

PUBLIC UTILITIES...

**COMMUNITY
RESOURCES**

RIVERSIDE
PUBLIC
UTILITIES
1999 - 2000
FINANCIAL
STATEMENTS



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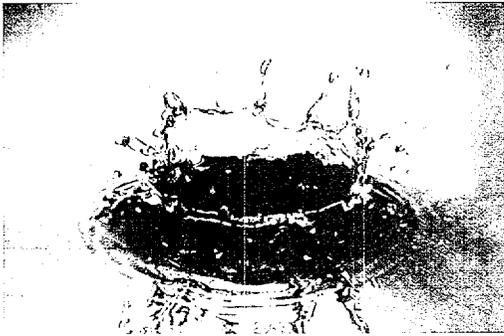


FISCAL MESSAGE

Electric and water resources are essential parts of every community. At Riverside Public Utilities we know that our role to provide the City of Riverside with quality, reliable electric and water utilities is invaluable.

In a volatile electricity market, Riverside Public Utilities has positioned itself well with short, mid and long-term contracts from power suppliers to maintain the city's energy needs while providing services at some of the lowest rates in Southern California.

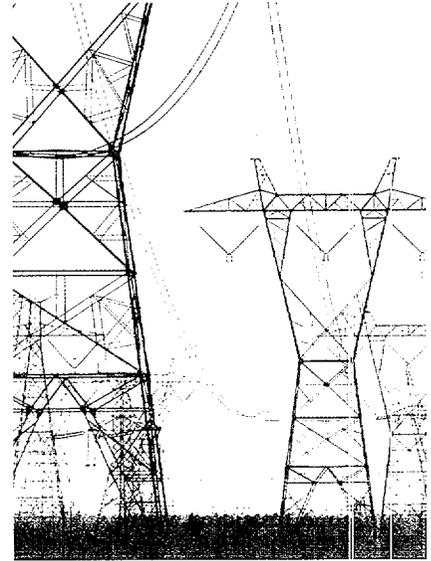
Our water rights date back over 105 years and ensure that the city has enough water to serve our needs today and well into the future. Improvements including new pumping stations, filtration plants and



extensive water main replacements throughout the city help to guarantee safe and reliable delivery of our water from source to tap.

Beyond our electric and water services, Riverside Public Utilities provides added benefits that only a community-owned utility can. Over \$14.4 million in electric and \$2.9 million in water utility revenues have been directed towards the City of Riverside's General Fund in the past year. This money is essential in providing needed public services such as library books, street repair, park maintenance and increased public safety.

Additionally, the utility gives back to the community each year by sponsoring a number of nonprofit groups and community events. It is the stability of a utility that is more concerned with maximizing *community resources* - not profits and dividends - that helps to make Riverside a safe, beautiful and economically stable place to work and live.



CITY OF RIVERSIDE ELECTRIC UTILITY

BALANCE SHEETS	JUNE 30 2000	JUNE 30 1999
	<i>(in thousands)</i>	
ASSETS		
UTILITY PLANT:		
Production	\$126,850	\$126,467
Transmission	15,021	15,021
Distribution	201,339	195,256
General	26,565	26,258
	369,775	363,002
Less accumulated depreciation and amortization	(165,188)	(153,895)
	204,587	209,107
Construction in progress	12,483	7,300
Nuclear fuel, at amortized cost	1,490	2,486
Total utility plant	218,560	218,893
RESTRICTED ASSETS:		
Cash and cash equivalents	45,437	48,868
Investments	28,677	25,589
Public benefit programs receivable	624	524
Total restricted assets	74,738	74,981
CURRENT ASSETS:		
Cash and cash equivalents	40,036	57,694
Accounts receivable, less allowance for doubtful accounts		
2000 \$390; 1999 \$419	28,930	21,736
Accrued interest receivable	795	893
Prepaid expenses	3,916	3,886
Nuclear materials inventory	989	974
Total current assets	74,666	85,183
OTHER ASSETS:		
Unamortized purchased power	25,056	0
Unamortized bond issuance costs	2,245	2,395
Unamortized bond refunding costs	4,093	4,248
Total other assets	31,394	6,643
Total assets	\$399,358	\$385,700

See accompanying notes to the financial statements.

CITY OF RIVERSIDE ELECTRIC UTILITY

BALANCE SHEETS

JUNE 30 **JUNE 30**
2000 **1999**
(in thousands)

CAPITALIZATION AND LIABILITIES

EQUITY:

Retained earnings:

 Reserved for debt service

 Unreserved

 Total retained earnings

Contributed capital

 Total equity

LONG-TERM OBLIGATIONS, LESS CURRENT PORTION

 Total capitalization

OTHER NON-CURRENT LIABILITIES:

 Decommissioning liability

CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:

 Accrued interest payable

 Deferred revenue, public benefit programs

 Current portion of long-term obligations

 Total current liabilities payable from restricted assets

CURRENT LIABILITIES:

 Accounts payable

 Accrued liabilities

 Current portion of long-term obligations

 Customer deposits

 Total current liabilities

COMMITMENTS AND CONTINGENCIES

 Total capitalization and liabilities

	2000	1999
Retained earnings:		
Reserved for debt service	\$ 18,378	\$ 18,214
Unreserved	70,202	63,392
Total retained earnings	88,580	81,606
Contributed capital	51,441	46,829
Total equity	140,021	128,435
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION	199,219	206,106
Total capitalization	339,240	334,541
OTHER NON-CURRENT LIABILITIES:		
Decommissioning liability	28,300	25,237
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	2,611	2,685
Deferred revenue, public benefit programs	8,017	4,765
Current portion of long-term obligations	6,930	6,610
Total current liabilities payable from restricted assets	17,558	14,060
CURRENT LIABILITIES:		
Accounts payable	7,378	5,145
Accrued liabilities	4,394	4,340
Current portion of long-term obligations	24	9
Customer deposits	2,464	2,368
Total current liabilities	14,260	11,862
COMMITMENTS AND CONTINGENCIES		
Total capitalization and liabilities	\$399,358	\$385,700

See accompanying notes to the financial statements.

CITY OF RIVERSIDE ELECTRIC UTILITY

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

FOR THE FISCAL YEARS
ENDED JUNE 30
2000 1999
(in thousands)

	2000	1999
OPERATING REVENUES:		
Residential sales	\$ 64,315	\$ 61,674
Commercial sales	46,389	43,010
Industrial sales	52,209	49,796
Other sales	5,739	5,190
Sales to other utilities	18,209	10,911
Other operating revenue	1,777	1,552
Total operating revenues	188,638	172,133
OPERATING EXPENSES:		
Purchased power	119,585	114,069
Operations	26,395	26,760
Maintenance	5,505	7,207
Depreciation and amortization	11,885	13,205
Total operating expenses	163,370	161,241
Operating income	25,268	10,892
NON-OPERATING REVENUES (EXPENSES):		
Interest income	5,061	6,200
Interest expense	(11,132)	(11,157)
Gain on retirement of utility plant	55	88
Other	2,127	1,769
Total non-operating expenses	(3,889)	(3,100)
Income before operating transfer	21,379	7,792
OPERATING TRANSFER OUT:		
Contribution to the City's general fund	(14,405)	(14,411)
Net income (loss)	6,974	(6,619)
RETAINED EARNINGS, BEGINNING OF YEAR	81,606	88,225
RETAINED EARNINGS, END OF YEAR	\$ 88,580	\$ 81,606

See accompanying notes to the financial statements.

CITY OF RIVERSIDE ELECTRIC UTILITY

STATEMENTS OF CASH FLOWS

**FOR THE FISCAL YEARS
ENDED JUNE 30
2000 1999**
(in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers and users	\$ 181,440	\$ 171,897
Cash paid to suppliers and employees	(166,674)	(139,488)
Other non-operating revenue	2,127	1,769
Net cash provided by operating activities	<u>16,893</u>	<u>34,178</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

Contribution to the City's general fund	(14,405)	(14,411)
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of utility plant	(10,024)	(12,348)
Purchase of nuclear fuel	(314)	(1,715)
Proceeds from the sale of utility plant	127	169
Principal paid on long-term obligations	(6,603)	(6,583)
Interest paid on long-term obligations	(10,850)	(10,819)
Contributed capital	2,016	1,529
Net cash used by capital and related financing activities	<u>(25,648)</u>	<u>(29,767)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of investment securities	(3,088)	(3,178)
Income from investments	5,159	5,996
Net cash provided by investing activities	<u>2,071</u>	<u>2,818</u>
Net decrease in cash and cash equivalents	<u>(21,089)</u>	<u>(7,182)</u>

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR¹

106,562	113,744
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CASH AND CASH EQUIVALENTS, END OF YEAR¹

<u>\$ 85,473</u>	<u>\$ 106,562</u>
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**RECONCILIATION OF OPERATING INCOME
TO NET CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating income	\$ 25,268	\$ 10,892
Adjustments to reconcile operating income to net cash provided by operating activities:		
Other non-operating revenue	2,127	1,769
Depreciation and amortization expense	11,885	13,205
Amortization (burn) of nuclear fuel	1,310	1,174
Provision for uncollectible accounts receivable	(29)	(45)
Increase in accounts receivable	(7,265)	(279)
(Increase) decrease in prepaid expenses	(30)	692
(Increase) decrease in nuclear materials inventory	(15)	15
Increase in unamortized purchased power	(25,056)	0
Increase in accounts payable	2,233	51
Increase in accrued liabilities	54	323
Increase in public benefits charge deferred revenue	3,252	3,457
Increase in customer deposits	96	88
Increase in decommissioning liability	3,063	2,836
Net cash provided by operating activities	<u>\$ 16,893</u>	<u>\$ 34,178</u>

SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Contributions in aid of construction	<u>\$ 2,596</u>	<u>\$ 1,830</u>
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¹ Cash and cash equivalents also include cash and cash equivalents in restricted assets.

See accompanying notes to the financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Electric Utility exists under, and by virtue of, the City Charter enacted in 1883. The Electric Utility is responsible for the generation, transmission and distribution of electric power for sale in the City.

■ Basis of Accounting The accounting records of the Electric Utility are in accordance with generally accepted accounting principles as applicable to governments and substantially in conformity with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission, except for the method of accounting for contributed capital described below. The Electric Utility is not subject to the regulations of the Federal Energy Regulatory Commission. The Electric Utility is not required to and does not elect to implement the pronouncements of the Financial Accounting Standards Board issued after November 1989.

■ Revenue Recognition The Electric Utility uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Electric Utility customers are billed monthly. Unbilled electric service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$8,794,000 at June 30, 2000, and \$7,739,000 at June 30, 1999.

An allowance for doubtful accounts is maintained for utility and miscellaneous accounts receivable. The balance in this account is adjusted at fiscal year-end to approximate the amount anticipated to be uncollectible.

■ Utility Plant and Depreciation Utility plant assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Costs include 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. Contributed plant assets are valued at estimated fair market value on the date contributed. The cost of relatively minor replacements is included in maintenance expense.

Depreciation is provided over the estimated useful lives of the related assets using the straight-line method. The estimated useful lives are as follows:

Production plant.....	30 years
Transmission and distribution plant	20-50 years
General plant and equipment	5-15 years

■ 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 one mill per kilowatt-hour of energy generated by the City's share of San Onofre Nuclear Generating Station's Units 2 and 3 to provide for estimated future storage and disposal of spent fuel. The Electric Utility

pays this fee to its operating agent, Southern California Edison Co. (SCE), on a quarterly basis (see Note 6).

■ Restricted Assets Proceeds of revenue bonds yet to be used for capital projects, as well as certain resources set aside for debt service, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Funds set aside for the nuclear decommissioning reserve are also classified as restricted assets because their use is legally restricted to a specific purpose.

In January 1998, the Electric Utility began collecting a surcharge for public benefit programs on customer utility bills. This surcharge is mandated by state legislation included in Assembly Bill 1890 and is restricted to various socially beneficial programs and services. The programs and services include cost effective demand-side management services to promote energy efficiency and conservation and related education and information; ongoing support and new investments in renewable resource technologies; energy research and development; and programs and services for low-income electric customers. The activity associated with the surcharge for public benefit programs is reflected in the accompanying financial statements as a restricted asset and deferred revenue.

■ Cash and Investments The City follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures. Cash accounts for all City funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings. Interest income earned on pooled cash is allocated monthly to the various funds of the City based on the month-end cash balances. Cash and investments held by fiscal agents are credited directly to the related accounts.

The City values its cash and investments in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31: Accounting and Financial Reporting for Certain Investments and External Investment Pools (GASB 31), which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using quoted market prices.

All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents. Cash and investments held on behalf of the Electric Utility by the City Treasurer are considered highly liquid and are classified as cash equivalents for the purpose of presentation in the statement of cash flows.

■ Inventories The City maintains a separate Central Stores inventory. The Electric Utility expenses items as they are drawn out of Central Stores. As such, the Electric Utility does not include inventories in its financial statements.

■ **Bond Discounts and Issuance Costs** Bond discounts and issuance costs are deferred and amortized over the term of the bonds using the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable, whereas issuance costs are recorded as other assets.

■ **Contributed Capital** Amounts received from customers and others for constructing utility plant are combined with retained earnings to represent equity. Accordingly, contributed capital is shown in the accompanying balance sheet as an equity account and is not offset against utility plant. Depreciation of contributed assets is reflected as an operating expense.

During the two years, contributed capital increased by the following amounts (in thousands):

	2000	1999
Balance, July 1	\$46,829	\$43,470
Impact fees	2,016	1,529
Contributed plant	2,596	1,830
Balance, June 30	<u>\$51,441</u>	<u>\$46,829</u>

■ **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 trust account to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Each year the Electric Utility recognizes an expense in the amount of the contribution to the trust account. The funding will occur over the useful life of the generating plant. Amounts held in the trust account are classified as restricted assets in the accompanying balance sheet. To date, the Electric Utility has set aside \$28,300,000 in cash and investments with the trustee as Riverside's estimated share of the decommissioning cost of San Onofre. Based on a cost estimate completed by SCE and approved by the California Public Utilities Commission, the Electric Utility plans to set aside approximately \$1.6 million per year to fund this obligation. Decommissioning is expected to commence around the year 2015.

■ **Competitive Transition Account** A Competitive Transition Account (CTA) was established in June 1998 after approval by the Board of Public Utilities and the City Council. This new account was funded by a transfer of \$23.5 million from a rate stabilization account and \$10 million from an operating cash reserve account. The CTA is an internally restricted asset and the Board and City Council will approve usage of funds on an annual or as-needed basis for purposes of handling competitive financial issues. This account was established for a short-term period (five years) during the phase-in of retail competition in the electric utility industry. Possible fund uses include early pay down of generation-related debt or long-term contracts, rate stabilization or other competitive purposes. The balance in the CTA at June 30, 2000 and 1999 was \$19.5 and \$36.7 million, respectively, and is reflected as a current asset in the accompanying financial statements as part of cash and cash equivalents.

■ **Customer Deposits** The City holds customer deposits as security for the payment of utility bills. The Electric Utility's portion of these deposits as of June 30, 2000 and 1999, was \$2,464,000 and \$2,368,000, respectively.

■ **Compensated Absences** The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2000 and 1999. The Electric Utility treats compensated absences due employees as a current liability. The amount accrued for compensated absences was \$4,046,000 at June 30, 2000, and \$4,089,000 at June 30, 1999, and is included in current liabilities in the accompanying balance sheets.

Employees receive 10 to 25 vacation days a year based upon length of service. A maximum of two years vacation may be accumulated and unused vacation is paid in cash upon separation.

Employees primarily receive one day of sick leave for each month of employment with unlimited accumulation. Upon retirement or death only, a percentage of unused sick leave is paid to certain employees or their estates in a lump sum based on longevity.

