francisco Public Utilities Commission (SFPUC) consisted of five members, all appointed by the Mayor. Proposition E, a City and County of San Francisco Charter amendment approved by the voters in the June 3, 2008 election, terminated the terms of all five existing members of the SFPUC, changed the process for appointing new members, and set qualifications for all members. Under the amended Charter, the Mayor continues to nominate candidates to the SFPUC, but nominees do not take office until the Board of Supervisors votes to approve their appointments by a majority (at least six members). The amended Charter provides for staggered four-year terms for SFPUC members and requires them to meet the following qualifications:

- Seat 1 must have experience in environmental policy and an understanding of environmental justice issues.
- Seat 2 must have experience in ratepayer or consumer advocacy.
- Seat 3 must have experience in project finance.
- Seat 4 must have expertise in water systems, power systems, or public utility management.
- Seat 5 is an at-large member.

(Continued)

The SFPUC is a department of the City, and as such, the financial operations of Hetch Hetchy, Wastewater, and the Water Enterprises are included in the Comprehensive Annual Financial Report of the City as enterprise funds. These financial statements are intended to present only the financial position, and the changes in financial position and cash flows of only that portion of the City that is attributable to the transactions of Hetch Hetchy. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2017 and 2016, and the changes in its financial position, or, where applicable, the cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles (GAAP).

(2) Significant Accounting Policies

(a) Basis of Accounting and Measurement Focus

The accounts of Hetch Hetchy are organized on the basis of proprietary fund types and are included as enterprise funds of the City. The activities of Hetch Hetchy and each fund are accounted for with a separate set of self-balancing accounts that comprise Hetch Hetchy's and each fund's assets, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The financial activities of Hetch Hetchy are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting in accordance with U.S. GAAP. Under this method, all assets and liabilities associated with operations are included on the statements of net position, revenues are recognized when earned, and expenses are recognized when liabilities are incurred. Operating revenues are defined as charges to customers and rental income.

Hetch Hetchy applies all applicable Governmental Accounting Standards Board (GASB) pronouncements.

(b) Cash and Cash Equivalents

Hetch Hetchy considers its pooled deposits and investments held with the City Treasury to be demand deposits and, therefore, cash and cash equivalents for financial reporting. The City Treasury also holds non-pooled cash and investments for the Enterprise. Non-pooled restricted deposits and restricted deposits and investments held outside the City Treasury with original maturities of three months or less are considered to be cash equivalents.

(c) Investments

Money market funds are carried at cost, which approximates fair value. All other investments are stated at fair value based upon quoted market prices. Changes in fair value are recognized as investment gains or losses and are recorded as a component of non-operating revenues.

(d) Inventory

Inventory consists primarily of construction materials and maintenance supplies and is valued at average cost. Inventory is expensed as it is consumed.

(e) ***Capital Assets***

Capital assets are defined as assets with an initial individual cost of more than $5 and an estimated useful life in excess of one year. Capital assets with an original acquisition date prior to July 1, 1977 are recorded in the financial statements at estimated cost, as determined by an independent professional appraisal, or at cost, if known. All subsequent acquisitions have been recorded at cost. All donated capital assets are valued at acquisition value at the time of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets, which range from 1 to 100 years. No depreciation or amortization is recorded in the year of acquisition, and depreciation or amortization is recorded in the year of disposal.

(f) ***Intangible Assets***

Under GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* intangible assets are defined as identifiable, non-financial assets capable of being separated, sold, transferred, or licensed, and include contractual or legal rights. Examples of intangible assets include rights-of-way easements, land use rights, water rights, licenses, and permits. The accounting pronouncement also provides guidance on the capitalization of internally generated intangible assets, such as the development and installation of computer software by or on behalf of the reporting entity.

According to the standard, Hetch Hetchy is required to capitalize intangible assets with a useful life extending beyond one reporting period. Hetch Hetchy has established a capitalization threshold of $100. GASB Statement No. 51 also requires amortization of intangible assets over the benefit period, except for certain assets having an indefinite useful life. Assets with an indefinite useful life generally provide a benefit that is not constrained by legal or contractual limitations or any other external factor and, therefore, are not amortized (see Note 4).

(g) ***Construction Work In Progress***

The cost of acquisition and construction of major plant and equipment is recorded as construction work in progress. Costs of construction projects that are discontinued are recorded as expense in the year in which the decision is made to discontinue such projects.

(h) ***Capitalization of Interest***

A portion of the interest cost incurred on capital projects is capitalized on assets that require a period of time for construction or to otherwise prepare them for their intended use. Such amounts are amortized over the useful lives of the assets (see Note 4).

(i) ***Bond Discount, Premium, and Issuance Costs***

Bond issuance costs related to prepaid insurance costs are capitalized and amortized using the effective interest method. Other bond issuance costs are expensed when incurred. Original issue bond discount or premium are offset against the related debt and are also amortized using the effective interest method.

(j) ***Accrued Vacation and Sick Leave***

Accrued vacation pay, which may be accumulated up to 10 weeks per employee, is charged to expense as earned. Sick leave earned subsequent to December 6, 1978 is non-vesting and may be accumulated up to six months per employee.

(k) Workers' Compensation

The Enterprise is self-insured for workers' compensation claims and accrues the estimated cost of those claims, including the estimated cost of incurred but not reported claims (see Note 12(c)).

(l) General Liability

The Enterprise is self-insured for general liability and uninsurable property damage claims. Commercially uninsurable property includes assets that are underground or provide transmission and distribution. Maintained commercial coverage does not cover claims attributed to loss from earthquake, contamination, pollution remediation efforts, and other specific naturally occurring contaminants such as mold. The liability represents an estimate of the cost of all outstanding claims, including adverse loss development and estimated incurred but not reported claims (see Note 12(a)).

(m) Arbitrage Rebate Payable

Certain bonds are subject to arbitrage rebate requirements in accordance with regulations issued by the U.S. Treasury Department. The requirements of the Clean Renewable Energy Bonds (CREBs), the Qualified Energy Conservation Bonds (QECBs), and the New Clean Renewable Energy Bonds (NCREBs) stipulate that the first payment of excess investment earnings, if any, is required to be rebated to the federal government, no later than 60 days after the end of the fifth bond year of the agreement. Hetch Hetchy did not have any arbitrage liability as of June 30, 2017 or 2016.

(n) Income Taxes

As a department of a government agency, the Enterprise is exempt from both federal income taxes and California State franchise taxes.

(o) Revenue Recognition

Water and power revenues are based on water and power consumption and billing rates. Generally, customers are billed monthly. Revenues earned but unbilled are accrued as charges for services receivables on the Statements of Net Position.

(p) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(q) Eliminations

Eliminations for internal activities between the Hetchy Power and CleanPowerSF are made in the Statements of Net Position and Supplemental Schedule. There were activities requiring eliminations during the fiscal years ended June 30, 2017, and June 30, 2016.

(r) Accounting and Financial Reporting for Pollution Remediation Obligations

According to GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and any of the following recognition triggers occur:

- Pollution poses an imminent danger to the public or environment and a government has little or no discretion to avoid fixing the problem;
- A government has violated a pollution prevention-related permit or license;
- A regulator has identified (or evidence indicates it will identify) a government as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the cleanup;
- A government is named (or evidence indicates that it will be named) in a lawsuit to compel it to address the pollution; or
- A government begins or legally obligates itself to begin cleanup or post-cleanup activities (limited to amounts the government is legally required to complete).

As a part of ongoing operations, situations may occur requiring the removal of pollution or other hazardous material. These situations typically arise in the process of acquiring an asset, preparing an asset for its intended use, or during the Design Phase of projects under review by the project managers. Other times, pollution may arise during the implementation and construction of a major or minor capital project. Examples of pollution may include, but are not limited to, asbestos or lead paint removal; leaking of sewage in underground pipes or neighboring areas; chemical spills; removal and disposal of known toxic waste; harmful biological and chemical pollution of water; or contamination of surrounding soils by underground storage tanks (see Note 13(c)).

(s) GASB Statements Implemented in Fiscal Year 2017

1) In June 2015, *the GASB issued Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68.* GASB Statement No. 73 addresses accounting and financial reporting for pensions provided by governments that are not within the scope of Statement No. 68. The new standard is effective for periods beginning after June 15, 2016. The Enterprise adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

2) In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures.* GASB Statement No. 77 establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The new standard is effective for periods beginning after December 15, 2015. The Enterprise adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

3) In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.* GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided by state or local governments through a cost-sharing plan that meets the criteria of Statement No. 68 and is not a state or local governmental pension plan. The new standard is effective for periods beginning after December 15, 2015. The Enterprise adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

(t) GASB Statements Implemented in Fiscal Year 2016

1) In fiscal year 2016, Hetch Hetchy adopted GASB Statement No. 72, *Fair Value Measurement and Application*, which requires Hetch Hetchy to use valuation techniques, which are appropriate under the circumstances and are consistent with the market approach, the cost approach, or the income approach. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. 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. The Statement also contains note disclosure requirements regarding the hierarchy of valuation inputs and techniques used for the fair value measurements (see Note 3). For those investments held with the City Treasury, the City discloses the requirements regarding the hierarchy of valuation inputs and techniques used for the fair value measurements at the Citywide level. However, such disclosure is not required at the department level for those investments held with the City Treasury.

2) GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 7*, issued in March 2016, addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The new standard is effective for periods beginning after June 15, 2016 and the City elected early implementation in fiscal year 2016. While there was an impact to the City's financial statements, there was no impact on the Enterprise's financial statements in fiscal year 2016.

(u) Future Implementation of New Accounting Standards

1) In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB Statement No. 75 revises and establishes new accounting and financial reporting requirements for governments that provides their employees with other postemployment benefits other than pensions. The new standard is effective for periods beginning after June 15, 2017. The Enterprise will implement the provisions of Statement No. 75 in fiscal year 2018.

2) In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. GASB Statement No. 81 establishes accounting and financial reporting standards for irrevocable split-interest agreement created through trusts in which a donor irrevocably transfers resources to an intermediary. The new standard is effective for periods beginning after December 15, 2016. The Enterprise will implement the provisions of Statement No. 81 in fiscal year 2018.

3) In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. GASB Statement No. 83 establishes accounting and financial reporting standards for certain asset retirement obligations. The new standard is effective for periods beginning after June 15, 2018. The Enterprise will implement the provisions of Statement No. 83 in fiscal year 2019.

4) In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. GASB Statement No. 84 establishes criteria for state and local governments to identify fiduciary activities and how those activities should be reported. The new standard is effective for periods beginning after

December 15, 2018. The Enterprise will implement the provisions of Statement No. 84 in fiscal year 2020.

5) In March 2017, the GASB issued Statement No. 85, *Omnibus 2017.* GASB Statement No. 85 addresses practice issues identified during the implementation and application of certain GASB Statements. The new standard is effective for periods beginning after June 15, 2017. The Enterprise will implement the provisions of Statement No. 85 in fiscal year 2018.

6) In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues.* GASB Statement No. 86 improves accounting and financial reporting for in-substance defeasance of debt using existing resources other than proceeds of refunding debt. The new standard is effective for periods beginning after June 15, 2017. The Enterprise will implement the provisions of Statement No. 86 in fiscal year 2018.

7) In June 2017, the GASB issued Statement No. 87, *Leases.* GASB Statement No. 87 establishes a single model for lease accounting and requires reporting of certain lease liabilities that currently are not reported. The new standard is effective for periods beginning after December 15, 2019. The Enterprise will implement the provisions of Statement No. 87 in fiscal year 2021.

(3) Cash, Cash Equivalents, and Investments

Hetch Hetchy's cash, cash equivalents, and investments with the City Treasury are invested in an unrated City pool pursuant to investment policy guidelines established by the City Treasurer. The objectives of the policy guidelines are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio, which may be invested in certain instruments with longer terms to maturity. The City Treasurer allocates income from the investment of pooled cash at month-end in proportion to Hetch Hetchy's average daily cash balances. The primary objectives of Hetch Hetchy's investment policy are consistent with the City and County's policy.

Restricted assets are held by an independent trustee outside the City's investment pool. The assets are held for the purpose of paying future interest and principal on the bonds and for eligible capital project expenditures. The balances as of June 30, 2017 and 2016 were $3,783 and $5,510, respectively. The Enterprise held all investments in guaranteed investment contracts, treasury and government obligations, commercial paper, corporate bonds, and notes, as well as money market mutual funds consisting of treasury and government obligations. The balance as of June 30, 2017 included 2015 Series A bonds proceeds of $2,113, certificates of participation proceeds of $1,171, 2015 Series B bonds proceeds of $497, commercial paper of $2 and $10 held at a commercial bank in a non-interest bearing checking account that is covered by depository insurance. The balance as of June 30, 2016 included 2015 Series A bonds proceeds of $3,581, 2015 Series B bonds proceeds of $758, certificates of participation proceeds of $1,171, and $10 held at a commercial bank in a non-interest bearing checking account that is covered by depository insurance.

