

ADVANCED OPERATIONAL EFFICIENCY

We also strive to achieve excellence in operational efficiency through advanced programs and services.

Notably, customers in downtown Anaheim soon will enjoy improved water supply reliability and quality. We began replacing or relining water mains in the downtown area constructed prior to 1939. These improvements are 60-percent complete and will be finished by the end of fiscal 2001.

The direct-buried primary-cable replacement program also is a bright spot in electric - and an example of our continuing focus on reliability.

Started in fiscal year 1995, the program calls for the replacement of direct-buried cables that are near the end of their lifespan. More than 46,000 feet of cable were replaced last year — without digging trenches along every street

Business professionals will benefit from superspeed Internet connections of more than 2 megabits per second due to our fiber-optic investment.

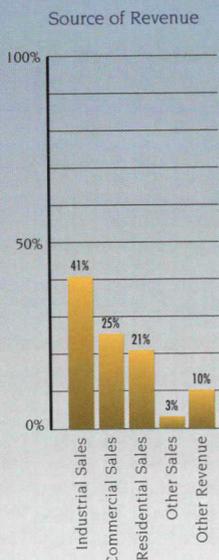
To maintain our commitment to advanced operational efficiency, we continued to improve water systems in other parts of the City and plan for future water demands that will be generated by the Anaheim Resort and Disneyland Resort developments.

On the electric side, we moved forward with our dynamic underground conversion program, a seven-decade project that will eliminate unsightly overhead power and communication lines and poles on public roads. This not only will improve Anaheim's aesthetic appearance but also improve electrical system reliability and enhance residential and commercial property values.

in a tract. This method inconveniences residents less and is the most economical and fastest.

In addition, we have prepared for the next century of communication technologies by entering into an agreement with SpectraNet International. The agreement allows Anaheim to become the first City in the nation with a privately owned and run fiber-optic network serving the City. It uses the City's Universal Telecommunications System — 50 miles of 96-strand fiber-optic cable. The fiber-optic strands, as thin as single strands of human hair, can carry vast amounts of information at remarkable speeds — one practical application is superspeed Internet connections of more than 2 megabits per second.

1996/97 ELECTRIC DOLLAR



Throughout this annual report, you will read exactly how we have set the standards of excellence in our community and industry — understand that we are committed to building on these successes

In addition, our utility contributed more than \$11 million in fiscal 1997 to the City's general fund, which supports much-needed programs and services for all Anaheim residents and businesses,

Ensure excellence in customer service by providing quality, competitively priced, environmentally sensitive utility services and technologies.

for even greater value to Anaheim residents and businesses. In this report, we have focused on four areas to illustrate our electric and water programs and services.

Look for these sections in the following pages:

- Advanced operational efficiency
- Sound environmental practices
- Responsive workforce
- Unparalleled community investment

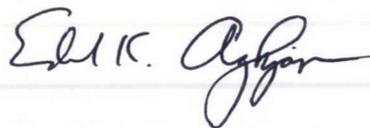
Let me also point out that the excellence of our programs and services is recognized by Standard & Poor's. Among all public power utilities in Southern California, the Anaheim Public Utilities garnered the most positive business profile score from the agency. Our utility received a business profile score of 4 and was assigned a credit rating of A+ with a stable outlook. The ranking of 4, out of a 10-point scale with 1 being the highest score, reflects the risks inherent in the ownership of generation balanced with the adequate capacity to compete. Additionally, Duff & Phelps rates the electric utility AA. The water utility is rated AA by both agencies.

and \$4 million in right-of-way fees. Likewise, our water services promote resource-efficiency and groundwater-protection programs to help residents and businesses conserve water and protect their water supply while lowering their water bills.

Simply put: We invest in our community.

I am proud of what the Anaheim Public Utilities has accomplished and even more excited by the prospect of continued excellence. Our foundation and future are based on our commitment to responsive customer service. We have printed our mission inside the front cover of this annual report to share with you.

I — along with every Anaheim Public Utilities employee — dedicate myself to excellence by providing high quality, competitively priced, environmentally sensitive utility services and technologies.



Edward K. Aghjayan
PUBLIC UTILITIES GENERAL MANAGER

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A LETTER FROM THE GENERAL MANAGER

What defines excellence? One definition describes excellence as the quality of being eminently good.

To me, the employees of the Anaheim Public Utilities Department define excellence. Our responsive workforce pursues advanced operational efficiency, seeks sound environmental practices and labors for unparalleled community investment.

Indeed, the employees of the Anaheim Public Utilities are eminently good.

Our responsive workforce last year assisted more than 13,500 walk-in customers in Customer Service. As for our pursuit of advanced operational efficiency, we already are on the cutting-edge of technology. We entered a unique agreement last year to bring state-of-the-art fiber-optic communication to the community.

Anaheim Public Utilities is industry-leading in our quest for sound environmental practices. In fact, a national group last year recognized our groundwater-protection efforts, and the Orange County Water District adopted the program basinwide. In addition, we invest in the community through outreach programs that target all segments of the Anaheim community.

The quality of our employees always has been important. Since the utility's inception in April 1895, we have been fortunate to count among our ranks dedicated visionaries. Having excellent employees was important more than a century ago, when our electric system was designed to power 498 lights in downtown Anaheim, and it is vital today.

Today, employing a quality professional staff is critical because the very nature of the California electric industry is changing. Our utility is well-prepared for industry restructuring because our employees continue to set the standards of excellence.

As these industry changes start to take effect Jan. 1, 1998, our customers can expect to receive the same excellent service at competitive rates as they have since we lit the first streetlamp in downtown Anaheim 103 years ago.

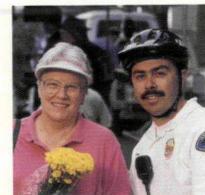
I am proud to say the Anaheim Public Utilities already is competitive and focused on customers. Our residential rates are 28 percent lower than our competitor's. Our last three commercial/industrial rate changes have been decreases. We have accomplished these dynamic achievements by providing customers with the most-reliable, highest-quality electric service at rates in line with the community's best interest. Even in the restructured electric industry, Anaheim Public Utilities customers will retain all the benefits of public ownership, including local control and interest.

ANAHEIM PUBLIC UTILITIES

1997 ANNUAL REPORT



Setting the Standards of Excellence



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SOUND ENVIRONMENTAL PRACTICES

Environmentalism is more than a buzzword to the Anaheim Public Utilities; it is core to our operations. We invest substantial time and resources annually to public-benefit and educational programs that inspire customers to save water and energy and reward them for their efforts.

