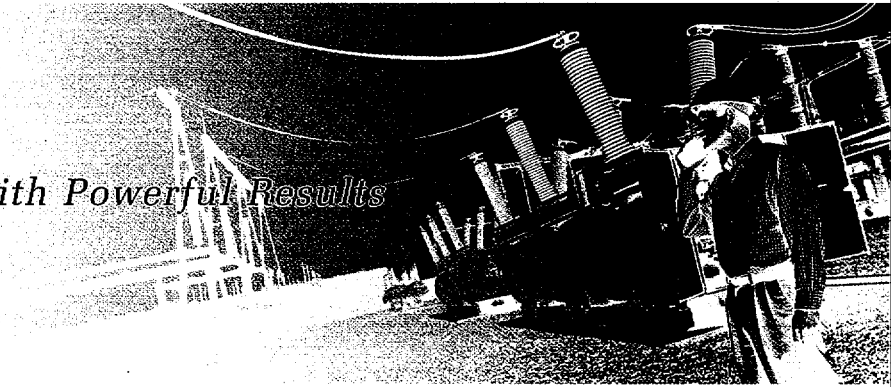


ANAHEIM PUBLIC UTILITIES

Annual Report 1999

Innovating with Powerful Results



LETTER FROM THE GENERAL MANAGER ANAHEIM PUBLIC UTILITIES

TABLE OF CONTENTS

<i>Manager's Letter</i>	1
<i>Water Services</i>	2
<i>Electric Services</i>	4
<i>Advantage Services</i>	6
<i>Strategic Options</i>	8
<i>About your Utilities</i>	10
<i>Financials</i>	11

At Anaheim Public Utilities, we are committed to creating value for the community. In addition to providing high quality water and electric services at competitive rates, we offer an array of cost-saving programs and incentives to our residential and business customers. All of our customers benefit from the Anaheim advantage. ■ The 300,000 residents we serve receive electric rates that are 15 percent lower than surrounding communities, while the 15,000 businesses in Anaheim are provided with electric rates up to 9 percent lower than other Orange County utilities. In Fiscal Year 1998-99 alone, this translated into nearly \$20 million in customer savings. ■ We continue to be proactive in addressing the key issues of water quality, system reliability, and customer growth. A recently completed water system planning study provides a comprehensive description of improvements needed to ensure reliable water service and satisfy the requirements of a growing population. Improving our existing high quality water supply continues to be a key component as well, as proven by a new well-drilling program that provides new sources of water from the deepest and highest quality aquifers. ■ Also, Anaheim is among an elite group of 25 U.S. cities with a "Class 1" water rating. This rating - the highest possible - is awarded for superior fire and water supply ratings. Customer benefits include a proven reliable water supply, plus reduced insurance costs. ■ Advantage Services are another way we support the community. Over 40 programs are available to assist our residential, business, and low-income customers in reducing their energy and water costs. This fiscal year we distributed 2,790 TreePower shade trees and more than 1,700 Dusk to Dawn Lighting fixtures to our customers.

We also performed 628 home utility check-ups for our residential customers and 212 business energy audits. To help our businesses be even more successful and competitive, we offer our Innovative Energy Technologies program that awards up to \$1,000,000 to assist Anaheim businesses develop new energy-saving technologies and products.

With the Powerful Partnership for Business, we have joined forces with the City's Community Development Department to provide customized programs, incentives, and support to help recruit and retain Anaheim businesses. Here we create value by helping our business customers be more competitive in the world market. Such programs have resulted in the addition of more than 3,600 high-paying jobs for Anaheim during Fiscal Year 1998-99. This fiscal year Anaheim Public Utilities concluded its two-year strategic options study, which explored opportunities to successfully position ourselves in the newly restructured electric industry. As a result, a strategic alliance with IDACORP Energy Solutions Company was initiated to maximize combined resources. The alliance conducted two auction sales of its surplus transmission capacity, resulting in about \$500,000 in revenues for Anaheim. Total first year benefits from the alliance are expected to be about \$1.25 million. We continue to provide our customers with high levels of electric service by implementing numerous reliability upgrades. Through our underground conversion program we have replaced 58,080 feet of overhead circuits with new underground systems. In addition, 8,000 feet of direct buried primary cable were replaced in Fiscal Year 1998-99. Throughout its operations, Anaheim Public Utilities strives to be an organization with a conscientious attitude - one that pays attention to details, plans for the future, and creates value for the community. We will continue to work hard to keep our customers satisfied, striving for new and innovative ways to provide high quality service.

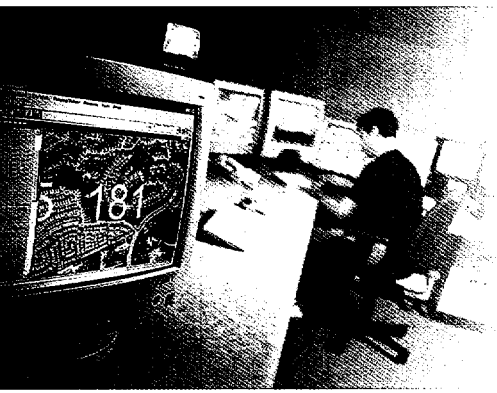
Edward K. Aghjayan



*General Manager,
Anaheim Public Utilities*

ENSURING AN ABUNDANT SUPPLY OF HIGH QUALITY WATER

Anaheim residents enjoy dependable delivery of water with quality that exceeds state and federal standards. This fiscal year, we provided over 23 billion gallons to our customers, with 80 percent coming from our own groundwater wells. The quality of our water is so good that we plan to bottle it for non-profit distribution at community events and the Anaheim Convention Center. ■ In conjunction with the United States Environmental Protection Agency (EPA), Anaheim participated in the nationwide Partnership for Safe Water program. Recently, the Partnership awarded us the Director's Certificate of Recognition. This participation has demonstrated the department's dedication and commitment to continually provide safe, high quality water to its customers. ■ During Fiscal Year 1998-99, we developed a far-reaching plan to satisfy future water requirements, which are projected to grow by 33 percent in 20 years. To accommodate both current and future customers, we are developing a capital improvement program which includes new wells, upgrades of key pump stations and reservoirs, and a strengthened distribution system. Ongoing programs for replacing meters, valves, and pressure regulators are also part of the plan to maintain exceptional service, as is a future project to provide more groundwater to our hill and canyon neighborhoods. ■ The upgrade of 40 miles of unlined, cast iron water mains in the downtown area continues to move ahead. In this fiscal year, we replaced an additional 2.6 miles of deteriorating pipe to ensure water quality and the capacity required for fire protection. ■ Progress was also made in promoting efficient water usage. During this fiscal year, more than 2,000 ultra-low-flush toilets were distributed to residential and commercial/industrial customer sites. Over the next four years, 12,000 more toilets will be distributed to the citizens of Anaheim. In addition, rebates are available for water-saving devices, resulting in customer savings of over 30 million gallons a year and reduced water bills for our customers. ■ Anaheim's new Geographic Information System (GIS) intranet site is designed to simplify access to information affecting water service. By saving hundreds of research hours, our employees can rapidly provide accurate information to the public. City employees can quickly monitor water system status and infrastructure specifications for any property, including locating water leaks and monitoring flow direction.

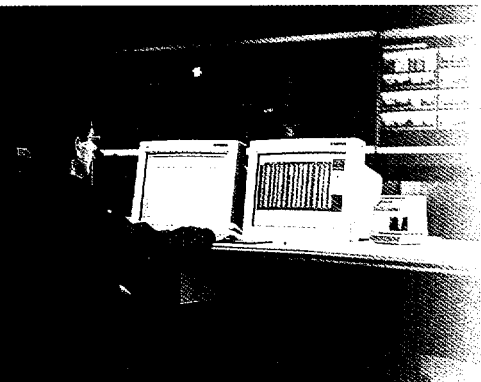


Our GIS Website accesses map-related information faster than ever before. Instead of searching through multiple sources of information, staff can rapidly respond to customer inquiries by accessing a single, centralized data warehouse.



ENHANCING ELECTRICAL INFRASTRUCTURE FOR RELIABILITY AND AESTHETICS

Increased customer expectations, new technologies, and electric restructuring are challenging us to explore new ways of doing business. The creative solutions we are applying provide the community with high levels of safe and reliable service, exceptional cost savings, and aesthetic improvements. □ Through our Underground Conversion Program, we maintain an ongoing commitment to underground more of Anaheim's overhead power lines. Overall, program goals are to reduce the frequency and duration of power outages, while beautifying the cityscape for our residents. □ Since the program's inception more than a decade ago, 21 projects have been completed. In Fiscal Year 1998-99 alone, we replaced 58,080 feet of overhead circuits with new underground systems. Several of these recent projects supported civic beautification activities in the Anaheim Resort Area. Over half of Anaheim's distribution system is now underground. □ In progress for several years, other key projects involve extensive Interstate 5 and State Route 91 facility relocation in cooperation with the State of California Department of Transportation (CALTRANS) and the Orange County Transportation Authority (OCTA). This construction was substantially completed during Fiscal Year 1998-99 and will provide easier access to Anaheim's tourist destinations and businesses. □ To further protect our customers from outages, we have instituted numerous reliability upgrades, both above and below ground. Recent underground improvements include accelerating direct buried cable replacement and secondary connector replacements in residential areas, rehabilitating aging backbone circuits, installing fault indicators, and eliminating radial circuit configurations. Simultaneously, the reliability of overhead systems has been improved by adding branch line fusing and bird guards, improving circuit switching performance, and replacing obsolete and deteriorating components. □ Infrastructure has been expanded as well, achieving substantial completion of support for the new Disneyland Resort during this fiscal year. The new expansion will double the size of this renowned landmark and increase electric demand for Anaheim Public Utilities' power. In addition, subsurface ductbanks, vaults, and switching stations help ensure the delivery of reliable, high quality power to our neighborhoods. City construction was coordinated with the Anaheim Resort Area and the Disneyland Resort's own construction activities to help reduce the impact on the community and help reduce the length of time for construction.




When we receive a call reporting an electrical problem, a systems operator in the electric control center works with the customer to determine the extent of the problem then promptly dispatches the appropriate field crew to make repairs.



EXPANDING ADVANTAGE SERVICES TO BENEFIT MORE CUSTOMERS

Through an expanded portfolio of Advantage Services, we offer many programs to help customers reduce their utility bills by using water and electricity more efficiently. For instance, commercial and industrial customers can take advantage of financial incentives to upgrade to water- and energy-efficient practices and equipment, customized site audits, and consulting programs that will lower their utility bills by reducing energy and water usage. Over \$330,000 was awarded to our business customers this fiscal year. ■ Prominent among the services recently introduced is the million-dollar Innovative Energy Technologies program. Awards of up to \$100,000 help fund energy-related bright ideas in key categories. These include advanced products and systems that can reduce a facility's own energy usage, as well as creating energy-efficient products which can be developed for commercial sale. ■ Thousands of residential customers also benefit. This year, over 600 households participated in free utility check-ups, which provide customized home audits of water and energy use. By following recommendations contained in the audits, our customers can save money on their monthly bills by conserving water and energy. Another popular program offers free energy-efficient security light fixtures which come on automatically at dusk and shut off at dawn, contributing to safer neighborhoods. This year, we installed more than 1,700 of these high pressure sodium fixtures. ■ Included in our portfolio of Advantage Services are many programs to assist low-income customers. Among these are funding for energy efficiency improvements to homes, installing security lighting, and offering discounted electric rates. ■ Co-sponsored with the City's Community Services Department, our TreePower program provides free shade trees, helping people beautify the environment while saving on cooling bills. This fiscal year, we furnished trees for 1,114 customers. An impressive milestone was achieved in January 1999, with the planting of the ceremonial 10,000th tree at the Sunkist Branch Library. ■ As Advantage Services continue to expand, we keep our customers informed through education and outreach programs. In addition, we maintain a website for easy updates on the latest service offerings at www.anaheimadvantage.com.



To deliver Advantage Services to our customers, we maintain a fleet of vehicles, like this electric-powered truck, which is being "fueled" at the utility's electric vehicle charging station.