The restricted cash and investments outside City Treasury as of June 30, 2017 included a $2 unrealized gain and June 30, 2016 included a $2 unrealized loss due to changes in fair values on U.S. Agencies, respectively.

(Dollars in thousands, unless otherwise stated)

Hetch Hetchy categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The inputs and techniques used for valuing securities are not necessarily an indication of risk associated with investing in those securities.

The following is a summary of the Hetch Hetchy restricted and unrestricted cash and investments outside City Treasury and the fair value hierarchy as of June 30, 2017 and 2016.

Hetch Hetchy Cash and Investments outside City Treasury

Investments	Credit Ratings (S&P/Moody's)	June 30, 2017 Maturities		Fair Value	Investments exempt from fair value	Fair Value Measurements Using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable Inputs (Level 3)
U.S. Agencies	AA+/Aaa	October 13, 2017	$	2,582	—	—	2,582	—
U.S. Treasury Money Market Funds	AAAm/Aaa-mf	< 90 days		1,201	1,201	—	—	—
Total Restricted Cash and Investments outside City Treasury			$	3,783	1,201	—	2,582	—
Cash and Cash Equivalents	N/A			10	10	—	—	—
Total Cash and Investments outside City Treasury			$	10	10	—	—	—

Hetch Hetchy Cash and Investments outside City Treasury

Investments	Credit Ratings (S&P/Moody's)	June 30, 2016 Maturities		Fair Value	Investments exempt from fair value	Fair Value Measurements Using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable Inputs (Level 3)
U.S. Agencies	AA+/Aaa	October 13, 2017	$	2,577	—	—	2,577	—
U.S. Treasury Money Market Funds	AAAm/Aaa-mf	< 90 days		2,933	2,933	—	—	—
Total Restricted Cash and Investments outside City Treasury			$	5,510	2,933	—	2,577	—
Cash and Cash Equivalents	N/A			10	10	—	—	—
Total Cash and Investments outside City Treasury			$	10	10	—	—	—

For fiscal year 2017 and 2016, proceeds from 2015 Series A and B bonds held as restricted cash and investments outside City Treasury in the amount of $2,582 and $2,577 were invested in U.S. Agencies with a maturity date of October 13, 2017, respectively. The credit ratings of the U.S. Agencies as of June 30, 2017 and June 30, 2016 were "AA+" by S&P and "Aaa" by Moody's.

(Dollars in thousands, unless otherwise stated)

Hetch Hetchy's cash, cash equivalents, and investments are shown on the accompanying Statements of Net Position as of June 30, 2017 and 2016:

	Hetchy Water	Hetchy Power	CleanPowerSF	Total 2017
Current assets:				
Cash and investments with City Treasury	$ 75,345	174,633	14,048	264,026
Cash and investments outside City Treasury	2	8	—	10
Restricted cash and investments outside City Treasury	—	3,783	—	3,783
Non-current assets:				
Restricted cash and investments with City Treasury	4,154	35,998	—	40,152
Total cash, cash equivalents, and investments	$ 79,501	214,422	14,048	307,971

	Hetchy Water	Hetchy Power*	Total 2016
Current assets:			
Cash and investments with City Treasury	$ 34,704	160,002	194,706
Cash and investments outside City Treasury	2	8	10
Restricted cash and investments outside City Treasury	—	2,933	2,933
Non-current assets:			
Restricted cash and investments with City Treasury	1,669	38,180	39,849
Restricted cash and investments outside City Treasury	—	2,577	2,577
Total cash, cash equivalents, and investments	$ 36,375	203,700	240,075

*CleanPowerSF was presented as part of Hetchy Power in fiscal year 2016.

The following table shows the percentage distribution of the City's pooled investment by maturity:

	Investment maturities (in months)			
Fiscal years ended June 30	Under 1	1 to less than 6	6 to less than 12	12 to 60
2017	20.1%	21.2%	18.0%	40.7%
2016	18.4%	23.2%	20.3%	38.1%

(Dollars in thousands, unless otherwise stated)

(4) Capital Assets

(a) *Hetch Hetchy*

Capital assets with a useful life of 50 years or greater include buildings and structures, reservoirs, dams, power stations, certain water mains and pipelines, transmission and distribution systems, tunnels, and bridges.

Hetch Hetchy capital assets as of June 30, 2017 and 2016 consist of the following:

		2016	Increases	Decreases	2017
Capital assets not being depreciated and amortized:					
Land and rights-of-way	$	4,665	127	(5)	4,787
Intangible assets		1,437	—	—	1,437
Construction work in progress		85,449	58,166	(46,337) *	97,278
Total capital assets not being depreciated and amortized		91,551	58,293	(46,342)	103,502
Capital assets being depreciated and amortized:					
Facilities and improvements		563,228	40,466	—	603,694
Intangible assets		45,715	—	—	45,715
Machinery and equipment		122,575	5,785	(319)	128,041
Total capital assets being depreciated and amortized		731,518	46,251 *	(319)	777,450
Less accumulated depreciation and amortization for:					
Facilities and improvements		(336,797)	(11,461)	—	(348,258)
Intangible assets		(19,915)	(461)	—	(20,376)
Machinery and equipment		(62,108)	(5,808)	319	(67,597)
Total accumulated depreciation and amortization		(418,820)	(17,730)	319	(436,231)
Total capital assets being depreciated and amortized, net		312,698	28,521	—	341,219
Total capital assets, net	$	404,249	86,814	(46,342)	444,721

* Decrease in construction work in progress is greater than increase in capital assets being depreciated is explained by $1,482 in capital project write-offs, mainly related to Mountain Tunnel Inspection and Repair Projects, Transmission and Distribution System Project, San Joaquin Pipeline Rehabilitation Project, and Oil Containment Project.

		2015	Increases	Decreases	2016
Capital assets not being depreciated and amortized:					
Land and rights-of-way	$	4,665	—	—	4,665
Intangible assets		1,437	—	—	1,437
Construction work in progress		86,677	51,255	(52,483) *	85,449
Total capital assets not being depreciated and amortized		92,779	51,255	(52,483)	91,551
Capital assets being depreciated and amortized:					
Facilities and improvements		524,383	38,845	—	563,228
Intangible assets		45,715	—	—	45,715
Machinery and equipment		112,798	9,809	(32)	122,575
Total capital assets being depreciated and amortized		682,896	48,654 *	(32)	731,518
Less accumulated depreciation and amortization for:					
Facilities and improvements		(326,220)	(10,577)	—	(336,797)
Intangible assets		(19,432)	(483)	—	(19,915)
Machinery and equipment		(56,687)	(5,453)	32	(62,108)
Total accumulated depreciation and amortization		(402,339)	(16,513)	32	(418,820)
Total capital assets being depreciated and amortized, net		280,557	32,141	—	312,698
Total capital assets, net	$	373,336	83,396	(52,483)	404,249

* Decrease in construction work in progress is greater than increase in capital assets being depreciated is explained by $4,908 in capital project write-offs, mainly related to Hetch Hetchy San Joaquin Pipeline Rehabilitation Project, SEA Design Build Redevelopment, and SEA New Sites Study.

(Continued)

(Dollars in thousands, unless otherwise stated)

(b) Hetchy Water capital assets as of June 30, 2017 and 2016 consist of the following:

	2016	Increases	Decreases	2017
Capital assets not being depreciated and amortized:				
Land and rights-of-way	$ 3,003	57	(5)	3,055
Intangible assets	6	—	—	6
Construction work in progress	26,509	18,380	(18,410) *	26,479
Total capital assets not being depreciated and amortized	29,518	18,437	(18,415)	29,540
Capital assets being depreciated and amortized:				
Facilities and improvements	218,618	16,986	—	235,604
Intangible assets	20,522	—	—	20,522
Machinery and equipment	24,318	1,361	(144)	25,535
Total capital assets being depreciated and amortized	263,458	18,347 *	(144)	281,661
Less accumulated depreciation and amortization for:				
Facilities and improvements	(155,343)	(3,086)	—	(158,429)
Intangible assets	(8,910)	(208)	—	(9,118)
Machinery and equipment	(14,856)	(1,211)	144	(15,923)
Total accumulated depreciation and amortization	(179,109)	(4,505)	144	(183,470)
Total capital assets being depreciated and amortized, net	84,349	13,842	—	98,191
Total capital assets, net	$ 113,867	32,279	(18,415)	127,731

* Decrease in construction work in progress is greater than increase in capital assets being depreciated is explained by $499 in capital project write-offs, mainly related to Hetchy Water's share of Mountain Tunnel Inspection Projects, and San Joaquin Pipeline Rehabilitation Project.

	2015	Increases	Decreases	2016
Capital assets not being depreciated and amortized:				
Land and rights-of-way	$ 3,003	—	—	3,003
Intangible assets	6	—	—	6
Construction work in progress	34,703	15,285	(23,479) *	26,509
Total capital assets not being depreciated and amortized	37,712	15,285	(23,479)	29,518
Capital assets being depreciated and amortized:				
Facilities and improvements	199,321	19,297	—	218,618
Intangible assets	20,522	—	—	20,522
Machinery and equipment	22,024	2,308	(14)	24,318
Total capital assets being depreciated and amortized	241,867	21,605 *	(14)	263,458
Less accumulated depreciation and amortization for:				
Facilities and improvements	(152,860)	(2,483)	—	(155,343)
Intangible assets	(8,703)	(207)	—	(8,910)
Machinery and equipment	(13,686)	(1,184)	14	(14,856)
Total accumulated depreciation and amortization	(175,249)	(3,874)	14	(179,109)
Total capital assets being depreciated and amortized, net	66,618	17,731	—	84,349
Total capital assets, net	$ 104,330	33,016	(23,479)	113,867

* Decrease in construction work in progress is greater than increase in capital assets being depreciated is explained by $2,216 in capital project write-offs, mainly related to San Joaquin Pipeline Rehabilitation Project and Lower Cherry Aqueduct Project and Hetchy Water's share of Moccasin Facilities Upgrade Project.

(Dollars in thousands, unless otherwise stated)

(c) Hetchy Power capital assets as of June 30, 2017 and 2016 consist of the following:

	2016	Increases	Decreases	2017
Capital assets not being depreciated and amortized:				
Land and rights-of-way	$ 1,662	70	—	1,732
Intangible assets	1,431	—	—	1,431
Construction work in progress	58,940	39,786	(27,927) *	70,799
Total capital assets not being depreciated and amortized	62,033	39,856	(27,927)	73,962
Capital assets being depreciated and amortized:				
Facilities and improvements	344,610	23,480	—	368,090
Intangible assets	25,193	—	—	25,193
Machinery and equipment	98,257	4,424	(175)	102,506
Total capital assets being depreciated and amortized	468,060	27,904 *	(175)	495,789
Less accumulated depreciation and amortization for:				
Facilities and improvements	(181,454)	(8,375)	—	(189,829)
Intangible assets	(11,005)	(253)	—	(11,258)
Machinery and equipment	(47,252)	(4,597)	175	(51,674)
Total accumulated depreciation and amortization	(239,711)	(13,225)	175	(252,761)
Total capital assets being depreciated and amortized, net	228,349	14,679	—	243,028
Total capital assets, net	$ 290,382	54,535	(27,927)	316,990

* Decrease in construction work in progress is greater than increase in capital assets being depreciated is explained by $983 in capital project write-offs, mainly related to Hetchy Power's share of Mountain Tunnel Inspection Projects, Transmission and Distribution System Project, and Oil Containment Project.