Among the highlights:

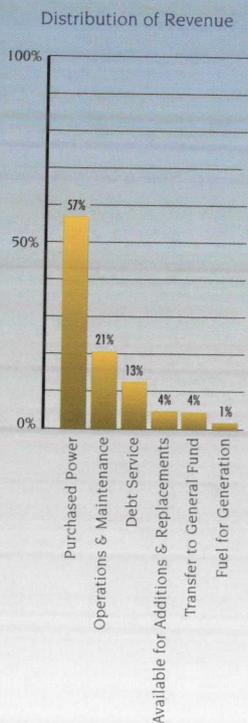
Environmental Faire — In April, the Anaheim Public Utilities co-sponsored the 1997 Anaheim Environmental Faire. Its theme: Colors of the Wind. More than 4,500 community members attended and learned environmental and conservation tips.

students charged up about energy issues. Three City high schools completed our In Concert With The Environment program, a comprehensive lesson on water and energy conservation and other environmental issues.

In addition, The National Groundwater Foundation named the City of Anaheim as a Groundwater Guardian community because of our innovative, successful community groundwater-protection efforts. Only a few cities in Canada, Mexico and the United States received the distinction. About 75 percent of our water supply comes from local wells, so groundwater conservation

Kids across the City can seek relief from the hot sun while earning some cool cash, thanks in part to the TreePower program.

1996/97 ELECTRIC DOLLAR



TreePower — Customers obtained free shade trees to help them conserve energy and beautify their neighborhoods. To date, more than 7,000 trees have been planted on residential properties citywide.

Water Efficient Landscape Award — We recognized three residential and commercial property owners for installing water-efficient landscapes.

Also in fiscal 1997, the Anaheim Public Utilities went back to school — to give students primers about water and energy conservation. We reached more than 2,900 fifth- and sixth-graders through the Be Electric-Bright program, which aimed to get

and protection are key elements of our water-resource planning efforts.

A Groundwater Guardian Team, comprised of residents and business, education and government representatives, worked with the Anaheim Public Utilities to develop technical assistance programs for businesses to reduce the use of hazardous chemicals. Educational materials also were developed for schools. Our efforts also earned another recognition: The Orange County Water District picked up this program to implement it basinwide.



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RESPONSIVE WORKFORCE

Every time a customer calls the Anaheim Public Utilities or walks into our office, we have the opportunity to showcase our responsive workforce.

The Anaheim Public Utilities consistently commits to delighting customers. We have employees who are dedicated to the community they serve. Case in point: meter

Customers can expect the highest-quality service from meter reader Bob Blair — he exemplifies our responsive workforce.

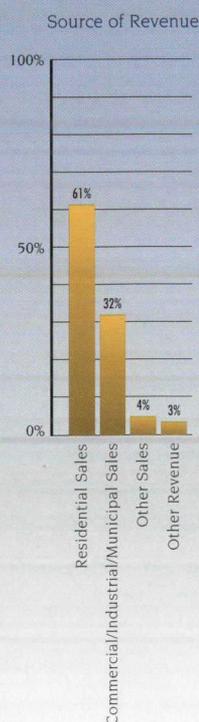
Our in-house and field staff know how to exceed customers' expectations. During fiscal 1997, we responded to 172,097 telephone inquiries from customers with an accuracy rate of 99.5 percent. We also serviced 13,543 walk-in customers in our Customer Service department.

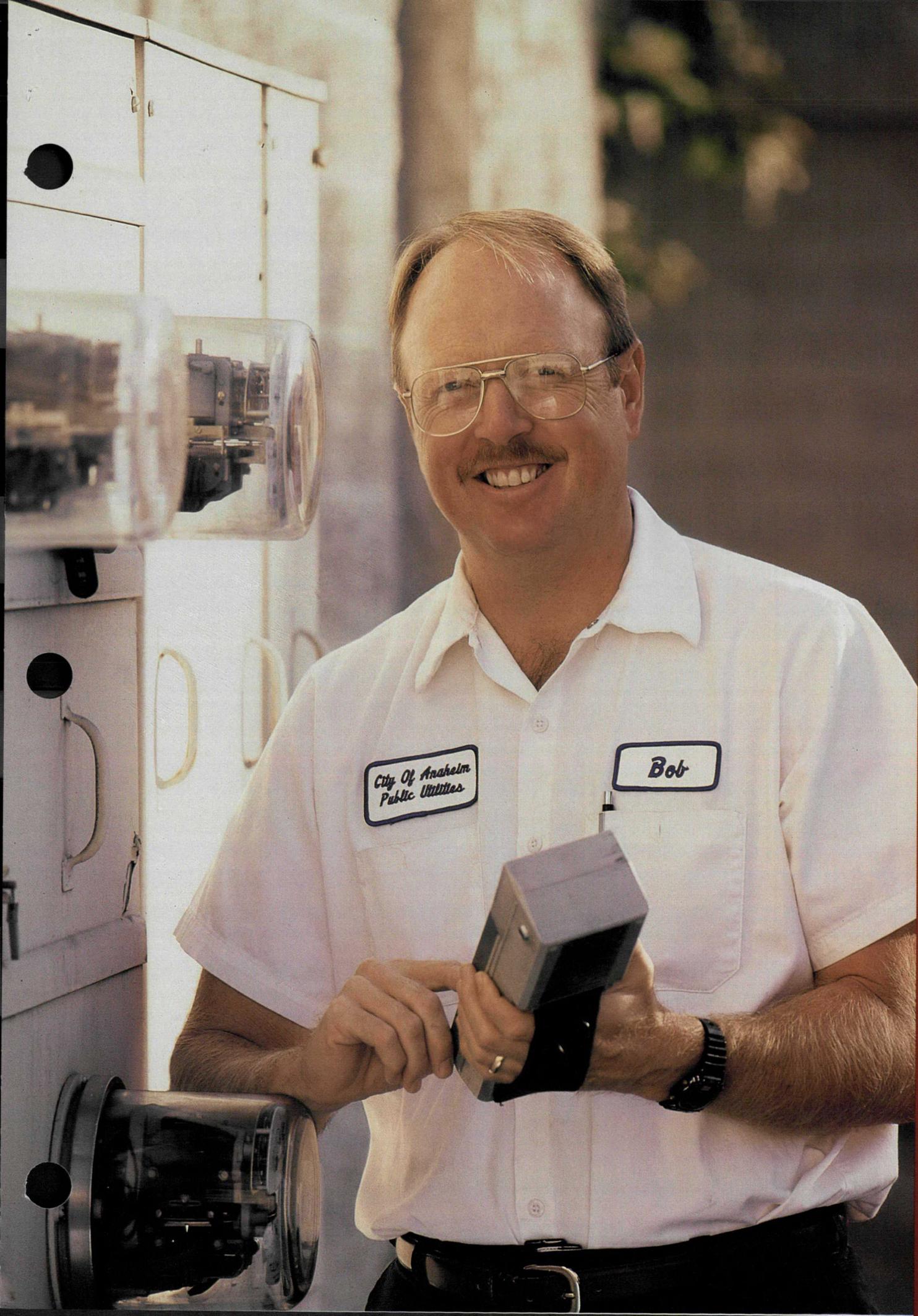
We are just as diligent about meeting our obligations in the field. We respond to most service requests in one day and all within two days. When our meter readers perform their duties, our residential, commercial and industrial customers receive the highest quality service. We read more than 1.2 million meters last year, with an accuracy rate of 99.98 percent.