■ **Self-Insurance Program** The Electric Utility participates in a self-insurance program for workers' compensation and general liability coverage that is administered by the City. The Electric Utility pays an amount to the City representing an estimate of amounts to be paid for reported claims incurred and incurred but unreported claims based upon past experience, modified for current trends and information.

Although the ultimate amount of losses incurred through June 30, 2000, is dependent upon future developments, management believes that amounts paid are sufficient to cover such losses.

■ **Employee Retirement Plan** The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agency for participating public entities within the state of California.

All permanent full-time and selected part-time employees are eligible for participation in PERS. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service and salary. Employees may retire at age 55 and receive 2 percent of their highest average annual salary for each year of service completed. PERS also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and City ordinance.

Employee contributions are 7 percent. The Electric Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The Electric Utility pays both the employee and employer contributions.

CITY OF RIVERSIDE ELECTRIC UTILITY NOTES TO THE FINANCIAL STATEMENTS

Citywide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the year ended June 30, 2000, and recent trend information may be found in the notes of the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2000.

■ Contribution to the City's General Fund
Pursuant to the City Charter, the Electric Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's general fund. In fiscal years 1999-00 and 1998-99, the Electric Utility transferred 9.0 percent of gross operating revenues, or \$14,405,000 and \$14,411,000, respectively.

■ Budgets and Budgetary Accounting The Electric Utility presents, and the City Council adopts, an annual budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Electric Utility's budget at its last meeting in June via an adopting resolution.

■ Reclassifications Certain reclassifications have been made to the prior year's financial statements to conform with the current year's presentation.

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2000 and 1999, consist of the following (in thousands):

Pooled investments with City Treasurer
Cash and investments at fiscal agent

June 30, 2000	June 30, 1999
Fair Value	
\$ 65,429	\$ 79,788
48,721	52,363
\$114,150	\$132,151

The amounts above are reflected in the accompanying financial statements as:

Cash and cash equivalents
Restricted assets:
 Cash and cash equivalents
 Investments

June 30, 2000	June 30, 1999
\$ 40,036	\$ 57,694
45,437	48,868
28,677	25,589
74,114	74,457
\$114,150	\$132,151

■ Authorized Investments Under provisions of the City's investment policy and in accordance with California Government Code Section 53601, the City Treasurer may invest or deposit in the following types of investments:

- Securities of the U.S. government, or its agencies
- Local agency investment fund (state pool) deposits
- Small Business Administration loans
- Passbook savings account demand deposits
- Negotiable certificates of deposits
- Repurchase agreements
- Banker's acceptances
- Mutual funds
- Commercial paper of "prime" quality
- Medium-term corporate notes

■ Credit Risk, Carrying Amount and Market Value of Deposits and Investments Cash and non-negotiable certificates of deposit are classified in three categories of custodial credit risk as follows: Category 1—insured or collateralized with securities held by the City or its agent in the City's name; Category 2—collateralized with securities held by the pledging financial institution's trust department or agent in the City's name; Category 3—uncollateralized.

Investments are also classified in three categories of custodial credit risk as follows: Category 1—insured or registered, or securities held by the City or its agent in the City's name; Category 2—uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; Category 3—uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in the City's name. Investments in pools managed by other governments or in mutual funds are not required to be categorized.

The Electric Utility's share of the City's investments at June 30, 2000, represents approximately 29 percent or \$114,150,000 of the City's total cash and investments of \$392,113,000. Information concerning credit risk and fair value of the City's deposits and investments may be found in the notes of the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2000. Cash and investments at fiscal agent are insured or registered, or held in the name of the Electric Utility or its agent, or are not subject to risk categorization.

NOTE 3. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following (in thousands):

■ **Capital Lease**

Electric Utility's Share of Equipment Purchased Through Capital Lease:

\$79,468 capital lease due in monthly installments of \$2,230 through December 31, 2002, interest at 8.5 percent

Total capital lease

June 30, 2000 June 30, 1999

\$	32	\$	26
	32		26

■ **Revenue Bonds Payable**

\$68,175,000 1991 Electric Revenue Bonds: \$27,395,000 serial bonds due in annual installments from \$1,490,000 to \$1,955,000 through October 1, 2002, interest from 6.1 percent to 6.4 percent (partially advance refunded in 1998); and \$40,780,000 term bonds due October 1, 2015, at 6.0 percent (fully refunded in 1998)

5,180 6,540

\$118,550,000 1993 Electric Refunding Revenue Bonds: \$92,245,000 serial bonds due in annual installments from \$5,305,000 to \$8,005,000 through October 1, 2010, interest from 4.3 percent to 8.25 percent; \$26,305,000 term bonds due October 1, 2013, interest at 5.0 percent

97,930 103,050

\$4,100,000 1994 FARECal Electric Revenue Bonds: \$2,105,000 serial bonds due in annual installments from \$135,000 to \$220,000 through July 1, 2010, interest from 5.1 percent to 5.9 percent; \$1,995,000 term bonds due July 1, 2017, interest at 6.0 percent

3,735 3,865

\$98,730,000 1998 Electric Refunding/Revenue Bonds: \$63,165,000 serial bonds due in annual installments from \$4,650,000 to \$7,085,000 through October 1, 2013, interest from 4.25 percent to 5.38 percent; \$21,595,000 term bonds due October 1, 2018, interest at 5.0 percent; \$13,970,000 term bonds due October 1, 2022, interest at 5.0 percent.

98,730 98,730

Total electric revenue bonds payable

205,575 212,185

Total obligations

205,607 212,211

Less: Current portion

(6,954) (6,619)

Unamortized bond premium

566 514

Total long-term obligations

\$199,219 \$ 206,106

Annual debt service requirements to maturity as of June 30, 2000, are as follows (in thousands):

	2001	2002	2003	2004	2005	Thereafter	Total
Capital lease	\$ 24	\$ 8	\$ 0	\$ 0	\$ 0	\$ 0	\$ 32
Bond interest requirements	10,431	9,982	9,499	9,057	8,555	54,302	101,826
Bond principal requirements	6,930	7,385	7,840	10,780	11,285	161,355	205,575
Unamortized bond (discount) premium	(52)	(57)	(60)	42	43	650	566
Total	\$17,333	\$17,318	\$17,279	\$19,879	\$19,883	\$216,307	\$307,999

■ **Debt Service Coverage Ratio** The Electric Utility's bond indentures require the Electric Utility to maintain a debt service coverage ratio, as defined by the bond covenants, of 1.25. The Electric Utility's debt service coverage ratio was 2.76 at June 30, 2000, and 2.01 at June 30, 1999.

NOTE 4. RESERVED RETAINED EARNINGS

A reserve for debt service has been established pursuant to applicable bond indentures. Bond indentures for Riverside's electric revenue and refunding bonds require reserves that equate to the maximum annual debt service required in future years plus three months interest and nine months principal due in the next fiscal year. The reserve for Riverside's portion of FARECal revenue bonds is equal to 10 percent of the program agreement amounts. Additional reserves for the 1998 and 1991 revenue bonds are not required due to the purchase of surety bonds to cover the required reserve requirements.

NOTE 5. JOINTLY-GOVERNED ORGANIZATIONS

■ Southern California Public Power Authority

On November 1, 1980, the City of Riverside joined with the Imperial Irrigation District and the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale and Pasadena to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the state of California. The primary purpose of SCPPA is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. SCPPA is governed by a Board of Directors, which consists of one representative for each of the members. During the 1999-00 and 1998-99 fiscal years, the Electric Utility paid approximately \$21,280,000 and \$22,407,000, respectively, to SCPPA under various take-or-pay contracts that are described in greater detail in Note 7. These payments are reflected as a component of purchased power in the financial statements.

■ Power Agency of California

On July 1, 1990, the City of Riverside joined with the cities of Azusa, Banning and Colton to create the Power Agency of California (PAC) by a Joint Powers Agreement under the laws of the state of California. The city of Anaheim joined PAC on July 1, 1996. The primary purpose of PAC is to take advantage of synergies and economies of scale as a result of the five cities acting in concert. PAC has the ability to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. PAC is governed by a Board of Directors, which consists of one representative for each of the members. The term of the Joint Powers Agreement is 50 years. During the fiscal years ended 1999-00 and 1998-99, the Electric Utility paid approximately \$5,500 and \$39,000, respectively, to PAC for administrative expenses and advanced \$238,000 and \$284,000, respectively, for operating capital.

■ Financing Authority for Resource Efficiency of California

On July 1, 1993, the City of Riverside joined with the cities of Anaheim, Colton, Compton, Healdsburg, Los Angeles, Palo Alto, Pasadena, Redding, Santa Cruz; the North Marin Water District; the Northern California Power Agency; the Sacramento Municipal Utility District; and Turlock Irrigation District to create the Financing Authority for Resource Efficiency of California (FARECal). The primary purpose of FARECal is to issue bonds and use the proceeds to promote, advance, encourage and participate in conservation, reclamation and other programs that are designed to utilize energy or water resources more efficiently. FARECal is administered by a Board of Directors comprised of one representative from each charter member (the cities of Anaheim, Los Angeles, Palo Alto and Riverside and the North Marin Water District) and three voting-based directors, which currently are representatives from Trinity Public Utilities District, Colton and Pasadena.

NOTE 6. JOINTLY-OWNED UTILITY PROJECT

Pursuant to a settlement agreement with SCE, dated August 4, 1972, the City was granted the right to acquire a 1.79 percent ownership interest in San Onofre Nuclear Generating Station (SONGS), Units 2 and 3. In the settlement agreement, SCE agreed to provide the necessary transmission service to deliver the output of SONGS to Riverside. 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 this project include SCE, 75.05 percent; San Diego Gas & Electric Company, 20.00 percent; and the city of Anaheim, 3.16 percent. Maintenance and operation of SONGS remain the responsibility of SCE, as operating agent for the City.

There are no separate financial statements for the jointly-owned utility plant since each participant's interests in the utility plant and operating expenses are included in their respective financial statements. The Electric Utility's 1.79 percent share of the capitalized construction costs for SONGS totaled \$126,850,000 and \$126,467,000 for fiscal years ended June 30, 2000 and 1999, respectively. The accumulated depreciation amounted to \$72,444,000 and \$67,579,000 for the fiscal years ended June 30, 2000 and 1999, respectively. The Electric Utility made provisions during fiscal years 1999-00 and 1998-99 for nuclear fuel burn of \$1,310,000 and \$1,174,000, respectively, and for future decommissioning costs of \$1,581,000 for 1999-00 and 1998-99 fiscal years (see Note 1). The Electric Utility's portion of current and long-term debt associated with SONGS is included in the accompanying financial statements.

As a participant in SONGS, the Electric Utility could 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.

CITY OF RIVERSIDE ELECTRIC UTILITY NOTES TO THE FINANCIAL STATEMENTS

NOTE 7. COMMITMENTS

■ **Take-or-Pay Contracts** The Electric Utility has entered into a power purchase contract with Intermountain Power Agency (IPA) for the delivery of electric power. The Electric Utility's share of IPA power is equal to 7.6 percent of the generation output of IPA's 1,600 megawatt coal-fueled generating station located in central Utah.

The contract constitutes an obligation of the Electric Utility to make payments solely from operating revenues. The power purchase contract requires the Electric Utility to pay certain minimum charges that are based on debt service requirements. Such payments are considered a cost of purchased power.

The Electric Utility is a member of the Southern California Public Power Authority (SCPPA), a joint powers agency (see Note 5). SCPPA provides for the financing and construction of electric generating and transmission projects for participation by some or all of its members. To the extent the Electric Utility participates in projects developed by SCPPA, the Electric Utility will be obligated for its proportionate share of the project cost.

The projects and the Electric Utility's proportionate share of SCPPA's obligations are as follows:

PROJECT	PERCENT SHARE
Palo Verde Nuclear Generating Station	5.4 percent
Southern Transmission System	10.2 percent
Hoover Dam Upgrading	31.9 percent
Mead-Phoenix Transmission	4.0 percent
Mead-Adelanto Transmission	13.5 percent

As part of the take-or-pay commitments with IPA and SCPPA, the Electric Utility has agreed to pay its share of current and long-term obligations. Management intends to pay these obligations from operating revenues received during the year that payment is due.

Take-or-pay commitments expire upon final maturity of outstanding bonds for each project. Final maturities are as follows:

PROJECT	EXPIRATION DATE
Intermountain Power Project	2023
Palo Verde Nuclear Generating Station	2017
Southern Transmission System	2023
Hoover Dam Upgrading	2017
Mead-Phoenix Transmission	2020
Mead-Adelanto Transmission	2020

Interest rates on the outstanding debt associated with the take-or-pay obligations range from 3.8 percent to 7.9 percent. The schedule below details the amount of principal that is due and payable by the Electric Utility as part of the take-or-pay contract for each project in the fiscal year indicated.

PRINCIPAL PAYMENTS <i>(in thousands)</i>	SCPPA						TOTAL
	IPA Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Hoover Dam Upgrading	Mead- Phoenix Transmission	Mead- Adelanto Transmission	All Projects
Year Ending June 30							
2001	\$ 12,562	\$ 2,358	\$ 2,505	\$ 196	\$ 594	\$ 5,622	\$ 23,837
2002	11,634	2,436	1,959	207	68	526	16,830
2003	14,984	2,559	3,031	354	0	0	20,928
2004	9,768	2,656	3,086	389	0	0	15,899
2005	9,755	2,797	2,869	415	0	0	15,836
Thereafter	244,526	35,665	98,492	7,804	2,877	30,939	420,303
Subtotal	303,229	48,471	111,942	9,365	3,539	37,087	513,633
Less: Unamortized bond discount	(10,703)	(3,941)	(6,076)	(995)	(143)	(1,456)	(23,314)
Refunding charge	(57,721)	(4,964)	(17,096)	(586)	(263)	(2,444)	(83,074)
Total	\$234,805	\$39,566	\$ 88,770	\$7,784	\$ 3,133	\$ 33,187	\$407,245

NOTE 7. COMMITMENTS (CONTINUED)

Power Purchase Agreements The Electric Utility has executed five firm power purchase agreements. The agreements are with Deseret Generation and Transmission Cooperative (Deseret) of Murray, Utah; California Department of Water Resources (CDWR); and Bonneville Power Administration (BPA). The minimum annual obligations under each of these contracts are shown in the table below.

Minimum Obligations 2000-2001 (in thousands)

SUPPLIER	CAPACITY	ENERGY	TOTAL
Deseret	\$10,936	\$1,684	\$12,620
CDWR III	432	0	432
CDWR IV	564	0	564
BPA (two agreements)	726*	0	726
Total	\$12,658	\$1,684	\$14,342

*Estimated

The agreement with Deseret is for five megawatts of capacity and associated energy from January 1, 1992, through December 31, 1994, then increasing to 52 megawatts of capacity and associated energy through December 31, 2009. A notice of termination of the power purchase agreement was provided to Deseret effective March 31, 1998, resulting in litigation which was settled on July 31, 1999. Under the terms of the settlement agreement, the notice of termination was rescinded and the power purchase agreement was amended to reflect substantial price reductions after fiscal year 2001 through the term of the agreement in 2009. In exchange, Riverside Public Utilities paid Deseret \$25 million from Electric fund reserves, which is reflected on the Balance Sheet as Unamortized purchased power. On July 1, 2002, the Electric utility will begin to realize the benefits related to the

price reductions, and will amortize the \$25 million over the remaining term of the agreement using the straight-line method.

There are two separate agreements with CDWR. CDWR III is for the purchase of 23 megawatts of capacity from May through October of each year beginning June 1, 1996, for 15 years. CDWR IV is for the purchase of 30 megawatts of capacity from May through October beginning June 1, 1996, for 15 years.

The first agreement with BPA is for the purchase of firm capacity (23 megawatts in the summer months and 16 megawatts in the winter months) beginning February 1, 1991, for a period of 20 years. The 1996 BPA agreement is for the purchase of capacity (50 megawatts during the summer months and 13 megawatts during the winter months) beginning April 30, 1996, for 20 years. Effective May 1, 1998, these summer and winter capacity amounts increased to 60 megawatts and 15 megawatts, respectively, for the remainder of the 1996 agreement. A notice of termination of both power purchase agreements (two agreements) was provided to BPA effective March 31, 1998, which was subsequently rescinded on March 5, 1999.