	2015	Increases	Decreases	2016
Capital assets not being depreciated and amortized:				
Land and rights-of-way	$ 1,662	—	—	1,662
Intangible assets	1,431	—	—	1,431
Construction work in progress	51,974	35,970	(29,004) *	58,940
Total capital assets not being depreciated and amortized	55,067	35,970	(29,004)	62,033
Capital assets being depreciated and amortized:				
Facilities and improvements	325,062	19,548	—	344,610
Intangible assets	25,193	—	—	25,193
Machinery and equipment	90,774	7,501	(18)	98,257
Total capital assets being depreciated and amortized	441,029	27,049 *	(18)	468,060
Less accumulated depreciation and amortization for:				
Facilities and improvements	(173,360)	(8,094)	—	(181,454)
Intangible assets	(10,729)	(276)	—	(11,005)
Machinery and equipment	(43,001)	(4,269)	18	(47,252)
Total accumulated depreciation and amortization	(227,090)	(12,639)	18	(239,711)
Total capital assets being depreciated and amortized, net	213,939	14,410	—	228,349
Total capital assets, net	$ 269,006	50,380	(29,004)	290,382

* Decrease in construction work in progress is greater than increase in capital assets being depreciated is explained by $2,692 in capital project write-offs, mainly related to SEA Design Build Redevelopment, SEA New Sites Study, and Hetchy Power's share of Moccasin Facilities Upgrade Project.

During fiscal year 2017, Hetchy Water and Hetchy Power expensed $499 and $983, respectively, related to repair and maintenance costs on various Hetch Hetchy projects. Hetch Hetchy write-offs of $1,482 collectively were primarily related to projects for Mountain Tunnel Inspection and Repair Projects, Transmission and Distribution System, San Joaquin Pipeline Rehabilitation Project, and Oil Containment Project. During fiscal year 2016, Hetchy Water and Hetchy Power expensed $2,216 and $2,692, respectively, related to repair and maintenance costs on various Hetch Hetchy projects. Hetch Hetchy write-offs of $4,908 collectively were primarily related to projects for San Joaquin Pipeline Rehabilitation, SEA Design Build Redevelopment project, and SEA New Sites Study project.

(Dollars in thousands, unless otherwise stated)

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements*, requires that interest expense incurred during construction of assets be capitalized. Interest included in the construction work in progress and total interest expense incurred during the years ended June 30, 2017 and 2016 are as follows:

Hetchy Power		2017	2016
Interest expensed	$	3,200	3,355
Interest included in construction work in progress		259	67
Total interest incurred	$	3,459	3,422

(5) Restricted Assets

Pursuant to the Hetchy Power Trust Indenture (the "Indenture"), established in fiscal year 2015, net revenues of the Hetchy Power are pledged first to the 2015 Series AB Bonds, and have a priority lien on the pledge of net revenues to the outstanding CREBs, QECBs, and NCREBs (the "Subordinate Obligations"). The Lease/Purchase Agreements for the Subordinate Obligations pledge the net revenues of the Hetchy Power to these bonds, and such pledge is subordinate in lien to the net revenues pledge for the 2015 Series AB Bonds (the "Bonds" or "Bond").

In the Indenture, the SFPUC covenants and agrees that it will pay into the Revenue Fund as received all Revenues of Hetchy Power and shall be used and applied, as provided by the Indenture, solely for the purposes of operating and maintaining Hetchy Power and paying all costs, charges, and expenses in connection therewith and for the purpose of making repairs, renewals, and replacements to Hetchy Power and constructing additions, betterments, and extensions thereto.

The Indenture provides that Revenues deposited in the Revenue Fund shall be disbursed in the following order of priority:

1. The payment of operation and maintenance expenses;
2. Any priority reconstruction and replacement fund deposits;
3. Deposit in the interest account of each Bond Fund;
4. Deposit in the bond retirement account of each Bond Fund;
5. Deposit in the reserve fund;
6. (i) Payment of principal and premium, if any, and interest on any Subordinate Obligations; (ii) deposit into a reserve fund securing any Subordinate Obligations; (iii) Swap Agreement payments pursuant to Swap Agreements entered into by the SFPUC with respect to any Subordinate Obligations; and (iv) payment to any financial institution or insurance company providing any letter of credit, line of credit, or other credit or liquidity facility, including municipal bond insurance and guarantees, that secures the payment of principal of or interest on any Subordinate Obligations; in each case in any order of priority within this paragraph which may be hereafter established by the SFPUC by resolution;
7. Any additional reconstruction and replacement fund deposits into the reconstruction and replacement fund;
8. Any necessary or desirable capital additions or improvements to the Hetchy Power;

(Dollars in thousands, unless otherwise stated)

9. Any payment under a Take-or-Pay Power Purchase Agreement that does not constitute an operation and maintenance expense;
10. Any payment under a Swap Agreement that does not constitute a Swap Agreement payment; and
11. Any other lawful purpose of the SFPUC.

In the Indenture, the SFPUC covenants and agrees to transfer to the Trustee for deposit in the Interest Account of each applicable Bond Fund all Refundable Credits received by the SFPUC.

In accordance with the Agreements, Hetch Hetchy maintains certain restricted cash and investment balances in trust.

(a) Hetchy Water has the following restricted assets held in trust as of June 30, 2017 and 2016:

	2017	2016
Cash and investments with City Treasury:		
Hetch Hetchy bond construction fund	$ 4,154	1,669
Total restricted assets	$ 4,154	1,669

(b) Hetchy Power has the following restricted assets held in trust as of June 30, 2017 and 2016:

	2017	2016
Cash and investments with City Treasury:		
Hetch Hetchy bond construction fund	$ 35,998	38,180
Cash and investments outside City Treasury:		
2009 Series C Certificates of participation - 525 Golden Gate	236	236
2009 Series D Certificates of participation - 525 Golden Gate	935	935
2015 Series A Revenue Bonds	2,113	3,581
2015 Series B Revenue Bonds	497	758
Commercial Paper	2	—
Total restricted cash and investments outside City Treasury	3,783	5,510
Interest receivable:		
Hetch Hetchy bond construction fund	268	131
Total restricted assets	$ 40,049	43,821

Restricted assets listed above as cash and investments with City Treasury are held in subfunds accounts within the Hetch Hetchy Revenue Fund.

(6) Short-Term Debt

Effective December 2015, under Charter Sections 9.107(6) and 9.107(8), the Commission and Board of Supervisors authorized the issuance of up to $90,000 in commercial paper notes for the purpose of reconstruction or replacement of existing generation, transmission, and distribution facilities of Hetchy Power. Interest rates for the commercial paper ranged from 0.72% to 0.93% in fiscal year 2017. The Enterprise had $20,058 and $0 commercial paper outstanding as of June 30, 2017 and June 30, 2016, respectively.

(Dollars in thousands, unless otherwise stated)

(7) Changes in Long-Term Liabilities

Total Hetch Hetchy long-term liability activities for the years ended June 30, 2017 and 2016 are as follows:

	Interest rate*	Maturity (Calendar Year)	2016	Additions	Reductions	2017	Due within one year
Bonds:							
Clean Renewable Energy Bonds	0.00 %	2022	$ 2,949	—	(422)	2,527	422
Qualified Energy Conservation Bonds	4.74	2027	6,334	—	(517)	5,817	523
New Clean Renewable Energy Bonds 2012	4.74	2020	2,661	—	(822)	1,839	556
New Clean Renewable Energy Bonds 2015	4.62	2032	4,100	—	(223)	3,877	226
2015 Series A Revenue Bonds	4.00 - 5.00	2045	32,025	—	—	32,025	—
2015 Series B Revenue Bonds	3.00 - 4.00	2026	7,530	—	—	7,530	710
Less issuance discount			(88)	—	14	(74)	—
Add issuance premiums			4,599	—	(240)	4,359	—
Total bonds payable			60,110	—	(2,210)	57,900	2,437
2009 Series C Certificates of participation (COPs)	2.00 - 5.00	2022	2,574	—	(315)	2,259	331
2009 Series C COPs issuance premiums			114	—	(28)	86	—
2009 Series D COPs (Build America)	6.36 - 6.49	2041	12,593	—	—	12,593	—
Other post-employment benefits obligations			25,169	4,888	(1,835)	28,222	—
Net pension liability			26,874	48,774	(6,236)	69,412	—
Accrued vacation and sick leave			3,807	1,916	(2,100)	3,623	2,154
Accrued workers' compensation			2,964	861	(856)	2,969	548
Damage claims liability			1,861	3,146	(2,569)	2,438	991
Total			$ 136,066	59,585	(16,149)	179,502	6,461

* After adjusting for the federal interest subsidy, the true interest cost for the certificates of participation 2009 Series D issued as Build America Bonds is 4.3%, 1.2% for the QECBs, 1.5% for the 2012 NCREBs, and 1.4% for the 2015 NCREBs.

	Interest rate*	Maturity (Calendar Year)	2015	Additions	Reductions	2016	Due within one year
Bonds:							
Clean Renewable Energy Bonds	0.00 %	2022	$ 3,371	—	(422)	2,949	422
Qualified Energy Conservation Bonds	4.74	2027	6,845	—	(511)	6,334	517
New Clean Renewable Energy Bonds 2012	4.74	2021	5,674	—	(3,013)	2,661	530
New Clean Renewable Energy Bonds 2015	4.62	2032	—	4,100	—	4,100	223
2015 Series A Revenue Bonds	4.00 - 5.00	2045	32,025	—	—	32,025	—
2015 Series B Revenue Bonds	3.00 - 4.00	2026	7,530	—	—	7,530	—
Less issuance discount			(102)	—	14	(88)	—
Add issuance premiums			4,832	—	(233)	4,599	—
Total bonds payable			60,175	4,100	(4,165)	60,110	1,692
2009 Series C Certificates of participation (COPs)	2.00 - 5.00	2022	2,873	—	(299)	2,574	315
2009 Series C COPs issuance premiums			146	—	(32)	114	—
2009 Series D COPs (Build America)	6.36 - 6.49	2041	12,593	—	—	12,593	—
Other post-employment benefits obligations			22,845	4,011	(1,687)	25,169	—
Net pension liability			20,537	13,220	(6,883)	26,874	—
Accrued vacation and sick leave			3,544	2,186	(1,923)	3,807	2,275
Accrued workers' compensation			2,629	1,120	(785)	2,964	555
Damage claims liability			3,335	2,726	(4,200)	1,861	598
Total			$ 128,677	27,363	(19,974)	136,066	5,435

* After adjusting for the federal interest subsidy, the true interest cost for the certificates of participation 2009 Series D issued as Build America Bonds is 4.3%, 1.2% for the QECBs, 1.5% for the 2012 NCREBs, and 1.4% for the 2015 NCREBs.

(Dollars in thousands, unless otherwise stated)

a) Hetchy Water's long-term liability activities for the years ended June 30, 2017 and 2016 are as follows:

	2016	Additions	Reductions	2017	Due within one year
Other post-employment benefits obligations	$ 9,945	2,157	(822)	11,280	—
Net pension liability	12,093	21,948	(2,806)	31,235	—
Accrued vacation and sick leave	1,287	425	(524)	1,188	741
Accrued workers' compensation	997	224	(222)	999	185
Damage claims liability	353	1,082	(849)	586	218
Total	$ 24,675	25,836	(5,223)	45,288	1,144

	2015	Additions	Reductions	2016	Due within one year
Other post-employment benefits obligations	$ 8,899	1,805	(759)	9,945	—
Net pension liability	9,242	5,948	(3,097)	12,093	—
Accrued vacation and sick leave	1,169	664	(546)	1,287	806
Accrued workers' compensation	846	378	(227)	997	188
Damage claims liability	402	416	(465)	353	127
Total	$ 20,558	9,211	(5,094)	24,675	1,121

b) Hetchy Power's long-term liability activities for the years ended June 30, 2017 and 2016 are as follows:

	Interest rate*	Maturity (Calendar Year)	2016	Additions	Reductions	2017	Due within one year
Bonds:							
Clean Renewable Energy Bonds	0.00 %	2022	$ 2,949	—	(422)	2,527	422
Qualified Energy Conservation Bonds	4.74	2027	6,334	—	(517)	5,817	523
New Clean Renewable Energy Bonds 2012	4.74	2020	2,661	—	(822)	1,839	556
New Clean Renewable Energy Bonds 2015	4.62	2032	4,100	—	(223)	3,877	226
2015 Series A Revenue Bonds	4.00 - 5.00	2045	32,025	—	—	32,025	—
2015 Series B Revenue Bonds	3.00 - 4.00	2026	7,530	—	—	7,530	710
Less issuance discount			(88)	—	14	(74)	—
Add issuance premiums			4,599	—	(240)	4,359	—
Total bonds payable			60,110	—	(2,210)	57,900	2,437
2009 Series C Certificates of participation (COPs)	2.00 - 5.00	2022	2,574	—	(315)	2,259	331
2009 Series C COPs issuance premiums			114	—	(28)	86	—
2009 Series D COPs (Build America)	6.36 - 6.49	2041	12,593	—	—	12,593	—
Other post-employment benefits obligations			15,224	2,637	(1,006)	16,855	—
Net pension liability			14,781	26,826	(3,430)	38,177	—
Accrued vacation and sick leave			2,520	1,453	(1,576)	2,397	1,388
Accrued workers' compensation			1,967	637	(634)	1,970	363
Damage claims liability			1,508	2,064	(1,720)	1,852	773
Total			$ 111,391	33,617	(10,919)	134,089	5,292

* After adjusting for the federal interest subsidy, the true interest cost for the certificates of participation 2009 Series D issued as Build America Bonds is 4.3%, 1.2% for the QECBs, 1.5% for the 2012 NCREBs, and 1.4% for the 2015 NCREBs.