reader Bob Blair has read 235,358 meters since December 1994 without one error. This simply is one example of our customer-first philosophy.

The Anaheim Public Utilities has taken steps to ensure we can exceed customers' expectations in coming years. We implemented a state-of-the-art billing system last year to more efficiently process customers' bills with greater accuracy. This system links meter reading, billing and cashing functions and will let us adapt to customers' future needs.

1996/97 WATER DOLLAR





City Of Anaheim
Public Utilities

Bob

UNPARALLELED COMMUNITY INVESTMENT

The Anaheim Public Utilities is committed to the Anaheim community. Our customers are more than simply residents or business owners; they are shareholders in the utility. We are solely accountable to them. This dynamic affords us unparalleled community investment superior to the investor-owned utility in the area.

Our Helping Hands program is unique among utilities because of the breadth of services it funds. It allows customers to donate money to Anaheim residents in need of assistance. The Anaheim Public Utilities, in conjunction with the City's Community Services Department, facilitates the project. The donations help low-income

More than \$22 million is directed to the City annually. This contribution helps promote civic programs, such as community policing.

Just how do we demonstrate our commitment to Anaheim residents and business owners? Through lower rates — residential customers enjoy electric rates that are 28 percent lower than residents in other Orange County cities. This saves Anaheim residents and businesses millions each year.

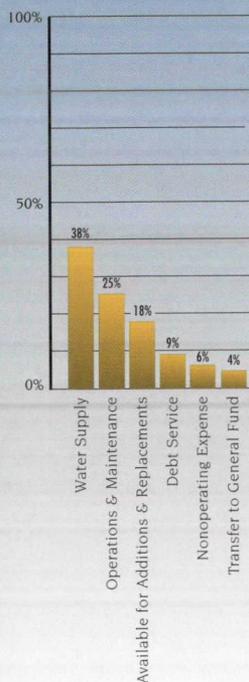
In addition to lower rates, we reinvest funds into the community. More than \$11 million is directed to the City's General Fund annually. This contribution promotes civic programs, such as community policing. We also contribute to the City about \$4 million in right-of-way funds and about \$7 million for administrative services.

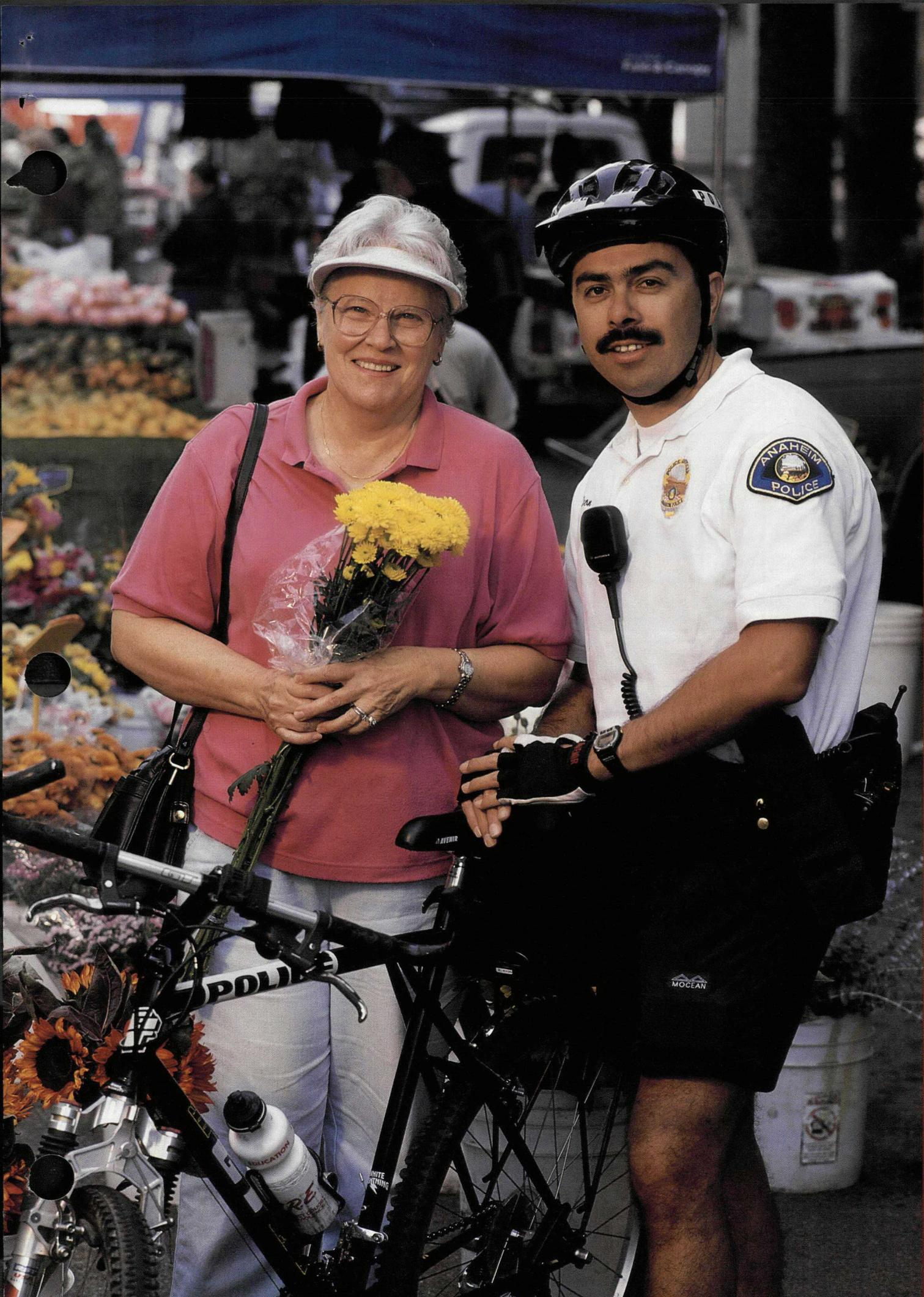
residents pay their utility bills and supports other community-investment projects, such as senior-citizen and gang-intervention programs.