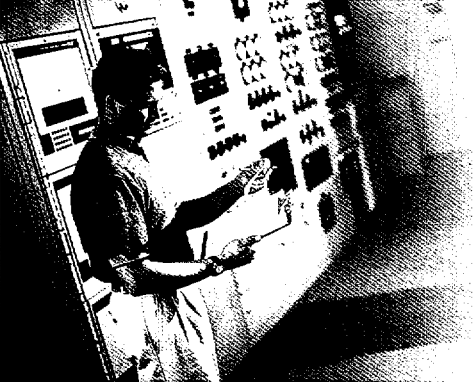


PURSUING STRATEGIC OPTIONS TO CONTINUE EXCEPTIONAL SERVICE TO THE COMMUNITY

Driven by changes in the electric utility industry and the need to maintain our leadership, Anaheim Public Utilities explored a comprehensive array of strategic options, ranging from subtle operational changes to selling the entire utility. To identify all such opportunities, we commissioned a major independent study. This intensive review confirmed that the department is financially sound and well positioned in the competitive marketplace. ■ A key recommendation was that we form a strategic alliance with IDACORP Energy Solutions Company. The purposes of this new partnership are to optimize our generation and transmission resources, thereby lowering power supply costs, and to expand the exchange of information and expertise between our two organizations. Annual benefits from such an alliance are anticipated to exceed \$1 million.

■ In exploring our strategic options, maintaining quality of service for the community is always paramount. The utility has long enjoyed a reputation for excellence and innovation, recently confirmed by three major awards. ■ First is the coveted E. F. Scattergood System Achievement Award from the American Public Power Association, an industry association representing more than 2000 public power systems nationwide. The Scattergood Award recognizes outstanding leadership in the industry, system-wide achievement, and a proven commitment to superior customer service. Specifically, this award affirms Anaheim's leadership in shaping California's pioneering restructuring legislation. We are one of only six utilities in the nation to receive this honor twice.

■ We were also a repeat winner of California Municipal Utilities Association's (CMUA) Community Service/Resource Efficiency Award for Anaheim's Waterwise Demonstration Garden. Already, the Garden has become a valued resource for educating the community about efficient water usage. Since 1991, eleven of our water and energy efficiency programs have won the prestigious CMUA award. ■ Our third notable accomplishment was the American Public Power Association's Energy Innovator Award. Through a unique partnership with the City's Public Works Department, we updated Anaheim's traffic signals with energy-conserving light emitting diodes (LEDs), which will save Anaheim's citizens about \$214,000 annually.



In the Combustion Turbine Generation (CTG) station control room, technicians regularly monitor power production and power quality. IDACORP Energy Solutions, our new alliance partner, will help optimize use of the CTG and additional generation resources.

PURSUING STRATEGIC OPTIONS TO CONTINUE EXCEPTIONAL SERVICE TO THE COMMUNITY

Driven by changes in the electric utility industry and the need to maintain our leadership, Anaheim Public Utilities explored a comprehensive array of strategic options, ranging from subtle operational changes to selling the entire utility. To identify all such opportunities, we commissioned a major independent study. This intensive review confirmed that the department is financially sound and well positioned in the competitive marketplace. ■ A key recommendation was that we form a strategic alliance with IDACORP Energy Solutions Company. The purposes of this new partnership are to optimize our generation and transmission resources, thereby lowering power supply costs, and to expand the exchange of information and expertise between our two organizations. Annual benefits from such an alliance are anticipated to exceed \$1 million. ■ In exploring our strategic options, maintaining quality of service for the community is always paramount. The utility has long enjoyed a reputation for excellence and innovation, recently confirmed by three major awards. ■ First is the coveted E. F. Scattergood System Achievement Award from the American Public Power Association, an industry association representing more than 2000 public power systems nationwide. The Scattergood Award recognizes outstanding leadership in the industry, system-wide achievement, and a proven commitment to superior customer service. Specifically, this award affirms Anaheim's leadership in shaping California's pioneering restructuring legislation. We are one of only six utilities in the nation to receive this honor twice. ■ We were also a repeat winner of California Municipal Utilities Association's (CMUA) Community Service/Resource Efficiency Award for Anaheim's Waterwise Demonstration Garden. Already, the Garden has become a valued resource for educating the community about efficient water usage. Since 1991, eleven of our water and energy efficiency programs have won the prestigious CMUA award. ■ Our third notable accomplishment was the American Public Power Association's Energy Innovator Award. Through a unique partnership with the City's Public Works Department, we updated Anaheim's traffic signals with energy-conserving light emitting diodes (LEDs), which will save Anaheim's citizens about \$214,000 annually.



In the Combustion Turbine Generation (CTG) station control room, technicians regularly monitor power production and power quality. IDACORP Energy Solutions, our new alliance partner, will help optimize use of the CTG and additional generation resources.



ABOUT YOUR ANAHEIM PUBLIC UTILITIES

For more than a century, Anaheim Public Utilities has served the community with reliable, low cost water and electric service. Residents continue to enjoy electric rates that are 15 percent lower than surrounding communities. Anaheim businesses have competitive advantages, including access to a wide range of fiber-optic technologies and services and electric rates that are up to 9 percent lower than other utilities in Orange County.

Anaheim's water system has been rated as "Class 1" by the Insurance Services Office. This rating, earned by only a few cities in the United States, recognizes Anaheim's water system as one of the best in reliability and effectiveness. Our customers can choose from a variety of Advantage Services to help lower electric and water utility costs. These Anaheim-specific programs include rebates and other incentive programs, grants, educational seminars and workshops, customized audits, and much more. We remain Anaheim-focused and continue to look at progressive ways to add value to the community and meet our customers' needs.

CITY OF ANAHEIM OFFICIALS

ANAHEIM CITY COUNCIL

Mayor, Tom Daly

Mayor Pro Tem, Shirley McCracken

Council Member, Tom Tait

Council Member, Frank Feldhaus

Council Member, Lucille Kring

CITY MANAGEMENT

City Manager, James D. Ruth

Assistant City Manager, David M. Morgan

Assistant City Manager, Thomas J. Wood

Finance Director, William G. Sweeney

City Attorney, Jack L. White

City Clerk, Sheryll A. Schroeder

City Treasurer, Charlene Jung

ANAHEIM PUBLIC UTILITIES BOARD

Chairman, Stephen Faessel

Vice Chairman, Delia Schweitzer

Board Member, George Edwards

Board Member, Thomas Kirker

Board Member, Dale Stanton

Board Member, L. Ward Wiseman, M.D.

Board Member, Joe White

ANAHEIM PUBLIC UTILITIES MANAGEMENT

General Manager, Edward K. Aghjayan

Assistant General Manager - Water Services,
Robert W. Carr

Assistant General Manager - Electric

Services, Dale R. Tarkington

Assistant General Manager - Finance and
Administration, Brian G. Thomas

ANAHEIM PUBLIC UTILITIES

Operating Analysis, Statistics and Financial Statements

Fiscal Year Ended June 30, 1999

<i>Statistics and Financial Condition</i>	<i>12</i>
<i>Electric Utility Statistics</i>	<i>14</i>
<i>Water Utility Statistics</i>	<i>17</i>
<i>Electric Utility Audited Financial Statements</i>	<i>20</i>
<i>Electric Utility Notes to Financial Statements</i>	<i>24</i>
<i>Water Utility Audited Financial Statements</i>	<i>36</i>
<i>Water Utility Notes to Financial Statements</i>	<i>40</i>

ANAHEIM PUBLIC UTILITIES

Management Discussion and Analysis of Operations, Statistics and Financial Condition

The financial condition of the Water Utility: Subsequent to fiscal year end, on July 1, 1999, the Water Utility completed the fifth and final year of its five-year plan to restructure rates. The plan, which was originally implemented in September 1994, was revenue neutral for the utility. Residents in Anaheim have not incurred a base rate increase since 1993.

Typically, 75 percent of the annual Anaheim water requirements is produced from low-cost, local wells with the rest supplemented by purchases of imported water from the Metropolitan Water District of Southern California (MWD). During 1999's fiscal year, Anaheim, the Orange County Water District, and the MWD forged an alliance, allowing Anaheim to produce 80 percent of its water from local wells and thus, producing savings in excess of \$125,000.

The Water Utility maintains an AA credit rating with Standard & Poor's with excellent debt service coverage that is 5.5 times debt service requirements.

Both revenue and demand for water increased in 1999. Revenues from the sale of water totaled \$37.7 million during fiscal year of 1999, a seven percent increase from 1998. Anaheim sold 23.2 million gallons of water, an eight percent increase over last year. The El Nino weather phenomenon produced greater rainfall during fiscal year 1998, which accounts for the increase in sales of water during 1999. This year's water sales rebounded near the record- setting sales levels of 1997's fiscal year.

Expenses for operating of the water system increased in 1999. Total operating expenses were \$30.2 million, an increase of \$4.4 million or 17 percent from 1998. The costs to produce water increased \$1.0 million due to higher demand. In addition, expenses incurred for the new water system planning study, litigation expenses and various other expenses accounted for the majority of this year's increase.

Other items of interest in the water system during 1999 include:

1. The Water System Planning Study, a project that included the development of a new computer model, has been completed. This new computer model allows for the determination of fire flow adequacy, system reliability and growth in water demand over the next 30 years.
2. The Water Utility received the Director's Award of Recognition for completing the multi-year "Partnership for Safe Water Assessment" at the Lenain Water Treatment plant.
3. The Water Utility contributed approximately \$1.5 million in support of municipal government. In addition, the Water Utility's operating costs include payments for services rendered by various municipal departments.
4. Litigation resulting from the Orange County's bankruptcies in 1994 was completed and should lead to the recovery of approximately \$349,000 by the water system.

ANAHEIM PUBLIC UTILITIES

The financial condition of the Electrical Utility: As part of the Electric Utility's ongoing financial plan, debt has been restructured to reduce the stranded costs. Base electricity rates have not increased since 1993, allowing the residents of Anaheim to enjoy the lowest electric rates in Orange County.

The Electric Utility maintains an A+ credit rating with Standard & Poor's, one of the highest ratings among municipal electric utilities in Southern California. Anaheim's electric debt service coverage is 2.9 times debt service requirements.

Both revenue and demand for electricity increased in 1999. Revenues from the sale of electricity totaled \$236.9 million for fiscal year 1999, a 5 percent increase over fiscal year 1998. The City of Anaheim's Electric Utility sold 3 million megawatt-hours, an increase of 14 percent over last year. Retail sales increased approximately 1.7 percent over 1998 while wholesale electric sales increased 127 percent. All of these factors helped to produce record-breaking revenues for the Electric Utility during fiscal year 1999.

Expenses for operating the electric system increased. Total operating expenses were \$213.6 million for the fiscal year of 1999, less than a 2 percent increase over fiscal year 1998. The regularly scheduled maintenance program at the San Onofre Nuclear Generating Station resulted in both Units 2 and 3 being off-line and the majority of the increase in Electric Utility maintenance expenses.

Other items of interest in the electric system during 1999 include:

1. A \$45 million debt issue subsequent to the end of the fiscal year (discussed in Note 15, Subsequent Event) which advance refunds a portion of several generation issues, provides a net present value savings of \$2.8 million and further reduces the electric system's stranded cost recovery period.
2. In an effort to better position the electric utility for the competitive environment ahead, a "Strategic Options Process" was completed in 1999. This process led to an agreement with Idaho Power, providing approximately \$1 million in benefits to the Electric Utility. Additional analysis regarding specific operations and defining further opportunities for savings within the Electric Utility department will continue throughout 2000.
3. The Electric Utility contributed approximately \$9.4 million in support of municipal government. In addition, the Electric Utility's operating costs include payments for services rendered by various municipal departments.
4. Litigation resulting from the Orange County's bankruptcies in 1994 was completed and should lead to the recovery of approximately \$2.8 million by the electric system.