(Dollars in thousands, unless otherwise stated)

	Interest rate*	Maturity (Calendar Year)	2015	Additions	Reductions	2016	Due within one year
Bonds:							
Clean Renewable Energy Bonds	0.00 %	2022	$ 3,371	—	(422)	2,949	422
Qualified Energy Conservation Bonds	4.74	2027	6,845	—	(511)	6,334	517
New Clean Renewable Energy Bonds 2012	4.74	2021	5,674	—	(3,013)	2,661	530
New Clean Renewable Energy Bonds 2015	4.62	2032	—	4,100	—	4,100	223
2015 Series A Revenue Bonds	4.00 - 5.00	2045	32,025	—	—	32,025	—
2015 Series B Revenue Bonds	3.00 - 4.00	2026	7,530	—	—	7,530	—
Less issuance discount			(102)	—	14	(88)	—
Add issuance premiums			4,832	—	(233)	4,599	—
Total bonds payable			60,175	4,100	(4,165)	60,110	1,692
2009 Series C Certificates of participation (COPs)	2.00 - 5.00	2022	2,873	—	(299)	2,574	315
2009 Series C COPs issuance premiums			146	—	(32)	114	—
2009 Series D COPs (Build America)	6.36 - 6.49	2041	12,593	—	—	12,593	—
Other post-employment benefits obligations			13,946	2,206	(928)	15,224	—
Net pension liability			11,295	7,272	(3,786)	14,781	—
Accrued vacation and sick leave			2,375	1,522	(1,377)	2,520	1,469
Accrued workers' compensation			1,783	742	(558)	1,967	367
Damage claims liability			2,933	2,310	(3,735)	1,508	471
Total			$ 108,119	18,152	(14,880)	111,391	4,314

* After adjusting for the federal interest subsidy, the true interest cost for the certificates of participation 2009 Series D issued as Build America Bonds is 4.3%, 1.2% for the QECBs, 1.5% for the 2012 NCREBs, and 1.4% for the 2015 NCREBs.

c) CleanPowerSF's long-term liability activities for the year ended June 30, 2017 are as follows:

	2016	Additions	Reductions	2017	Due within one year
Other post-employment benefits obligations	$ —	94	(7)	87	—
Accrued vacation and sick leave	—	38	—	38	25
Total	$ —	132	(7)	125	25

(a) Clean Renewable Energy Bonds

In November 2008, Hetchy Power issued $6,325 of taxable CREBs to finance the installation of solar energy equipment on City-owned facilities, including Chinatown Branch Library, Maxine Hall Medical Center, City Distribution Division Warehouse, North Point Wastewater Plant, Chinatown Public Health Center, Municipal Transportation Agency Woods, and Municipal Transportation Agency Ways and Structures. The CREBs were non-rated and privately-placed with Bank of America Leasing. The net effective interest rate on the CREBs, after the federal tax subsidy, is 0% through 2022. Hetchy Power began making principal payments in the amount of $422 on December 15, 2008 and will continue annual payments for 15 years until December 15, 2022. Funding for these payments will be guaranteed by net power revenues. Interest payments are not required, since the effective equivalent of interest on the bonds is paid in the form of federal tax credits in lieu of interest paid by the issuer.

(Dollars in thousands, unless otherwise stated)

The future annual debt service relating to the CREBs outstanding as of June 30, 2017 is as follows:

Hetchy Power - Clean Renewable Energy Bonds

Fiscal years ending June 30:		Principal
2018	$	422
2019		422
2020		422
2021		422
2022		422
2023		417
		2,527
Less: Current portion		(422)
Less: Unamortized bond discount		(74)
Long-term portion as of June 30, 2017	$	2,031

(b) Qualified Energy Conservation Bonds

In December 2011, Hetchy Power issued $8,291 of taxable QECBs. The QECBs were issued to fund certain qualified green components for the SFPUC's 525 Golden Gate Headquarters project. The QECBs were non-rated and privately placed with Bank of America Leasing. The net effective interest rate on the QECBs, after the federal tax subsidy, is 1.2% through 2028.

The future annual debt service relating to the QECBs outstanding as of June 30, 2017 is as follows:

Hetchy Power - Qualified Energy Conservation Bonds

Fiscal years ending June 30:		Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
2018	$	523	270	(188)	82
2019		529	245	(170)	75
2020		536	219	(153)	66
2021		542	194	(135)	59
2022		549	168	(117)	51
2023-2027		2,844	444	(309)	135
2028		294	7	(4)	3
		5,817	1,547	(1,076)	471
Less: Current portion		(523)			
Long-term portion as of June 30, 2017	$	5,294			

* Federal interest subsidy is reduced by 6.9%, or a total reduction of $80, due to sequestration per IRS notice dated August 3, 2016.

(c) New Clean Renewable Energy Bonds 2012

In April 2012, Hetchy Power issued $6,600 of taxable NCREBs. The NCREBs were issued to fund certain qualified facilities that provide clean, renewable energy at Davies Symphony Hall, City Hall, and University Mound Reservoir. The NCREBs were non-rated and privately placed with Banc of America Leasing. The net effective interest rate on the NCREBs, after the federal tax subsidy, is 1.5% through 2021. $288 and $2,523 were repaid in fiscal year 2017 and 2016, respectively.

(Dollars in thousands, unless otherwise stated)

The future annual debt service relating to the 2012 NCREBs outstanding as of June 30, 2017 is as follows:

Hetchy Power - 2012 New Clean Renewable Energy Bonds

Fiscal years ending June 30:		Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
2018	$	556	81	(52)	29
2019		570	54	(35)	19
2020		583	27	(17)	10
2021		130	3	(2)	1
		1,839	165	(106)	59
Less: Current portion		(556)			
Long-term portion as of June 30, 2017	$	1,283			

* Federal interest subsidy is reduced by 6.9%, or a total reduction of $8, due to sequestration per IRS notice dated August 3, 2016.

(d) *New Clean Renewable Energy Bonds 2015*

In October 2015, Hetchy Power issued $4,100 of taxable 2015 NCREBs. The 2015 NCREBs were issued to fund certain qualified clean, renewable energy solar generation facilities at the Marina Middle School and the San Francisco Police Academy. The 2015 NCREBs were non-rated and privately placed with Banc of America Leasing. The net effective interest rate on the 2015 NCREBs, after the federal tax subsidy, is 1.4% through 2033.

The future annual debt service relating to the 2015 NCREBs outstanding as of June 30, 2017 is as follows:

Hetchy Power - 2015 New Clean Renewable Energy Bonds

Fiscal years ending June 30:		Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
2018	$	226	177	(115)	62
2019		229	166	(108)	58
2020		232	155	(101)	54
2021		235	145	(94)	51
2022		239	134	(87)	47
2023-2027		1,244	500	(326)	174
2028-2032		1,333	203	(133)	70
2033		139	3	(2)	1
		3,877	1,483	(966)	517
Less: Current portion		(226)			
Long-term portion as of June 30, 2017	$	3,651			

* Federal interest subsidy is reduced by 6.9%, or a total reduction of $72, due to sequestration per IRS notice dated August 3, 2016.

(e) *Power Revenue Bonds 2015 Series A (Green) and Series B*

In May 2015, Hetchy Power issued tax-exempt revenue bonds, 2015 Series A (Green) in the amount of $32,025 with interest rates ranging from 4.0% to 5.0% and 2015 Series B in the amount of $7,530 with interest rates ranging from 3.0% to 4.0%. Proceeds from the bonds were used to finance reconstruction or replacement of existing facilities of the SFPUC's Hetch Hetchy project, to fund capitalized interest on the 2015 Series AB Bonds, to fund a debt service reserve account for the 2015

(Dollars in thousands, unless otherwise stated)

Series AB Bonds, and to pay costs of issuance of the 2015 Series AB bonds. The bonds were rated "A+" and "AA-" by S&P and Fitch, respectively. Bonds mature through November 1, 2045. The true interest cost is 3.95%. As of June 30, 2017, the outstanding principal amount was $39,555.

The future annual debt service relating to the 2015 Series AB Bonds outstanding as of June 30, 2017 are as follows:

Hetchy Power - Power Revenue Bonds 2015 Series A (Green)

Fiscal years ending June 30:	Principal	Interest	Total
2018	$ —	1,593	1,593
2019	—	1,593	1,593
2020	—	1,593	1,593
2021	—	1,593	1,593
2022	—	1,593	1,593
2023-2027	830	7,948	8,778
2028-2032	5,645	7,121	12,766
2033-2037	7,205	5,522	12,727
2038-2042	9,190	3,482	12,672
2043-2046	9,155	943	10,098
	32,025	32,981	65,006
Add: Unamortized bond premium	3,826		
Long-term portion as of June 30, 2017	$ 35,851		

Hetchy Power - Power Revenue Bonds 2015 Series B

Fiscal years ending June 30:	Principal	Interest	Total
2018	$ 710	267	977
2019	730	246	976
2020	755	220	975
2021	785	189	974
2022	815	157	972
2023-2027	3,735	307	4,042
	7,530	1,386	8,916
Less: Current portion	(710)		
Add: Unamortized bond premium	533		
Long-term portion as of June 30, 2017	$ 7,353		

(f) *Certificates of Participation Issued for the 525 Golden Gate Headquarters Building*

In October 2009, the City issued $167,670 in certificates of participation to fund construction of the headquarters of the SFPUC at 525 Golden Gate Avenue. The 2009 Series C certificates were issued for $38,120 and 2009 Series D for $129,550 as "Build America Bonds" (BABs) on a taxable basis under the 2009 American Recovery and Reinvestment Act. The 2009 Series C certificates carry interest rates ranging from 2.0% to 5.0% and mature on November 1, 2022. The 2009 Series D certificates carry interest rates ranging from 6.4% to 6.5% and mature on November 1, 2041. After adjusting Series D for the federal interest subsidy, the true interest cost averages 3.4% and 4.3% for Series C and Series D certificates, respectively.

Under the terms of a Memorandum of Understanding between the City and the SFPUC dated October 1, 2009, the City conveyed the real property to the Trustee, the Bank of New York Mellon Trust Company, N.A., which was replaced by U.S. Bank in March 2014 under a property lease in exchange for the proceeds of the sale of the certificates. The Trustee has leased the property back to the City for the City's use under a project lease. The City is obligated under the project lease to pay base rental payments and other payments to the Trustee each year during the 32-year term of the project lease. The Commission makes annual base rental payments to the City for the building equal to annual debt service on the certificates. It is anticipated these lease costs will be offset with reductions in costs associated with current office rental expense. Hetchy Power's share is reflected on the Hetchy Power fund statements.

(Dollars in thousands, unless otherwise stated)

The Power, Water, and Wastewater Enterprises have ownership interest in the building equal to their projected usage of space as follows: Water (73%), Wastewater (15%), and Power (12%). Similarly, each Enterprise is responsible for a portion of the annual base rental payment based on their ownership percentages less contributed equity. The percentage share of base rental payments for the Enterprises is as follows: Water (71.4%), Wastewater (18.9%), and Power (9.7%).

The future annual debt service relating to the certificates of participation 2009 Series C outstanding as of June 30, 2017 is as follow:

Hetchy Power - Certificates of Participation 2009 Series C (Tax Exempt)

Fiscal years ending June 30:		Principal	Interest	Total
2018	$	331	105	436
2019		348	88	436
2020		366	70	436
2021		384	51	435
2022		405	31	436
2023		425	10	435
		2,259	355	2,614
Less: Current portion		(331)		
Add: Unamortized bond premium		86		
Long-term portion as of June 30, 2017	$	2,014		

The following table presents the future annual debt service relating to the certificates of participation 2009 Series D outstanding as of June 30, 2017. The federal interest subsidy represents 35% of the interest, excluding sequestration:

Hetchy Power - Certificates of Participation 2009 Series D (Taxable BABs)

Fiscal years ending June 30:		Principal	Interest before subsidy	Federal interest subsidy*	Interest net of subsidy
2018	$	—	812	(265)	547
2019		—	812	(265)	547
2020		—	812	(265)	547
2021		—	812	(265)	547
2022		—	812	(265)	547
2023-2027		1,894	3,828	(1,247)	2,581
2028-2032		2,852	3,020	(984)	2,036
2033-2037		3,514	1,995	(650)	1,345
2038-2042		4,333	728	(235)	493
Total			13,631	(4,441)	9,190
Long-term portion as of June 30, 2017	$	12,593			

*Federal interest subsidy is reduced by 6.9%, or a total reduction of $329, due to sequestration per IRS notice dated August 3, 2016.