The utility also co-sponsored the Paint Your Heart Out program. The 7-year-old program tackles the issue of neighborhood blight. Program volunteers painted the homes of 44 low-income senior citizen and disabled residents. We incorporated our successful TreePower project and water- and energy-efficiency audits into the Paint Your Heart Out program.

1996/97 WATER DOLLAR

Distribution of Revenue





MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS, STATISTICS AND FINANCIAL CONDITION

Revenues from the sale of electricity continued a four-year trend increasing \$5.6 million (2.5%) to \$228.3 million during fiscal 1997. The electric utility has continued to increase revenues despite decreasing rates three times in the past five years. Commercial and Industrial sales, which make up 64% of megawatt-hours sold in Anaheim, continued to show strength requiring 3.7% more energy during fiscal 1997. Anaheim's customer base increased by 935, mostly made up of new residents in the expanding Anaheim Hills area.

Expenditures for electricity increased \$16.4 million (8.3%) during fiscal 1997. This significant increase was caused by several factors including a renewed commitment to decrease future costs at our generating facilities. Purchased Power increases made up \$13.3 million of this increase caused in part by Anaheim contributing an additional \$6.6 million during fiscal 1997 toward reducing future debt service at the Intermountain Power Project. Transmission costs were approximately \$3.4 million higher and non-firm power was more costly than it was in the preceding year.

Additionally, maintenance expense increased \$3.4 million largely due to regular maintenance on Units 2 and 3 at San Onofre occurring during the same fiscal year. Interest expense decreased \$2.0 million during fiscal 1997 due to the current refunding of \$115 million of higher interest debt with a \$95.4 million electric revenue bond.

The financial condition of the electric utility remains secure as the industry heads toward competition. Revenues continue to increase, future liabilities are being reduced and the City's economy continues to show strength. The electric utility continues to maintain diverse and efficient generating and transmission resources. Despite the current turmoil in the industry, we maintain a strong financial position exhibited by our debt service coverage of 2.7 times, well in excess of the required amount. In addition, the electric department maintains an A+ with a "stable" outlook credit rating from Standard & Poor's, the most positive rating garnered by a public power utility in California.



Revenues from the sale of water

continued a ten-year trend increasing \$1.7 million (4.7%) to \$36.8 million during fiscal 1997. The water utility has continued to increase revenues partially due to a water cost adjustment factor which has increased annually to recover the higher cost of purchased water from our wholesale supplier. The Department has not increased its base system water rates in over four years. Water sales increased by 1.6 million gallons during fiscal 1997 alone. More than half of that increase was purchased by our residential customers.

Expenditures for water were about the same during fiscal 1997 increasing only \$213,000 (0.8%) despite producing 1.7 million additional gallons of water. In addition, the water utility paid \$2.3 million in litigation costs surrounding the Anaheim Hills area land movement as a non-operating expense.

The financial condition of the water utility

remains strong. Revenues and sales continue to increase. At least 75% of water requirements continue to be produced from low-cost local wells. The water utility's strong financial position is exhibited by a debt service coverage of 5.1 times, well in excess of bond requirements, and an AA credit rating from Standard & Poors.

The Public Utilities Department

pays all costs of operation and debt service and a portion of all capital improvements from current revenues. Other sources include proceeds from bond sales and contributions by developers and others in aid of construction. These costs include payments to the City of Anaheim for services rendered by various municipal departments and annual transfers based on prior year's gross earnings. During fiscal 1997, the Department transferred \$11.2 million in support of the municipal city government, the maximum allowable under the City Charter for this year.





ELECTRIC UTILITY Statistics

ELECTRIC OPERATING STATISTICS

| | 1996/97 | 1995/96 | 1994/95 | 1993/94 | 1992/93 |
|---|------------------|------------------|------------------|------------------|------------------|
| POWER SUPPLY (MWH) | | | | | |
| Owned Generation | | | | | |
| San Onofre Nuclear Generating Station | 408,135 | 539,558 | 491,647 | 488,916 | 564,868 |
| San Juan Unit #4 | 259,414 | 337,299 | 298,914 | 298,721 | - |
| Combustion Turbine | 2,922 | 3,858 | 2,622 | 4,169 | 11,896 |
| Total Owned Generation: | 670,471 | 880,715 | 793,183 | 791,806 | 576,764 |
| Purchased Power | | | | | |
| Intermountain Power Project | 1,614,901 | 955,591 | 1,235,149 | 1,556,072 | 1,522,718 |
| Hoover Dam | 53,173 | 54,802 | 46,850 | 50,571 | 38,544 |
| Power contracts | 117,117 | 50,061 | 114,143 | 447,382 | 414,516 |
| Southern California Edison Company | 55,722 | 90,907 | 91,470 | 88,051 | 127,443 |
| Non-firm purchases | 399,958 | 821,749 | 596,537 | 289,378 | 386,180 |
| Total Purchased Power | 2,240,871 | 1,973,110 | 2,084,149 | 2,431,454 | 2,489,401 |
| System total: | 2,911,342 | 2,853,825 | 2,877,332 | 3,223,260 | 3,066,165 |
| System peak demand: (mW) | 500.2 | 501.1 | 514.1 | 467.0 | 530.0 |
| ELECTRIC USE | | | | | |
| Average Number of Meters | | | | | |
| Residential | 89,467 | 88,568 | 87,964 | 87,602 | 87,327 |
| Commercial | 15,545 | 15,500 | 15,248 | 15,201 | 15,202 |
| Industrial | 614 | 576 | 572 | 573 | 573 |
| Other | 109 | 160 | 152 | 168 | 172 |
| Other utilities | 12 | 8 | 1 | 1 | 2 |
| Total meters - all classes | 105,747 | 104,812 | 103,937 | 103,545 | 103,276 |
| Megawatt-hour Sales | | | | | |
| Residential | 537,294 | 530,901 | 522,622 | 502,354 | 534,435 |
| Commercial | 602,530 | 580,454 | 570,666 | 555,257 | 572,952 |
| Industrial | 1,169,179 | 1,127,457 | 1,129,019 | 1,118,268 | 1,151,736 |
| Other | 40,400 | 39,865 | 34,378 | 33,913 | 39,733 |
| Other utilities | 425,023 | 354,351 | 429,246 | 733,295 | 483,635 |
| Total sales - all classes | 2,774,426 | 2,633,028 | 2,685,931 | 2,943,087 | 2,782,491 |
| GROWTH OF SYSTEM | | | | | |
| Transmission, 69 kV, circuit miles | 67 | 67 | 68 | 65 | 63 |
| Distribution, 12 kV and lower, circuit miles | | | | | |
| Overhead | 851 | 856 | 868 | 895 | 884 |
| Underground | 508 | 494 | 488 | 467 | 451 |
| Total transmission and distribution | 1,426 | 1,417 | 1,424 | 1,427 | 1,398 |
| Transformer capacity, kVa | | | | | |
| 220kV to 69kV | 840,000 | 840,000 | 840,000 | 840,000 | 840,000 |
| 69kV to 12kV | 846,000 | 830,000 | 780,000 | 786,000 | 776,200 |
| 12kV to customer | 1,233,000 | 1,204,000 | 1,202,000 | 1,142,000 | 1,127,400 |