ELECTRIC UTILITY STATISTICS

ELECTRIC OPERATING STATISTICS

Year Ended June 30,	1998/99	1997/98	1996/97	1995/96	1994/95
POWER SUPPLY (MWh)					
Owned Generation					
San Onofre Nuclear Generating Station	513,926	526,600	408,135	539,558	491,647
San Juan Unit #4	378,715	376,911	259,414	337,299	298,914
Combustion Turbine	27,719	5,175	2,922	3,858	2,622
Total Owned Generation:	920,360	908,686	670,471	880,715	793,183
Purchased Power					
Intermountain Power Project	1,742,866	1,565,086	1,614,901	955,591	1,235,149
Hoover Dam	60,297	59,873	53,173	54,802	46,850
Power contracts	399,163	99,210	117,117	50,061	114,143
Southern California Edison	42,039	114,557	55,722	90,907	91,470
Non-firm purchases	142,770	290,887	399,958	821,749	596,537
Total Purchased Power	2,387,135	2,129,613	2,240,871	1,973,110	2,084,149
System total	3,307,495	3,038,299	2,911,342	2,853,825	2,877,332
System peak: (mW)	577.6	560.7	500.2	501.1	514.1

ELECTRIC USE

Average Number of Meters

Residential	90,788	90,345	89,467	88,568	87,964
Commercial	15,521	15,491	15,545	15,500	15,248
Industrial	672	708	614	576	572
Other	107	108	109	160	152
Other utilities	10	11	12	8	1
Total meters - all classes	107,098	106,663	105,747	104,812	103,937

Megawatt-hour Sales

Residential	559,362	549,804	537,294	530,901	522,622
Commercial	613,368	584,391	602,530	580,454	570,666
Industrial	1,214,941	1,214,270	1,169,179	1,127,457	1,129,019
Other	43,227	41,165	40,400	39,865	34,378
Other utilities	607,144	267,228	425,023	354,351	429,246
Total sales - all classes	3,038,042	2,656,858	2,774,426	2,633,028	2,685,931

GROWTH OF SYSTEM

Transmission, 69 kV, circuit miles	67	67	67	67	68
Distribution, 12 kV and lower, circuit miles					
Overhead	828	836	851	856	868
Underground	561	525	508	494	488
Total transmission and distribution	1,456	1,428	1,426	1,417	1,424
Transformer capacity, kVa					
220kV to 69kV	840,000	840,000	840,000	840,000	840,000
69kV to 12kV	935,000	885,000	846,000	830,000	780,000
12kV to customer	1,305,000	1,253,000	1,233,000	1,204,000	1,202,000

ELECTRIC UTILITY STATISTICS

ELECTRIC SYSTEM SALES COMPARISON

	Residential	Commercial	Industrial	Other	Other Electric Utilities	All Classes
REVENUE FROM THE SALE OF ELECTRICITY (1) (in thousands)						
Year ended June 30						
1999	\$ 54,610	\$ 63,696	\$ 102,799	\$ 3,393	\$ 14,410	\$ 238,908
1998	53,737	62,337	102,810	3,283	5,090	227,257
Increase (decrease)	\$ 873	\$ 1,359	\$ (11)	\$ 110	\$ 9,320	\$ 11,651
Percent increase (decrease)	1.6%	2.2%	0.0%	3.4%	183.1%	5.1%

MEGAWATT-HOURS SOLD

Year ended June 30						
1999	559,362	613,368	1,214,941	43,227	607,144	3,038,042
1998	549,804	584,391	1,214,270	41,165	267,228	2,656,858
Increase (decrease)	9,558	28,977	671	2,062	339,916	381,184
Percent increase (decrease)	1.7%	5.0%	0.1%	5.0%	127.2%	14.3%

AVERAGE BILLING PRICE PER KWH

Year ended June 30						
1999	\$ 0.0976	\$ 0.1038	\$ 0.0846	\$ 0.0785	\$ 0.0237	\$ 0.0786
1998	0.0977	0.1067	0.0847	0.0798	0.0190	0.0855
Increase (decrease)	\$ (0.0001)	\$ (0.0028)	\$ (0.0001)	\$ (0.0013)	\$ 0.0047	\$ (0.0069)
Percent increase (decrease)	(0.1%)	(2.6%)	(0.1%)	(1.6%)	24.6%	(8.1%)

AVERAGE NUMBER OF METERS

Year ended June 30						
1999	90,788	15,521	672	107	10	107,098
1998	90,345	15,491	708	108	11	106,663
Increase (decrease)	443	30	(36)	(1)	(1)	435
Percent increase (decrease)	0.5%	0.2%	(5.1%)	(0.9%)	(9.1%)	0.4%

AVERAGE ANNUAL USE BY METER, KWH

Year ended June 30						
1999	6,161	39,519	1,807,948	403,991		
1998	6,086	37,725	1,715,071	381,153		
Increase (decrease)	75	1,794	92,877	22,838		
Percent increase (decrease)	1.2%	4.8%	5.4%	6.0%		

(1) Amounts represent revenue excluding the change in unbilled revenue

ELECTRIC UTILITY STATISTICS

(in thousands)

ELECTRIC NET REVENUES AVAILABLE FOR LONG-TERM REVENUE BOND DEBT SERVICE

	1998/99	1997/98	1996/97	1995/96	1994/95
REVENUES					
Sale of electricity					
Residential	\$ 54,610	\$ 53,737	\$ 51,626	\$ 51,845	\$ 50,439
Commercial	63,696	62,337	63,115	60,979	60,051
Industrial	102,799	102,810	100,789	100,695	99,877
Other	3,393	3,283	3,164	3,207	2,768
Other utilities	14,410	5,090	5,074	5,285	7,240
Billed revenue from the sale of electricity	238,908	227,257	223,768	222,011	220,375
Change in unbilled revenue	(1,996)	(1,320)	4,530	667	(1,015)
Total revenue from the sale of electricity	236,912	225,937	228,298	222,678	219,360
Provision for rate stabilization	7,536	13,592	14,251	20,956	19,750
Other (including interest income)	17,888	12,400	6,586	9,914	8,422
Total gross revenues	262,336	251,929	249,135	253,548	247,532
EXPENSES					
(excluding depreciation, interest expense and cancelled project costs)					
Cost of purchased power	137,713	136,343	141,120	127,839	128,926
Fuel used for generation	2,785	2,854	2,212	3,370	3,104
Operations	39,480	40,560	38,093	37,994	39,374
Maintenance	14,034	11,549	14,817	11,391	11,924
Non-operating	215	1,114	-	-	-
Total expenses	194,227	192,420	196,242	180,594	183,328
NET REVENUES (a)	68,109	59,509	52,893	72,954	64,204
Parity bond debt service requirements (b)	20,796	20,834	19,649	20,763	20,726
(Reduction)/Deposits to renewal and replacement	(151)	89	301	118	152
SURPLUS REVENUES (c)	47,464	38,586	32,943	52,073	43,326
Qualified obligations purchase payments (d)	16,103	13,007	11,058	11,058	10,920
ERAN interest and related expenses	683	800	804	845	777
Net revenues after debt service payments	30,678	24,779	21,081	40,170	31,629
Transfers to Anaheim general fund	9,396	9,539	9,674	9,491	9,345
BALANCE FOR OTHER PURPOSES	\$ 21,282	\$ 15,240	\$ 11,407	\$ 30,679	\$ 22,284
Times parity bond debt service coverage (a/b)	3.3	2.9	2.7	3.5	3.1
Qualified obligation debt service coverage (c/d)	2.9	3.0	3.0	4.7	4.0

WATER UTILITY STATISTICS

WATER OPERATING STATISTICS

Year Ended June 30,	1998/99	1997/98	1996/97	1995/96	1994/95
WATER SUPPLY					
Production (millions of gallons)					
From Metropolitan Water District	4,965.0	5,723.7	5,885.9	5,821.6	7,057.9
Percent of total production	20%	25%	24%	25%	32%
From water system wells	19,295.0	17,131.6	18,884.3	17,254.6	15,003.0
Percent of total production	80%	75%	76%	75%	68%
Total production	24,260.0	22,855.3	24,770.2	23,076.2	22,060.9
Capacity (gallons per minute)					
From Metropolitan Water District	76,435	76,435	76,435	76,435	76,435
From water system wells, average	51,330	52,950	51,943	52,950	54,636
Treatment plant capacity	10,417	10,417	10,417	10,417	10,417
Total supply capacity	138,182	139,802	138,795	139,802	141,488
Peak day distribution (millions of gallons)	99.9	100.6	107.3	90.7	90.3
Average daily distribution (millions of gallons)	66.9	62.5	67.5	64.6	59.9

WATER USE

Average Number of Meters					
Residential	51,556	51,529	51,119	50,665	50,196
Commercial/Industrial	6,216	6,309	6,211	6,130	6,108
Other	1,529	1,634	1,653	1,644	1,610
Total meters - all classes	59,301	59,472	58,983	58,439	57,914
Millions of Gallons Sold					
Residential	13,829	12,884	13,795	12,934	12,574
Commercial	8,969	8,138	9,144	8,608	7,989
Other utilities	394	521	567	357	534
Total sales - all classes	23,192	21,543	23,506	21,899	21,097
Anaheim population served	306,000	301,176	295,452	293,245	291,536
Population served outside city (estimated)	5,100	5,100	5,100	5,100	5,100
Total population served	311,100	306,276	300,552	298,345	296,636
Average daily sales per capita, (gallons)	204	193	214	201	195

SYSTEM CHARACTERISTICS

Active Wells	26	24	28	29	31
Reservoirs	14	13	13	13	13
Water storage capacity (millions of gallons)					
Treated	89	85	85	85	84
Untreated	920	920	920	920	920
Water mains (miles)	774	771	765	764	759
Fire hydrants	7,732	7,611	7,496	7,496	7,377

WATER UTILITY STATISTICS

WATER SYSTEM SALES COMPARISON

	Residential	Commercial & Industrial	Other	All Classes
REVENUE FROM THE SALE OF WATER (1) (in thousands)				
Year ended June 30				
1999	\$ 23,329	\$ 12,807	\$ 1,553	\$ 37,689
1998	22,013	11,213	2,046	35,272
Increase (decrease)	\$ 1,316	\$ 1,594	\$ (493)	\$ 2,417
Percent increase (decrease)	6.0%	14.2%	(24.1%)	6.9%

UNITS OF WATER SOLD (HUNDRED CUBIC FEET)

Year ended June 30				
1999	18,487,520	12,000,716	526,947	31,015,183
1998	17,224,293	10,879,232	697,488	28,801,013
Increase (decrease)	1,263,227	1,121,484	(170,541)	2,214,170
Percent increase (decrease)	7.3%	10.3%	(24.5%)	7.7%

AVERAGE BILLING PRICE PER HUNDRED CUBIC FEET

Year ended June 30				
1999	\$ 1.2619	\$ 1.0672	\$ 2.9472	\$ 1.2152
1998	1.2780	1.0307	2.9340	1.2247
Increase (decrease)	\$ (0.0161)	\$ 0.0365	\$ 0.0132	\$ (0.0095)
Percent increase (decrease)	(1.3%)	3.5%	0.4%	(0.8%)

AVERAGE NUMBER OF METERS

Year ended June 30				
1999	51,556	6,216	1,529	59,301
1998	51,529	6,309	1,634	59,472
Increase (decrease)	27	(93)	(105)	(171)
Percent increase (decrease)	0.1%	(1.5%)	(6.4%)	(0.3%)

AVERAGE ANNUAL USE BY METER (HUNDRED CUBIC FEET)

Year ended June 30				
1999	359	1,924	349	523
1998	334	1,724	427	484
Increase (decrease)	25	200	(78)	39
Percent increase (decrease)	7.5%	11.6%	(18.3%)	8.1%

(1) Amounts represent revenue excluding the change in unbilled revenue

WATER UTILITY STATISTICS

(in thousands)