NOTE 8. LITIGATION

The Electric Utility is a defendant in various lawsuits arising in the normal course of business.

Present lawsuits and other claims against the Electric Utility are incidental to the ordinary course of operations of the Electric Utility and are largely covered by the City's self-insurance program. In the opinion of management and the City Attorney, such claims and litigation will not have a materially adverse effect upon the financial position or results of operations of the Electric Utility.

CITY OF RIVERSIDE ELECTRIC UTILITY INDEPENDENT AUDITORS' REPORT

**To the Honorable City Council and Board of Public Utilities
City of Riverside, California**

We have audited the accompanying balance sheets of the City of Riverside Electric Utility as of June 30, 2000 and 1999, and the related statements of operations and 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 audit

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 that 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 City of Riverside Electric Utility as of June 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

November 3, 2000

CITY OF RIVERSIDE ELECTRIC UTILITY STATISTICS

POWER SUPPLY (MWH)	1999/00¹	1998/99¹	1997/98	1996/97	1995/96
San Onofre	342,000	288,800	291,900	227,200	299,100
Intermountain Power	1,006,900	1,009,100	882,900	899,300	566,600
Palo Verde	97,900	96,500	92,200	94,300	88,400
Hoover	43,500	46,100	42,500	37,700	39,500
Firm contracts (long term and short term)	877,000	504,300	272,800	267,300	248,400
Non-firm contracts	61,000 ²	53,000 ²	110,500	196,200	446,400
Southern California Edison	0	0	500	1,500	1,100
Total	2,428,300	1,997,800	1,693,300	1,723,500	1,689,500
System peak (MW)	473.1	479.2	458.5	434.5	432.0

¹Energy shown before losses.
²Certain reclasses have occurred due to deregulation of the electric industry.

ELECTRIC USE	1999/00	1998/99	1997/98	1996/97	1995/96
Average number of customers					
Residential	83,637	82,937	81,640	80,656	79,904
Commercial	9,050	8,859	8,650	8,577	8,500
Industrial	324	292	203	200	199
Other	136	125	116	128	127
Total	93,147	92,213	90,609	89,561	88,730
Millions of kilowatt-hours sales					
Residential	594	575	555	563	566
Commercial	436	406	404	408	414
Industrial	651	619	620	618	606
Sales to other utilities	419	151	135	50	37
Other	53	46	45	49	46
Total	2,153	1,797	1,759	1,688	1,669

ELECTRIC FACTS	1999/00	1998/99	1997/98	1996/97	1995/96
Average annual kWh per residential customer	7,105	6,938	6,796	6,984	7,090
Average price (cents/kWh) per residential customer	10.83	10.73	10.78	10.69	10.86
Debt as a percent of net plant ²	94.3%	97.2%	101%	80.3%	82.4%
Operating income as a percent of operating revenues	13.4%	6.3%	11.4%	14.0%	12.6%
Employees	277	274	278	298	313

²Net plant includes nuclear fuel inventory and work in progress.

1999/00

Electric Dollar and Resources

Source of Revenue



- Residential Sales (33¢)
- Industrial Sales (26¢)
- Commercial Sales (23¢)
- Sales to Other Utilities (9¢)
- Other Sales (3¢)
- Interest Income (3¢)
- Other Revenue (3¢)

Distribution of Revenue



- Purchased Power Supply (61¢)
- Operation & Maintenance (16¢)
- Debt Service (9¢)
- Transfer to City's General Fund (7¢)*
- Additional Reserves (6¢)
- Additions and Replacements to the System (1¢)

*Based on transfer of 9.0 percent of fiscal year 1998-99 operating revenues (excludes interest and other non-operating income).

Energy Resources



- Coal (41.5%)
- Third-Party-Purchases (38.6%)
- Nuclear (18.1%)
- Hydropower (1.8%)

CITY OF RIVERSIDE ELECTRIC UTILITY STATISTICS

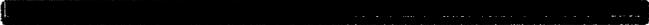
General Fund Transfer (in millions)

96		\$16.3
97		\$16.3
98		\$15.5
99		\$14.4
00		\$14.4

Average Number of Customers

96		88,730
97		89,561
98		90,609
99		92,213
00		93,147

Total Operating Revenue (in millions)

96		\$164.8
97		\$175.7
98		\$176.5
99		\$172.1
00		\$188.6

Production (in million kilowatt-hours)

96		1,690
97		1,724
98		1,693
99		1,997
00		2,428

Peak Day Demand (in megawatts)

96		432.0
97		434.5
98		458.5
99		479.2
00		473.1

ELECTRIC FACTS AND SYSTEM STATISTICS

Established: 1895
 Service Area Population: 259,700
 Service Area Size (square miles): 78.1

System Statistics:

Transmission lines (circuit miles): 89.8
 Distribution lines (circuit miles): 1,067.4
 Number of substations: 14
 1999-00 Peak Day (megawatts): 473
 Highest single hourly use:
 7/12/99, 5pm, 104 degrees
 Historical peak (megawatts): 479
 Highest single hourly use:
 8/31/98, 3pm, 107 degrees

BOND RATINGS

FITCH IBCA A+
 STANDARD & POOR'S CORP. A+

CITY OF RIVERSIDE WATER UTILITY

BALANCE SHEETS	JUNE 30 2000	JUNE 30 1999
ASSETS	<i>(in thousands)</i>	
UTILITY PLANT:		
Source of supply	\$ 25,729	\$ 25,616
Pumping	8,614	8,613
Treatment	1,796	1,796
Transmission and distribution	184,083	176,477
General	7,114	6,785
Intangible	5,709	5,597
	233,045	224,884
Less accumulated depreciation and amortization	(73,651)	(68,818)
	159,394	156,066
Construction in progress	10,562	6,747
Total utility plant	169,956	162,813
RESTRICTED ASSETS:		
Cash and cash equivalents	5,129	9,467
Investments	3,091	2,531
Total restricted assets	8,220	11,998
CURRENT ASSETS:		
Cash and cash equivalents	24,126	18,700
Accounts receivable, less allowance for doubtful accounts 2000 \$85; 1999 \$102	4,062	3,992
Accrued interest receivable	371	249
Advances to the City's general fund	46	46
Total current assets	28,605	22,987
OTHER ASSETS:		
Unamortized bond issuance costs	717	764
Unamortized bond refunding costs	628	653
Total other assets	1,345	1,417
Total assets	\$208,126	\$199,215

See accompanying notes to the financial statements.

CITY OF RIVERSIDE WATER UTILITY

BALANCE SHEETS	JUNE 30 2000	JUNE 30 1999
CAPITALIZATION AND LIABILITIES	<i>(in thousands)</i>	
EQUITY:		
Retained earnings:		
Reserved for debt service	\$ 6,351	\$ 6,243
Unreserved	20,004	17,771
Total retained earnings	26,355	24,014
Contributed capital	118,289	109,887
Total equity	144,644	133,901
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION		
Total capitalization	57,137	59,028
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	595	634
Current portion of long-term obligations	2,955	2,755
Total current liabilities payable from restricted assets	3,550	3,389
CURRENT LIABILITIES:		
Accounts payable	523	804
Accrued liabilities	1,726	1,609
Current portion of long-term obligations	173	159
Customer deposits	373	325
Total current liabilities	2,795	2,897
COMMITMENTS AND CONTINGENCIES		
Total capitalization and liabilities	\$208,126	\$199,215

See accompanying notes to the financial statements.

CITY OF RIVERSIDE WATER UTILITY

	FOR THE FISCAL YEARS ENDED JUNE 30	
	2000	1999
	<i>(in thousands)</i>	
OPERATING REVENUES:		
Residential sales	\$17,428	\$15,598
Commercial sales	8,056	7,365
Other sales	928	715
Wholesale sales	993	1,011
Other operating revenue	406	1,382
Total operating revenues	27,811	26,071
OPERATING EXPENSES:		
Operations	9,901	9,892
Maintenance	2,524	2,281
Purchased energy	3,237	2,787
Purchased water	735	699
Depreciation and amortization	4,974	4,813
Total operating expenses	21,371	20,472
Operating income	6,440	5,599
NON-OPERATING REVENUES (EXPENSES):		
Interest income	1,626	1,415
Interest expense	(3,828)	(3,823)
Gain on retirement of utility plant	7	17
Other	1,039	1,323
Total non-operating expenses	(1,156)	(1,068)
Income before operating transfer	5,284	4,531
OPERATING TRANSFER OUT:		
Contribution to the City's general fund	(2,943)	(2,600)
Net income	2,341	1,931
RETAINED EARNINGS, BEGINNING OF YEAR	24,014	22,083
RETAINED EARNINGS, END OF YEAR	\$26,355	\$24,014

See accompanying notes to the financial statements.

CITY OF RIVERSIDE WATER UTILITY

STATEMENTS OF CASH FLOWS

**FOR THE FISCAL YEARS
ENDED JUNE 30
2000 1999**
(in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$ 27,789	\$ 25,504
Cash paid to suppliers and employees	(16,561)	(15,441)
Other non-operating revenue	1,039	1,323
Net cash provided by operating activities	12,267	11,386
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Contribution to the City's general fund	(2,943)	(2,600)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of utility plant	(6,605)	(6,245)
Proceeds from the sale of utility plant	46	50
Principal paid on long-term obligations	(2,767)	(2,811)
Interest paid on long-term obligations	(2,705)	(2,749)
Contributed capital	2,851	1,930
Net cash used by capital and related financing activities	(9,180)	(9,825)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Reduction in advances to the City's general fund	0	10
(Purchase) maturities of investment securities	(560)	50
Income from investments	1,504	1,310
Net cash provided by investing activities	944	1,370
Net increase in cash and cash equivalents	1,088	331
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR¹	28,167	27,836
CASH AND CASH EQUIVALENTS, END OF YEAR¹	\$ 29,255	\$ 28,167
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 6,440	\$ 5,599
Adjustments to reconcile operating income to net cash provided by operating activities:		
Other non-operating revenue	1,039	1,323
Depreciation and amortization expense	4,974	4,813
Provision for uncollectible accounts receivable	(17)	11
Increase in accounts receivable	(53)	(578)
Increase (decrease) in accounts payable	(281)	393
Increase (decrease) in accrued liabilities	117	(175)
Increase in customer deposits	48	0
Net cash provided by operating activities	\$ 12,267	\$ 11,386
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Contributions in aid of construction	\$ 5,551	\$ 3,612

¹ Cash and cash equivalents also include cash and cash equivalents in restricted assets.

See accompanying notes to the financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Water Utility exists under, and by virtue of, the City Charter enacted in 1883. The Water Utility is responsible for the production, transmission and distribution of water for sale in the City.

■ Basis of Accounting The accounting records of the Water Utility are in accordance with generally accepted accounting principles as applicable to governments and substantially in conformity with the Uniform System of Accounts prescribed by the California Public Utilities Commission, except for the method of accounting for contributed capital described below. The Water Utility is not subject to the regulations of the California Public Utilities Commission. The Water Utility is not required to and does not elect to implement the pronouncements of the Financial Accounting Standards Board issued after November, 1989.

■ Revenue Recognition The Water Utility uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Water Utility customers are billed monthly. Unbilled water service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$1,641,000 at June 30, 2000, and \$1,444,000 at June 30, 1999.

An allowance for doubtful accounts is maintained for utility and miscellaneous accounts receivable. The balance in this account is adjusted at fiscal year-end to approximate the amount anticipated to be uncollectible.

■ Utility Plant and Depreciation Utility plant assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Costs include 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. Contributed plant assets are valued at estimated fair market value on the date contributed. The cost of relatively minor replacements is included in maintenance expense.

Depreciation is recorded over the estimated useful lives of the related assets using the straight-line method. The estimated useful lives are as follows:

- Supply pumping and treatment plant 20-50 years
- Transmission and distribution plant..... 30-50 years
- General plant and equipment..... 5-50 years

■ Restricted Assets Proceeds of revenue bonds yet to be used for capital projects, as well as certain resources set aside for debt service, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

■ Cash and Investments The City follows the practice of pooling cash and investments of all funds except for funds

required to be held by outside fiscal agents under the provisions of bond indentures. Cash accounts for all City funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings. Interest income earned on pooled cash is allocated monthly to the various funds of the City based on the month-end cash balances. Cash and investments held by fiscal agents are credited directly to the related accounts.

The City values its cash and investment in accordance with provisions of Governmental Accounting Standards Board (GASB) Statement No. 31: Accounting and Financial Reporting for Certain Investments and External Investment Pools (GASB 31), which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using quoted market prices.

All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents. Cash and investments held on behalf of the Water Utility by the City Treasurer are considered highly liquid and are classified as cash equivalents for the purpose of presentation in the statement of cash flows.

■ Inventories The City maintains a separate Central Stores inventory. The Water Utility expenses items as they are drawn out of Central Stores. As such, the Water Utility does not include inventories in its financial statements.

■ Bond Discounts, Capital Appreciation and Issuance Costs Bond discounts, capital appreciation and issuance costs are deferred and amortized over the term of the bonds using the effective interest method. Bond discounts and capital appreciation are presented as a reduction of the face amount of bonds payable, whereas issuance costs are recorded as other assets. Capital appreciation is the annual increase in the value of bonds originally issued at a discounted amount. These bonds do not pay annual interest and mature at a predetermined par value.

■ Contributed Capital Amounts received from customers and others for constructing utility plant are combined with retained earnings to represent equity. Accordingly, contributed capital is shown in the accompanying balance sheet as an equity account and is not offset against utility plant. Depreciation of contributed assets is reflected as an operating expense.

During the two years, contributed capital increased by the following amounts (in thousands):

	2000	1999
Balance, July 1	\$109,887	\$104,345
Impact fees	2,851	1,930
Contributed plant	5,551	3,612
Balance, June 30	\$118,289	\$109,887

■ **Customer Deposits** The City holds customer deposits as security for the payment of utility bills. The Water Utility's portion of these deposits as of June 30, 2000 and 1999, was \$373,000 and \$325,000, respectively.

■ **Compensated Absences** The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2000 and 1999. The Water Utility treats compensated absences due employees as a current liability. The amount accrued for compensated absences was \$1,575,000 at June 30, 2000, and \$1,507,000 at June 30, 1999, and is included in current liabilities in the accompanying balance sheets.

Employees receive 10 to 25 vacation days a year based upon length of service. A maximum of two years vacation may be accumulated and unused vacation is paid in cash upon separation.

Employees primarily receive one day of sick leave for each month of employment with unlimited accumulation. Upon retirement or death only, a percentage of unused sick leave is paid to certain employees or their estates in a lump sum based on longevity.

■ **Self-Insurance Program** The Water Utility participates in a self-insurance program for worker's compensation and general liability coverage that is administered by the City. The Water Utility pays an amount to the City representing an estimate of amounts to be paid for reported claims incurred and incurred but unreported claims based upon past experience, modified for current trends and information.

Although the ultimate amount of losses incurred through June 30, 2000, is dependent upon future developments, management believes that amounts paid are sufficient to cover such losses.

■ **Employee Retirement Plan** The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agency for participating public entities within the state of California.

All permanent full-time and selected part-time employees are eligible for participation in PERS. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service and salary. Employees may retire at age 55 and receive 2 percent of their highest average annual salary for each year of service completed. PERS also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and City ordinance.

Employee contributions are 7 percent. The Water Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis

recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The Water Utility pays both the employee and employer contributions.

Citywide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the fiscal year ended June 30, 2000, and recent trend information may be found in the notes of the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2000.

■ **Contribution to the City's General Fund**

Pursuant to the City Charter, the Water Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's general fund. In fiscal years 1999-00 and 1998-99, the Water Utility transferred 11.5 percent of gross operating revenues, or \$2,943,000 and \$2,600,000, respectively.