ELECTRIC SYSTEM SALES COMPARISON

| | Residential | Commercial | Industrial | Other | Other Electric Utilities | All Classes |
|---|-------------|------------|------------|---------|-----------------------------|----------------|
| REVENUE FROM THE SALE OF ELECTRICITY (IN THOUSANDS) | | | | | | |
| Year ended June 30 | | | | | | |
| 1997 | \$51,626 | \$63,115 | \$100,789 | \$3,164 | \$5,074 | \$223,768 |
| 1996 | 51,845 | 60,979 | 100,695 | 3,207 | 5,285 | 222,011 |
| Increase (decrease) | (219) | 2,136 | 94 | (43) | (211) | 1,757 |
| Percent increase (decrease) | (0.4%) | 3.5% | 0.1% | (1.3%) | (4.0%) | 0.8% |

MEGAWATT-HOURS SOLD

| | | | | | | |
|-----------------------------|---------|---------|-----------|--------|---------|-----------|
| Year ended June 30 | | | | | | |
| 1997 | 537,294 | 602,530 | 1,169,179 | 40,400 | 425,023 | 2,774,426 |
| 1996 | 530,901 | 580,454 | 1,127,457 | 39,865 | 354,351 | 2,633,028 |
| Increase (decrease) | 6,393 | 22,076 | 41,722 | 535 | 70,672 | 141,398 |
| Percent increase (decrease) | 1.2% | 3.8% | 3.7% | 1.3% | 19.9% | 5.4% |

AVERAGE BILLING PRICE PER KILOWATT-HOUR

| | | | | | | |
|-----------------------------|----------|----------|----------|----------|----------|----------|
| Year ended June 30 | | | | | | |
| 1997 | \$0.0961 | \$0.1047 | \$0.0862 | \$0.0783 | \$0.0119 | \$0.0807 |
| 1996 | 0.0977 | 0.1051 | 0.0893 | 0.0804 | 0.0149 | 0.0843 |
| Increase (decrease) | (0.0016) | (0.0004) | (0.0031) | (0.0021) | (0.0030) | (0.0036) |
| Percent increase (decrease) | (1.6%) | (0.4%) | (3.5%) | (2.6%) | (20.1%) | (4.3%) |

AVERAGE NUMBER OF METERS

| | | | | | | |
|-----------------------------|--------|--------|------|---------|-------|---------|
| Year ended June 30 | | | | | | |
| 1997 | 89,467 | 15,545 | 614 | 109 | 12 | 105,747 |
| 1996 | 88,568 | 15,500 | 576 | 160 | 8 | 104,812 |
| Increase (decrease) | 899 | 45 | 38 | (51) | 4 | 935 |
| Percent increase (decrease) | 1.0% | 0.3% | 6.6% | (31.9%) | 50.0% | 0.9% |

AVERAGE ANNUAL USE BY METER IN KILOWATT-HOURS

| | | | | | | |
|-----------------------------|-------|--------|-----------|--|--|--|
| Year ended June 30 | | | | | | |
| 1997 | 6,005 | 38,760 | 1,904,200 | | | |
| 1996 | 5,994 | 37,449 | 1,957,390 | | | |
| Increase (decrease) | 11 | 1,311 | (53,190) | | | |
| Percent increase (decrease) | 0.2% | 3.5% | (2.7%) | | | |

Amounts represent revenue excluding the change in unbilled revenue



Statistics (continued)