WATER NET REVENUES AVAILABLE FOR LONG-TERM REVENUE BOND DEBT SERVICE

	1998/99	1997/98	1996/97	1995/96	1994/95
REVENUES					
Sale of water					
Residential	\$ 23,329	\$ 22,013	\$ 23,750	\$ 21,722	\$ 19,542
Commercial/Industrial/Municipal	12,807	11,213	12,469	11,188	9,661
Other	1,553	2,046	1,663	1,372	1,424
Billed revenue from the sale of water	37,689	35,272	37,882	34,282	30,627
Change in unbilled revenue	(37)	(34)	(1,034)	899	15
Total revenue from the sale of water	37,652	35,238	36,848	35,181	30,642
Other (including interest income)	2,837	2,402	2,118	2,422	1,981
Total gross revenues	40,489	37,640	38,966	37,603	32,623
EXPENSES					
(excluding depreciation, interest expense and amortization)					
Cost of water	15,673	14,645	14,687	14,907	13,058
Operations	7,211	4,496	5,454	5,782	4,510
Maintenance	4,016	3,529	4,099	3,782	3,559
Non-operating	28	(519)	2,280	-	-
Total expenses	26,928	22,151	26,520	24,471	21,127
NET REVENUES (a)	13,561	15,489	12,446	13,132	11,496
Parity bond debt service requirements (b)	2,457	2,456	2,462	2,457	2,463
Deposits to renewal and replacement	16	31	(5)	189	11
SURPLUS REVENUES (c)	11,088	13,002	9,989	10,486	9,022
Qualified obligations purchase payments (d)	1,037	1,037	1,037	1,037	1,037
Net revenues after debt service payments	10,051	11,965	8,952	9,449	7,985
Transfers to Anaheim general fund	1,488	1,542	1,481	1,288	1,232
BALANCE FOR OTHER PURPOSES	\$ 8,563	\$ 10,423	\$ 7,471	\$ 8,161	\$ 6,753
Times parity bond debt service coverage (a/b)	5.5	6.3	5.1	5.3	4.7
Qualified obligation debt service coverage (c/d)	10.7	12.5	9.6	10.1	8.7

ELECTRIC UTILITY

Audited Financial Statements

(in thousands)

ELECTRIC UTILITY FUND BALANCE SHEETS

	June 30, 1999	June 30, 1998
ASSETS		
Utility plant		
Production	\$ 294,175	\$ 291,964
Transmission	21,965	21,953
Distribution	232,027	222,089
General	59,580	59,386
Gross utility plant	607,747	595,392
Less accumulated depreciation	(206,157)	(186,233)
Net plant in service	401,590	409,159
Construction work in progress	61,234	32,290
Nuclear fuel, at amortized cost	4,305	4,023
Net utility plant	467,129	445,472
Restricted assets		
Cash and cash equivalents	62,420	87,558
Investments	116,251	113,936
Other	2,673	2,489
Total restricted assets	181,344	203,983
Unrestricted current assets		
Cash and cash equivalents	2,988	2,032
Investments	22,999	11,653
Accounts receivable	25,337	29,917
Accrued interest receivable	1,091	1,458
Materials and supplies	6,149	4,402
Prepaid purchased power	2,684	2,579
Total unrestricted current assets	61,248	52,041
Other assets		
Orange County receivable, net	2,774	2,989
Unamortized bond refunding costs	14,387	17,719
Unamortized debt issuance costs	1,969	2,128
Total other assets	19,130	22,836
TOTAL ASSETS	\$ 728,851	\$ 724,332

(continued)

ELECTRIC UTILITY

ELECTRIC UTILITY FUND BALANCE SHEETS

	June 30, 1999	June 30, 1998
EQUITY AND LIABILITIES		
Equity		
Beginning contribution by the City	\$ 14,629	\$ 14,629
Contributions in aid of construction	57,619	49,887
Retained earnings	211,597	192,925
Total equity	283,845	257,441
Long-term liabilities		
Long-term debt obligation, less current portion	337,104	356,206
Decommissioning reserve	43,629	37,161
Total long-term liabilities	380,733	393,367
Current liabilities (payable from restricted assets)		
Current portion of long-term debt	14,922	13,781
Accounts payable	779	682
Accrued interest	4,675	4,671
Tax-exempt commercial paper	20,450	20,450
Total restricted current liabilities	40,826	39,584
Current liabilities (payable from unrestricted current assets)		
Current portion of long-term debt	5,217	4,826
Accounts payable and accrued expenses	8,552	11,809
Rate stabilization account	4,231	11,901
Customer deposits	5,447	5,404
Total unrestricted current liabilities	23,447	33,940
Commitments and contingencies		
TOTAL EQUITY AND LIABILITIES	\$ 728,851	\$ 724,332

See accompanying notes.

ELECTRIC UTILITY

Audited Financial Statements

(in thousands)

ELECTRIC UTILITY FUND STATEMENTS OF INCOME AND CHANGES IN RETAINED EARNINGS

Year Ended June 30,	1999	1998
Operating revenues		
Sale of electricity	\$ 236,912	\$ 225,937
Rate stabilization adjustment	7,536	13,592
Other operating revenues	10,073	4,710
Total operating revenues	254,521	244,239
Operating expenses		
Cost of purchased power	137,713	136,343
Fuel used for generation	2,785	2,854
Operations	39,480	40,560
Maintenance	14,034	11,549
Depreciation	19,577	18,834
Total operating expenses	213,589	210,140
Operating income	40,932	34,099
Other income (expense)		
Interest income	7,815	7,690
Interest expense	(20,464)	(20,960)
Orange County receivable adjustment	(215)	(1,114)
Total other expense	(12,864)	(14,384)
Net income	\$ 28,068	\$ 19,715
Retained earnings at beginning of year	192,925	182,749
Transfer to the General Fund of the City	(9,396)	(9,539)
Retained earnings at end of year	\$ 211,597	\$ 192,925

See accompanying notes.

ELECTRIC UTILITY

ELECTRIC UTILITY FUND STATEMENTS OF CASH FLOWS

Year Ended June 30,	1999	1998
Cash flows from operating activities		
Operating income	\$ 40,932	\$ 34,099
Adjustments to reconcile operating income to net cash provided by operations		
Depreciation	19,577	18,834
Amortization of debt issuance costs, discounts and refundings	4,649	6,247
Amortization of nuclear fuel	2,785	2,854
Increase in decommissioning reserve	6,468	6,178
Changes in assets and liabilities		
Current accounts receivable	4,454	1,901
Materials and supplies	(1,747)	638
Prepaid purchased power	(105)	(2)
Accounts payable and accrued expenses	(3,160)	(714)
Rate stabilization account	(7,670)	(12,664)
Customer deposits	43	92
Total adjustments	25,294	23,364
Net cash provided by operating activities	66,226	57,463
Cash flows from noncapital financing activities		
Transfer to the General Fund of the City	(9,396)	(9,539)
Net cash used in noncapital financing activities	(9,396)	(9,539)
Cash flows from capital and related financing activities		
Proceeds from borrowings	-	65,000
Principal reduction in debts	(18,640)	(19,269)
Capital expenditures	(38,005)	(31,278)
Nuclear fuel expenditures	(3,067)	(1,085)
Project refunds(costs)	-	40
Interest paid	(20,460)	(20,483)
Issuance, refunding and discount cost on new financing	(88)	(1,400)
Contributions in aid of construction	4,785	4,787
Net cash used in capital and related financing activities	(75,475)	(3,688)
Cash flows from investing activities		
Purchase of investment securities	(55,976)	(40,599)
Proceeds from sale and maturity of investment securities	41,171	41,876
Interest received	9,268	5,988
Net cash (used in) provided by investing activities	(5,537)	7,265
(Decrease) increase in cash and cash equivalents	(24,182)	51,501
Cash and cash equivalents at beginning of year	89,590	38,089
Cash and cash equivalents at end of year	\$ 65,408	\$ 89,590
Schedule of noncash financing and investing activities		
Contributions in aid of construction	\$ 3,782	\$ 680
Depreciation on contributed assets	\$ (835)	\$ (761)
Orange County receivable adjustment	\$ (215)	\$ (1,114)
Unrealized loss (gain) on investment	\$ 1,144	\$ (1,407)

See accompanying notes.

ELECTRIC UTILITY

Notes to Financial Statements

(in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The Electric Utility Fund (the "Electric Utility") of the City of Anaheim, California (the "City") was established June 30, 1971, at which time the portion of the City's General Fund equity relating to electric system operations was transferred to Electric Utility equity. The financial statements of the Electric Utility are presented on the accrual basis in conformity with generally accepted accounting principles and accounting principles and methods prescribed by the Federal Energy Regulatory Commission (the "FERC"). The Electric Utility is not subject to the regulations of the FERC. Under Governmental Accounting Standards Board Statement No. 20, the Electric Utility has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

UTILITY PLANT AND DEPRECIATION

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

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

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

Depreciation on contributed assets is charged directly to contributions in aid of construction. During fiscal years 1999 and 1998, \$835 and \$761, respectively, were charged to contributions in aid of construction.

POOLED CASH AND INVESTMENTS

The City pools available cash from all funds for the purpose of enhancing interest income through investment activities. Investments in U.S. Government securities are carried at fair value based on quoted market prices. Treasury mutual funds are carried at fair value based on the fund's share price. Guaranteed investment contracts are carried at fair value based on net realizable value. Additional information pertinent to the value of these investments is provided in Note 2. Interest income on investments is allocated to all funds on the basis of average daily cash and investments balances.

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

REVENUE RECOGNITION

To provide a better matching of costs and revenues, the Electric Utility accrues estimated unbilled revenues for energy sold but not billed at the end of a fiscal period. Residential and smaller commercial accounts are billed bimonthly, and all others are billed monthly.

On January 28, 1986, a wholesale rate refund policy (the "Policy"), which included establishing a Rate Stabilization Account (the "RSA"), was adopted as part of the Electric Utility's Rates, Rules and Regulations. The Policy provides for establishment of a rate, in cents per kilowatt-hour of sales, by which funds are transferred from the RSA to the Electric Utility Revenue Fund. This transfer is made on a monthly basis.

Unbilled electric service charges are included in accounts receivable at year-end. Unbilled accounts receivable totaled \$10,494 and \$12,490 at June 30, 1999 and 1998, respectively.

NUCLEAR FUEL

The Electric Utility amortizes the cost of nuclear fuel to expense using the "as burned" method. In accordance with the Nuclear Waste Disposal Act of 1982, the Electric Utility is charged a fee for the disposal of nuclear fuel at the rate of one mill per kWh on the Electric Utility's share of electricity

ELECTRIC UTILITY

generated by the San Onofre Nuclear Generating Station, Units 2 and 3 ("SONGS"). The Electric Utility pays the fee quarterly to Southern California Edison Company ("SCE"), which is acting as the agent for SONGS participants.

NUCLEAR DECOMMISSIONING RESERVE

Federal regulations require the Electric Utility to provide for the future decommissioning of its ownership share of the nuclear units at San Onofre. The Electric Utility has established a reserve fund for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. The Electric Utility funds the reserve and recognizes expense over the useful life of the generating plant. A separate trust account has been established for prior and future amounts funded and these amounts are classified as restricted assets in the accompanying balance sheet. To date, the Electric Utility has reserved \$43,629 as Anaheim's estimated share of the decommissioning cost of San Onofre. Based on a cost estimate completed by SCE in 1998 and approved by the California Public Utility Commission ("CPUC"), the Electric Utility plans to set aside approximately \$3,000 to \$4,000 per year until 2004 and approximately \$750 to \$1,300 per year from 2005 until 2014 to fund this obligation. Decommissioning is expected to commence around the year 2013.

DEBT ISSUANCE COSTS

Debt issuance costs are deferred and amortized over the lives of the related bond issues on a basis which approximates the effective interest method.

BOND REFUNDING COSTS

Bond refunding costs are deferred and amortized over the lives of the related bond issues on a basis which approximates the effective interest method.

VACATION AND SICK PAY

Vacation and sick pay for all City employees are paid by the General Benefits and Insurance Fund of the City. The General Benefits and Insurance Fund is reimbursed through payroll charges to the Electric Utility based on estimates of benefits to be earned during the year. Vested vacation and sick pay benefits are accrued in the General Benefits and Insurance Fund and amounted to \$1,124 and \$1,146 for the Electric Utility at June 30, 1999 and 1998, respectively.

TRANSFERS TO THE GENERAL FUND OF THE CITY

Article XII of the City Charter provides that transfers to the General Fund of the City shall not exceed 4 % of the gross revenue of the prior year. Such transfers are not in lieu of taxes and are recorded as distributions of retained earnings.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could materially differ from those estimates.

RECLASSIFICATION

Certain prior year amounts have been reclassified to conform to current year presentation.

2. CASH AND INVESTMENTS

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

The City's Investment Policy further limits the permitted investments in government Code Sections 53600 et. al., 16429.1 and 53684 to the following: obligations of the U.S. Government, Federal Agencies, Medium Term Notes, Certificates of Deposit, Bankers Acceptances, Commercial Paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, Local Agency Investment Fund, Repurchase Agreements, Reverse Repurchase Agreements and Mutual Funds.