■ **Budgets and Budgetary Accounting**

The Water Utility presents, and the City Council adopts, an annual budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Water Utility's budget at its last meeting in June via an adopting resolution.

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2000 and 1999, consist of the following (in thousands):

	June 30, 2000	June 30, 1999
	Fair Value	
Pooled investments with City Treasurer	\$27,676	\$22,089
Cash and investments at fiscal agent	4,670	8,609
	\$32,346	\$30,698

The amounts above are reflected in the accompanying financial statements as:

	June 30, 2000	June 30, 1999
Cash and cash equivalents	\$24,126	\$18,700
Restricted assets:		
Cash and cash equivalents	5,129	9,467
Investments	3,091	2,531
	8,220	11,998
	\$32,346	\$30,698

Authorized Investments Under provisions of the City’s investment policy and in accordance with California Government Code Section 53601, the City Treasurer may invest or deposit in the following types of investments:

- Securities of the U.S. government, or its agencies
- Local agency investment fund (state pool) deposits
- Small Business Administration loans
- Passbook savings account demand deposits
- Negotiable certificates of deposit
- Repurchase agreements
- Banker’s acceptances
- Mutual funds
- Commercial paper of “prime” quality
- Medium-term corporate notes

Credit Risk, Carrying Amount and Market Value of Deposits and Investments Cash and non-negotiable certificates of deposit are classified in three categories of custodial credit risk as follows: Category 1—insured or collateralized with securities held by the City or its agent in the City’s name; Category 2—collateralized with securities held by the pledging financial institution’s trust department or agent in the City’s name; Category 3—uncollateralized.

Investments are also classified in three categories of custodial credit risk as follows: Category 1—insured or registered, or securities held by the City or its agent in the City’s name; Category 2—uninsured and unregistered, with securities held by the counterparty’s trust department or agent in the City’s

name; Category 3—uninsured and unregistered, with securities held by the counterparty’s trust department or agent but not in the City’s name. Investments in pools managed by other governments or in mutual funds are not required to be categorized.

The Water Utility’s share of the City’s investments at June 30, 2000, represents approximately 8 percent or \$32,113,000 of the City’s total cash and investments of \$392,986,000. Information concerning credit risk and fair value of the City’s deposits and investments may be found in the notes of the City’s “Comprehensive Annual Financial Report” for the fiscal year ended June 30, 2000. Cash and investments at fiscal agent are insured or registered, or held in the name of the Water Utility or its agent, or are not subject to risk categorization.

NOTE 3. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following (in thousands):

■ Contracts Payable/Capital Lease

Water Stock Acquisitions: Payable on demand to various water companies

Water Utility's Share of Equipment Purchased Through Capital Lease: \$79,468 capital lease due in monthly installments of \$2,230 through December 31, 2002, interest at 8.5 percent

Total contracts payable and capital lease

■ Revenue Bonds Payable

\$69,840,000 1991 Water Revenue Bonds: \$25,050,000 serial bonds due in annual installments from \$2,590,000 to \$3,100,000 through October 1, 2002, interest at 9.0 percent; and \$25,900,000 serial capital appreciation bonds due in annual installments from \$3,235,000 to \$3,240,000 from October 1, 2003, to October 1, 2010, interest from 6.65 percent to 7.0 percent; and \$18,890,000 term bonds due October 1, 2015, at 6.0 percent (partially advance refunded in 1998)

\$4,710,000 1994 FARECal Revenue Bonds: \$2,420,000 serial bonds due in annual installments from \$155,000 to \$255,000 through July 1, 2010, interest from 5.1 percent to 5.9 percent; \$2,290,000 term bonds due July 1, 2017, at 6.0 percent

\$30,965,000 1998 Water Refunding/Revenue Bonds: \$15,055,000 serial bonds due in annual installments from \$210,000 to \$4,055,000 through October 1, 2013, interest from 4.0 percent to 5.38 percent; \$10,155,000 term bonds due October 1, 2018, interest at 5.0 percent; \$5,755,000 term bonds due October 1, 2027, interest at 5.0 percent

Total water revenue bonds payable

Total obligations

Less: Current portion

Unamortized capital appreciation

Unamortized bond discount

Total long-term obligations

June 30, 2000 June 30, 1999

\$ 1,237	\$ 1,255
32	26
1,269	1,281
34,420	36,820
4,285	4,435
30,380	30,585
69,085	71,840
70,354	73,121
(3,128)	(2,914)
(9,599)	(10,662)
(490)	(517)
\$ 57,137	\$ 59,028

Annual debt service requirements to maturity as of June 30, 2000, are as follows (in thousands):

	2001	2002	2003	2004	2005	Thereafter	Total
Contracts payable/Capital lease	\$ 173	\$ 158	\$ 150	\$ 150	\$ 150	\$ 488	\$ 1,269
Bond interest requirements	2,425	2,165	1,880	1,722	1,701	18,464	28,357
Bond principal requirements	2,955	3,215	3,500	3,655	3,680	52,080	69,085
Unamortized bond (discount) premium	(1,164)	(1,243)	(1,328)	(1,311)	(1,181)	(3,862)	(10,089)
Total	\$4,389	\$4,295	\$4,202	\$4,216	\$4,350	\$67,170	\$88,622

■ Debt Service Coverage Ratio The Water Utility's bond indentures require the Water Utility to maintain a debt service coverage ratio, as defined by the bond covenants, of 1.25. The Water Utility's debt service coverage ratio was 3.17 at June 30, 2000, and 2.77 at June 30, 1999.

**NOTE 4. RESERVED
RETAINED EARNINGS**

A reserve for debt service has been established pursuant to applicable bond indentures. Bond indentures for Riverside's water revenue bonds require reserves that equate to the maximum annual debt service required in future years plus three months interest and nine months principal due in the next fiscal year. The reserve for Riverside's portion of FARECal revenue bonds is equal to 10 percent of the program agreement amounts. Additional reserves for the 1998 revenue bonds are not required due to the purchase of surety bonds to cover the required reserve requirements.

**NOTE 5. JOINTLY-GOVERNED
ORGANIZATIONS**

On July 1, 1993, the City of Riverside joined with the cities of Anaheim, Colton, Compton, Healdsburg, Los Angeles, Palo Alto, Pasadena, Redding, Santa Cruz; the North Marin Water District; the Northern California Power Agency; the Sacramento Municipal Utility District; and Turlock Irrigation District to create the Financing Authority for Resource

Efficiency of California (FARECal). The primary purpose of FARECal is to issue bonds and use the proceeds to promote, advance, encourage and participate in conservation, reclamation and other programs that are designed to utilize energy or water resources more efficiently. FARECal is administered by a Board of Directors comprised of one representative from each charter member (the cities of Anaheim, Los Angeles, Palo Alto and Riverside and the North Marin Water District) and three voting-based directors, which currently are representatives from Trinity Public Utilities District, Colton and Pasadena.

NOTE 6. LITIGATION

The Water Utility is a defendant in various lawsuits arising in the normal course of business. Present lawsuits and other claims against the water utility are incidental to the ordinary course of operations of the water utility and are largely covered by the city's self-insurance program. In the opinion of management and the city attorney, such claims and litigation will not have a materially adverse effect upon the financial position or results of operation of the water utility.

CITY OF RIVERSIDE WATER UTILITY INDEPENDENT AUDITORS' REPORT

**To the Honorable City Council and Board of Public Utilities
City of Riverside, California**

We have audited the accompanying balance sheets of the City of Riverside Water Utility as of June 30, 2000 and 1999, and the related statements of operations and 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 that 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 City of Riverside Water Utility as of June 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

November 3, 2000

CITY OF RIVERSIDE WATER UTILITY STATISTICS

WATER SUPPLY (ACRE FEET)	1999/00	1998/99	1997/98	1996/97	1995/96
Pumping	78,639	74,638	71,597	73,266	71,316
Purchases	68	275	252	68	285
Total	78,707	74,913	71,849	73,334	71,601
Percentage pumped	99.9%	99.6%	99.7%	99.9%	99.6%
System peak day (gallons)	101,119,000	101,924,000	96,015,000	93,400,000	93,699,000

WATER USE	1999/00	1998/99	1997/98	1996/97	1995/96
Average number of customers					
Residential	53,879	53,774	53,387	53,432	53,351
Commercial/industrial	4,355	4,104	4,164	4,054	4,138
Other	304	505	664	760	631
Total	58,538	58,383	58,215	58,246	58,120
CCF sales					
Residential	18,708,750	16,778,949	15,518,199	17,833,655	17,848,356
Commercial/industrial	9,873,278	8,570,558	8,289,294	9,386,127	9,176,633
Other	702,983	1,428,037	1,117,661	1,436,177	1,369,939
Total	29,285,011	26,777,544	24,925,154	28,655,959	28,394,928

WATER FACTS	1999/00	1998/99	1997/98	1996/97	1995/96
Average annual CCF per residential customer	347	312	291	361	335
Average price (cents/CCF) per residential customer	93.2	93.0	91.7	85.7	79.5
Debt as a percent of net plant	35.5%	38.0%	40.3%	34.4%	35.3%
Employees	121	119	128	136	137

**1999/00
Water Dollar and Resources**

Source of Revenue



- Residential Sales (52¢)
- Commercial & Industrial Sales (24¢)
- Other Revenue (13¢)
- Interest Income (5¢)
- Wholesale Sales (3¢)
- Other Sales (3¢)

Distribution of Revenue



- Operation & Maintenance (47¢)
- Additional Reserves (19¢)
- Debt Service (16¢)
- Transfer to City's General Fund (9¢)
- Additions and Replacements to the System (7¢)
- Water Supply (2¢)

** Based on transfer of 11.5 percent of fiscal year 1998-99 operating revenues (excludes interest and other non-operating income).*

Water Resources



- San Bernardino Basin Wells (86.2%)
- Riverside Basin Wells (13.8%)

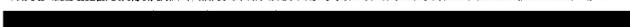
Purchased water was less than 0.1 percent for 1999-00.

CITY OF RIVERSIDE WATER UTILITY STATISTICS

General Fund Transfer (in millions)

96		\$2.1
97		\$2.4
98		\$2.6
99		\$2.6
00		\$2.9

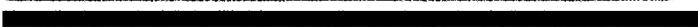
Average Number of Customers

96		58,120
97		58,246
98		58,215
99		58,383
00		58,538

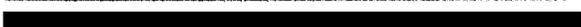
Total Operating Revenue (in millions)

96		\$21.4
97		\$23.5
98		\$23.0
99		\$26.1
00		\$27.8

Production (in acre feet)

96		71,601
97		73,334
98		71,849
99		74,913
00		78,707

Peak Day Demand (in million gallons)

96		93.7
97		93.4
98		96.0
99		101.9
00		101.1

WATER FACTS AND SYSTEM STATISTICS

Established:	1913
Service Area Population:	259,700
Service Area Size (square miles):	76.4
System Statistics:	
Smallest pipeline:	1.0*
Largest pipeline:	72.0*
Miles of pipeline:	906
Number of domestic wells:	47
Number of active reservoirs:	16
Total reservoir capacity	(gallons): 100,400,000
Miles of canal:	12
Number of fire hydrants:	6,504
Daily average production	(gallons): 70,632,000
1999-00 Peak day (gallons):	101,119,000
	8/26/00, 106 degrees
Historical peak (gallons):	101,924,000
	8/4/98, 106 degrees

BOND RATINGS

FITCH IBCA	AA
STANDARD & POOR'S CORP.	AA

GOVERNING BODIES AND ADMINISTRATION

Board of Public Utilities

The Board of Public Utilities is composed of seven citizens appointed to four-year terms by City Council to govern utility policies and represent the community. Citizens serve on a voluntary basis without compensation. Applications for new members are solicited annually through an insert with the city services bill. Applicants must be at least 18 years of age and reside within the City of Riverside in order to be eligible to serve on the board. The Board of Public Utilities meets at 8:15 a.m. on the first and third Fridays of each month in the Art Pick City Council Chambers at City Hall, 3900 Main Street, Riverside. Board meetings are open to the public.



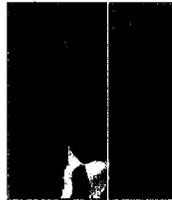
Conrad Newberry Jr.
1999-2000
Board Chairman
Occupation:
Registered Mechanical
Engineer
Riverside Resident: 7 years
Years of Service: 3



Jim Anderson
Occupation:
Retired Attorney, Environmental
and Administrative Law
Riverside Resident: 28 years
Years of Service: 1



Raphael de la Cruz
Occupation:
Governmental and
Community Relations,
University of California,
Riverside
Riverside Resident: Lifetime
Years of Service: 7



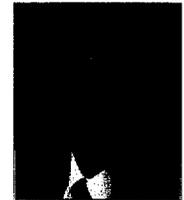
David C. Macher
Occupation:
Certified Public Accountant
Riverside Resident: lifetime
Years of Service: 8



Peter G. Hubbard
Occupation:
Director Medical Services
Riverside Resident: lifetime
Years of Service: 2



Lalit N. Acharya
Occupation:
Associate Professor
Communications
Riverside Resident: 10 years
Years of Service: 2



Dwight Tate
Occupation:
Personal Finance Advisor
Riverside Resident: lifetime
Years of Service: 6

CITY OF RIVERSIDE

MAYOR

Ronald O. Loveridge

CITY MANAGER

John Holmes

CITY COUNCIL

Chuck Beaty

Ward 1

Ameal Moore

Ward 2

Joy Defenbaugh

Ward 3

Maureen Kane

Ward 4

Ed Adkison

Ward 5

Terri Thompson

Ward 6

Laura Pearson

Ward 7

PUBLIC UTILITIES ADMINISTRATION

Thomas P. Evans

Director

David H. Wright

Deputy Director
Marketing & Customer Service

Dieter P. Wirtzfeld

Assistant Director, Water

Donna I. Stevener

Chief Financial Officer

FINANCIAL STATEMENT PRODUCTION

MJ Abraham

Editor/Communications Manager

Reiko A. Kerr

Cynthia B. Reeley
Financial Statements

Inland Design Services

Design/Production

Riverside Public Utilities Mission Statement



“To provide water, electric and other related services for our customers in a safe, reliable, environmentally sensitive, and fiscally responsible manner that furthers the immediate and long-term goals of the city.”



RIVERSIDE PUBLIC UTILITIES

City Hall, 3900 Main Street / Riverside, California 92522

Tel: 909.826.5485 / Fax: 909.369.0548

www.riversidepublicutilities.com

A Truly Public Utility

Anaheim Public Utilities

ANNUAL REPORT 2000

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ABOUT ANAHEIM PUBLIC UTILITIES

Rising to the challenge with innovative solutions is a quality that is ingrained in the fabric of the Anaheim community. It began in 1879 when Anaheim's leaders took responsibility for expanding their water system for the growing community. In 1895, they seized an opportunity to build the first municipal electric utility in Southern California – a sound business approach to securing electricity at a reasonable cost for businesses and residents.

A reliable water supply and low electric rates helped Anaheim evolve into a leading regional industrial/manufacturing center in Southern California. Boldly embracing a new opportunity in the early 1950s, Anaheim was thrust onto the world stage as a dynamic tourism and then convention, sports, and entertainment destination.

Today, Anaheim Public Utilities is the only municipal water and electric utility in Orange County. Our electric rates are the lowest in Orange County and we maintain our tradition of delivering quality water at a competitive price. With a focus on serving Anaheim-specific needs, we offer 39 Advantage Services – helping our customers make more efficient and economical use of the critical resources we provide.