(Dollars in thousands, unless otherwise stated)

(8) Revenue Pledge

Hetchy Power has pledged future power revenues to repay the 2008 CREBs, the 2011 QECBs, the 2012 NCREBs, and the 2015 NCREBs. Additionally, Hetchy Power has pledged future power revenues for 2015 Series AB power revenue bonds. Proceeds from the bonds provided financing for various capital construction and facility energy efficiency projects. The Series 2015 AB power revenue bonds are payable through fiscal year 2046 and are solely payable from net revenues of Hetchy Power on a senior lien basis to the 2008 CREBs, the 2011 QECBs, the 2012 NCREBs, and the 2015 NCREBs.

The original amount of bonds issued, total principal and interest remaining, principal and interest paid during fiscal years 2017 and 2016, applicable net revenues, and funds available for debt service are as follows:

Hetchy Power (excluding CleanPowerSF)		2017	2016
Bonds issued with revenue pledge	$	64,871	64,871
Principal and interest remaining due at the end of the year		91,177	95,688
Principal and interest paid during the year		2,293	2,014
Net revenues for the year ended June 30		31,229	19,070
Funds available for debt service		63,428	33,044

(9) Other Non-Operating Revenues – Trans Bay Cable Construction and Licensing Fees

In 2007, the Board of Supervisors adopted the resolution to enter into two non-exclusive licenses with the Trans Bay Cable LLC (the Licensee) for the Trans Bay Cable Project. The Licensee proposed to install, operate, and maintain approximately 53 miles of high-voltage direct current transmission cable running from the City of Pittsburg to the City. The first license is a Construction License to install a 400 MW high-voltage transmission line, with a four-year term. The Licensee has paid Hetchy Power $3,500 in Renewable Energy, Transmission and Grid Reliability to use the payments for study and development of two City-owned transmission projects, a Newark-San Francisco project, and a Potrero-Embarcadero project. Of the $3,500, only $1,902 has been spent to date. For fiscal years ended June 30, 2017 and 2016, expenses were $621 and $2, respectively.

The second license is an operational license for operation of the transmission line with 25-year term and an option to renew for 10 years. The Licensee agrees to pay Hetchy Power in excess of $20,000 in 10 separate installments of $2,000 annually with adjustments for inflation, as the "San Francisco Electric Reliability Payment" to implement, advance, promote, or enhance policies and projects consistent with City Energy Policies. The project came on line November 29, 2010, and Hetchy Power received the first installment of $2,000. As of June 30, 2017, cumulative revenues to date of $15,178 were recorded, with $2,348 and $2,279 recorded in fiscal years 2017 and 2016, respectively. Per agreement, the SFPUC shall consult with Departments of Environment and Public Health, as well as community members, including the Power Plant Task Force, in developing its proposals to the Board of Supervisors on how to spend the San Francisco Electricity Reliability Payment, and shall consider specifically renewable energy, conservation, and environmental health programs, which benefit low-income, at-risk, and environmentally disadvantaged communities. The San Francisco Electricity Reliability Payment shall also be partly used for green jobs training and placement programs, which benefit low-income, at-risk, and environmentally disadvantaged communities. As of June 30, 2017, cumulative expenses of $5,130 have been incurred, with $611 and $1,143 in fiscal years 2017 and 2016, respectively.

(Dollars in thousands, unless otherwise stated)

(10) Employee Benefits

(a) Pension Plan

Hetch Hetchy participates in a cost-sharing multiple-employer defined benefit pension plan (the Plan). The Plan is administered by the San Francisco City and County Employees' Retirement System (SFERS). For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, pension expense, information about the fiduciary net position of the SFERS plans, and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by Cheiron, the consulting actuary for the Plan. Benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

San Francisco Employees' Retirement System (SFERS) - Cost Sharing

Fiscal year 2017	
Valuation Date (VD)	June 30, 2015 updated to June 30, 2016
Measurement Date (MD)	June 30, 2016
Measurement Period (MP)	July 1, 2015 to June 30, 2016

Fiscal year 2016	
Valuation Date (VD)	June 30, 2014 updated to June 30, 2015
Measurement Date (MD)	June 30, 2015
Measurement Period (MP)	July 1, 2014 to June 30, 2015

The City is an employer of the plan with a proportionate share of 94.22% as of June 30, 2016 (MD), and 93.90% as of June 30, 2015 (MD). Hetch Hetchy's allocation percentage was determined based on its employer contributions divided by the City's total employer contributions for fiscal year 2016 and 2015. Hetch Hetchy's net pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows and pension expense to each department is based on its allocated percentage. Hetch Hetchy's allocation of the City's proportionate share was 1.27% as of the June 30, 2016 and 1.26% as of June 30, 2015 (MD).

Plan Description – The Plan provides basic service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments (COLA) after retirement. The Plan also provides pension continuation benefits to qualified survivors. The City Charter and the Administrative Code are the authorities which establish and amend the benefit provisions and employer obligations of the Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco Employees' Retirement System, 1145 Market Street, 5th Floor, San Francisco, CA 94103 or by calling (415) 487-7000.

Benefits – The Retirement System provides service retirement, disability and death benefits based on specified percentages of defined final average monthly salary and annual COLA after retirement. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. The Retirement System pays benefits according to the category of employment and the type of benefit coverage provided by the City. The four main categories of Plan members are:

a) Miscellaneous Non-Safety Members – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.

b) Sheriff's Department and Miscellaneous Safety members – sheriffs assuming office on and after January 7, 2012, and undersheriffs, deputized personnel of the Sheriff's department, and miscellaneous safety employees hired on and after January 7, 2012.
c) Firefighter Members – firefighters and other employees whose principal duties are in fire prevention and suppression work or who occupy positions designated by law as firefighter member positions.
d) Police Members – police officers and other employees whose principal duties are in active law enforcement or who occupy positions designated by law as police member positions.

The membership groups and the related service retirement benefits are included in the Notes to the Basic Financial Statements of San Francisco Employees' Retirement System.

All members are eligible to apply for a disability retirement benefit, regardless of age, when they have 10 or more years of credited service and they sustain an injury or illness that prevents them from performing their duties. Safety members are eligible to apply for an industrial disability retirement benefit from their first day on the job if their disability is caused by an illness or injury that they receive while performing their duties.

All retired members receive a benefit adjustment each July 1, which is the Basic COLA. The majority of adjustments are determined by changes in Consumer Price Index with increases capped at 2%. The Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the Plan. The maximum benefit adjustment each July 1 is 3.5% including the Basic COLA. Effective July 1, 2012, voters approved changes in the criteria for payment of the Supplemental COLA benefit, so that Supplemental COLAs would only be paid when the Plan is also fully funded on a market value of assets basis. Certain provisions of this voter-approved proposition were challenged in the Courts. A decision by the California Courts modified the interpretation of the proposition. Effective July 1, 2012, members who retired before November 6, 1996 will receive a Supplemental COLA only when the Plan is also fully funded on a market value of assets basis. However, the "full funding" requirement does not apply to members who retired on or after November 6, 1996 and were hired before January 7, 2012. For all members hired before January 7, 2012, all Supplemental COLAs paid to them in retirement benefits will continue into the future even where an additional Supplemental COLA is not payable in any given year. For members hired on and after January 7, 2012, a Supplemental COLA will only be paid to retirees when the Plan is fully funded on a market value of asset basis and in addition for these members, Supplemental COLAs will not be permanent adjustments to retirement benefits. That is, in years when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

Funding and Contribution Policy – Contributions are made to the basic plan by both the City and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates for fiscal year 2017 varied from 7.5% to 12.0% as a percentage of gross covered salary. Most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2015 actuarial report, the required employer contribution rate for fiscal year 2017 was 17.90% to 21.40%.

Employer contributions and employee contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. The City's proportionate share of employer contributions recognized by the Retirement System in fiscal years ended June 30, 2016 and 2015 (measurement periods) were $496,343 and $556,511, respectively. Hetchy Water's allocation of employer contributions were $2,806 and $3,097 or 45%, and Hetchy Power's allocation of employer contributions were $3,430 and $3,786 or 55%, respectively, for fiscal year 2016 and 2015 (measurement periods).

(Dollars in thousands, unless otherwise stated)

Pension Liabilities, Pension Expenses, and Deferred Outflows and Inflows of Resources Related to Pensions

Fiscal Year 2017

As of June 30, 2017, the City reported net pension liabilities for its proportionate share of the pension liability of the Plan of $5,476,653. The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016 (MD), and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. Hetch Hetchy's allocation of the City's proportionate share of the net pension liability for each Plan as of June 30, 2017 and 2016 (reporting year) was $69,412 and $26,874 respectively. Hetchy Water's allocation of the City's proportionate share of the net pension liability for each Plan as of June 30, 2017 and 2016 (reporting year) was $31,235 and $12,093, respectively or 45% and Hetchy Power's allocation was $38,177 and $14,781, respectively, or 55% of the total. During the measurement year 2016, the increase in service costs, interest costs, change in benefits, change in assumptions, and difference between projected and actual investment earnings increased total pension liability. This was only partially offset by an increase in the discount rate, contributions, investment income, and actuarial experience gains, resulting in an overall increase in net pension liability.

For the years ended June 30, 2017, the City's recognized pension expense was $1,808,992 including amortization of deferred outflow/inflow related pension items. Hetch Hetchy's allocation of pension expense including amortization of deferred outflow/inflow related pension items were $23,605 for fiscal year 2017. Pension expense increased significantly, largely due to the impact of changes in benefits, namely the updated Supplemental COLA assumptions and amortization of deferred inflows/outflows.

At June 30, 2017, Hetch Hetchy's reported deferred outflows of resources and deferred inflows of resources related to pensions were the following:

		Schedules of Deferred Outflows and Inflows of Resources					
		Deferred Outflows of Resources			Deferred Inflows of Resources		
Fiscal Year 2017		Hetchy Water	Hetchy Power	Total	Hetchy Water	Hetchy Power	Total
Pension contribution subsequent to the measurement date	$	2,961	3,618	6,579	—	—	—
Differences between expected and actual experience		—	—	—	1,152	1,406	2,558
Changes in assumptions		5,373	6,568	11,941	157	193	350
Net difference between projected and actual earnings on pension plan investments		4,270	5,220	9,490	—	—	—
Change in employer's proportion		55	67	122	29	36	65
Total	$	12,659	15,473	28,132	1,338	1,635	2,973

(Dollars in thousands, unless otherwise stated)

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in pension expense as follows:

Fiscal years	Deferred Outflows/(Inflows) of Resources			
		Hetchy Water	Hetchy Power	Total
2018	$	1,230	1,505	2,735
2019		1,230	1,505	2,735
2020		3,361	4,108	7,469
2021		2,539	3,102	5,641
	$	8,360	10,220	18,580

Fiscal Year 2016

As of June 30, 2016, the City reported net pension liabilities for its proportionate share of the pension liability of the Plan of $2,156,049. The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. Hetch Hetchy's allocation of the City's proportionate share of the net pension liability for the Plan as of June 30, 2015 (MP) and 2014 (MP) were $26,874 and $20,537, respectively. Hetchy Water's share of the net pension liability for fiscal years 2015 (MP) and 2014 (MP) were $12,093 and $9,242, respectively or 45% and Hetchy Power's share was $14,781 and $11,295, respectively, or 55% of the total. During the measurement period fiscal year, there were no changes to benefits. The increase in service costs, interest costs, and decrease in the discount rate increased total pension liability and were only partially offset by contributions, investment income, and actuarial experience gains, resulting in an overall increase in net pension liability.