Effective July 1, 1997, the Electric Utility adopted the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires reporting certain investments at fair value. The effect of the change in accounting for investments on equity and retained earnings at July 1, 1997 was not material.

ELECTRIC UTILITY

Notes to Financial Statements

(in thousands)

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

	1999	1998
Cash and investments pooled with City Treasurer	\$ 95,808	\$ 89,489
Investments held with trustee	108,850	125,690
	<u>\$ 204,658</u>	<u>\$ 215,179</u>

At June 30, cash and investments are recorded on the Electric Utility Fund Balance Sheet as follows:

	1999	1998
Restricted assets-cash and investments	\$ 178,671	\$ 201,494
Unrestricted assets-cash and investments	25,987	13,685
	<u>\$ 204,658</u>	<u>\$ 215,179</u>

CLASSIFICATION OF CREDIT RISK

Investments are categorized to provide a description of the level of risk assumed by the Electric Utility. Category 1 investments are insured or registered, or securities are held by the Electric Utility or its agent in the Electric Utility's name. Category 2 investments are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Electric Utility's name. Category 3 investments are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agency, but not in the Electric Utility's name.

Electric Utility's investments pooled with the City Treasurer or held in guaranteed investment contracts and mutual funds are not subject to categorization because they are not evidenced by securities that exist in physical or book entry form.

At June 30, investments were categorized as follows:

1999	Category			Uncategorized	Fair Value
	1	2	3		
U.S. Government securities	\$ 37,735	-	-	\$ -	\$ 37,735
Mutual funds	-	-	-	1,973	1,973
Guaranteed investment contracts	-	-	-	69,142	69,142
Cash and investments pooled with City Treasurer	-	-	-	95,808	95,808
	<u>\$ 37,735</u>	<u>-</u>	<u>-</u>	<u>\$ 166,923</u>	<u>\$ 204,658</u>

1998	Category			Uncategorized	Fair Value
	1	2	3		
U.S. Government securities	\$ 32,664	-	-	\$ -	\$ 32,664
Mutual funds	-	-	-	1,706	1,706
Guaranteed investment contracts	-	-	-	91,320	91,320
Cash and investments pooled with City Treasurer	-	-	-	89,489	89,489
	<u>\$ 32,664</u>	<u>-</u>	<u>-</u>	<u>\$ 182,515</u>	<u>\$ 215,179</u>

INVESTMENTS HELD WITH TRUSTEE

Fiscal agents on behalf of the City hold and invest funds from long-term debt issuance. Fiscal agents are mandated by bond indenture as to the types of investments in which proceeds can be invested. Investments by fiscal agents predominantly consist of U.S. Government securities held in book entry form. Amounts invested by fiscal agents include investments that are insured or registered or for which the securities are held by the City's agents in the City's name.

ELECTRIC UTILITY

3. OPERATING EXPENSES

Operating expenses shared with the Water Utility Fund amounted to \$11,330 and \$ 11,634 for the fiscal years ended June 30, 1999 and 1998, respectively, of which \$7,931 and \$9,307, respectfully, were allocated to the Electric Utility.

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

4. JOINTLY OWNED UTILITY PROJECTS

Pursuant to a settlement agreement with SCE dated August 4, 1972, the City was granted the right to acquire a 1.66% ownership interest in SONGS, Units 2 and 3, and subsequently ownership was later increased to 3.16% by agreement of the parties. In the settlement agreement, SCE agreed to provide the necessary transmission service to deliver the output of SONGS to the City. SCE and the City entered into the SONGS Participation Agreement that sets forth the terms and conditions under which the City, through the Electric Utility, participates in the ownership and output of SONGS. Other participants in the project include SCE, 75.05%; San Diego Gas & Electric Company, 20.00%; and the City of Riverside 1.79%. Maintenance and operation of SONGS remain the responsibility of SCE, as operating agent for the City.

The Electric Utility's cumulative share of construction costs, which amounted to \$199,816 at June 30, 1999, was included in utility plant. The Electric Utility recorded depreciation related to SONGS of \$6,978 and \$6,891, for the fiscal years ended June 30, 1999 and 1998, respectively. The Electric Utility made provisions during fiscal years 1999 and 1998 for future decommissioning costs (Note 1) of \$3,769 and \$3,861,

respectively. Decommissioning costs, along with the Electric Utility's share of SONGS operating costs, have been included in operating expenses.

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

On August 12, 1993, the Electric Utility purchased a 10.04% ownership interest in the existing coal-fired San Juan Generating Station, Unit 4, located near Waterflow, New Mexico. Other participants include Public Service of New Mexico, 45.485%; the City of Farmington, 8.475%; the County of Los Alamos, 7.20%; and M-S-R Public Power Agency, 28.80%. The Electric Utility's purchase cost and cumulative share of ongoing construction costs, which amounts to \$57,895 at June 30, 1999, are included in utility plant.

5. SHORT-TERM DEBT

The Electric Utility has outstanding Revenue Anticipation Notes in the form of short-term, tax-exempt commercial paper for the purpose of financing nuclear fuel purchases related to the ownership interest in SONGS. The balance outstanding at June 30, 1999 and 1998 totaled \$20,450 and \$20,450, respectively. The interest rates on this debt at June 30, 1999, ranged between 2.7% and 3.0% with maturities ranging from 6 to 36 days. The Electric Utility continues to maintain a \$28,000 revolving credit agreement, which can be used in the event that the commercial paper cannot be refinanced as it matures. During fiscal year 1999, there were no amounts borrowed from the revolving credit agreement.

6. LONG-TERM DEBT

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

	1999	1998
Electric Revenue Bonds, Issue of 1991, dated and sold May 29, 1991 in the amount of \$3,434. The remaining principal of \$3,224, at a rate of 6.50%, maturing serially from October 1, 1999 to October 1, 2004 in annual principal installments ranging from \$125 to \$713. The total debt service is \$3,758 to maturity.	\$ 3,224	\$ 3,257
Electric Revenue Bonds, Issue of 1993, TIC 5.07%, dated June 1, 1993, sold June 23, 1993, in the amount of \$60,700. The remaining principal of \$52,650, at rates ranging from 4.50% to 5.10%, maturing serially through October 1, 2007 in annual principal installments ranging from \$4,965 to \$6,615. The total debt service is \$65,131 to maturity.	52,650	53,485

ELECTRIC UTILITY

Notes to Financial Statements

(in thousands)

	1999	1998
Anaheim Public Financing Authority Revenue Bonds, Issue of 1993, TIC 5.68%, dated June 1, 1993, sold June 30, 1993, in the amount of \$71,300. The remaining principal of \$69,720 includes: (1) \$43,180 at rates ranging from 5.00% to 5.55%, maturing serially through October 1, 2013 in annual principal installments ranging from \$760 to \$5,555, (2) \$7,115 at rates of 5.60% are term bonds maturing through October 1, 2017 subject to mandatory redemption from October 1, 2014 to October 1, 2016, in annual principal installments ranging from \$2,205 to \$2,540, and (3) \$19,425 at rates of 5.625% are term bonds maturing through October 1, 2022, subject to mandatory redemption from October 1, 2017 through October 1, 2022 in annual principal installments from \$2,725 to \$3,790. The total debt service is \$119,835 to maturity.	69,720	70,065
Anaheim Public Financing Authority Revenue Bonds, Second Issue of 1993, TIC 5.80%, dated July 1, 1993, and sold August 12, 1993 in the amount of \$62,810. The remaining principal of \$60,275 includes: (1) \$2,555 at rates ranging from 4.50% to 5.40%, maturing serially through October 1, 2009 subject to optional redemption on or after October 1, 2003, in annual principal installments ranging from \$120 to \$440, and (2) \$57,720 at a rate of 5.75% are term bonds maturing through October 1, 2022, subject to mandatory redemption from October 1, 2010 to October 1, 2022 in annual principal installments ranging from \$45 to \$6,690. The total debt service is \$123,857 to maturity.	60,275	60,740
Electric Revenue Bonds, Issue of 1994, TIC 5.69%, dated July 1, 1994, sold August 3, 1994 in the amount of \$5,280 issued by Financing Authority for Resource Efficiency of California ("FARECal"). The remaining principal of \$4,610, at rates ranging from 4.90% to 5.90% maturing serially through 2010 subject to optional redemption on or after July 1, 2004, in annual principal installments ranging from \$360 to \$585. The total debt service is \$6,000 to maturity.	4,610	4,955
Electric Revenue Bonds, Issue of 1996, TIC 4.77%, dated October 1, 1996, sold October 31, 1996, in the amount of \$95,395. The remaining principal of \$68,830, at rates ranging from 4.50% to 5.00%, maturing serially to October 1, 2007, in annual principal installments ranging from \$10,045 to \$13,035. The total debt service is \$79,328 to maturity.	68,830	82,395
Anaheim Public Financing Authority Revenue Bonds, Issue of 1998, TIC 5.08% dated May 1, 1998, sold June 2, 1998, in the amount of \$65,000 of which (1) \$36,180 serial bonds at rates of 4.75% to 5.00%, maturing from October 1, 2001 through 2020 in principal installments from \$1,075 to \$2,825; and (2) \$28,820 term bonds at a rate of 5.00% maturing from October 1, 2023 through 2028 in annual principal installments from \$3,305 to \$4,300. The total debt service is \$127,546 to maturity.	65,000	65,000
Total revenue bond debt	324,309	339,897

ELECTRIC UTILITY

	1999	1998
Note payable to Internal Service Fund of the City, 8.95%, issued October 13, 1984, in the amount of \$1,342, of which \$977 was advance refunded on January 14, 1993 at a rate of 6.03%. The remaining principal of \$473, in annual principal installments ranging from \$23 to \$123 through October 31, 2003. The total debt service is \$542 to maturity.	473	570
Electric System Certificates of Participation (Combustion Turbine Peaking Plant), TIC 7.31%, dated September 15, 1989, sold October 12, 1989 in the amount of \$44,336 of which \$25,395 was advance refunded on June 1, 1993. The remaining principal of \$14,220, maturing through October 1, 2006 in annual principal installments of \$2,845. The total debt service is \$14,220 to maturity.	14,220	16,550
Electric System Certificates of Participation (Public Utilities Building), TIC 7.15%, dated November 1, 1990, sold November 12, 1990 in the amount of \$41,605, of which \$40,240 was advance refunded on June 1, 1993. The remaining principal of \$715, at rates ranging from 6.40% to 6.50%, maturing through October 1, 2001 in annual principal installments ranging from \$320 to \$395. The total debt service is \$764 to maturity.	715	965
Electric System Certificates of Participation, Issue of 1997, TIC 5.92%, dated May 1, 1997, sold May 13, 1997 in the amount of \$25,000 issued by FARECal, of which (1) \$9,380 at rates ranging from 4.60% to 6.00%, maturing serially through April 1, 2015 in annual principal installments ranging from \$390 to \$855, but the certificates maturing after April 1, 2012 are subject to optional redemption on or after April 1, 2007, (2) \$1,860 term certificates at rate of 5.50% are maturing through April 1, 2017 in annual principal installments ranging from \$905 to \$955 and (3) \$5,620 term certificates at rate of 5.625% are maturing April 1, 2022 in annual principal installments ranging from \$1,005 to \$1,250, and (4) \$7,410 term certificates at rate of 5.75% are maturing through April 1, 2027 in annual principal installments ranging from \$1,405 to \$1,575. The total debt service is \$48,932 to maturity.	24,270	24,645
Total other debt	39,678	42,730
Total debt	363,987	382,627
Less current portion	(20,139)	(18,607)
Less bond discounts	(6,744)	(7,814)
Total long-term debt	\$ 337,104	\$ 356,206

Annual debt service requirements at June 30, 1999 to maturity are as follows:

Fiscal Year	Revenue Bond Debt			Other Debt			Total All Long Term Debt
	Principal	Interest	Total	Principal	Interest	Total	
2000	\$ 19,320	\$ 16,318	\$ 35,638	\$ 813	\$ 1,421	\$ 2,234	\$ 37,872
2001	20,157	15,397	35,554	913	1,372	2,285	37,839
2002	19,713	14,465	34,178	3,386	1,334	4,720	38,898
2003	20,713	13,502	34,215	3,418	1,307	4,725	38,940
2004	21,150	12,474	33,624	3,338	1,279	4,617	38,241
Thereafter	223,256	128,990	352,246	27,810	18,067	45,877	398,123
	\$ 324,309	\$ 201,146	\$ 525,455	\$ 39,678	\$ 24,780	\$ 64,458	\$ 589,913

Interest costs of \$2,714 and \$1,674 have been capitalized to utility plant for fiscal years ended June 30, 1999 and 1998, respectively.