Plans for the Future

LETTER FROM THE GENERAL MANAGER

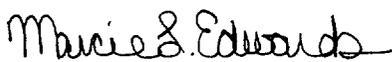
AFTER TEN YEARS AT THE HELM OF ANAHEIM PUBLIC UTILITIES, EDWARD AGHJAYAN RETIRED IN DECEMBER 2000, LEAVING THE UTILITY WELL POSITIONED AMID THE MANY CHALLENGES THE CALIFORNIA ELECTRIC INDUSTRY FACES WITH DEREGULATION. I ASSUMED THE POSITION OF PUBLIC UTILITIES GENERAL MANAGER IN JANUARY 2001. IT IS MY INTENT TO BUILD UPON THIS OUTSTANDING ORGANIZATION, WHILE CONTINUING TO ADD VALUE TO THE COMMUNITY.

The last decade brought forth sweeping changes in California, starting with a recession, transitioning to economic expansion, and ending with the turmoil brought about by deregulation of the electric industry. In this challenging environment, Anaheim Public Utilities has maintained competitive rates for its customers while expanding and enhancing the infrastructure. Accomplishments include over \$60 million worth of underground conversion projects to improve electric reliability and to beautify the city.

To stabilize electric bills, a variety of strategies were employed to cut costs and improve efficiency. Anaheim Public Utilities retained ownership of a mix of generation plants; exercised sound financial management; achieved operations and maintenance efficiencies; and cut generation, transmission, and distribution costs. The Utility maintained its A+ bond rating and is ranked as one of California's best-positioned utilities.

To keep the city's economy healthy, the Utility was instrumental in creating the Powerful Partnership Program. This joint effort between the city's Public Utilities and Community Development Departments is credited with retaining and attracting more than 17,000 jobs in Anaheim during the past decade. As an additional benefit to Anaheim business customers – and residential customers as well – Anaheim Public Utilities offers 39 money-saving Advantage Services. Touting our high quality water and community pride, this year our water utility began offering bottled water from one of Anaheim's deepest wells. We offer it at cost to the community's non-profit organizations for distribution at special events or fundraisers.

Anaheim Public Utilities is under local control and remains focused on the community. I wholeheartedly embrace the Utility's deep-rooted loyalty to Anaheim residents and businesses, and I will strive to continue offering our customers low electric rates, an array of incentives and community programs, and high quality water. This commitment to putting customers first is what makes us a truly "public" utility.



Marcie L. Edwards
GENERAL MANAGER,
ANAHEIM PUBLIC UTILITIES



Customer Loyalty

LOW RATES AND RELIABLE POWER

Anaheim Public Utilities' low electric rates translate into nearly \$16 million in annual savings to our customers. These cost advantages, plus reliable power delivery and responsive service, engender exceptional customer loyalty.

Rate stabilization was achieved through various strategies, including retaining ownership in power supply resources and restructuring generation debt. By owning generation resources and instituting long-term power supply contracts, we minimized purchases from the volatile spot market, as prices reached all time highs. We sold \$33 million in wholesale surplus energy this fiscal year, plus \$1.1 million in transmission sales. Refinancing and other cost cutting measures have accelerated payment on generation debt.

The Utility took major steps to increase system reliability and to beautify Anaheim streetscapes. Notable is the Underground Conversion Program, which moves overhead electric wires underground. This fiscal year, we converted 15.8 circuit miles, bringing the total for the ten-year program to more than 46 circuit miles of 12kV and 69kV currently underground.

Ongoing electric system improvements also include numerous reliability upgrades. Among these are replacing aging direct buried cable in residential areas, rehabilitating major electric distribution circuits, installing fault indicators, and eliminating radial circuit configurations. New this year is the automation of underground switches. This approach enables us to quickly restore electricity during an outage without manually accessing underground equipment. Dovetailing with our street beautification efforts, we are establishing rigorous landscape standards for screening pad-mounted equipment from public view.

To keep existing infrastructure healthy and to protect customers from outages, we have stepped up maintenance programs for replacing and upgrading equipment and facilities. New this year is a Pole Test and Treat Program, designed to improve reliability by identifying problems before they occur and by extending the poles' service life through environmentally friendly treatment.

Infrastructure projects included improvements along the Interstate 5 and State Route 91 freeways. Caltrans is scheduled to complete its work on both freeways through Anaheim during FY 2000/2001, finalizing four years of relocations and abandonments. The Interstate 5 freeway project will greatly improve access to Anaheim's resort area and sports venues.

Additionally, we partnered with various city departments, developers, property owners, and agencies to make significant local improvements. For instance, Anaheim Public Utilities has provided a state-of-the art distribution system to serve the new Disney's California Adventure and is continually improving the distribution system in The Anaheim Resort™.

"MAJOR DECISIONS WE'VE MADE ON RESOURCE UTILIZATION HAVE ENABLED US TO REDUCE COSTS WHILE MAINTAINING SAFE AND RELIABLE POWER DELIVERY. THE RESULT IS LONG-TERM RATE STABILITY FOR OUR BUSINESS AND RESIDENTIAL CUSTOMERS."

Graham Bowen
PRINCIPAL INTEGRATED
RESOURCE PLANNER





ANAHEIM PUBLIC UTILITIES OWNS A
COMBUSTION TURBINE GENERATOR.
WHICH PRODUCES ELECTRICITY FOR
OUR CUSTOMERS AND CREATES
SURPLUS POWER WHICH WE CAN SELL
AND PLACE INTO THE POWER GRID.

The Ultimate Test

THE ULTIMATE TEST OF WATER QUALITY

Our customers enjoy dependable delivery of water at competitive rates and with quality that exceeds all state and federal standards. This past year, we provided 24.6 billion gallons of drinking water for Anaheim residents and businesses, with 75 percent coming from our own groundwater wells.

To further enhance the quality of water delivered to our customers, we utilize wells based on water quality. While all of our wells produce high quality water, we always use the best available wells to deliver the highest quality water at all times.

To ensure an ample and ongoing supply of quality water, Anaheim Public Utilities continues to forecast and accommodate the needs of future customers. Key to these efforts is a comprehensive Water System Planning Study that forms the basis of our long-range development plans through the year 2020.

Improving infrastructure during this fiscal year, we initiated construction of two downtown main replacement and relining projects. This program is designed to improve water quality and delivery capacity by upgrading undersized or unlined cast iron water mains. About 32 miles of old mains have been relined or replaced in the downtown area, and the remaining work is scheduled for completion by the end of FY 2003/2004.

Under a ten-year plan to replace older, low capacity wells with deeper wells that tap into high quality aquifers, we completed one new well to accommodate projected demands and provide increased system dependability in The Anaheim Resort™. This year, a total of five well pumps and motors were replaced with high-efficiency units to reduce power consumption.

In the area of water use efficiency, our goal is to achieve a 15 percent reduction in projected water demand by the year 2020. Internally, we implemented the City Facilities Water Audit Program, conducting water audits of 26 city-owned facilities and completing water-efficient retrofits where needed. We also helped our customers retrofit more than 7,900 toilets with ultra-low-flush models.

To reduce the water use of one of our largest industrial customers, Anaheim Public Utilities joined Alstyle Apparel and Activewear in an agreement with the Metropolitan Water District of Southern California (MWD) to help fund reductions in Alstyle's use of process water. Alstyle, a high quality producer and finisher of textile goods, estimates savings of about 11 million gallons of water per month. Though MWD has offered this incentive program since 1997, Anaheim is proud to be the first of MWD's 26 member public agencies to enter into such a funding agreement.

"ANAHEIM PUBLIC UTILITIES HAS AN OUTSTANDING TRACK RECORD OF DELIVERING A RELIABLE SUPPLY OF HIGH QUALITY WATER. THE WATER SYSTEM PLANNING STUDY WE'VE DEVELOPED WILL EXTEND THIS HERITAGE OF EXCELLENCE FAR INTO THE FUTURE. SO THAT RESIDENTS THROUGHOUT OUR SERVICE AREA WILL ALWAYS ENJOY REFRESHING AND SATISFYING DRINKING WATER."

David Allen
PRINCIPAL WATER ENGINEER





ANAHEIM'S WATER IS SO GOOD THAT WE BOTTLED IT. DRAWN FROM ONE OF OUR DEEPEST AQUIFERS, REFLECTION IS OFFERED AT COST TO COMMUNITY GROUPS FOR USE IN THEIR FUNDRAISING PROGRAMS. THE LABEL HIGHLIGHTS VARIOUS CITY ICONS, INCLUDING THE ANAHEIM CONVENTION CENTER, DISNEYLAND® PARK, AND THE ARROWHEAD POND OF ANAHEIM.



Opportunities Abound

SPECIAL INCENTIVE AND REBATE OPPORTUNITIES

Anaheim Public Utilities' comprehensive Advantage Services are designed to benefit the community and our customers, residential and business alike. These multi-faceted programs typically offer money-saving incentives and rebates, geared to conserving water and energy resources.

During this fiscal year, we provided 39 Advantage Services, and the menu is anticipated to expand to 45 in FY 2000/2001. Community acceptance has been most gratifying. This year alone, a total of 9,790 customers chose to participate.

For our business customers, we increased incentive amounts by as much as 33 percent to encourage broad adoption of commercial and industrial programs. Some 300 businesses responded by participating in energy efficiency programs, saving a total of 5.6 million kWh and 1.6 MW demand.

This fiscal year, we fully implemented Innovative Energy Technologies (IET), a program that helps businesses optimize energy efficiency, increase use of renewables, improve their products, and benefit the environment. Developed as a partnership between Anaheim Public Utilities and its business customers, IET funds up to 75 percent of project costs, to a maximum of \$100,000 per project. Five projects proposed by Anaheim businesses were approved this year.

Anaheim continues to make progress in the area of business attraction, retention, and expansion. Spearheading the city's effort is the Powerful Partnership, formed by Anaheim Public Utilities and the Community Development Departments. In addition to creating customized business programs and incentives to support specific needs, the team serves as an important front line to various city departments and divisions. The program has aided in the creation of more than 17,000 new jobs since 1992.

Two significant accomplishments for the Powerful Partnership during FY 1999/2000 include the attraction of American Remanufacturers Incorporated (ARI) and the retention of Nor-Cal Beverage Company Incorporated. To assist in ARI's relocation, Community Development and Anaheim Public Utilities provided financing and new construction and rate incentives, thereby bringing 450 jobs to the city and filling a facility that had been vacant for a year and a half.

Nor-Cal ranks among Anaheim's twenty largest electric and water customers. The company wanted to expand, but lacking a suitable site, was contemplating leaving the city. We worked with Anaheim's numerous city departments to reduce their operating costs, while resolving land and water issues. As a result, Nor-Cal exercised a property purchase option on an Anaheim site during June 2000 and will assume ownership in 2002. The company will invest \$18 million in the new facility and add 55 new employees.

"ANAHEIM ADVANTAGE SERVICES PROVIDE SUBSTANTIAL, WIDESPREAD BENEFITS FOR OUR CUSTOMERS AND THE COMMUNITY AT LARGE. MUCH OF OUR FOCUS IS ON CREATING JOBS BY ATTRACTING AND RETAINING BUSINESSES. WE MAKE SURE TO LET COMPANIES KNOW THAT THEY'RE WELCOME HERE, AND WE DO EVERYTHING IN OUR POWER TO HELP THEM PROSPER IN ANAHEIM."

Mariann Long
BUSINESS AND COMMUNITY
PROGRAMS MANAGER





AN EVER-EXPANDING ARRAY OF ADVANTAGE SERVICES IS AVAILABLE, COVERING EVERYTHING FROM FREE SHADE TREES FOR HOMES AND SCHOOLS TO SUBSTANTIAL INCENTIVES FOR BUSINESSES THAT CHOOSE TO IMPLEMENT ENERGY- AND WATER-EFFICIENT TECHNOLOGIES. COLORFUL BROCHURES GET THE WORD OUT TO ALL OF OUR CUSTOMERS BY DESCRIBING THE DOZENS OF PROGRAMS WE BRING THEM EACH YEAR.



Community Service

STRICTLY THE BEST FOR OUR COMMUNITY

When a customer contacts us, we quickly address their needs. We even go the extra distance to find innovative ways to improve service. For example, Anaheim Public Utilities' Customer Service Division recently implemented a "One Stop Shop." Customer Service Representatives complete a 180-hour training program aimed at responding to all customer questions on the first contact. We now provide customers with more ways to pay utility bills, including the acceptance of credit and debit cards by telephone.

Delivering the best service requires having the best people on staff. Two ongoing recruitment programs help achieve that goal. Established in 1990, our Management Intern Program recruits master's program graduates from a variety of disciplines. Each year, several graduates are selected to participate in the 18-month program. To date, we've hosted more than 50 interns. Approximately half have been hired in full-time management positions with Anaheim Public Utilities and other city departments.

A parallel effort, the Engineering Fellowship Program recruits high school seniors admitted to engineering programs, plus first- and second-year college students with demonstrated engineering interests. To qualify, the student or a parent must live in Anaheim and must be eligible for financial aid. Participants gain real-world experience by working 300 hours in the Water or Electric Engineering Division under the direction of a seasoned mentor. We hope to expand the program's scope through outreach programs and additional funding from grants.

Anaheim Public Utilities also keeps a strong focus on service to the community at large. A prime case in point is DEVOTE, an acronym for Department Employee Volunteers Offering Time and Energy. Outside of regular work hours, we find many ways to benefit Anaheim. One major DEVOTE activity is an annual golf tournament, which raised \$6,000 for the Boys and Girls Clubs of Anaheim and Olive Crest Homes and Services for Abused Children this year. Further, our Annual Charities Fund Drive brought in more than \$15,000 for a variety of community services.

As one aspect of our partnership with the community, we continue to encourage resource conservation and recognize individual achievements. This year, more than 7,500 students participated in our Water Education for Teachers and Students program, which provides classroom and assembly presentations, films and a slide show, student workbooks, and teachers' guides. More than 3,000 students took advantage of our fifth- and six-grade energy-efficiency education programs. Through our Water-Efficient Landscape Award, we promote the use of drought-resistant plants and efficient irrigation systems, recognizing individuals for their exemplary water-wise landscape designs.

"CUSTOMER SERVICE IS OUR TOP PRIORITY. AS A TROUBLESHOOTER, I AM PROUD THAT OUR FIRST-HOUR RESPONSE RATE IS 95 PERCENT. WHETHER IT'S KEEPING A PRODUCTION LINE UP AND RUNNING OR MAKING SURE A FAMILY ENJOYS A COMFORTABLE EVENING TOGETHER, SERVING OUR COMMUNITY IS VERY IMPORTANT TO US."

Bud Huffman
UTILITIES TROUBLESHOOTER





BY VOLUNTEERING IN PROGRAMS LIKE PAINT YOUR HEART OUT ANAHEIM, OUR DEDICATED EMPLOYEES ARE MAKING ANAHEIM A BETTER PLACE FOR EVERYONE WHO LIVES AND WORKS HERE. PAINT YOUR HEART OUT ANAHEIM, A NON-PROFIT CHARITABLE ORGANIZATION, IS DESIGNED TO ASSIST RESIDENTS WHO ARE OVER 65, INCOME-QUALIFIED, OR DISABLED. OFFERING HOUSE PAINTING AND ENERGY EFFICIENCY IMPROVEMENTS.



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, Development,

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, Thomas Kirker

Board Member, Victor Green

Board Member, Dale Stanton

Board Member, Joe White

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

Board Member, John Elwell

Anaheim Public Utilities Management

General Manager, Marcie L. Edwards

Assistant General Manager -

Water Services, Donald C. Calkins

Assistant General Manager -

Electric Services, Kenneth S. Noller

Assistant General Manager - Finance and

Administration, Mark E. Mazak

Financial Statements

FOR THE YEARS ENDED JUNE 30, 2000 AND 1999
WITH REPORT OF INDEPENDENT AUDITORS

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**ANAHEIM'S PUBLIC UTILITIES MANAGEMENT DISCUSSION AND ANALYSIS
OF OPERATIONS, STATISTICS AND FINANCIAL CONDITION.**

Water Utility Operating Revenues: Revenues reached record sales during fiscal 2000. Operating revenues totaled \$41.4 million on water sales of 24.6 billion gallons. The utility also recorded a one time \$2.6 million gain on the disposal of property. During fiscal 2000, the water utility received its final distribution from the settlement of the Orange County bankruptcy, which occurred on December 6, 1994, bringing to completion all litigation remaining on that issue.