(Dollars in thousands, unless otherwise stated)

For the years ended June 30, 2016, the City's recognized pension expense was $106,499, including amortization of deferred outflow/inflow related pension items. Hetch Hetchy's allocation of pension expense including amortization of deferred outflows and inflows related pension items was $1,410 for fiscal year 2016. As of June 30, 2016, the Hetch Hetchy's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Schedules of Deferred Outflows and Inflows of Resources					
		Deferred Outflows of Resources			Deferred Inflows of Resources		
Fiscal Year 2016		Hetchy Water	Hetchy Power	Total	Hetchy Water	Hetchy Power	Total
Pension contribution subsequent to the measurement date	$	2,806	3,430	6,236	—	—	—
Differences between expected and actual experience		—	—	—	841	1,028	1,869
Changes in assumptions		921	1,126	2,047	230	281	511
Net difference between projected and actual earnings on pension plan investments		—	—	—	2,791	3,412	6,203
Change in employer's proportion		19	22	41	43	52	95
Total	$	3,746	4,578	8,324	3,905	4,773	8,678

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in pension expense as follows:

Fiscal years		Deferred Outflows/(Inflows) of Resources		
		Hetchy Water	Hetchy Power	Total
2017	$	(1,260)	(1,539)	(2,799)
2018		(1,260)	(1,539)	(2,799)
2019		(1,260)	(1,539)	(2,799)
2020		815	992	1,807
	$	(2,965)	(3,625)	(6,590)

Actuarial Assumptions

Fiscal Year 2017

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability as of June 30, 2016 (measurement period) is provided below, including any assumptions that differ from those used in the July 1, 2015 actuarial valuation. Refer to the July 1, 2015 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website http://mysfers.org.

(Dollars in thousands, unless otherwise stated)

Key Actuarial Assumptions

Valuation Date	June 30, 2015 updated to June 30, 2016
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost
Expected Rate of Return	7.50%
Municipal Bond Yield	3.85% as of June 30, 2015
	2.85% as of June 30, 2016
	Bond Buyer 20-Bond GO Index, July 2, 2015 and June 30, 2016
Inflation	3.25%
Salary Increase	3.75% plus merit component based on employee classification and years of service
Discount Rate	7.46% as of June 30, 2015
	7.50% as of June 30, 2016
Administrative Expenses	0.45% of payroll as of June 30, 2015
	0.60% of payroll as of June 30, 2016

		Old Miscellaneous and all New Plans	Old Police & Fire, pre 7/1/75	Old Police & Fire, Charters A8.595 and A8.596	Old Police & Fire, Charters A8.559 and A8.585
Basic COLA	June 30, 2015	2.00%	3.00%	4.00%	5.00%
	June 30, 2016	2.00%	2.70%	3.30%	4.40%

Mortality rates for active members and healthy annuitants were based upon adjusted Employee and Healthy Annuitant CalPERS mortality tables projected generationally from the 2009 base year using a modified version of the MP-2015 projection scale.

Fiscal Year 2016

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2015 is provided below, including any assumptions that differ from those used in the July 1, 2014 actuarial valuation. Refer to the July 1, 2014 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website http://mysfers.org.

Key Actuarial Assumptions

Valuation Date	June 30, 2014 updated to June 30, 2015
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost
Expected Rate of Return	7.50%
Municipal Bond Yield	4.31% as of June 30, 2014
	3.85% as of June 30, 2015
	Bond Buyer 20-Bond GO Index, July 2, 2014 and June 30, 2015
Inflation	3.25%
Salary Increase	3.75% plus merit component based on employee classification and years of service
Discount Rate	7.58% as of June 30, 2014
	7.46% as of June 30, 2015
Administrative Expenses	0.45% of payroll as of June 30, 2015

	Old Miscellaneous and all New Plans	Old Police & Fire, pre 7/1/75	Old Police & Fire, Charters A8.595 and A8.596	Old Police & Fire, Charters A8.559 and A8.585
Basic COLA	2.00%	3.00%	4.00%	5.00%

(Continued)

Mortality rates for active members were based upon the RP-2000 Employee Tables for Males and Females projected using Scale AA to 2030 for females and to 2005 for males. Mortality rates for healthy annuitants were based upon the RP-2000 Healthy Annuitant Tables for Males and Females projected using Scale AA to 2020.

Discount Rate

Fiscal Year 2017

The beginning and end of year measurements are based on different assumptions and contribution methods that result in different discount rates. The discount rate was 7.50% as of June 30, 2016 (measurement date) and 7.46% as of June 30, 2015 (measurement date).

The discount rate used to measure the Total Pension Liability as of the June 30, 2016 measurement date was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2015 actuarial valuation. That policy includes contributions equal to the employer portion of the Entry Age normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability.

The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining Unfunded Actuarial Liability not attributable to Charter amendments as of July 1, 2013 is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014 are amortized over 20 years. For the July 1, 2016 valuation, the increase in the Unfunded Actuarial Liability attributable to the Supplemental COLAs granted on July 1, 2013 and July 1, 2014 are amortized over 17-years and 5-years respectively. All amortization schedules are established as a level percentage of payroll so payments increase 3.75% each year. The Unfunded Actuarial Liability is based on an Actuarial Value of Assets that smooths investment gains and losses over five years and a measurement of the Actuarial Liability that excludes the value of any future Supplemental COLAs.

While the contributions and measure of Actuarial Liability in the valuation do not anticipate any future Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLAs for current members when they are expected to be granted. For members who worked after November 6, 1996 and before Proposition C passed, a Supplemental COLA is granted if the actual investment earnings during the year exceed the expected investment earnings on the Actuarial Value of Assets. For members who did not work after November 6, 1996 and before Proposition C passed, the Market Value of Assets must also exceed the actuarial liability at the beginning of the year for a Supplemental COLA to be granted. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. The large majority of members receive a 1.50% Supplemental COLA when granted.

Because the probability of a Supplemental COLA depends on the current funded level of the System for certain members, Cheiron developed an assumption as of the June 30, 2016 measurement date for the probability and amount of Supplemental COLA for each future year. The table below shows the net assumed Supplemental COLA for members with a 2.00% Basic COLA for sample years.

(Dollars in thousands, unless otherwise stated)

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

Fiscal years	96 - Prop C	Before 11/6/96 or After Prop C
2018	0.750 %	0.000 %
2023	0.750	0.220
2028	0.750	0.322
2033	0.750	0.370
2038+	0.750	0.375

The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.

Based on these assumptions, the System's fiduciary net position was projected to be available to make projected future benefit payments for current members until fiscal year end 2093 when only a portion of the projected benefit payments can be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.50% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 2.85% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2016 is 7.50%.

The long-term expected rate of return on pension plan investments was 7.50%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table:

Long-Term Expected Real Rates of Return

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	40.0 %	5.1 %
Fixed Income	20.0	1.1
Private Equity	18.0	6.3
Real Assets	17.0	4.3
Hedge Funds/Absolute Returns	5.0	3.3
Total	100.0	

Fiscal Year 2016

The beginning and end of year measurements are based on different assumptions and contribution methods that result in different discount rates. The discount rate was 7.46% as of June 30, 2015 and 7.58% as of June 30, 2014.

The discount rate used to measure the total pension liability as of June 30, 2015 was 7.46%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2014 actuarial valuation. That policy includes contributions equal to the employer portion of the entry age normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability. The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining unfunded actuarial liability not attributable to Charter amendments as of July 1, 2013 is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014 are amortized over 20 years. All amortization schedules are established as a level percentage of payroll so payments increase 3.75% each year. The unfunded actuarial liability is based on an actuarial value of assets that smooths investment gains and losses over five years and a measurement of the actuarial liability that excludes the value of any future Supplemental COLAs.

(Dollars in thousands, unless otherwise stated)

While the contributions and measure of actuarial liability in the valuation do not anticipate any Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLA's for current members when they are expected to be granted. For a Supplemental COLA to be granted, the market value of assets must exceed the actuarial liability at the beginning of the year and the actual investment earnings during the year must exceed the expected investment earnings on the actuarial value of assets. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. In most cases, the large majority of members receive a 1.50% Supplemental COLA.

Because the probability of a Supplemental COLA depends on the current funded level of the System, we developed an assumption as of June 30, 2015 of the probability and amount of Supplemental COLA for each future year.

The table below shows the net assumed Supplemental COLAs for member with a 2.00% basic COLAs for sample years:

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

Fiscal years	Asssumption
2016	0.000 %
2021	0.345
2026	0.375
2031	0.375
2036+	0.375

The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.

Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members until fiscal year end 2076 when only a portion of the projected benefit payments can be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.50% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.85% to the extent they are not available. The single equivalent rate used to determine the total pension liability as of June 30, 2015 is 7.46%.

The long-term expected rate of return on pension plan investments was 7.50%. It was set by the Retirement Board after consideration of both expected future returns and historical returns

(Continued)

(Dollars in thousands, unless otherwise stated)

experienced by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table.

Long- Term Expected Real Rates of Return

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	40.0 %	5.1 %
Fixed Income	20.0	1.2
Private Equity	18.0	7.5
Real Assets	17.0	4.1
Hedge Funds/Absolute Returns	5.0	3.5
Total	100.0	

Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents Hetch Hetchy's allocation of the employer's proportionate share of the net pension liability for the Plan, calculated using the discount rate, as well as what Hetch Hetchy's allocation of the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

Fiscal Year 2017

Employer	1% Decrease Share of NPL @ 6.50%	Share of NPL @ 7.50%	1% Increase Share of NPL @ 8.50%
Hetch Hetchy	$ 109,997	69,412	35,844

Fiscal Year 2016

Employer	1% Decrease Share of NPL @ 6.46%	Share of NPL @ 7.46%	1% Decrease Share of NPL @ 8.46%
Hetch Hetchy	$ 59,428	26,874	(427)

(b) Healthcare Benefits

Healthcare benefits for Hetch Hetchy employees, retired employees, and surviving spouses are financed by beneficiaries and by the City through the City and County of San Francisco Health Service System (the Health Service System). Hetch Hetchy's annual contribution for both active and retired employees was $6,616 and $6,371 in fiscal years 2017 and 2016, respectively. Included in these amounts are $1,835 and $1,687 for 2017 and 2016, respectively, to provide post-retirement benefits for Hetch Hetchy's retired employees, on a pay-as-you-go basis.

The City has determined a citywide Annual Required Contribution (ARC), interest on net other post-employment benefits (OPEB) other than pensions obligations, ARC adjustment, and OPEB cost based upon an actuarial valuation performed in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, by the City's actuaries. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actuarial liabilities (or funding excess) amortized over 30 years.

(Dollars in thousands, unless otherwise stated)

The following tables show the components of the City's annual OPEB allocations for Hetch Hetchy for the years ended June 30, 2017 and 2016, for the amounts contributed to the plan, and changes in the City's net OPEB obligations:

Fiscal Year 2017		Hetchy Water	Hetchy Power	CleanPowerSF	Total
Annual required contribution	$	1,857	2,269	81	4,207
Interest on net OPEB obligations		504	617	22	1,143
Adjustment to ARC		(204)	(249)	(9)	(462)
Annual OPEB cost		2,157	2,637	94	4,888
Contribution made		(822)	(1,006)	(7)	(1,835)
Increase in net OPEB obligations		1,335	1,631	87	3,053
Net OPEB obligations – beginning of year		9,945	15,224	—	25,169
Net OPEB obligations – end of year	$	11,280	16,855	87	28,222

Fiscal Year 2016		Hetchy Water	Hetchy Power	Hetch Hetchy Water and Power
Annual required contribution	$	1,704	2,083	3,787
Interest on net OPEB obligations		541	661	1,202
Adjustment to ARC		(440)	(538)	(978)
Annual OPEB cost		1,805	2,206	4,011
Contribution made		(759)	(928)	(1,687)
Increase in net OPEB obligations		1,046	1,278	2,324
Net OPEB obligations – beginning of year		8,899	13,946	22,845
Net OPEB obligations – end of year	$	9,945	15,224	25,169

The City issues a publicly available financial report at a citywide level that includes the complete note disclosures and required supplementary information related to the City's post-retirement healthcare obligations. The report may be obtained by writing to the City and County of San Francisco, Office of the Controller, 1 Dr. Carlton B. Goodlett Place, Room 316, San Francisco, CA 94102, or by calling (415) 554-7500.

(11) Related Parties

(a) Hetch Hetchy Water and Power

Various common costs incurred by the SFPUC are allocated among Hetch Hetchy, Water, and the Wastewater Enterprises. The allocations are based on the SFPUC management's best estimate and may change from year to year depending on the activities incurred by each Enterprise and the information available. For the years ended June 30, 2017 and 2016, the SFPUC allocated $14,361, or 17.4%, and $14,243, or 17.4%, respectively, in administrative costs to Hetch Hetchy, which is included in the financial statements under various expense categories. These costs are then allocated to Hetchy Water and Hetchy Power in the Hetch Hetchy financial statements, using the periodically reviewed department overhead allocation model.