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

| | (in thousands) | | | | |
|---|----------------|----------|----------|----------|----------|
| | 1996/97 | 1995/96 | 1994/95 | 1993/94 | 1992/93 |
| REVENUES | | | | | |
| Sale of electricity | | | | | |
| Residential | \$51,626 | \$51,845 | \$50,439 | \$47,433 | \$50,546 |
| Commercial | 63,115 | 60,979 | 60,051 | 57,547 | 58,243 |
| Industrial | 100,789 | 100,695 | 99,877 | 96,718 | 98,559 |
| Other | 3,164 | 3,207 | 2,768 | 2,674 | 3,267 |
| Other utilities | 5,074 | 5,285 | 7,240 | 14,150 | 9,376 |
| Billed revenue from the sale of electricity | 223,768 | 222,011 | 220,375 | 218,522 | 219,991 |
| Change in unbilled revenue | 4,530 | 667 | (1,015) | (625) | 25 |
| Total revenue from the sale of electricity | 228,298 | 222,678 | 219,360 | 217,897 | 220,016 |
| Provision for rate stabilization | 14,251 | 20,956 | 19,750 | 12,839 | 12,881 |
| Other (including interest income) | 6,586 | 9,914 | 8,422 | 8,847 | 5,762 |
| Total gross revenues | 249,135 | 253,548 | 247,532 | 239,583 | 238,659 |
| EXPENSES | | | | | |
| <i>(excluding depreciation and cancelled project costs)</i> | | | | | |
| Cost of purchased power | 141,120 | 127,839 | 128,926 | 136,602 | 138,228 |
| Fuel used for generation | 2,212 | 3,370 | 3,104 | 2,957 | 4,618 |
| Operations | 38,093 | 37,994 | 39,374 | 33,776 | 23,344 |
| Maintenance | 14,817 | 11,391 | 11,924 | 6,781 | 21,674 |
| Total operating expenses | 196,242 | 180,594 | 183,328 | 180,116 | 187,864 |
| NET REVENUES (a) | 52,893 | 72,954 | 64,204 | 59,467 | 50,795 |
| Parity Bond debt service requirements (b) | 19,649 | 20,763 | 20,726 | 19,567 | 21,020 |
| Deposits to Renewal and Replacement Account | 301 | 118 | 152 | 1,410 | 790 |
| SURPLUS REVENUES (c) | 32,943 | 52,073 | 43,326 | 38,490 | 28,985 |
| Qualified obligations purchase payments (d) | 11,058 | 11,058 | 10,920 | 7,784 | 5,320 |
| ERAN interest and related expenses | 804 | 845 | 777 | 594 | 566 |
| Net revenues after debt service payments | 21,081 | 40,170 | 31,629 | 30,112 | 23,099 |
| Transfers to Anaheim General Fund | 9,674 | 9,491 | 9,345 | 9,455 | 8,903 |
| BALANCE FOR OTHER PURPOSES | \$11,407 | \$30,679 | \$22,284 | \$20,657 | \$14,196 |
| Times parity bond debt service coverage (a/b) | 2.7 | 3.5 | 3.1 | 3.0 | 2.4 |
| Qualified obligation debt service coverage (c/d) | 3.0 | 4.7 | 4.0 | 4.9 | 5.4 |



WATER UTILITY Statistics

WATER OPERATING STATISTICS

| | 1996/97 | 1995/96 | 1994/95 | 1993/94 | 1992/93 |
|---|----------|----------|----------|----------|----------|
| WATER SUPPLY | | | | | |
| Water production (millions of gallons) | 5,885.9 | 5,821.6 | 7,057.9 | 8,131.5 | 7,427.3 |
| From Metropolitan Water District | 24% | 25% | 32% | 37% | 33% |
| Percent of total production | 18,884.3 | 17,254.6 | 15,003.0 | 14,050.5 | 14,807.0 |
| From water system wells | 76% | 75% | 68% | 63% | 67% |
| Percent of total production | 24,770.2 | 23,076.2 | 22,060.9 | 22,182.0 | 22,234.3 |
| Total production | | | | | |
| Capacity (gallons per minute) | | | | | |
| From Metropolitan Water District | 76,435 | 76,435 | 76,435 | 58,435 | 58,435 |
| From water system wells, average | 51,943 | 52,950 | 54,636 | 50,059 | 46,930 |
| Treatment plant capacity | 10,417 | 10,417 | 10,417 | 10,417 | 10,417 |
| Total Supply Capacity | 138,795 | 139,802 | 141,488 | 118,911 | 115,782 |
| Peak day distribution (millions of gallons) | 107.3 | 90.7 | 90.3 | 98.3 | 98.9 |
| Average daily distribution (millions of gallons) | 67.5 | 64.6 | 59.9 | 60.9 | 61.3 |
| WATER USE | | | | | |
| Average Number of Meters | | | | | |
| Residential | 51,119 | 50,665 | 50,196 | 49,805 | 49,353 |
| Commercial/Industrial/Municipal | 6,211 | 6,130 | 6,108 | 6,065 | 6,101 |
| Other | 1,653 | 1,644 | 1,610 | 1,538 | 1,405 |
| Total meters - all classes | 58,983 | 58,439 | 57,914 | 57,408 | 56,859 |
| Millions of Gallons Sold | | | | | |
| Residential | 13,795 | 12,934 | 12,574 | 12,302 | 12,121 |
| Commercial/Industrial/Municipal | 9,144 | 8,608 | 7,989 | 8,108 | 8,478 |
| Other | 567 | 357 | 534 | 373 | 69 |
| Total sales - all classes | 23,506 | 21,899 | 21,097 | 20,783 | 20,668 |
| Andheim population served | 295,452 | 293,245 | 291,536 | 290,712 | 285,500 |
| Population served outside city (estimated) | 5,100 | 5,100 | 5,100 | 5,100 | 5,100 |
| Total population served | 300,552 | 298,345 | 296,636 | 295,812 | 290,600 |
| Average daily sales per capita (gallons) | 214 | 201 | 195 | 192 | 195 |
| GROWTH OF SYSTEM | | | | | |
| Active Wells | 28 | 29 | 31 | 29 | 29 |
| Reservoirs | 13 | 13 | 13 | 13 | 13 |
| Water storage capacity (millions of gallons) | | | | | |
| Treated | 85 | 85 | 84 | 84 | 84 |
| Untreated | 920 | 920 | 920 | 920 | 920 |
| Water mains (miles) | 765 | 764 | 759 | 747 | 734 |
| Fire hydrants | 7,496 | 7,496 | 7,377 | 7,340 | 7,261 |



WATER SYSTEM SALES COMPARISON

| | Residential | Commercial/ Industrial/Municipal | Other | All Classes |
|---|-------------|-------------------------------------|------------|----------------|
| REVENUE FROM THE SALE OF WATER (THOUSANDS) | | | | |
| Year ended June 30 | | | | |
| 1997 | \$23,750 | \$12,469 | \$1,663 | \$37,882 |
| 1996 | 21,722 | 11,188 | 1,372 | 34,282 |
| Increase (decrease) | \$2,028 | \$1,281 | \$291 | \$3,600 |
| Percent increase (decrease) | 9.3% | 11.4% | 21.2% | 10.5% |
| UNITS OF WATER SOLD (HUNDRED CUBIC FEET) | | | | |
| Year ended June 30 | | | | |
| 1997 | 18,443,116 | 12,224,252 | 758,581 | 31,425,949 |
| 1996 | 17,291,283 | 11,508,489 | 477,933 | 29,277,705 |
| Increase (decrease) | 1,151,833 | 715,763 | 280,648 | 2,148,244 |
| Percent increase (decrease) | 6.7% | 6.2% | 58.7% | 7.3% |
| AVERAGE BILLING PRICE PER (HUNDRED CUBIC FEET) | | | | |
| Year ended June 30 | | | | |
| 1997 | \$1.2877 | \$1.0200 | \$2.1923 | \$1.2054 |
| 1996 | 1.2562 | 0.9722 | 2.8707 | 1.1709 |
| Increase (decrease) | \$0.0315 | \$0.0478 | \$(0.6784) | \$0.0345 |
| Percent increase (decrease) | 2.5% | 4.9% | (23.6%) | 2.9% |
| AVERAGE NUMBER OF METERS | | | | |
| Year ended June 30 | | | | |
| 1997 | 51,119 | 6,211 | 1,653 | 58,983 |
| 1996 | 50,665 | 6,130 | 1,644 | 58,439 |
| Increase (decrease) | 454 | 81 | 9 | 544 |
| Percent increase (decrease) | 0.9% | 1.3% | 0.5% | 0.9% |
| AVERAGE ANNUAL USE BY METER IN UNITS OF HUNDRED CUBIC FEET | | | | |
| Year ended June 30 | | | | |
| 1997 | 361 | 1,968 | | |
| 1996 | 341 | 1,877 | | |
| Increase (decrease) | 20 | 91 | | |
| Percent increase (decrease) | 5.9% | 4.8% | | |