Water Utility Operating Expenses: Operating expenses increased \$3.6 million to \$33.6 million during fiscal 2000. The majority of the increase was to produce additional water to meet the sales demand. Additionally, there was an increase in expenses in connection with the land movement that occurred around the Olive Hills reservoir.

Water Utility Rates: Water rates have not increased since 1993. Anaheim residents continue to enjoy reliable service and some of the lowest water rates in Orange County. The water utility completed a five-year plan to restructure rates during fiscal 2000. The restructuring plan, originally implemented in September 1994, was revenue neutral to the utility. The water utility recalculates a water cost adjustment charge on an annual basis that allows for the recovery of increased water production costs and increases in price for water delivered from the Metropolitan Water District of Southern California.

Water Utility Credit Rating: The Water Utility maintains an excellent AA credit rating with Standard & Poor's. The coverage ratio for senior debt is 6.5 times debt service; qualified obligations, which are junior in standing to senior debt, maintain a coverage ratio of 13.1 times debt service, both well in excess of bond coverage requirements. The Water Utility has recently qualified to refund the debt obligation incurred to refit the Lenain Treatment plant using low cost financing offered by State of California's Department of Water Resources. This refunding should be completed during fiscal 2001 and is estimated to save the utility over a half million dollars in interest annually.

Water Utility Contribution to the City: The Water System contributed approximately \$1.6 million in support of municipal government, the maximum transfer allowed under the City of Anaheim's Charter. An additional \$563,000 was contributed as right-of-way expense. Also, the utility's operating costs include payments for services rendered by various municipal departments.

Electric Utility Operating Revenues: Operating revenues reached record sales during fiscal 2000. Revenues totaled \$264.7 million on energy sales of 3,256 gigawatt-hour sales. Retail energy sales increased 2.9% over the prior year. Since the implementation of the California Independent System Operator and the California Power Exchange, the electric utility has been able to expand wholesale revenues from the sale of excess resources. Over \$33 million in revenues was generated from wholesale energy sales, a 229% increase over the prior fiscal year. During fiscal 2000, the electric utility received its final distribution from the settlement of the Orange County bankruptcy, which occurred on December 6, 1994, bringing to completion all litigation remaining on that issue.

Electric Utility Operating Expenses: Operating expenses increased \$12.1 million to \$225.7 million during fiscal 2000. The majority of the increase was for additional purchased power and fuel for generation to support the additional wholesale sales.

Electric Utility Rates: Electric base rates have not increased since 1993. Anaheim residents continue to enjoy reliable service and the lowest electric rates in Orange County. On March 31, 2000, the utility implemented a customer choice program where an Anaheim customer can choose an alternate energy provider. Anaheim will continue to provide distribution service. As of June 30, 2000, no customers have chosen an alternate energy provider.

Electric Utility Credit Rating: The Electric Utility maintains an A+ credit rating with Standard & Poor's, one of the highest ratings among municipal electric utilities in southern California. The coverage ratio for senior debt is 5.0 times debt service; qualified obligations, which are junior in standing to senior debt, maintain a coverage ratio of 3.8 times debt service, both well in excess of bond coverage requirements. The Electric Utility maintains a \$28 million commercial paper program for the purpose of financing nuclear fuel purchases.

Electric Utility Industry Restructuring: The electric industry in California was restructured under the provisions of Assembly Bill 1890 during 1997. A serious shortage of power supply, high prices of natural gas, and high energy prices at the California Independent System Operator have produced an extremely volatile electric market. By maintaining a vertically integrated generation mix, aggressively reducing generation, operations and debt service costs, and selling excess power into the exchange, the Electric Utility has reduced the average cost of the generation mix below market costs.

Electric Utility Contribution to the City: The Electric System contributed approximately \$9.6 million in support of municipal government, the maximum transfer allowed under the City of Anaheim's Charter. An additional \$3.3 million was contributed as right-of-way expense. Also, the utility's operating costs include payments for services rendered by various municipal departments.

WATER OPERATING STATISTICS

	1999/2000	1998/1999	1997/1998	1996/1997	1995/1996
WATER SUPPLY (millions of gallons)					
From Metropolitan Water District	6,458.8	4,965.0	5,723.7	5,885.9	5,821.6
Percent of total production	25%	20%	25%	24%	25%
From water system wells	19,510.2	19,295.0	17,131.6	18,884.3	17,254.6
Percent of total production	75%	80%	75%	76%	75%
Total production	25,969.0	24,260.0	22,855.3	24,770.2	23,076.2
Capacity (gallons per minute)					
From Metropolitan Water District	76,435	76,435	76,435	76,435	76,435
From water system wells, average	54,190	51,330	52,950	51,943	52,950
Treatment plant capacity	10,417	10,417	10,417	10,417	10,417
Peak day distribution (millions of gallons)	101.9	99.9	100.6	107.3	90.7
Average daily distribution (millions of gallons)	71.3	66.9	62.5	67.5	64.6
WATER USE					
Average Number of Meters					
Residential	52,464	51,556	51,529	51,119	50,665
Commercial/Industrial	6,268	6,216	6,309	6,211	6,130
Other	1,584	1,529	1,634	1,653	1,644
Total meters - all classes	60,316	59,301	59,472	58,983	58,439
Millions of Gallons Sold					
Residential	14,492	13,829	12,884	13,795	12,934
Commercial	9,815	8,969	8,138	9,144	8,608
Other utilities	282	394	521	567	357
Total sales - all classes	24,589	23,192	21,543	23,506	21,899
Anaheim population served	311,000	306,000	301,176	295,452	293,245
Population served outside city (estimated)	5,100	5,100	5,100	5,100	5,100
Total population served	316,100	311,100	306,276	300,552	298,345
Average daily sales per capita, (gallons)	213	204	193	214	201
SYSTEM CHARACTERISTICS					
Active Wells	26	26	24	28	29
Reservoirs	14	14	13	13	13
Water storage capacity (millions of gallons)					
Treated	89	89	85	85	85
Untreated	920	920	920	920	920
Water mains (miles)	778	774	771	765	764
Fire hydrants	7,763	7,732	7,611	7,496	7,496

WATER SYSTEM SALES COMPARISON

	Residential	Commercial & Industrial	Other	All Classes
Revenue from the sale of water (\$000)				
Year ended June 30 -				
2000	\$ 24,021	\$ 14,817	\$ 1,597	\$ 40,435
1999	23,329	12,807	1,553	37,689
Increase (decrease)	\$ 692	\$ 2,010	\$ 44	\$ 2,746
Percent increase (-)	3.0%	15.7%	2.8%	7.3%

Units of water sold (hundred cubic feet)				
Year ended June 30 -				
2000	19,373,850	13,122,245	377,101	32,873,196
1999	18,487,520	12,000,716	526,947	31,015,183
Increase (decrease)	886,330	1,121,529	(149,846)	1,858,013
Percent increase (-)	4.8%	9.3%	-28.4%	6.0%

Average billing price per hundred cubic feet				
Year ended June 30 -				
2000	\$ 1.2399	\$ 1.1292	\$ 4.2349	\$ 1.2300
1999	1.2619	1.0672	2.9472	1.2152
Increase (decrease)	\$ (0.0220)	\$ 0.0620	\$ 1.2877	\$ 0.0148
Percent increase (-)	-1.7%	5.8%	43.7%	1.2%

Average number of meters				
Year ended June 30 -				
2000	52,464	6,268	1,584	60,316
1999	51,556	6,216	1,529	59,301
Increase (decrease)	908	52	55	1,015
Percent increase (-)	1.8%	0.8%	3.6%	1.7%

Average annual use by meter, hundred cubic feet				
Year ended June 30 -				
2000	369	2,094	238	545
1999	359	1,924	349	523
Increase (decrease)	10	170	(111)	22
Percent increase (-)	2.8%	8.8%	-31.7%	4.2%

Amounts represent revenue excluding the change in unbilled revenue

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

	1999/2000	1998/1999	1997/1998	1996/1997	1995/1996
REVENUES					
Sale of water					
Residential	\$ 24,021	\$ 23,329	\$ 22,013	\$ 23,750	\$ 21,722
Commercial/Industrial/Municipal	14,817	12,807	11,213	12,469	11,188
Other	1,597	1,553	2,046	1,663	1,372
Billed revenue from the sale of water	40,435	37,689	35,272	37,882	34,282
Change in unbilled revenue	(51)	(37)	(34)	(1,034)	899
Total revenue from the sale of water	40,384	37,652	35,238	36,848	35,181
Other (including interest income)	3,155	2,837	2,402	2,118	2,422
Total gross revenues	43,539	40,489	37,640	38,966	37,603
EXPENSES					
(excluding depreciation and amortization)					
Cost of water	17,109	15,673	14,645	14,687	14,907
Operations	8,762	7,211	4,496	5,454	5,782
Maintenance	4,322	4,016	3,529	4,099	3,782
Non-operating	(2,594)	28	(519)	2,280	-
Total expenses	27,599	26,928	22,151	26,520	24,471
NET REVENUES (a)	15,940	13,561	15,489	12,446	13,132
Parity bond debt service requirements (b)	2,459	2,457	2,456	2,462	2,457
Deposits to renewal and replacement	(95)	16	31	(5)	189
SURPLUS REVENUES (c)	13,576	11,088	13,002	9,989	10,486
Qualified obligations purchase payments (d)	1,037	1,037	1,037	1,037	1,037
NET REVENUES AFTER DEBT SERVICE PAYMENTS	12,539	10,051	11,965	8,952	9,449
Transfers to Anaheim general fund	1,585	1,488	1,543	1,481	1,288
BALANCE FOR OTHER PURPOSES	\$ 10,954	\$ 8,563	\$ 10,422	\$ 7,471	\$ 8,161
Times parity bond debt service coverage (a/b)	6.5	5.5	6.3	5.1	5.3
Qualified obligation debt service coverage (c/d)	13.1	10.7	12.5	9.6	10.1

ELECTRIC OPERATING STATISTICS

	1999/2000	1998/1999	1997/1998	1996/1997	1995/1996
POWER SUPPLY (mWh)					
Owned Generation:					
San Onofre Nuclear Generating Station	615,088	513,926	526,600	408,135	539,558
San Juan Unit #4 Combustion Turbine	371,265	378,715	376,911	259,414	337,299
	41,980	27,719	5,175	2,922	3,858
Total Owned Generation:	1,028,333	920,360	908,686	670,471	880,715
Purchased Power:					
Intermountain Power Project	1,730,023	1,742,866	1,565,086	1,614,901	955,591
Hoover Dam	59,276	60,297	59,873	53,173	54,802
Power contracts	421,739	399,163	99,210	117,117	50,061
Southern California Edison	-	42,039	114,557	55,722	90,907
CA ISO / CA PX	186,340	-	-	-	-
Other purchases	110,788	142,770	290,887	399,958	821,749
Total Purchased Power	2,508,166	2,387,135	2,129,613	2,240,871	1,973,110
System total:	3,536,499	3,307,495	3,038,299	2,911,342	2,853,825
System peak: (mW)	526.7	577.6	560.7	500.2	501.1
ELECTRIC USE					
Average Number of Meters					
Residential	91,623	90,788	90,345	89,467	88,568
Commercial	15,666	15,521	15,491	15,545	15,500
Industrial	678	672	708	614	576
Other	108	107	108	109	160
Other utilities	11	10	11	12	8
Total meters - all classes	108,086	107,098	106,663	105,747	104,812
Megawatt-hour Sales					
Residential	550,874	559,362	549,804	537,294	530,901
Commercial	635,434	613,368	584,391	602,530	580,454
Industrial	1,271,003	1,214,941	1,214,270	1,169,179	1,127,457
Other	43,283	43,227	41,165	40,400	39,865
Other utilities	755,675	607,144	267,228	425,023	354,351
Total sales - all classes	3,256,269	3,038,042	2,656,858	2,774,426	2,633,028
GROWTH OF SYSTEM					
Transmission, 69 kV, circuit miles	69	67	67	67	67
Distribution, 12 kV and lower, circuit miles					
Overhead	832	828	836	851	856
Underground	570	561	525	508	494
Total transmission and distribution	1,471	1,456	1,428	1,426	1,417
Transformer capacity, kVa					
220kV to 69kV	840,000	840,000	840,000	840,000	840,000
69kV to 12kV	935,000	935,000	885,000	846,000	830,000
12kV to customer	1,319,000	1,305,000	1,253,000	1,233,000	1,204,000

ELECTRIC SYSTEM SALES COMPARISON

	Residential	Commercial	Industrial	Other	Other Electric Utilities	All Classes
Revenue from the sale of electricity (\$000)						
Year ended June 30 -						
2000	\$ 53,534	\$ 65,719	\$ 107,263	\$ 3,370	\$ 33,047	\$ 262,933
1999	54,610	63,696	102,799	3,393	14,410	238,908
Increase (decrease)	\$ (1,076)	\$ 2,023	\$ 4,464	\$ (23)	\$ 18,637	\$ 24,025
Percent increase (-)	-2.0%	3.2%	4.3%	-0.7%	129.3%	10.1%

Megawatt-hours sold						
Year ended June 30 -						
2000	550,874	635,434	1,271,003	43,283	755,675	3,256,269
1999	559,362	613,368	1,214,941	43,227	607,144	3,038,042
Increase (decrease)	(8,488)	22,066	56,062	56	148,531	218,227
Percent increase (-)	-1.5%	3.6%	4.6%	0.1%	24.5%	7.2%

Average billing price per kWh						
Year ended June 30 -						
2000	\$ 0.0972	\$ 0.1034	\$ 0.0844	\$ 0.0779	\$ 0.0437	\$ 0.0807
1999	0.0976	0.1038	0.0846	0.0785	0.0237	0.0786
Increase (decrease)	\$ (0.0004)	\$ (0.0004)	\$ (0.0002)	\$ (0.0006)	\$ 0.0200	\$ 0.0021
Percent increase (-)	-0.5%	-0.4%	-0.3%	-0.8%	84.3%	2.7%

Average number of meters						
Year ended June 30 -						
2000	91,623	15,666	678	108	11	108,086
1999	90,788	15,521	672	107	10	107,098
Increase (decrease)	835	145	6	1	1	988
Percent increase (-)	0.9%	0.9%	0.9%	0.9%	10.0%	0.9%

Average annual use by meter, kWh						
Year ended June 30 -						
2000	6,012	40,561	1,874,636	400,769		
1999	6,161	39,519	1,807,948	403,991		
Increase (decrease)	(149)	1,042	66,688	(3,222)		
Percent increase (-)	-2.4%	2.6%	3.7%	-0.8%		