ELECTRIC UTILITY

Notes to Financial Statements

(in thousands)

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

The bond issues outstanding at June 30, 1999 require the establishment of a Bond Service Account by accumulating monthly one-sixth of the interest which will become due and payable on the outstanding bonds within the next six months and one-twelfth of the principal amount which will mature and be payable on the outstanding bonds within the next 12 months.

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

	1999	1998
Held by Fiscal Agent:		
Bond reserve fund	\$ 16,725	\$ 16,725
Bond service fund	549	482
Bond construction fund	52,418	74,596
Decommissioning reserve	39,158	33,887
Held by City Treasurer:		
Bond service account	19,354	18,453
Renewal and replacement account	8,032	25,619
Decommissioning and fuel reserves	24,193	23,395
Restricted bond proceeds	18,142	8,305
Restricted rebate	100	32
	\$ 178,671	\$ 201,494

The Electric Utility's interest and other finance charges, except for capitalized interest, for the years ended June 30, 1999 and 1998, were \$20,464 and \$20,960, respectively.

7. ADVANCED REFUNDING

When conditions have warranted, the Electric Utility has sold various issues of bonds to provide for the refunding of previously issued obligations.

The proceeds received from the sales of the bond issues were used to refund the outstanding bond issues or to deposit in an irrevocable escrow fund held by the Escrow Agent, an amount which, when combined with interest earnings thereon, is at least equal to the sum of the outstanding principal amount of the bonds, the interest to accrue thereon to and including the first optional redemption date thereof, and the premium required to redeem the bonds outstanding on such date.

Accordingly, the trust account assets and the liability for defeased bonds are not included in the Electric Utility's financial statements. These transactions defeased the outstanding bond issues with a resultant reduction in annual debt service during the term of the issues.

Issue	Principal Amount Outstanding at June 30, 1999	Principal Amount Refunded
1993 APFA Bond Refunding		
1990 Certificates of Participation	\$ 40,240	\$ 40,240

ELECTRIC UTILITY

8. PENSION PLAN

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

As a condition of participation, employees are required to contribute 7% of their annual compensation to PERS. The City is required to contribute the remaining amounts necessary to fund PERS, using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the Board of Administration.

The Electric Utility contributed \$1,144, \$1,656 and \$1,587 to PERS for the years ended June 30, 1999, 1998 and 1997, respectively.

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

9. DEFERRED COMPENSATION

The City offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan, available to all City employees, permits deferral of a portion of an employee's salary until future years. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.

The Small Business Job Protection Act of 1996 changed Internal Revenue Code Section 457 by protecting participant assets from creditors of a bankrupt or financially troubled public jurisdiction. The City complied with the provisions of this act effective prior to January 1, 1999, and implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, during 1999, which removed the assets and liabilities from the Electric Utility's financial statements.

10. SELF-INSURANCE PROGRAM

The Electric Utility is part of the City's self-insured workers' compensation and general liability program. The liability for such claims, including claims incurred but not reported, is transferred to the City in consideration of self-insurance premiums paid by the Electric Utility. Costs relating to the litigation of claims are charged to expense as incurred.

11. REFUNDS

Since fiscal year 1986, the Electric Utility has received refunds from SCE totaling \$139,066. These refunds have been placed in the RSA. At June 30, 1999 and 1998, total principal and interest in the RSA amounted to \$4,231 and \$11,901, respectively. Although the City expects no additional refunds, any additional amounts would be refunded to Electric Utility customers in the form of reductions to future rate increases through the Rate Stabilization Policy (see Note 1). These refunds have been reflected in the Electric Utility's financial statements as part of the RSA.

12. COMMITMENTS AND CONTINGENCIES

TAKE OR PAY CONTRACTS

The City has entered into agreements with the Intermountain Power Agency ("IPA"), a political subdivision of the State of Utah, Utah Power & Light ("UP&L") and the Southern California Public Power Authority ("SCPPA"), a public entity organized under the laws of the State of California. The City has agreed with IPA and UP&L, pursuant to power sales contracts, to purchase 13.225% of the generation output of IPA's 1,600 megawatt two unit coal-fueled generating station (the "Station") in central Utah. Unit 1 of the Station became available for commercial operation June 10, 1986. Unit 2 was commercially available May 1, 1987. Cost of construction of the Station and related transmission lines, including the Southern Transmission System ("STS") from Utah to Southern California, was financed principally through sales of IPA's power supply revenue bonds and payments in aid of construction by SCPPA. The City has agreed with SCPPA to purchase rights to 17.6% of the transmission capacity in the STS.

ELECTRIC UTILITY

Notes to Financial Statements

(in thousands)

The contracts constitute an obligation of the City to make payments solely from the revenues of the Electric Utility. These payments, which are based on the City's share of IPA's debt service requirements and production costs and SCPPA's debt service requirements, began in July 1986, the month in which Unit 1 of the Station and the STS began commercial operation. These payments are considered a cost of purchased power. As of June 30, 1999, IPA has issued \$4,583,000 in revenue bonds and revenue bond anticipation notes to finance construction of the Station and SCPPA has issued \$1,138,000 in revenue bonds and revenue bond anticipation notes to finance payments in aid of construction.

For the years ended June 30, 1999 and 1998, the Electric Utility's cost of purchased power under these agreements were \$91,858 and \$92,723, respectively.

The Electric Utility's projected minimum payments for purchased power due under these takes or pay contracts for the next five years are as follows:

Fiscal Year	Amount
2000	\$ 95,900
2001	\$ 95,900
2002	\$ 88,000
2003	\$ 75,500
2004	\$ 75,500

DEREGULATION LEGISLATION

Recent state legislation requires open competition in the furnishing of electricity to all retail customers by investor owned utilities beginning March 31, 1998. No prediction as to the impact of this legislation on the municipal utility has been included in the accompanying financial statements.

LITIGATION

A number of claims and suits are pending against the City for alleged damages to persons and property and for other alleged liabilities arising out of matters usually incidental to the operation of a utility such as the electric system of the City. In the opinion of management, the exposure under these claims and suits would not materially affect the financial position of the Electric Utility as of June 30, 1999.

CAPITAL EXPENDITURES

The Electric Utility's budget for fiscal 1999-2000 provides for capital expenditures of approximately \$38,624, of which \$35,442 is expected to be funded by bond proceeds and contributions in aid of construction.

13. ORANGE COUNTY RECEIVABLE

On December 6, 1994, the County of Orange (the "County") and the Orange County Investment Pools (collectively the "Pool") filed petitions under Chapter 9 of the United States Bankruptcy Code. At the time of the bankruptcy, the City had funds invested in the Pool. On May 2, 1995, the United States Bankruptcy Court approved a Comprehensive Settlement Agreement entered into by and among the County, the Pool and a majority of the Pool Participants, of which the City was a part, which allowed the City to recover approximately 80% of its investment in the Pool and allowed certain classes of claims against the County (Settlement Secured Claims and Repayment Claims) for the balance of its investment.

Subsequently, in late 1995, an agreement (the "Joint Agreement") was proposed and later accepted by a majority of the Pool Participants, providing for a funding source and settlement of the County bankruptcy, which allowed the County to emerge from bankruptcy in May 1996. The Joint Agreement provided that the Settlement Secured Claims and Repayment Claims, which are impaired classes of claims under the bankruptcy, would be made nonrecourse against the County, and would be paid only from net

ELECTRIC UTILITY

litigation proceeds of pool-related litigation if and when recovered by the County from third-party defendants. In addition, under the Joint Agreement, net litigation proceeds from pool-related litigation would be distributed among the Pool Participants and the County in accordance with a complex formula.

In the last several months, the County has settled its litigation with all remaining defendants and such settlements have been approved by the bankruptcy court. The total amount to be recovered by the Pool Participants through such settlements will be approximately \$842,777. Subject to possible appeals, the settlement proceeds should be available for distribution to the pool participants in accordance with the terms of the Joint Agreement before December 31, 1999. The Joint Agreement provided for the establishment of a \$50 million litigation fund to pay litigation costs incurred in pool-related litigation. The attorneys representing the County in the bankruptcy proceedings have filed a motion with the court seeking an additional \$49 million bonus payment based upon the results achieved in the litigation. The County intends to vigorously oppose this request for additional fees.

At June 30, 1998, the Electric Utility's nonrecovered principal balance of its investment in the Pool amounted to \$2,989, was classified as a "Orange County receivable" and was considered long-term in nature. As a result of an analysis of the recoverability of the Orange County receivable from the proceeds of the litigation settlements, the Electric Utility has adjusted this amount from \$2,989 to \$2,774.

As the City's investment in the Pool was commingled for investment purposes, the receivable was allocated to all City funds based on each fund's November 30, 1994 cash balance. The receivable (as adjusted) is reported as long-term.

In the opinion of Electric Utility management, any non-recovered claims will not materially affect the financial position or operations of the Electric Utility.

14. EFFECT OF NEW PRONOUNCEMENTS

GASB Statement No. 34

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This statement establishes financial reporting standards for state and local governments. Under the revised requirements, governmental financial statements will include management's discussion and analysis ("MD&A"), basic financial statements from both a government-wide perspective and a fund perspective and required supplementary information.

MD&A introduced the financial statements by giving readers a brief, objective and easily readable analysis of the government's financial performance for the year and its financial position at year-end, including an analysis of budgetary changes and results.

GASB No. 34 will become effective in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999. The Electric Utility will be required to implement GASB No. 34 for the fiscal year ending June 30, 2002.

The Electric Utility has elected not to early implement GASB No. 34 and has determined its effects will not be material on the Electric Utility's financial statements.

15. SUBSEQUENT EVENT

In September 30, 1999, the Electric Utility issued a \$45,000, Anaheim Public Financing Authority (APFA) distribution system revenue bond to defease a portion of the 1989 Certificates of Participation, the 1993 Electric Revenue Bonds, the 1993 APFA Bonds, Second Series, the 1996 Electric Revenue Bonds and to purchase the distribution system assets.

ELECTRIC UTILITY FUND

Required Supplementary Information

June 30, 1999 and 1998

YEAR 2000 READINESS

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Electric Utility's operations when the year 2000 arrives.

The Electric Utility has completed the awareness and assessment stages, including an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting the Electric Utility operations. All of the critical systems have been identified and have been remediated and validated/tested to handle the year 2000 issue as of the end of June 1999. Certain ancillary systems are in the remediation process. Validation/testing of these remaining systems will be completed by the end of November 1999.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Electric Utility is or will be Year 2000 ready, that the Electric Utility's remediation efforts will be successful in whole or in part, or that parties with whom the Electric Utility does business will be year 2000 ready.

ELECTRIC UTILITY

Report of Independent Auditors

To the Honorable City Council
City of Anaheim, California

We have audited the accompanying balance sheets of the Electric Utility Fund (the "Electric Utility") of the City of Anaheim, California, as of June 30, 1999 and 1998, and the related statements of income and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Electric Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Utility Fund of the City of Anaheim, California, as of June 30, 1999 and 1998, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

The year 2000 supplementary information on page 16 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board ("GASB"), and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because disclosure criteria specified by GASB Technical Bulletin No. 98-1, as amended, are not sufficiently specific to permit us to perform procedures that would provide meaningful results. In addition, we do not provide assurance that the Electric Utility is or will become year 2000 compliant, that the Electric Utility's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Electric Utility does business are or will become year 2000 compliant.