Amounts represent revenue excluding the change in unbilled revenue



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

| | (in thousands) | | | | |
|--|----------------|----------|----------|----------|----------|
| | 1996/97 | 1995/96 | 1994/95 | 1993/94 | 1992/93 |
| REVENUES | | | | | |
| Sale of water | | | | | |
| Residential | \$23,750 | \$21,722 | \$19,542 | \$18,565 | \$17,446 |
| Commercial/Industrial/Municipal | 12,469 | 11,188 | 9,661 | 9,350 | 8,541 |
| Other | 1,663 | 1,372 | 1,424 | 1,227 | 864 |
| Billed revenue from the sale of water | 37,882 | 34,282 | 30,627 | 29,142 | 26,851 |
| Change in unbilled revenue | (1,034) | 899 | 15 | (21) | 237 |
| Total revenue from the sale of water | 36,848 | 35,181 | 30,642 | 29,121 | 27,088 |
| Other (including interest income) | 2,118 | 2,422 | 1,981 | 2,348 | 2,143 |
| Total gross revenues | 38,966 | 37,603 | 32,623 | 31,469 | 29,231 |
| EXPENSES | | | | | |
| <i>(excluding depreciation and amortization)</i> | | | | | |
| Cost of water | 14,687 | 14,907 | 13,058 | 11,709 | 11,693 |
| Operations | 5,454 | 5,782 | 4,510 | 3,632 | 4,898 |
| Maintenance | 4,099 | 3,782 | 3,559 | 4,543 | 3,945 |
| Non-operating, net | 2,280 | - | - | - | - |
| Total expenses | 26,520 | 24,471 | 21,127 | 19,884 | 20,536 |
| NET REVENUES (a) | 12,446 | 13,132 | 11,496 | 11,585 | 8,695 |
| Parity Bond debt service requirements (b) | 2,462 | 2,457 | 2,463 | 2,190 | 2,202 |
| Deposits to Renewal and Replacement Account | (5) | 189 | 11 | 116 | 63 |
| SURPLUS REVENUES (c) | 9,989 | 10,486 | 9,022 | 9,279 | 6,430 |
| Qualified obligations purchase payments (d) | 1,037 | 1,037 | 1,037 | - | - |
| Net revenues after debt service payments | 8,952 | 9,449 | 7,985 | 9,279 | 6,430 |
| Transfers to Andrhein General Fund | 1,481 | 1,288 | 1,232 | 1,123 | 991 |
| BALANCE FOR OTHER PURPOSES | \$7,471 | \$8,161 | \$6,753 | \$8,156 | \$5,439 |
| Times Parity Bond debt service coverage (a/b) | 5.1 | 5.3 | 4.7 | 5.3 | 3.9 |
| Qualified Obligation debt service coverage (c/d) | 9.6 | 10.1 | 8.7 | N/A | N/A |





ELECTRIC UTILITY FUND BALANCE SHEETS

(in thousands)

June 30, 1997

June 30, 1996

ASSETS

Utility plant:

| | | |
|---------------------------------|-----------|-----------|
| Production | \$288,673 | \$285,642 |
| Transmission | 21,624 | 18,271 |
| Distribution | 208,223 | 188,818 |
| General | 53,815 | 48,211 |
| Gross utility plant | 572,335 | 540,942 |
| Less: accumulated depreciation | (167,635) | (151,311) |
| Net plant in service | 404,700 | 389,631 |
| Construction work in progress | 24,386 | 32,905 |
| Nuclear fuel, at amortized cost | 5,792 | 4,981 |
| Net utility plant | 434,878 | 427,517 |

Restricted assets:

| | | |
|-------------------------|---------|---------|
| Cash and investments | 132,405 | 123,907 |
| Other | 1,049 | 996 |
| Total restricted assets | 133,454 | 124,903 |

Unrestricted current assets:

| | | |
|-----------------------------------|--------|--------|
| Cash and investments | 31,143 | 58,181 |
| Accounts receivable | 32,197 | 27,864 |
| Accrued interest receivable | 2,224 | 2,609 |
| Materials and supplies | 5,040 | 5,080 |
| Prepaid purchased power | 2,577 | 2,372 |
| Total unrestricted current assets | 73,181 | 96,106 |

Other assets:

| | | |
|----------------------------------|--------|--------|
| Orange County receivable | 4,103 | 4,103 |
| Unamortized bond refunding costs | 21,438 | 19,742 |
| Unamortized project costs | 40 | 30 |
| Unamortized debt issuance costs | 1,938 | 1,485 |
| Total other assets | 27,519 | 25,360 |

| | | |
|---------------------|------------------|------------------|
| TOTAL ASSETS | \$669,032 | \$673,886 |
|---------------------|------------------|------------------|

(continued)

ELECTRIC UTILITY FUND BALANCE SHEETS

(in thousands)
 June 30, 1997 June 30, 1996

EQUITY AND LIABILITIES

Equity:

| | | |
|--------------------------------------|----------------|----------------|
| Beginning contribution by the City | \$14,629 | \$14,629 |
| Contributions in aid of construction | 45,181 | 40,818 |
| Retained earnings | 182,749 | 177,514 |
| Total equity | 242,559 | 232,961 |

Long-term liabilities:

| | | |
|---|----------------|----------------|
| Long-term debt obligation, less current | 308,574 | 317,177 |
| Decommissioning reserve | 30,983 | 25,444 |
| Total long-term liabilities | 339,557 | 342,621 |