Amounts represent revenue excluding the change in unbilled revenue

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

	1999/2000	1998/1999	1997/1998	1996/1997	1995/1996
REVENUES					
Sale of electricity					
Residential	\$ 53,534	\$ 54,610	\$ 53,737	\$ 51,626	\$ 51,845
Commercial	65,719	63,696	62,337	63,115	60,979
Industrial	107,263	102,799	102,810	100,789	100,695
Other	3,370	3,393	3,283	3,164	3,207
Other utilities	33,047	14,410	5,090	5,074	5,285
Billed revenue from the sale of electricity	262,933	238,908	227,257	223,768	222,011
Change in unbilled revenue	1,802	(1,996)	(1,320)	4,530	667
Total revenue from the sale of electricity	264,735	236,912	225,937	228,298	222,678
Provision for rate stabilization	4,052	7,536	13,592	14,251	20,956
Other (including interest income)	18,345	17,888	12,400	6,586	9,914
Total gross revenues	287,132	262,336	251,929	249,135	253,548
EXPENSES					
(excluding depreciation and cancelled project costs)					
Cost of purchased power	147,009	137,713	136,343	141,120	127,839
Fuel used for generation	4,798	2,785	2,854	2,212	3,370
Operations	39,101	39,480	40,560	38,093	37,994
Maintenance	14,791	14,034	11,549	14,817	11,391
Non-operating	-	215	1,114	-	-
Total operating expenses	205,699	194,227	192,420	196,242	180,594
NET REVENUES (a)	81,433	68,109	59,509	52,893	72,954
Parity bond debt service requirements (b)	16,160	20,796	20,834	19,649	20,763
(Reduction)/Deposits to renewal and replacement	(181)	(151)	89	301	118
SURPLUS REVENUES (c)	65,454	47,464	38,586	32,943	52,073
Qualified obligations purchase payments (d)	17,384	16,103	13,007	11,058	11,058
ERAN interest and related expenses	826	683	800	804	845
Net revenues after debt service payments	47,244	30,678	24,779	21,081	40,170
Transfers to Anaheim general fund	9,649	9,396	9,539	9,674	9,491
BALANCE FOR OTHER PURPOSES	\$ 37,595	\$ 21,282	\$ 15,240	\$ 11,407	\$ 30,679
Times parity bond debt service coverage (a/b)	5.0	3.3	2.9	2.7	3.5
Qualified obligation debt service coverage (c/d)	3.8	2.9	3.0	3.0	4.7

CITY OF ANAHEIM-WATER UTILITY FUND

BALANCE SHEETS

June 30, 2000 and 1999

(In thousands)

	2000	1999
ASSETS		
Utility plant		
Land	\$ 1,554	\$ 1,554
Source of water supply	21,638	21,638
Pumping plant	30,784	30,784
Transmission and distribution	164,140	159,843
General plant	4,394	4,394
Gross utility plant	222,510	218,213
Less accumulated depreciation	(51,172)	(47,344)
Construction work in progress	23,617	18,204
Net utility plant	194,955	189,073
Restricted assets		
Cash and cash equivalents	1,548	1,666
Investments	16,855	17,749
Accounts receivable	49	61
Accrued interest receivable	213	252
Total restricted assets	18,665	19,728
Unrestricted current assets		
Cash and cash equivalents	2,539	2,169
Investments	19,539	16,699
Accounts receivable	10,017	8,551
Accrued interest receivable	391	408
Materials and supplies	194	209
Purchased water in storage	210	248
Total unrestricted current assets	32,890	28,284
Other assets		
Orange County receivable, net	-	349
MWDOC pipeline receivable	767	839
Unamortized debt issuance costs	222	251
Total other assets	989	1,439
Total assets	\$ 247,499	\$ 238,524

CITY OF ANAHEIM-WATER UTILITY FUND

BALANCE SHEETS

June 30, 2000 and 1999

(In thousands)

	2000	1999
EQUITY AND LIABILITIES		
Equity		
Beginning contribution by the City	\$ 19,280	\$ 19,280
Contributions in aid of construction	87,592	86,679
Retained earnings	92,940	83,170
Total equity	199,812	189,129
Long-term liabilities		
Long-term debt obligation, less current portion	38,096	39,437
Capital lease obligation, less current portion	802	937
Total long-term liabilities	38,898	40,374
Current liabilities (payable from restricted assets)		
Current portion of long-term debt	1,163	1,104
Accounts payable	129	599
Accrued interest	579	602
Customer deposits	1,104	1,037
Total restricted current liabilities	2,975	3,342
Current liabilities (payable from unrestricted current assets)		
Current portion of long-term debt	402	384
Current portion of capitalized lease	135	125
Accounts payable and accrued expenses	4,791	4,588
Customer deposits	486	582
Total unrestricted current liabilities	5,814	5,679
Commitments and contingencies		
Total equity and liabilities	\$ 247,499	\$ 238,524

See accompanying notes.

CITY OF ANAHEIM-WATER UTILITY FUND

STATEMENTS OF INCOME AND CHANGES IN RETAINED EARNINGS

For the Years Ended June 30, 2000 and 1999

(In thousands)

	2000	1999
Operating revenues		
Sale of water	\$ 40,384	\$ 37,652
Other operating revenues	1,035	1,042
Total operating revenues	41,419	38,694
Operating expenses		
Cost of water	17,109	15,673
Operations	8,762	7,211
Maintenance	4,322	4,016
Depreciation	3,446	3,314
Total operating expenses	33,639	30,214
Operating income	7,780	8,480
Other income (expense)		
Interest income	2,120	1,795
Interest expense	(1,429)	(1,646)
Gain on disposal of property	2,594	-
Orange County receivable adjustment	-	(28)
Total other income	3,285	121
Income before operating transfers	11,065	8,601
Operating transfers in from other funds of the City	290	-
Net income	11,355	8,601
Retained earnings at beginning of year	83,170	76,057
Transfer to the General Fund of the City	(1,585)	(1,488)
Retained earnings at end of year	\$ 92,940	\$ 83,170

See accompanying notes.

CITY OF ANAHEIM-WATER UTILITY FUND

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2000 and 1999

(In thousands)

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 7,780	\$ 8,480
Adjustments to reconcile operating income to net cash provided by operations		
Depreciation	3,446	3,314
Amortization of debt issuance costs, discounts and loss on refundings	253	264
Changes in assets and liabilities		
Current accounts receivable	(1,454)	(732)
Orange County receivable	349	-
MWDOC pipeline	72	71
Materials and supplies	15	(33)
Purchased water in storage	38	172
Accounts payable and accrued expenses	(267)	1,279
Customer deposits	(29)	184
Total adjustments	2,423	4,519
Net cash provided by operating activities	10,203	12,999
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to the General Fund of the City	(1,585)	(1,488)
Operating transfers from other funds of the City	290	-
Net cash provided by (used in) noncapital financing activities	(1,295)	(1,488)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	\$ (9,635)	\$ (6,204)
Principal reduction in debts and capitalized lease	(1,613)	(1,531)
Interest paid	(1,452)	(1,668)
Contributions in aid of construction	1,220	1,348
Proceeds from disposal of property	2,594	-
Net cash used in capital and related financing activities	(8,886)	(8,055)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(23,904)	(13,847)
Proceeds from sale and maturity of investment securities	21,958	5,758
Interest received	2,176	1,736
Net cash provided by (used in) investing activities	230	(6,353)
Increase (decrease) in cash and cash equivalents	252	(2,897)
Cash and cash equivalents at beginning of year	3,835	6,732
Cash and cash equivalents at end of year	\$ 4,087	\$ 3,835
Schedule of noncash financing and investing activities		
Contributions in aid of construction	\$ 1,272	\$ 364
Depreciation on contributed assets	\$ (1,579)	\$ (1,575)
Orange County receivable adjustment	\$ -	\$ (28)

See accompanying notes.

CITY OF ANAHEIM-WATER UTILITY FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2000 and 1999

(In thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Water Utility Fund (Water Utility) of the City of Anaheim (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 (CPUC). The Water Utility is not subject to the regulations of the CPUC. Under Government 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 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 2000 and 1999, \$1,579 and \$1,575, 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 \$2,700 and \$2,426 at June 30, 2000 and 1999, 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.

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 \$414 and \$408 for the Water Utility at June 30, 2000 and 1999, 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 differ from those estimates.

Reclassification

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

CITY OF ANAHEIM-WATER UTILITY FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In thousands)

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.

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

	2000	1999
Cash and investments pooled with City Treasurer	\$ 36,081	\$ 33,883
Investments held with trustee	4,400	4,400
	<u>\$ 40,481</u>	<u>\$ 38,283</u>

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

	2000	1999
Restricted assets – cash and investments	\$ 18,403	\$ 19,415
Current assets – cash and investments	22,078	18,868
	<u>\$ 40,481</u>	<u>\$ 38,283</u>

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 agent 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.

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

2000	Category				Fair Value
	1	2	3	Uncategorized	
Investments held with trustee:					
Repurchase agreements	\$ 2,463	\$ -	\$ -	\$ -	\$ 2,463
Guaranteed investment contracts	-	-	-	1,937	1,937
Cash and investments pooled with City Treasurer	-	-	-	36,081	36,081
	<u>\$ 2,463</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,018</u>	<u>\$ 40,481</u>

1999	Category				Fair Value
	1	2	3	Uncategorized	
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
	<u>\$ 2,463</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,820</u>	<u>\$ 38,283</u>

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 \$11,922 and \$11,330 for the years ended June 30, 2000 and 1999, respectively, of which \$3,577 and \$3,399, 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.

CITY OF ANAHEIM-WATER UTILITY FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In thousands)

4. LONG-TERM DEBT

Long-term debt consists of the following at June 30:	2000	1999
Water Revenue Bonds, 1986 Series, TIC (true interest cost) 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 \$5,764 to maturity.	\$ 4,325	\$ 4,325
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 ranging from \$245 to \$260 at rates ranging from 6.65% to 6.7%. Total remaining debt service is \$539 to maturity.	505	735
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 \$450 to \$600 at rates ranging from 5.6% to 6.1%. The total remaining debt service is \$3,709 to maturity.	3,115	3,540
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 4.75% to 5.5%. Total remaining debt service is \$17,461 to maturity.	11,765	12,440
Anaheim Public Financing Authority Revenue Bonds, Issue of 1994, TIC 5.231%, dated January 1, 1994, sold February 15, 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 \$33,940 to maturity.	20,000	20,000
Total revenue bond debt	39,710	41,040
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 \$103 to maturity.	93	118
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 \$1,748 to maturity.	1,477	1,610
Total other debt	1,570	1,728
Total debt	41,280	42,768
Less current portion	(1,565)	(1,488)
Less unamortized bond discounts	(482)	(543)
Less unamortized loss on refunding	(1,137)	(1,300)
Total long-term debt	\$ 38,096	\$ 39,437

CITY OF ANAHEIM-WATER UTILITY FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In thousands)

Annual debt service requirements at June 30, 2000 to maturity are as follows:

	Revenue Bond Debt			Other Debt			Total All Long-Term Debt
	Principal	Interest	Total	Principal	Interest	Total	
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
2005	1,720	1,763	3,483	158	30	188	3,671
Thereafter	31,960	12,020	43,980	740	69	809	44,789
	\$ 39,710	\$ 21,703	\$ 61,413	\$ 1,570	\$ 281	\$ 1,851	\$ 63,264

Interest costs of \$1,095 and \$972 have been capitalized to utility plant for the years ended June 30, 2000 and 1999, 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, 2000 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 next 12 months.

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

	2000	1999
Held by fiscal agent:		
Bond reserve fund	\$ 4,400	\$ 4,400
Held by City Treasurer:		
Bond service account	2,284	2,235
Renewal and replacement account	1,713	1,708
Restricted bond proceeds	10,006	11,072
	\$ 18,403	\$ 19,415

The Water Utility's interest and other finance charges, except for capitalized interest, for the years ended June 30, 2000 and 1999 were \$1,429 and \$1,646, respectively.

5. CAPITALIZED LEASE OBLIGATION

The City has a long-term noncancelable lease with the Municipal Water District of Orange County 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:	
2001	\$ 181
2002	182
2003	184
2004	186
2005	188
Thereafter	189
	1,110
Less Interest	(173)
Future minimum lease payments	\$ 937
Current portion	\$ 135
Long-term portion	802
	\$ 937

The City sold its share of the Allen McColloch pipeline to the Metropolitan Water District of Southern California (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 that 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.

CITY OF ANAHEIM-WATER UTILITY FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In thousands)

The Water Utility contributed \$339, \$490, and \$605 to PERS for the years ended June 30, 2000, 1999, and 1998 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 nonvested 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. 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.

8. 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, 2000.

The City has been named as a defendant in several lawsuits in connection with the land movement which occurred around the Olive Hills reservoir during 1998. The Water Utility has incurred litigation costs in association with these lawsuits and those costs are reflected in the accompanying financial statements. The Water Utility's ultimate exposure to loss and additional litigation costs in excess of insurance coverage, if any, is not determinable and has not been accrued in the accompanying financial statements.

Capital Expenditures

The Water Utility's budget for fiscal 2000 - 2001 provides for capital expenditures of approximately \$9,994, of which \$753 is expected to be funded by water revenues and contributions in aid of construction.

9. ORANGE COUNTY RECEIVABLE

On December 6, 1994, the County of Orange (County) and the Orange County Investment Pools (collectively 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. Under the plan of adjustment approved by the bankruptcy court, the City retained Settlement Secured Claims and Repayment Claims, which recovery would be paid only from net litigation proceeds of pool-related litigation if and when recovered by the County from third-party defendants. Net of allowances, the Water Utility's receivable was \$349 at June 30, 1999.

During fiscal 1999, the County and the Pool settled its litigation with all remaining defendants and such settlements were approved by the Bankruptcy Court.

During fiscal 2000, the Water Utility received its share of the settlements of \$370, representing principal and interest. The difference between the settlement and the Water Utility's receivable was recorded as interest income in the year ended June 30, 2000.

10. 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, enterprise fund financial reporting will include management's discussion and analysis (MD&A) and basic financial statements that are similar to the financial statements presently presented.

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

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.

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 of the City of Anaheim, California, as of June 30, 2000 and 1999, 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 that 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 at June 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Ernst + Young LLP

Irvine, California
October 3, 2000

CITY OF ANAHEIM-ELECTRIC UTILITY FUND

BALANCE SHEETS

June 30, 2000 and 1999

(In thousands)

	2000	1999
ASSETS		
Utility plant		
Production	\$ 295,190	\$ 294,175
Transmission	22,322	21,965
Distribution	238,099	232,027
General	63,032	59,580
Gross utility plant	618,643	607,747
Less accumulated depreciation	(226,112)	(206,157)
Net plant in service	392,531	401,590
Construction work in progress	82,590	61,234
Nuclear fuel, at amortized cost	1,141	4,305
Net utility plant	476,262	467,129
Restricted assets		
Cash and cash equivalents	40,885	62,420
Investments	142,424	116,251
Other	3,179	2,673
Total restricted assets	186,488	181,344
Unrestricted current assets		
Cash and cash equivalents	5,133	2,988
Investments	33,493	22,999
Accounts receivable	43,594	25,337
Accrued interest receivable	936	1,091
Materials and supplies	6,334	6,149
Prepaid purchased power	2,720	2,684
Total unrestricted current assets	92,210	61,248
Other assets		
Orange County receivable, net	-	2,774
Unamortized debt issuance costs	2,186	1,969
Total other assets	2,186	4,743
Total assets	\$ 757,146	\$ 714,464

CITY OF ANAHEIM-ELECTRIC UTILITY FUND

BALANCE SHEETS

June 30, 2000 and 1999

(In thousands)

	2000	1999
EQUITY AND LIABILITIES		
Equity		
Beginning contribution by the City	\$ 14,629	\$ 14,629
Contributions in aid of construction	58,607	57,619
Retained earnings	245,249	211,597
Total equity	318,485	283,845
Long-term liabilities		
Long-term debt obligation, less current portion	314,726	322,717
Decommissioning reserve	51,942	43,629
Total long-term liabilities	366,668	366,346
Current liabilities (payable from restricted assets)		
Current portion of long-term debt	11,679	14,922
Accounts payable	1,802	779
Accrued interest	4,694	4,675
Tax-exempt commercial paper	20,450	20,450
Total restricted current liabilities	38,625	40,826
Current liabilities (payable from unrestricted current assets)		
Current portion of long-term debt	4,148	5,217
Accounts payable and accrued expenses	23,692	8,552
Rate stabilization account	-	4,231
Customer deposits	5,528	5,447
Total unrestricted current liabilities	33,368	23,447
Commitments and contingencies		
Total equity and liabilities	\$ 757,146	\$ 714,464

See accompanying notes.