The City performs certain administrative services such as maintenance of accounting records and investment of cash for all fund groups within the City. The various funds are charged for these services based on the City's indirect cost allocation plan. The overhead allocation paid to the General Fund of the City by Hetch Hetchy was $224 and $1 for the years ended June 30, 2017 and 2016, respectively, and is included in other operating expenses in the accompanying financial statements.

The fiscal years 2017 and 2016 reflect the true-up adjustment between projection and actual. Some City departments provide direct services such as engineering, purchasing, legal, data processing, telecommunication, and human resources to Hetch Hetchy and charge amounts designed to recover those departments' costs. These charges totaling approximately $8,678 and $9,451 for the years ended June 30, 2017 and 2016, respectively, have been included in services provided by other departments in the accompanying financial statements.

SFPUC's 75-year lease agreement with the San Francisco Recreation and Parks Department, for the use of parking spaces for its fleet of vehicles at the Civic Center Garage, commenced on February 1, 2011. Total payment under this agreement is $6,274, which was fully made as of fiscal year 2015. The expenses and prepayments among the three SFPUC Enterprises are based on 525 Golden Gate occupancy. As of June 30, 2017, Hetch Hetchy's allocable shares of expenses and prepayment were $17 and $989, respectively, and as of June 30, 2016 were $16 and $1,006, respectively.

(b) ***Hetchy Water***

The Water Enterprise purchases water from Hetchy Water. Included in the operating revenues are the water assessment fees of $34,600 and $36,600 for the years ended June 30, 2017 and 2016, respectively. The water assessment fees represent a recovery to fund upcountry, water-related costs that are not otherwise funded through Hetchy water-related revenue or Water revenue bonds.

During fiscal year ended June 30, 2017, Hetchy Water received $60,000 from the Water Enterprise to fund upcountry projects.

(c) ***Hetchy Power***

As of June 30, 2017 and 2016, operating revenues in sales of power to departments within the City were $87,656 and $84,307, respectively.

The Water Enterprise also purchases electricity from Hetchy Power. This amount totaled $8,480 and $8,279 for the years ended June 30, 2017 and 2016, respectively.

The Wastewater Enterprise purchases electricity from Hetchy Power. This amount totaled $10,738 and $9,915 for the years ended June 30, 2017 and 2016, respectively.

Hetchy Power facilitates all electric and gas service connections between PG&E and City departments. In this capacity, Hetchy Power facilitates and coordinates the terms and payment for the service connections that are performed by PG&E. As of June 30, 2017 and 2016, there was no outstanding amount due from City departments related to this work. In the event Hetchy Power received money from PG&E after project completion, monies are to be refunded to the City departments for their respective credits.

Hetchy Power serves as the City's department for energy efficiency projects and maintains the Sustainable Energy Account (SEA) (formerly known as the Mayor's Energy Conservation Account) fund to sponsor and financially support such projects at various City departments. In this role, Hetchy Power may secure low-interest financing to supplement funds available in the SEA fund. At June 30, 2017 and 2016, projects completed or under way throughout the City amounted to $6,931 and $7,679, respectively, and are recorded as due from other government agencies.

Besides funding the SEA projects, in fiscal year 2010, Hetch Hetchy funded a project for the Treasure Island Development Authority and recorded $2,599 as due from other government

(Continued)

(Dollars in thousands, unless otherwise stated)

agencies. Hetchy Power and the Moscone Center have renegotiated the memoranda of understanding to extend the payment terms of the receivables to match the useful life of underlying assets.

As of June 30, 2017 and 2016, Hetchy Power recorded receivables of $1,166 and $1,269, respectively, due from the Wastewater Enterprise for its share of costs relating to SFPUC Headquarters Living Machine System. Details of due from other City departments are as follows:

		2017	2016
Moscone Center	$	6,581	7,087
San Francisco General Hospital		350	513
San Francisco Department of Public Health		—	14
Port of San Francisco		—	65
Total SEA-related projects		6,931	7,679
Treasure Island Development Authority		2,599	2,599
Wastewater - 525 Golden Gate Headquarters Project		1,166	1,269
CleanPowerSF - Electricity Purchases		387	—
Office of Community Investment and Infrastructure		76	—
Department of Public Works		37	133
Water Enterprise		—	549
Total due from other City departments		11,196	12,229
Less: current portion		(1,282)	(1,533)
Long-term portion as of June 30	$	9,914	10,696

(d) CleanPowerSF

As of June 30, 2017 and 2016, operating revenues in sales of power to Hetchy Power were $12 and $36, respectively. Operating expenses in purchase of power from Hetchy Power were $1,893 and $367, respectively. Wholesale sales of energy, capacity and/or other electric power related products may be made between the CleanPowerSF and Hetchy Power, when available. CleanPowerSF and Hetchy Power transact for such products at prevailing market prices.

CleanPowerSF received program support services from Hetchy Power. This amount totaled $181 and $0 for the fiscal years ended June 30, 2017 and 2016, respectively.

(12) Risk Management

The Enterprise's Risk Management program includes both self-insured (i.e., self-retention) and insured exposures at risk. Risk assessments and purchasing of insurance coverage are collaboratively coordinated by SFPUC Enterprise Risk Management and the City's Office of Risk Management. With certain exceptions, the City and the Enterprise's general approach is to first evaluate the exposure at risk for self-insurance. Based on this analysis, internal mitigation strategies and financing through a self-retention mechanism are generally more economical as the SFPUC in coordination with the City Attorney's Office administers, adjusts, settles, defends, and pays claims from budgeted resources (i.e., pay-as-you-go fund). When economically more viable or when required by debt financing covenants, the Enterprise obtains commercial insurance. At least annually, the City actuarially determines general liability and workers' compensation risk exposures. The Enterprise does not maintain commercial earthquake coverage, with certain minor exceptions, such as a sub-limit for fire-sprinkler leakage due to earthquake under the SFPUC Property Insurance Program.

(Dollars in thousands, unless otherwise stated)

Primary Risks	Typical Coverage Approach
General liability	Self-Insured
Property	Purchased Insurance and Self-Insured
Electronic data processing	Purchased Insurance and Self-Insured
Workers' compensation	Self-Insured through Citywide Pool
Other Risks	**Typical Coverage Approach**
Surety bonds	Purchased and Contractually Transferred
Errors and omissions	Combination of Self-Insured and Contractual Risk Transfer
Professional liability	Combination of Self-Insured and Contractual Risk Transfer
Public officials liability	Purchased Insurance
Employment practices liability	Purchased Insurance
Builders' risk	Contractually Transferred
Crime	Purchased Insurance

(a) *General Liability*

Through coordination with the Controller and the City Attorney's Office, the general liability risk exposure is actuarially determined and is addressed through pay-as-you-go funding as part of the budgetary process. Associated costs and estimates are booked as expenses as required under GAAP for financial statement purposes for both the Enterprise and the City and County of San Francisco's Comprehensive Annual Financial Report. The claim expense allocations are determined based on actuarially determined anticipated claim payments and the projected timing of disbursement.

The changes for the general liability (damage claims) for the years ended June 30, 2017 and 2016 are as follows:

Fiscal years	Beginning of year	Claims and changes in estimates	Claims paid	End of year
Hetch Hetchy Water and Power				
2017	$ 1,861	3,146	(2,569)	2,438
2016	3,335	2,726	(4,200)	1,861
Hetchy Water				
2017	$ 353	1,082	(849)	586
2016	402	416	(465)	353
Hetchy Power				
2017	$ 1,508	2,064	(1,720)	1,852
2016	2,933	2,310	(3,735)	1,508

(b) *Property and Electronic Data Processing*

The Enterprise's property risk management approach varies depending on whether the facility is currently under construction, the property is part of revenue-generating operations, the property is of high value, or is mission-critical in nature. During the course of construction, the Enterprise requires each contractor to provide its own insurance, while ensuring the full scope of work is covered with satisfactory levels to limit the Enterprise's risk exposure. Once construction is complete, the Enterprise performs an assessment to determine whether liability/loss coverage will be obtained through the commercial property policy or self-insurance. The majority of property scheduled in the insurance program is for (1) revenue generating facilities, (2) debt financed facilities, (3) mandated coverage to meet statutory requirements for bonding of various public officials, or (4) high-value, mission-critical property or equipment. The Electronic Data Processing policy protects selected high-value electronic property in case of damage or loss.

(Dollars in thousands, unless otherwise stated)

(c) Workers' Compensation

The City actuarially determines and allocates workers' compensation costs to the Enterprise according to a formula based on the following: (i) the dollar amount of claims; (ii) yearly projections of payments based on historical experience; and (iii) the size of the Enterprise's payroll. The administration of workers' compensation claims and payouts are handled by the Workers' Compensation Division of the City's Department of Human Resources. Statewide workers' compensation reforms have resulted in budgetary savings in recent years. The City continues to develop and implement improved programs, such as return-to-work programs, to lower or mitigate the growth of workers' compensation costs. Programs include accident prevention, investigation, and duty modification for injured employees with medical restrictions so return to work can occur as soon as possible.

The changes for the workers' compensation liabilities for the years ended June 30, 2017 and 2016 are as follows:

Fiscal years		Beginning of year	Claims and changes in estimates	Claims paid	End of year
Hetch Hetchy Water and Power					
2017	$	2,964	861	(856)	2,969
2016		2,629	1,120	(785)	2,964
Hetchy Water					
2017	$	997	224	(222)	999
2016		846	378	(227)	997
Hetchy Power					
2017	$	1,967	637	(634)	1,970
2016		1,783	742	(558)	1,967

(d) Surety Bonds

Bonds are required in most phases of the public utilities construction contracting process for such phases as bid, performance, and payment or maintenance. Additionally, bonds may be required in other contracts where goods or services are provided to ensure compliance with applicable terms and conditions such as warranty.

(e) Errors and Omissions, Professional Liability

Errors and omissions and professional liability are commonly transferred through contract to the contracted professional, or retained through self-insurance on a case-by-case basis depending on the size, complexity, or scope of construction or professional service contracts. Examples of such contracts are inclusive of services provided by engineers, architects, design professionals, and other licensed or certified professional service providers.

(f) Public Officials Liability, Employment Practices Liability

All Enterprise public officials with financial oversight responsibilities are provided coverage through a commercial Public Officials Liability Policy. An Employment Practices Liability Policy is retained to protect against employment-related claims and liabilities.

(Continued)

(g) Builders' Risk

Builders' Risk policies of insurance are required to be provided by the contractor on all construction projects for the full value of construction.

(h) Crime

The Enterprise also retains a Commercial Crime Policy, in lieu of bonding its employees, to provide coverage against liabilities or losses due to third-party crime or employee fraud.

(i) Energy Risk Management

Similar to other electric utilities with a heavy reliance on hydroelectric generation, Hetch Hetchy is exposed to risks that could impact its ability to generate net revenues to fund operating and capital investment activities. Hydroelectric generation facilities in the Sierra Nevada are the primary source of electricity for Hetch Hetchy. For this reason, the Hetch Hetchy revenues can vary with watershed hydrology, unexpected generator outages, and market prices for energy. Given the inherent risk for all hydroelectric generation, several risk management interventions have been developed to mitigate exposure.

(j) Enterprise Risk Management

The Power Enterprise adopted the ISO 31000 standard for the Hetchy Power and CleanPowerSF program as the framework for implementing Enterprise Risk Management (ERM). The Enterprise utilizes this framework to systematically and proactively identify and mitigate risks that threatens its business objectives. Since not all risks are insurable or transferable contractually, the ERM program provides an additional method to manage risks and protect the Enterprise's current and expanding business allowing for increased operational resiliency and the ability to capitalize on opportunities.

(13) Commitments and Litigation

(a) Commitments

As of June 30, 2017 and 2016, Hetch Hetchy has outstanding commitments with third parties of $72,736 and $63,552, respectively, for various capital projects and other purchase agreements for materials and services.

Hetchy Water

To meet certain requirements of the Don Pedro Reservoir operating license, the City entered into an agreement with the MID and TID in which the Districts would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments from the City, which are included in Hetchy Water's operating expenses. The payment amounts were $4,716 and $4,651 for fiscal years 2017 and 2016, respectively. The payments are to be made for the duration of the license, but may be terminated with one year's prior written notice after 2001. The City and the Districts have also agreed to monitor the fisheries in the lower Tuolumne River for the duration of the license. A maximum monitoring expense of $1,400 is to be shared between the City and the Districts over the term of the license. The City's share of the monitoring costs is 52%, while the Districts are responsible for 48% of the costs.