Ernst & Young LLP

September 24, 1999

WATER UTILITY

Audited Financial Statements (in thousands)

WATER UTILITY FUND BALANCE SHEETS

	June 30, 1999	June 30, 1998
ASSETS		
Utility plant		
Land	\$ 1,554	\$ 1,554
Source of water supply	21,638	20,846
Pumping plant	30,784	28,776
Transmission and distribution	159,843	157,076
General plant	4,394	4,073
Gross utility plant	218,213	212,325
Less accumulated depreciation	(47,344)	(43,053)
Construction work in progress	18,204	18,122
Net utility plant	189,073	187,394
Restricted assets		
Cash and cash equivalents	1,666	4,438
Investments	17,749	13,236
Accounts receivable	61	81
Accrued interest receivable	252	252
Total restricted assets	19,728	18,007
Unrestricted current assets		
Cash and cash equivalents	2,169	2,294
Investments	16,699	13,123
Accounts receivable	8,551	7,799
Accrued interest receivable	408	349
Materials and supplies	209	176
Purchased water in storage	248	420
Total unrestricted current assets	28,284	24,161
Other assets		
Orange County receivable, net	349	377
MWDOC pipeline receivable	839	910
Unamortized bond refunding costs	1,300	1,469
Unamortized debt issuance costs	251	282
Total other assets	2,739	3,038
TOTAL ASSETS	\$ 239,824	\$ 232,600

(continued)

WATER UTILITY

WATER UTILITY FUND BALANCE SHEETS

	June 30, 1999	June 30, 1998
EQUITY AND LIABILITIES		
Equity		
Beginning contribution by the City	\$ 19,280	\$ 19,280
Contributions in aid of construction	86,679	86,542
Retained earnings	83,170	76,057
Total equity	189,129	181,879
Long-term liabilities		
Long-term debt obligation, less current portion	40,737	42,161
Capital lease obligation, less current portion	937	1,063
Total long-term liabilities	41,674	43,224
Current liabilities (payable from restricted assets)		
Current portion of long-term debt	1,104	1,045
Accounts payable	599	342
Accrued interest	602	624
Customer deposits	1,037	855
Total restricted current liabilities	3,342	2,866
Current liabilities (payable from unrestricted current assets)		
Current portion of long-term debt	384	367
Current portion of capitalized lease	125	118
Accounts payable and accrued expenses	4,588	3,566
Customer deposits	582	580
Total unrestricted current liabilities	5,679	4,631
Commitments and contingencies		
TOTAL EQUITY AND LIABILITIES	\$ 239,824	\$ 232,600

See accompanying notes

WATER UTILITY

Audited Financial Statements

(in thousands)

WATER UTILITY FUND STATEMENTS OF INCOME AND CHANGES IN RETAINED EARNINGS

Year Ended June 30,	1999	1998
Operating revenues		
Sale of water	\$ 37,652	\$ 35,238
Other operating revenues	1,042	906
Total operating revenues	38,694	36,144
Operating expenses		
Cost of water	15,673	14,645
Operations	7,211	4,496
Maintenance	4,016	3,529
Depreciation	3,314	3,121
Total operating expenses	30,214	25,791
Operating income	8,480	10,353
Other income (expense)		
Interest income	1,795	1,496
Interest expense	(1,646)	(2,120)
Non operating income	-	659
Orange County receivable adjustment	(28)	(140)
Total other income (expense)	121	(105)
Net income	\$ 8,601	\$ 10,248
Retained earnings at beginning of year	76,057	67,351
Transfer to the General Fund of the City	(1,488)	(1,542)
Retained earnings at end of year	\$ 83,170	\$ 76,057

See accompanying notes

WATER UTILITY

WATER UTILITY FUND STATEMENTS OF CASH FLOWS

Year Ended June 30,	1999	1998
Cash flows from operating activities		
Operating income	\$ 8,480	\$ 10,353
Adjustments to reconcile operating income to net cash provided by operations		
Depreciation	3,314	3,121
Amortization of debt issuances costs, discounts and refundings	264	278
Changes in assets and liabilities		
Current accounts receivable	(732)	2,925
MWDOC pipeline	71	72
Materials and supplies	(33)	19
Purchased water in storage	172	(49)
Accounts payable and accrued expenses	1,279	137
Customer deposits	184	321
Total adjustments	4,519	6,824
Net cash provided by operating activities	12,999	17,177
Cash flows from noncapital financing activities		
Transfer to the General Fund of the City	(1,488)	(1,542)
Nonoperating income	-	659
Net cash used in noncapital financing activities	(1,488)	(883)
Cash flows from capital and related financing activities		
Capital expenditures	(6,204)	(12,165)
Principal reduction in debts and capitalized lease	(1,531)	(1,443)
Interest paid	(1,668)	(2,142)
Contributions in aid of construction	1,348	6,505
Net cash used in capital and related financing activities	(8,055)	(9,245)
Cash flows from investing activities		
Purchase of investment securities	(13,847)	(8,521)
Proceeds from sale and maturity of investment securities	5,758	1,706
Interest received	1,736	1,404
Net cash used in investing activities	(6,353)	(5,411)
(Decrease) increase in cash and cash equivalents	(2,897)	1,638
Cash and cash equivalents at beginning of year	6,732	5,094
Cash and cash equivalents at end of year	\$ 3,835	\$ 6,732
Schedule of noncash financing and investing activities		
Contributions in aid of construction	\$ 364	\$ 3,151
Depreciation on contributed assets	\$ (1,575)	\$ (1,521)
Orange County receivable adjustment	\$ (28)	\$ (140)

See accompanying notes

WATER UTILITY

Notes to Financial Statements

(in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The Water Utility Fund (the "Water Utility") of the City of Anaheim (the "City") was established June 30, 1971, at which time the portion of the City's General Fund equity relating to water system operations was transferred to Water Utility equity. The financial statements of the Water Utility are presented on the accrual basis in conformity with generally accepted accounting principles and accounting principles and methods prescribed by the California Public Utilities Commission (the "CPUC"). The Water Utility is not subject to the regulations of the CPUC. Under Governmental Accounting Standards Board Statement No. 20, the Water Utility has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

UTILITY PLANT AND DEPRECIATION

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

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

Transmission/distribution plant	20 to 75 years
Other plant and equipment	5 to 50 years

Depreciation on contributed assets is charged directly to contributions in aid of construction. During fiscal year 1999 and 1998, \$1,575 and \$1,521, respectively, were charged to contributions in aid of construction.

POOLED CASH AND INVESTMENTS

The City pools available cash from all funds for the purpose of enhancing interest income through investment activities. Repurchase agreements are carried at fair value based on quoted market prices. Guaranteed investment contracts are carried at fair value based on net realizable value. The Water Utility's cash and investments pooled with the City Treasurer are carried at fair value based on the value of each participating dollar. Additional information pertinent to the value of these investments is provided in Note 2. Interest income on investments is allocated to all funds on the basis of average daily cash and investments balances.

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

REVENUE RECOGNITION

To provide a better matching of costs and revenues, the Water Utility accrues estimated unbilled revenues for water sold but not billed at the end of a fiscal period. Residential and smaller commercial accounts are billed bimonthly, and all others are billed monthly.

The Water Utility's Rates, Rules and Regulations include a water commodity adjustment formula by which billings to customers are subject to adjustment, up or down, to reflect variations in the cost of water production and water quality measures to the Water Utility.

Unbilled water service charges are included in accounts receivable at year end. Unbilled accounts receivable totaled \$2,426 and \$2,463 at June 30, 1999 and 1998, respectively.

DEBT ISSUANCE COSTS

Debt issuance costs are deferred and amortized over the lives of the related bond issues on a basis which approximates the effective interest method.

WATER UTILITY

BOND REFUNDING COSTS

Bond refunding costs are deferred and amortized over the lives of the related bond issues on a basis which approximates the effective interest method.

VACATION AND SICK PAY

Vacation and sick pay for all City employees are paid by the General Benefits and Insurance Fund of the City. The General Benefits and Insurance Fund is reimbursed through payroll charges to the Water Utility based on estimates of benefits to be earned during the year. Vested vacation and sick pay benefits are accrued in the General Benefits and Insurance Fund and amounted to \$408 and \$422 for the Water Utility at June 30, 1999 and 1998, respectively.

TRANSFERS TO THE GENERAL FUND OF THE CITY

Article XII of the City Charter provides that transfers to the General Fund of the City shall not exceed 4% percent of the gross revenue of the prior year. Such transfers are not in lieu of taxes and are recorded as distributions of retained earnings.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could materially differ from those estimates.

2. CASH AND INVESTMENTS

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

The City's Investment Policy further limits the permitted investments in Government Code Sections 53600 et. al., 16429.1 and 53684 to the following: obligations of the U.S. Government, Federal Agencies, Medium Term Notes, Certificates of Deposit, Bankers Acceptances, Commercial Paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, Local Agency Investment Fund, County Pools, Repurchase Agreements, Reverse Repurchase Agreements, and Mutual Funds.

Effective July 1, 1997, the Water Utility adopted the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires reporting certain investments at fair value. The effect of the change in accounting for investments on retained earnings at July 1, 1997 was not material.

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

	1999	1998
Cash and investments pooled with City Treasurer	\$ 33,883	\$ 28,691
Investments held with trustee	4,400	4,400
	\$ 38,283	\$ 33,091

At June 30, cash and investments are recorded on the Water Utility Fund Balance Sheet as follows:

	1999	1998
Restricted assets- cash and investments	\$ 19,415	\$ 17,674
Current assets- cash and investments	18,868	15,417
	\$ 38,283	\$ 33,091

CLASSIFICATION OF CREDIT RISK

Investments are categorized to provide a description of the level of risk assumed by the Water Utility. Category 1 investments are insured or registered, or securities are held by the Water Utility or its agent in the Water Utility's name.

Category 2 investments are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Water Utility's name. Category 3 investments are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agency but not in the Water Utility's name.

The Water Utility's investments pooled with the City Treasurer or held in guaranteed investment contracts and mutual funds are not subject to categorization because they are not evidenced by securities that exist in physical or book entry form.

WATER UTILITY

Notes to Financial Statements

(in thousands)

At June 30, the cash and investments were categorized as follows:

1999	Category			Uncategorized	Fair Value
	1	2	3		
Investments held with trustee:					
Repurchase agreements	\$ 2,463	-	-	\$ -	\$ 2,463
Guaranteed investment contracts	-	-	-	1,937	1,937
Cash and investments pooled with City Treasurer	-	-	-	33,883	33,883
	\$ 2,463	-	-	\$ 35,820	\$ 38,283

1998	Category			Uncategorized	Fair Value
	1	2	3		
Investments held with trustee:					
Repurchase agreements	\$ 2,463	-	-	\$ -	\$ 2,463
Guaranteed investment contracts	-	-	-	1,937	1,937
Cash and investments pooled with City Treasurer	-	-	-	28,691	28,691
	\$ 2,463	-	-	\$ 30,628	\$ 33,091

INVESTMENTS HELD WITH TRUSTEE

Fiscal agents on behalf of the City hold and invest funds from long-term debt issuances. Fiscal agents are mandated by bond indenture as to the types of investments in which proceeds can be invested. Amounts invested by fiscal agents include investments that are insured or registered or for which the securities are held by the City's agents in the City's name.

3. OPERATING EXPENSES

Operating expenses shared with the Electric Utility amounted to \$11,330 and \$11,634 for the fiscal years ended June 30, 1999 and 1998, respectively, of which \$3,399 and \$2,327, respectively, were allocated to the Water Utility.