CITY OF ANAHEIM-ELECTRIC UTILITY FUND

STATEMENTS OF INCOME AND CHANGES IN RETAINED EARNINGS

For the Years Ended June 30, 2000 and 1999

(In thousands)

	2000	1999
Operating revenues		
Sale of electricity	\$ 264,735	\$ 236,912
Rate stabilization adjustment	4,052	7,536
Other operating revenues	10,670	10,073
Total operating revenues	279,457	254,521
Operating expenses		
Cost of purchased power	147,009	137,713
Fuel used for generation	4,798	2,785
Operations	39,101	39,480
Maintenance	14,791	14,034
Depreciation	20,002	19,577
Total operating expenses	225,701	213,589
Operating income	53,756	40,932
Other income (expense)		
Interest income	7,675	7,815
Interest expense	(17,868)	(20,464)
Orange County receivable adjustment	-	(215)
Total other expense	(10,193)	(12,864)
Income before operating transfer	43,563	28,068
Operating transfer to other funds of the City	(262)	-
Net income	43,301	28,068
Retained earnings at beginning of year	211,597	192,925
Transfer to the General Fund of the City	(9,649)	(9,396)
Retained earnings at end of year	\$ 245,249	\$ 211,597

See accompanying notes.

CITY OF ANAHEIM-ELECTRIC UTILITY FUND

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2000 and 1999

(In thousands)

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 53,756	\$ 40,932
Adjustments to reconcile operating income to net cash provided by operations		
Depreciation	20,002	19,577
Amortization of debt issuance costs, discounts and loss on refundings	3,657	4,649
Amortization of nuclear fuel	4,798	2,785
Increase in decommissioning reserve	8,313	6,468
Changes in assets and liabilities		
Current accounts receivable	(18,626)	4,454
Orange County receivable	2,774	-
Materials and supplies	(185)	(1,747)
Prepaid purchased power	(36)	(105)
Accounts payable and accrued expenses	16,163	(3,160)
Rate stabilization account	(4,231)	(7,670)
Customer deposits	81	43
Total adjustments	32,710	25,294
Net cash provided by operating activities	86,466	66,226
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to the General Fund of the City	(9,649)	(9,396)
Transfer to other funds of the City	(262)	-
Net cash used in noncapital financing activities	(9,911)	(9,396)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from borrowings	45,000	-
Principal reduction in debts	(59,476)	(18,640)
Capital expenditures	(32,426)	(38,005)
Nuclear fuel expenditures	(1,634)	(3,067)
Interest paid	(17,849)	(20,460)
Issuance, refunding and discount costs on refunding	(1,701)	(88)
Contributions in aid of construction	1,115	4,785
Net cash used in capital and related financing activities	(66,971)	(75,475)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	\$ (115,544)	\$ (55,976)
Proceeds from sale and maturity of investment securities	77,756	41,171
Interest received	8,814	9,268
Net cash used in investing activities	(28,974)	(5,537)
Decrease in cash and cash equivalents	(19,390)	(24,182)
Cash and cash equivalents at beginning of year	65,408	89,590
Cash and cash equivalents at end of year	\$ 46,018	\$ 65,408
Schedule of noncash financing and investing activities		
Contributions in aid of construction	\$ 786	\$ 3,782
Depreciation on contributed assets	\$ (913)	\$ (835)
Orange County receivable adjustment	\$ -	\$ (215)
Unrealized loss on investment	\$ (1,121)	\$ (1,144)

See accompanying notes.

CITY OF ANAHEIM-ELECTRIC UTILITY FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2000 and 1999

(In thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Electric Utility Fund (Electric Utility) of the City of Anaheim, California (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 (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 2000 and 1999, \$913 and \$835, 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 (Policy), which included establishing a Rate Stabilization Account (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 was made on a monthly basis until the RSA was depleted in fiscal year 2000.

Unbilled electric service charges are included in accounts receivable at year-end. Unbilled accounts receivable totaled \$12,306 and \$10,494 at June 30, 2000 and 1999, 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 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. As of June 30, 2000, the Electric Utility has reserved \$51,942 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.

CITY OF ANAHEIM-ELECTRIC UTILITY FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In thousands)

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 \$1,105 and \$1,124 for the Electric Utility at June 30, 2000 and 1999, 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 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.

At June 30, investments were categorized as follows:

2000	Category			Uncategorized	Fair Value
	1	2	3		
U.S. Government securities	\$ 43,212	\$ -	\$ -	\$ -	\$ 43,212
Mutual funds	-	-	-	2,753	2,753
Guaranteed investment contracts	-	-	-	46,145	46,145
Cash and investment pooled with City Treasurer	-	-	-	129,825	129,825
	\$ 43,212	\$ -	\$ -	\$ 178,723	\$ 221,935

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 investment pooled with City Treasurer	-	-	-	95,808	95,808
	\$ 37,735	\$ -	\$ -	\$ 166,923	\$ 204,658

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.

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

	2000	1999
Cash and investments pooled with the City Treasurer	\$ 129,825	\$ 95,808
Investments held with trustee	92,110	108,850
	\$ 221,935	\$ 204,658

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

	2000	1999
Restricted assets - cash and investments	\$ 183,309	\$ 178,671
Unrestricted assets - cash and investments	38,626	25,987
	\$ 221,935	\$ 204,658

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 contract and mutual funds are not subject to categorization because they are not evidenced by securities that exist in physical or book entry form.

CITY OF ANAHEIM-ELECTRIC UTILITY FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In thousands)

Investments 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. 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.

3. OPERATING EXPENSES

Operating expenses shared with the Water Utility Fund amounted to \$11,922 and \$11,330 for the years ended June 30, 2000 and 1999, respectively, of which \$8,345 and \$7,931, respectively, 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 SONGS construction costs, which amounted to \$200,548 at June 30, 2000, was included

in utility plant. The Electric Utility recorded depreciation related to SONGS of \$7,063 and \$6,978, for the years ended June 30, 2000 and 1999, respectively. The Electric Utility made provisions during fiscal years 2000 and 1999 for future decommissioning costs (Note 1) of \$4,940 and \$3,769, 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 \$58,179 at June 30, 2000, 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, 2000 and 1999 totaled \$20,450 and \$20,450, respectively. The interest rates on this debt at June 30, 2000, ranged between 3.9% and 4.3% with maturities ranging from 56 to 103 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 2000, there were no amounts borrowed from the revolving credit agreement.

6. LONG-TERM DEBT

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

	2000	1999
Electric Revenue Bonds, Issue of 1991, dated and sold May 29, 1991 in the amount of \$3,434. The remaining principal of \$2,526, at a rate of 6.50%, maturing serially through October 1, 2004 in annual principal installments ranging from \$125 to \$713. The total debt service is \$2,873 to maturity.	\$ 2,526	\$ 3,224
Electric Revenue Bonds, Issue of 1993, TIC (true interest cost) 5.07%, dated June 1, 1993, sold June 23, 1993, in the amount of \$60,700, of which \$1,690 was advance refunded on September 29, 1999. The remaining principal of \$46,205, at rates ranging from 4.60% to 5.10%, maturing serially through October 1, 2007 in annual principal installments ranging from \$4,975 to \$6,615. The total debt service is \$55,992 to maturity.	46,205	52,650
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 \$66,895 includes: (1) \$40,355 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 rang-		

CITY OF ANAHEIM-ELECTRIC UTILITY FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In thousands)

	2000	1999
ing 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 \$113,285 to maturity.	66,895	69,720
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, of which \$1,480 was advance refunded on September 29, 1999. The remaining principal of \$58,355 includes: (1) \$635 at rates ranging from 5.20% 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 \$200, 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 \$118,329 to maturity.	58,355	60,275
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 \$4,250, at rates ranging from 5.00% to 5.90% maturing serially through 2008 subject to optional redemption on or after July 1, 2004, in annual principal installments ranging from \$380 to \$585. The total debt service is \$5,400 to maturity.	4,250	4,610
Electric Revenue Bonds, Issue of 1996, TIC 4.77%, dated October 1, 1996, sold October 31, 1996, in the amount of \$95,395, of which \$29,960 was advance refunded on September 29, 1999. The remaining principal of \$33,195, at rates ranging from 4.50% to 5.00%, maturing serially to October 1, 2005 in annual principal installments ranging from \$5,975 to \$7,360. The total debt service is \$37,413 to maturity.	33,195	68,830
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, 2021 through 2028 in annual principal installments from \$2,975 to \$4,300. The total debt service is \$124,305 to maturity.	65,000	65,000
Anaheim Public Financing Authority Revenue Bonds, Issue of 1999, with initial interest rate of 4.625%, dated September 1, 1999, sold September 29, 1999, in the amount of \$45,000, subject to a mandatory tender for purchase on October 1, 2005. On that conversion date, the interest rate will convert to a weekly interest rate, bond interest long-term rate or another long-term rate, which will cause the 1999 bond to be remarketed. The \$45,000 principal, after conversion date, will be subject to optional redemption from October 1, 2006 through 2027 in annual principal amount from \$1,300 to \$3,000. The total debt service is \$83,517 to maturity.	45,000	-
Total revenue bond debt	321,426	324,309
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 \$371, in annual principal installments ranging from \$23 to \$123 through October 31, 2003. The total debt service is \$413 to maturity.	371	473
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, and the remaining principal of \$14,220 was advance refunded on September 29, 1999.	-	14,220
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 \$395 at rate 6.50%, maturing on October 1, 2000. The total debt service is \$408 to maturity.	395	715

CITY OF ANAHEIM-ELECTRIC UTILITY FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In thousands)

	2000	1999
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. The remaining principal of \$23,880 includes: (1) \$8,990 at rates ranging from 4.75% to 6.00%, maturing serially through April 1, 2015 in annual principal installments ranging from \$410 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 \$47,184 to maturity.	23,880	24,270
Total other debt	24,646	39,678
Total debt	346,072	363,987
Less current portion	(15,827)	(20,139)
Less unamortized bond discounts	(2,725)	(6,744)
Less unamortized loss on refunding	(12,794)	(14,387)
Total long-term debt	\$ 314,726	\$ 322,717

Annual debt service requirements at June 30, 2000 to maturity are as follows:

	Revenue Bond Debt			Other Debt			Total All Long-Term Debt
	Principal	Interest	Total	Principal	Interest	Total	
2001	\$ 14,913	\$ 16,234	\$ 31,147	\$ 914	\$ 1,372	\$ 2,286	\$ 33,433
2002	14,344	15,541	29,885	541	1,334	1,875	31,760
2003	15,128	14,832	29,960	573	1,307	1,880	31,840
2004	15,315	14,083	29,398	493	1,279	1,772	31,170
2005	16,436	13,288	29,724	495	1,254	1,749	31,473
Thereafter	245,290	145,710	391,000	21,630	16,813	38,443	429,443
	\$ 321,426	\$ 219,688	\$ 541,114	\$ 24,646	\$ 23,359	\$ 48,005	\$ 589,119

Interest costs of \$4,063 and \$2,714 have been capitalized to utility plant for the years ended June 30, 2000 and 1999, 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 2% of the depreciated book value of the utility plant in service.

The bond issues outstanding at June 30, 2000 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:

	2000	1999
Held by fiscal agent:		
Bond reserve fund	\$ 14,548	\$ 16,725
Bond service fund	1,116	549
Bond construction fund	31,569	52,418
Decommissioning reserve	44,877	39,158
Held by City Treasurer:		
Bond service account	15,500	19,354
Renewal and replacement account	7,850	8,032
Decommissioning and fuel reserves	31,100	24,193
Restricted bond proceeds	36,301	18,142
Restricted rebate	448	100
	\$ 183,309	\$ 178,671

The Electric Utility's interest and other finance charges, except for capitalized interest, for the years ended June 30, 2000 and 1999, were \$17,868 and \$20,464, respectively.

CITY OF ANAHEIM-ELECTRIC UTILITY FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In thousands)

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.

In September 1999, the Electric Utility (through the Anaheim Public Financing Authority) issued \$45,000 in Distribution System Revenue Bonds, Series 1999, with an initial interest cost of 4.625%, to advance refund \$14,220 of Electric System Certificates of Participation; \$1,690 of Electric System Revenue Bonds, Issue of 1993; \$1,480 of Anaheim Public Financing Authority Revenue

Bonds, Second Issue of 1993; and \$29,960 of Electric System Revenue Bonds, Issue of 1996 (collectively, the Refunded Bonds) and to fund new distribution-related capital projects.

The net proceeds of \$44,635, after discount, accrued interest, and payment of \$527 in issuance costs, plus an additional \$9,363 of sinking fund monies were used to purchase U.S. government securities and to establish funds for the new capital projects. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the Refunded Bonds. As a result, the Refunded Bonds are considered to be defeased and the related liability for those bonds has been removed.

The advance refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$3,210. This difference, reported in the accompanying general purpose financial statements as a deduction of bonds payable, is being amortized as interest expense. The Electric Utility increased its total debt service payments over the next 28 years by \$27,595 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2,879.

Issue	Principal Amount Outstanding at June 30, 2000	Principal Amount Refunded
1993 APFA Bond Refunding		
1990 Certificates of Participation	\$ 40,240	\$ 40,240
1999 APFA Bond Refunding		
1989 Certificates of Participation	\$ 14,220	\$ 14,220
1993 Revenue Bond	\$ 1,480	\$ 1,690
1993-2 APFA Revenue Bond	\$ 1,480	\$ 1,480
1996 Revenue Bond	\$ 25,590	\$ 29,960

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 that 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 \$907, \$1,144 and \$1,656 to PERS for the years ended June 30, 2000, 1999 and 1998, 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 nonvested 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. 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.

10. 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, 2000 and 1999, total principal and interest in the RSA amounted to \$0 and \$4,231, 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.

CITY OF ANAHEIM-ELECTRIC UTILITY FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In thousands)

11. 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 (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 17.60% of the transmission capacity in the STS.

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, 2000, IPA has issued \$4,376,054 in revenue bonds and revenue bond anticipation notes to finance construction of the Station and SCPPA has issued \$1,097,466 in revenue bonds and revenue bond anticipation notes to finance payments in aid of construction.

For the years ended June 30, 2000 and 1999, the Electric Utility's cost of purchased power under these agreements were \$78,749 and \$87,784, 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
2001	\$ 94,000
2002	\$ 86,000
2003	\$ 83,000
2004	\$ 79,000
2005	\$ 79,000

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. Anaheim opened its service area on a limited scale on March 31, 2000 and currently no customers have chosen an alternative energy provider. 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 capital expenditures liabilities arising out of matters usually incidental to the operation of a utility such as the electric system of the City. In the opinion of management, the exposure under these claims and suits would not materially affect the financial position of the Electric Utility as of June 30, 2000.

Capital Expenditures

The Electric Utility's budget for fiscal 2000-2001 provides for capital expenditures of approximately \$41,179, of which \$35,907 is expected to be funded by bond proceeds and contributions in aid of construction.

12. ORANGE COUNTY RECEIVABLE

On December 6, 1994, the County of Orange (County) and the Orange County Investment Pools (collectively 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. Under the plan of adjustment approved by the bankruptcy court, the City retained Settlement Secured Claims and Repayment Claims, which recovery would be paid only from net litigation proceeds of pool-related litigation if and when recovered by the County from third-party defendants. Net of allowances, the Electric Utility's receivable was \$2,774 at June 30, 1999.

During fiscal 1999, the County and the Pool settled its litigation with all remaining defendants and such settlements were approved by the Bankruptcy Court.

During fiscal 2000, the Electric Utility received its share of the settlements of \$2,941, representing principal and interest. The difference between the settlement and the Electric Utility's receivable was recorded as interest income in the year ended June 30, 2000.

13. 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, enterprise fund financial reporting will include management's discussion and analysis (MD&A) and basic financial statements that are similar to the financial statements presently presented.

MD&A introduces the financial statements by giving reader a brief, objective and easily readable analysis of the government's financial performance for the year and its financial position at year-end.

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.

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 of the City of Anaheim, California, as of June 30, 2000 and 1999, 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 that 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 at June 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Ernst & Young LLP

Irvine, California
October 3, 2000



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