Hetchy Power

District Sales

In April 1988, Hetchy Power entered into two separate long-term power sales agreements (the Agreement) with the two irrigation districts, the MID and TID, which expired June 30, 2015. In April 2015, the Commission and the Board of Supervisors approved the extension of both agreements for one year to June 30, 2016. A second extension agreement has been subsequently approved to continue the current terms and conditions for MID through June 30, 2017. The second extension agreement for TID proposes to remove the District's rights to excess energy from the project and terminate those conditions with the first extension agreement on June 30, 2016. The SFPUC will continue to comply with the Raker Act by making Hetch Hetchy generated hydropower available at cost to MID and TID for their agricultural pumping and municipal loads as energy from the Hetch Hetchy project is available after meeting the SFPUC's municipal load obligations.

For fiscal years 2017 and 2016, energy sales to the Districts totaled 152,321 Megawatt hours (MWh) or $7,808 and 377,981 MWh or $13,684 respectively. The decrease was primarily due to no purchase agreement with TID in fiscal year 2017.

1987 Interconnection Agreement and 2015 Replacement Agreements

In 1987, the City entered into an interconnection agreement with PG&E to provide transmission, distribution, and other support services for the City's use of PG&E's transmission and distribution system to deliver power to the City's customers. The renegotiated agreement in 2007 expired on July 1, 2015. In December 2014, PG&E filed several separate replacement service and facilities agreements with the FERC for its approval. By FERC order, the City is currently taking transmission service on PG&E's transmission system using the CAISO Open-Access Transmission Tariff and is taking distribution service under PG&E's Wholesale Distribution Tariff pursuant to PG&E's replacement agreements, but subject to waiver of certain terms and conditions and subject to refund by PG&E, pending the FERC's final decision. During fiscal years 2017 and 2016, Hetchy Power purchased $8,595 and $4,913, respectively, of transmission, distribution services, and other support services from PG&E under the terms of the replacement agreements and the 1987 Interconnection Agreement.

Western System Power Pool and other Market Purchases and Sales

Hetchy Power may purchase or sell energy and other related products (such as ancillary services, spinning reserves, resource adequacy products, and congestion revenue rights) with different market entities through the Western System Power Pool (WSPP) and the CAISO. During fiscal years 2017 and 2016, Hetchy Power purchased $0 and $3,591 of power and other related products, respectively. Sales of excess power, after meeting Hetch Hetchy's obligations, were 29,050 MWh, or $755, for 2017 and 9,520 MWh, or $157, for 2016. Sales in fiscal year 2017 were higher due to increased water flows resulting from higher precipitation levels, and fewer planned maintenance outages.

Power Purchase Agreement (PPA)

Hetchy Power (Buyer) purchases energy, capacity, and environmental attributes from a solar photovoltaic project located at Sunset Reservoir (the facility) pursuant to the 2009 25-year PPA with SFCity1, LP, owned by Duke Energy (Seller). In November 2010, the facility commenced commercial operation and began to provide Hetchy Power energy generated by the facility.

The PPA sets the purchase price of generated energy at $235/MWh, increased by 3% each year throughout the term of the agreement, and it is expected that the facility will generate 6,560 MWh per year. In fiscal year 2017, the facility generated 6,505 MWh. In the event that the facility generates more energy than expected due to better than normal meteorological conditions, the PPA requires the Buyer to purchase all the excess energy but generation in excess of 120% of expected is purchased at no cost. The PPA also requires the Seller to generate a minimum amount of energy from the facility annually. If energy production falls below 50% of expected, the Seller must provide replacement power, and if energy falls below 90% of expected, the price for energy generated is lowered. In fiscal years 2017 and 2016, purchases of energy under the Agreement were $1,847, or 6,505 MWh, and $1,918, or 6,934 MWh, respectively.

CleanPowerSF

CleanPowerSF launched in May 2016 and entered into contracts with Calpine Energy Services L.P. (Calpine) and Shiloh I Wind Project LLC (Shiloh) to purchase renewable and conventional energy and resource adequacy capacity to meet its retail sales obligations. Both contracts feature 10-year master agreements under which multiple transactions may be executed. CleanPowerSF had executed two multi-year transactions with Calpine (three-year term) and Shiloh (five-year term). The Calpine requires a reserve balance of $2,640 as of June 30, 2017, which equivalent to two months' worth of estimated payment. At June 30, 2017 and 2016, total electricity purchased from Calpine and Shiloh were $17,265 and $1,605 respectively.

Customer and Administrative Services

CleanPowerSF entered into contract with Noble Americas in November 2015 for a three-year term, not to exceed $5,600 to provide administrative and customer care services related to electricity data management, billing, call center and related services. During fiscal years 2017 and 2016, amount paid were $990 and $24, respectively. Prior year costs were included in Hetchy Power's start-up costs for CleanPowerSF.

CleanPowerSF Guarantee

During fiscal year 2017, there was a letter of credit outstanding that guarantees certain payment obligations of CleanPowerSF. The Letter of Credit is secured by Hetchy Power revenue at the 11th priority lien level under the Hetchy Power Indenture. The letter of credit, issued by JP Morgan Chase, was in the amount of $13,939 as of June 30, 2017. There were no draws against the letter of credit during fiscal year 2017.

(b) Litigation

Hetch Hetchy is a defendant in various legal actions and claims that arise during the normal course of business. The final disposition of these legal actions and claims is not determinable. However, in the opinion of management, the outcome of any litigation of these matters will not have a material effect on the financial position or changes in net position of Hetch Hetchy.

(c) Environmental Issue

As of June 30, 2017 and 2016, there was no pollution remediation liability recorded.

Supplemental Schedules

COMBINED HETCHY POWER AND CLEANPOWERSF
Supplemental Schedule - Statement of Net Position
June 30, 2016
(In thousands)

	Hetchy Power	CleanPowerSF	Eliminations	2016 Combined Total
Assets				
Current assets:				
Cash and investments with City Treasury	$ 151,827	8,175	—	160,002
Cash and investments outside City Treasury	8	—	—	8
Receivables:				
Charges for services (net of allowance for doubtful accounts $0 as of June 30, 2016 and 2015)	10,281	2,963	—	13,244
Due from other City departments, current portion	2,283	—	(750)	1,533
Due from other governments	1,810	—	—	1,810
Interest receivables	122	8	—	130
Total current receivables	14,496	2,971	(750)	16,717
Prepaid charges, advances, and other receivables, current portion	389	—	—	389
Inventory	257	—	—	257
Restricted cash and investments outside City Treasury, current portion	2,933	—	—	2,933
Total current assets	169,910	11,146	(750)	180,306
Non-current assets:				
Restricted cash and investments with City Treasury	38,180	—	—	38,180
Restricted cash and investments outside City Treasury, less current portion	2,577	—	—	2,577
Restricted interest receivable	131	—	—	131
Capital assets, not being depreciated and amortized	62,033	—	—	62,033
Capital assets, net of accumulated depreciation and amortization	228,349	—	—	228,349
Charges for services, less current portion	660	—	—	660
Prepaid charges, advances, and other receivables, less current portion	817	—	—	817
Due from other City departments, less current portion	17,946	—	(7,250)	10,696
Total non-current assets	350,693	—	(7,250)	343,443
Total assets	520,603	11,146	(8,000) *	523,749
Deferred outflows of resources:				
Pensions	4,578	—	—	4,578
Total deferred outflows of resources	4,578	—	—	4,578
Liabilities				
Current liabilities:				
Accounts payable	11,762	1,722	—	13,484
Accrued payroll	1,565	—	—	1,565
Accrued vacation and sick leave, current portion	1,469	—	—	1,469
Accrued workers' compensation, current portion	367	—	—	367
Damage claims liability, current portion	471	—	—	471
Due to other City departments, current portion	—	750	(750)	—
Unearned revenues, refunds, and other	4,099	—	—	4,099
Bond and loan interest payable	534	—	—	534
Bonds, current portion	1,692	—	—	1,692
Certificates of participation, current portion	315	—	—	315
Current liabilities payable from restricted assets	2,578	—	—	2,578
Total current liabilities	24,852	2,472	(750)	26,574
Long-term liabilities:				
Other post-employment benefits obligations	15,224	—	—	15,224
Net pension liability	14,781	—	—	14,781
Accrued vacation and sick leave, less current portion	1,051	—	—	1,051
Accrued workers' compensation, less current portion	1,600	—	—	1,600
Damage claims liability, less current portion	1,037	—	—	1,037
Due to other City departments, less current portion	—	7,250	(7,250)	—
Bonds, less current portion	58,418	—	—	58,418
Certificates of participation, less current portion	14,966	—	—	14,966
Total long-term liabilities	107,077	7,250	(7,250)	107,077
Total liabilities	131,929	9,722	(8,000) *	133,651
Deferred inflows of resources:				
Related to pensions	4,773	—	—	4,773
Total deferred inflows of resources	4,773	—	—	4,773
Net position:				
Net investment in capital assets	255,897	—	—	255,897
Restricted for debt service	306	—	—	306
Restricted for capital projects	—	—	—	—
Unrestricted	132,276	1,424	—	133,700
Total net position	$ 388,479	1,424	—	389,903

*Included interfund loan receivable and loan payable of $8,000 for fiscal year 2016, between Hetchy Power and CleanPowerSF.

See accompanying independent auditors' report.

COMBINED HETCHY POWER AND CLEANPOWERSF
Supplemental Schedule - Statement of Revenues, Expenses, and Changes in Net Position
Year ended June 30, 2016
(In thousands)

		Hetchy Power	CleanPowerSF	Eliminations	2016 Combined Total
Operating revenues:					
Charges for services	$	122,504	3,749	(403)	125,850
Rents and concessions		144	—	—	144
Total operating revenues		122,648	3,749	(403) *	125,994
Operating expenses:					
Personnel services		33,632	—	—	33,632
Contractual services		5,493	—	—	5,493
Transmission/distribution and other power costs		19,260	2,349	(403)	21,206
Purchased electricity		5,586	—	—	5,586
Materials and supplies		1,849	—	—	1,849
Depreciation and amortization		12,639	—	—	12,639
Services provided by other departments		7,397	—	—	7,397
General and administrative and other		24,157	—	—	24,157
Total operating expenses		110,013	2,349	(403) *	111,959
Operating income		12,635	1,400	—	14,035
Non-operating revenues (expenses):					
Interest and investment income		1,294	24	—	1,318
Interest expenses		(3,355)	—	—	(3,355)
Amortization of premium, discount, and issuance costs		122	—	—	122
Net gain from sale of assets		1	—	—	1
Other non-operating revenues		12,255	—	—	12,255
Other non-operating expenses		(1,676)	—	—	(1,676)
Net non-operating revenues		8,641	24	—	8,665
Change in net position before transfers		21,276	1,424	—	22,700
Transfers from the City and County of San Francisco		1,385	—	—	1,385
Transfers to the City and County of San Francisco		(705)	—	—	(705)
Change in net position		21,956	1,424	—	23,380
Net position at beginning of year		366,523	—	—	366,523
Net position at end of year	$	388,479	1,424	—	389,903

*$403 eliminations in fiscal year 2016 included: $36 resale of electricity from CleanPowerSF to Hetchy Power and $367 sale of capacity from Hetchy Power to CleanPowerSF.

See accompanying independent auditors' report.

KPMG LLP
Suite 1400
55 Second Street
San Francisco, CA 94105

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Honorable Mayor and Board of Supervisors
City and County of San Francisco:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of Hetch Hetchy Water and Power and Clean Power (Hetch Hetchy), an enterprise fund of the City and County of San Francisco, California (the City), which comprise the statement of financial position as of June 30, 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 8, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hetch Hetchy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hetch Hetchy's internal control. Accordingly, we do not express an opinion on the effectiveness of Hetch Hetchy's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hetch Hetchy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hetch Hetchy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hetch Hetchy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

San Francisco, California
November 8, 2017

San Francisco Public Utilities Commission
A Department of the City and County of
San Francisco, California

OUR MISSION

To provide our customers with high-quality, efficient and reliable water, power and sewer services in a manner that values environmental and community interests and sustains the resources entrusted to our care.

Photos by: Robin Scheswohl

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Communications Division
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Financial Services
525 Golden Gate Avenue, 4th Floor
San Francisco, CA 94102-3220
sfwater.org