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

4. LONG-TERM DEBT

Long-term debt consists of the following at June 30:	1999	1998
Water Revenue Bonds, 1986 Series, TIC 7.048%, dated March 1, 1986, sold March 31, 1986 in the amount of \$7,160 of which \$1,170 maturing April 1, 1999 through 2001 were advance refunded on June 1, 1993. The remaining \$4,325 term bonds at a rate of 7.0% maturing April 1, 2009, subject to mandatory redemption from April 1, 2002 to April 1, 2009 in annual principal installments ranging from \$445 to \$650. Total remaining debt service is \$6,013 to maturity.	\$ 4,325	\$ 4,325
Water Revenue Bonds, 1988 Series, TIC 7.3765%, dated January 1, 1988, sold January 12, 1988 in the amount of \$5,000 of which \$3,830 maturing October 1, 1999 through 2012 were advance refunded on June 1, 1993. The remaining bonds matured October 1, 1998 in a principal installment of \$155 at a rate of 6.75%.	-	155

WATER UTILITY

	1999	1998
Water Revenue Bonds, 1990 Series, TIC 7.0227%, dated July 1, 1990, sold August 14, 1990 in the amount of \$9,000 of which \$7,010 maturing October 1, 2002 through 2016 were advance refunded on June 1, 1993. The remaining bonds mature serially to October 1, 2001 in annual principal installments of \$230 to \$260 at rates ranging from 6.55% to 6.7%. Total remaining debt service is \$811 to maturity.	735	950
Water Revenue Bonds, 1992 Series, TIC 5.9088%, dated March 15, 1992, sold April 9, 1992 in the amount of \$5,740 maturing serially to July 1, 2005. The annual principal installments range from \$425 to \$600 at rates ranging from 5.5% to 6.1%. The total remaining debt service is \$4,330 to maturity.	3,540	3940
Water Revenue Bonds, 1993 Series, TIC 5.4734%, dated June 1, 1993, sold June 23, 1993 in the amount of \$13,545 maturing serially to October 1, 2016. The annual principal installments range from \$285 to \$970 at rates ranging from 4.5% to 5.5%. Total remaining debt service is \$18,778 to maturity.	12,440	12,930
Anaheim Public Financing Authority Revenue Bonds, Issue of 1994, TIC 5.231%, dated January 1, 1994, sold February 16, 1994, in the amount of \$20,000, of which (1) \$8,315 at rates ranging from 4.85% to 5.20%, maturing serially through October 1, 2012, subject to optional redemption on or after April 1, 2004, in annual principal installments ranging from \$640 to \$1,700 and (2) \$11,685 term bonds at a rate of 5.25% maturing through October 1, 2019, subject to mandatory redemption from October 1, 2013 to October 1, 2019 in annual principal installments ranging from \$620 to \$2,625. Total remaining debt service is \$34,977 to maturity.	20,000	20,000
Total revenue bond debt	41,040	42,300
Note Payable to Internal Service Fund of the City, 8.95%, issued October 13, 1984 in the amount of \$335, semiannual principal and interest payments of \$16 through October 31, 2003; total remaining debt service of \$136 to maturity.	118	143
Advances from the Orange County Water District, 3.5%, a partial installment under terms of a \$750 per Well Construction Program Agreement, dated April 18, 1990, for the construction of Wells 46, 47 and 49, semiannual principal and interest installment payments of \$94 through July 31, 2010; total remaining debt service of \$1,936 to maturity.	1,610	1,737
Total other debt	1,728	1,880
Total debt	42,768	44,180
Less current portion	(1,488)	(1,412)
Less unamortized bond discounts	(543)	(607)
Total long-term debt	\$ 40,737	\$ 42,161

WATER UTILITY

Notes to Financial Statements

(in thousands)

Annual debt service requirements at June 30, 1999 to maturity are as follows:

Fiscal Year	Revenue Bond Debt			Other Debt			Total All Long Term Debt
	Principal	Interest	Total	Principal	Interest	Total	
2000	\$ 1,330	\$ 2,166	\$ 3,496	\$ 158	\$ 62	\$ 220	\$ 3,716
2001	1,400	2,094	3,494	165	55	220	3,714
2002	1,465	2,027	3,492	171	49	220	3,712
2003	1,540	1,943	3,483	178	42	220	3,703
2004	1,625	1,856	3,481	158	36	194	3,675
Thereafter	33,680	13,783	47,463	898	100	998	48,461
	\$ 41,040	\$ 23,869	\$ 64,909	\$ 1,728	\$ 344	\$ 2,072	\$ 66,981

Interest costs of \$972 and \$576 have been capitalized to utility plant for fiscal years ended June 30, 1999 and 1998, respectively.

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

The bond issues outstanding at June 30, 1999 require the establishment of a Bond Service Account accumulating monthly one-sixth of the interest which will become due and payable on the outstanding bonds within the next six months and by one-twelfth of the principal amount which will mature and be payable on the outstanding bonds within the 12 months.

Restricted cash and investments include reserved amounts, as well as undisbursed bond proceeds, at June 30 is as follows:

	1999	1998
Held by fiscal agent		
Bond reserve fund	\$ 4,400	\$ 4,400
Held by City Treasurer		
Bond service account	2,235	1,669
Renewal and replacement account	1,708	1,693
Restricted bond proceeds	11,072	9,912
	\$ 19,415	\$ 17,674

The Water Utility's interest and other finance charges, except for capitalized interest, for the years ended June 30, 1999 and 1998 were \$1,646 and \$2,120, respectively.

5. CAPITALIZED LEASE OBLIGATION

The City has a long-term noncancelable lease with the Municipal Water District of Orange County ("MWDOC") to finance the acquisition of a 3.002% share in the capacity of the Allen-McColloch Pipeline. Future minimum lease payments under this lease are as follows:

Years ending June 30,	
2000	\$ 179
2001	181
2002	182
2003	184
2004	186
Thereafter	377
	1,289
Less interest	(227)
Future minimum lease payments	\$ 1,062
Current portion	\$ 125
Long-term portion	937
	\$ 1,062

WATER UTILITY

The City sold its share of the Allen-McColloch pipeline to the Metropolitan Water District of Southern California (the "MWD"). The transaction was completed in April 1995. The balance of this transaction is shown as notes receivable on the balance sheets. Because the capitalized lease obligation is noncancelable, the City is obligated for the future payments, which are partially offset by payments received from the MWD.

6. PENSION PLAN

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

As a condition of participation, employees are required to contribute 7% of their annual compensation to PERS. The City is required to contribute the remaining amounts necessary to fund PERS, using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the Board of Administration.

The Water Utility contributed \$490, \$605, and \$588 to PERS for the years ended June 30, 1999, 1998, and 1997 respectively.

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

7. DEFERRED COMPENSATION

The City offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan, available to all City employees, permits deferral of a portion of an employee's salary until future years. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.

The Small Business Job Protection Act of 1996 changed Internal Revenue Code Section 457 by protecting participant assets from creditors of a bankrupt or financially troubled public jurisdiction. The City complied with the provisions of

this act effective prior to January 1, 1999, and implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, during 1999, which removed the assets and liabilities from the Water Utility's financial statements.

8. SELF-INSURANCE PROGRAM

The Water Utility is part of the City's self-insured workers' compensation and general liability program. The liability for such claims, including claims incurred but not reported, is transferred to the City in consideration of self-insurance premiums paid by the Water Utility. Costs relating to the litigation of claims are charged to expense as incurred.

9. COMMITMENTS AND CONTINGENCIES

LITIGATION

A number of claims and suits are pending against the City for alleged damages to persons and property and for other alleged liabilities arising out of matters usually incidental to the operation of a utility such as the water system of the City.

In the opinion of management, the exposure under these claims and suits would not materially affect the financial position of the Water Utility as of June 30, 1999.

ANAHEIM HILLS AREA LAND MOVEMENT

The City has been named as a defendant in several lawsuits in connection with land movement which occurred in the Anaheim Hills area in 1993. During June 1997, the Water Utility reimbursed the City's General Fund for a portion of the litigation costs incurred by the City. In August 1997, the Water Utility received reimbursement from the City's insurance carriers or risk pooling entities for a portion of the payments made to the City. The net reimbursements received in 1998 of \$659 is classified as nonoperating income and expense in the accompanying statements of operations and changes in retained earnings. The Water Utility's ultimate exposure to loss and additional litigation costs, if any, is not determinable and has not been accrued in the accompanying financial statements.

CAPITAL EXPENDITURES

The Water Utility's budget for fiscal 1999-2000 provides for capital expenditures of approximately \$13,413, of which \$879 is expected to be funded by water revenues and contributions in aid of construction.

WATER UTILITY

Notes to Financial Statements

(in thousands)

10. ORANGE COUNTY RECEIVABLE

On December 6, 1994, the County of Orange (the "County") and the Orange County Investment Pools (collectively, the "Pool") filed petitions under Chapter 9 of the United States Bankruptcy Code. At the time of the bankruptcy, the City had funds invested in the Pool. On May 2, 1995 the United States Bankruptcy Court approved a Comprehensive Settlement Agreement entered into by and among the County, the Pool and a majority of the Pool Participants, of which the City was a part, which allowed the City to recover approximately 80% of its investment in the Pool and allowed certain classes of claims against the County (Settlement Secured Claims and Repayment Claims) for the balance of its investment.

Subsequently, in late 1995, an agreement (the "Joint Agreement") was proposed and later accepted by a majority of the Pool Participants, providing for a funding source and settlement of the County bankruptcy, which allowed the County to emerge from bankruptcy in May 1996. The Joint Agreement provided that the Settlement Secured Claims and Repayment Claims, which are impaired classes of claims under the bankruptcy, would be made nonrecourse against the County, and would be paid only from net litigation proceeds of pool-related litigation if and when recovered by the County from third-party defendants. In addition, under the Joint Agreement, net litigation proceeds from pool-related litigation would be distributed among the Pool Participants and the County in accordance with a complex formula.

In the last several months, the County has settled its litigation with all remaining defendants and such settlements have been approved by the bankruptcy court. The total amount to be recovered by the Pool Participants through such settlements will be approximately \$842,777. Subject to possible appeals, the settlement proceeds should be available for distribution to the pool participants in accordance with the terms of the Joint Agreement before December 31, 1999. The Joint Agreement provided for the establishment of a \$50 million litigation fund to pay litigation costs incurred in pool-related litigation. The attorneys representing the County in the bankruptcy proceedings have filed a motion with the court seeking an additional \$49 million

bonus payment based upon the results achieved in the litigation. The County intends to vigorously oppose this request for additional fees.

At June 30, 1998, the Water Utility's nonrecovered principal balance of its investment in the Pool amounted to \$377, was classified as a "County receivable" and was considered long-term in nature. As a result of an analysis of the recoverability of the Orange County receivable from the proceeds of proposed and estimated future settlements, the Water Utility has adjusted this amount from \$377 to \$349.

As the City's investment in the Pool was commingled for investment purposes, the receivable was allocated to all City funds based on each fund's November 30, 1994 cash balance. The receivable (as adjusted) is reported as long-term. In the opinion of Water Utility management, any nonrecovered claims will not materially affect the financial position or operations of the Water Utility.

11. EFFECT OF NEW PRONOUNCEMENTS

GASB Statement No. 34

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This statement establishes financial reporting standards for state and local governments. Under the revised requirements, governmental financial statements will include management's discussion and analysis ("MD&A"), basic financial statements from both a government-wide perspective and a fund perspective and required supplementary information.

MD&A introduced the financial statements by giving readers a brief, objective and easily readable analysis of the government's financial performance for the year and its financial position at year-end, including and analysis of budgetary changes and results.

GASB No. 34 will become effective in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999. The Water Utility will be required to implement GASB No. 34 for the fiscal year ending June 30, 2002.

The Water Utility has elected not to early implement GASB No. 34 and has determined its effects will not be material on the Water Utility's financial statements.

WATER UTILITY FUND

Required Supplementary Information

June 30, 1999 and 1998

YEAR 2000 READINESS

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Water Utility's operations when the year 2000 arrives.

The Water Utility has completed the awareness and assessment stages, including an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting the Water Utility operations. All of the critical systems have been identified and have been remediated and validated/tested to handle the year 2000 issue as of the end of June 1999. Certain ancillary systems are in the remediation process. Validation/testing of these remaining systems will be completed by the end of November 1999.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Water Utility is or will be Year 2000 ready, that the Water Utility's remediation efforts will be successful in whole or in part, or that parties with whom the Water Utility does business will be year 2000 ready.

WATER UTILITY

Report of Independent Auditors

To the Honorable City Council
City of Anaheim, California

We have audited the accompanying balance sheets of the Water Utility Fund (the "Water Utility") of the City of Anaheim, California, as of June 30, 1999 and 1998, and the related statements of income and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Water Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Utility Fund of the City of Anaheim, California, as of June 30, 1999 and 1998, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

The year 2000 supplementary information on page 17 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board ("GASB"), and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because disclosure criteria specified by GASB Technical Bulletin No. 98-1, as amended, are not sufficiently specific to permit us to perform procedures that would provide meaningful results. In addition, we do not provide assurance that the Water Utility is or will become year 2000 compliant, that the Water Utility's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Water Utility does business are or will become year 2000 compliant.

Ernst & Young LLP

September 24, 1999



ANAHEIM PUBLIC UTILITIES

201 South Anaheim Boulevard

Anaheim, California 92805

714/765-5137

www.anaheimadvantage.com