Current liabilities (payable from restricted assets):

| | | |
|---|---------------|---------------|
| Current portion of long-term debt | 13,145 | 10,099 |
| Accounts payable | 1,090 | 2,543 |
| Accrued interest | 4,194 | 4,872 |
| Tax-exempt commercial paper | 21,900 | 23,900 |
| Total restricted current liabilities | 40,329 | 41,414 |

Current liabilities (payable from unrestricted current assets):

| | | |
|---|---------------|---------------|
| Current portion of long-term debt | 4,595 | 3,444 |
| Accounts payable and accrued expenses | 12,115 | 10,580 |
| Rate stabilization account | 24,565 | 37,177 |
| Customer deposits | 5,312 | 5,689 |
| Total unrestricted current liabilities | 46,587 | 56,890 |

Commitments and contingencies:

| | | |
|-------------------------------------|------------------|------------------|
| TOTAL EQUITY AND LIABILITIES | \$669,032 | \$673,886 |
|-------------------------------------|------------------|------------------|

See accompanying notes.



Audited Financial Statements (continued)

ELECTRIC UTILITY FUND STATEMENTS OF INCOME

| | (in thousands) | |
|-------------------------------|----------------|---------------|
| | YEAR ENDED | |
| | June 30, 1997 | June 30, 1996 |
| Operating revenues: | | |
| Sale of electricity | \$228,298 | \$222,678 |
| Rate stabilization adjustment | 14,251 | 20,956 |
| Other operating revenues | 1,646 | 2,845 |
| Total operating revenues | 244,195 | 246,479 |
| Operating expenses: | | |
| Cost of purchased power | 141,120 | 127,839 |
| Fuel used for generation | 2,212 | 3,370 |
| Operations | 38,093 | 37,994 |
| Maintenance | 14,817 | 11,391 |
| Depreciation | 18,081 | 16,558 |
| Canceled project costs | - | 743 |
| Total operating expenses | 214,323 | 197,895 |
| Operating income | 29,872 | 48,584 |
| Other income (expense): | | |
| Interest income | 4,940 | 7,069 |
| Interest expense | (19,903) | (21,864) |
| Total other income (expense) | (14,963) | (14,795) |
| Net income | \$ 14,909 | \$ 33,789 |

ELECTRIC UTILITY FUND STATEMENTS OF CHANGES IN RETAINED EARNINGS

| | (in thousands) | |
|--|----------------|---------------|
| | YEAR ENDED | |
| | June 30, 1997 | June 30, 1996 |
| Balance at beginning of year - previously reported | \$180,594 | \$155,724 |
| Adjustments (See Note 1) | (3,080) | (2,508) |
| Balance at beginning of year - restated | 177,514 | 153,216 |
| Net income for the year | 14,909 | 33,789 |
| Transfer to the General Fund of the City | (9,674) | (9,491) |
| Balance at end of year | \$ 182,749 | \$ 177,514 |

See accompanying notes

ELECTRIC UTILITY FUND STATEMENTS OF CASH FLOWS

(in thousands)

YEAR ENDED

| | June 30, 1997 | June 30, 1996 |
|---|---------------|---------------|
| Cash flows from operating activities: | | |
| Operating income | \$29,872 | \$48,584 |
| Adjustments to reconcile operating income to net cash provided by operations: | | |
| Depreciation | 18,081 | 16,558 |
| Amortization of debt issuance costs, discounts & refundings | 4,875 | 3,750 |
| Amortization of nuclear fuel | 2,212 | 2,806 |
| Amortization of canceled project costs | - | 743 |
| Increase in decommissioning reserve | 5,539 | 5,318 |
| Changes in assets and liabilities: | | |
| Current accounts receivable | (4,327) | (6,006) |
| Materials and supplies | 40 | (264) |
| Prepaid purchased power | (205) | (359) |
| Orange County receivable | - | 499 |
| Accounts payable and accrued expenses | 82 | 3,165 |
| Rate stabilization account | (12,612) | (18,609) |
| Customer deposits | (377) | 367 |
| Total adjustments | 13,308 | 7,968 |
| Net cash provided by operating activities | 43,180 | 56,552 |
| Cash flows from non-capital financing activities: | | |
| Transfer to the City's General Fund | (9,674) | (9,491) |
| Net cash used in non-capital financing activities | | |
| | (9,674) | (9,491) |
| Cash flows from capital and related financing activities: | | |
| Proceeds from borrowings | 120,395 | - |
| Principal reduction in debts | (130,587) | (14,124) |
| Capital expenditures | (24,318) | (33,715) |
| Nuclear fuel expenditures | (3,023) | (2,899) |
| Project costs | (10) | (79) |
| Interest paid | (20,581) | (21,511) |
| Issuance, refunding and discount cost on new financing | (3,238) | - |
| Contributions in aid of construction | 4,050 | 7,345 |
| Net cash used in capital and related financing activities | (57,312) | (64,983) |
| Cash flows from investing activities: | | |
| Purchase of investment securities | (35,212) | (101,172) |
| Proceeds from sale and maturity of investment securities | 37,993 | 78,134 |
| Interest received | 5,266 | 6,842 |
| Reduction in obligations under reverse repurchase agreements | - | (12,372) |
| Net cash provided by (used in) investing activities | 8,047 | (28,568) |
| Decrease in cash and cash equivalents | (15,759) | (46,490) |
| Cash and cash equivalents at beginning of year | 53,848 | 100,338 |
| Cash and cash equivalents at end of year | \$38,089 | \$53,848 |
| Cash and cash equivalents at end of year | \$38,089 | \$53,848 |
| Investments | 125,459 | 128,240 |
| Total cash and investments | \$163,548 | \$182,088 |
| Schedule of noncash financing and investing activities: | | |
| Contributions in aid of construction | \$1,046 | \$1,423 |

See accompanying notes.





NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Electric Utility Fund (the Electric Utility) of the City of Anaheim (the City) was established June 30, 1971, at which time the portion of the City's General Fund equity relating to 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 & 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 1997 and 1996, \$733,000 and \$694,000, respectively, was 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 are carried at cost or amortized cost, except for deferred compensation investments which are carried at fair value. The fair values of investments are estimated based on quoted market prices for those or similar investments. Additional information pertinent to the value of these investments is provided in Note 2. No loss is recorded when fair values decline below cost, as such declines are considered temporary. The City intends to either hold the investments until maturity or until fair values equal or exceed cost. 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 is made on a monthly basis.

Unbilled electric service charges are included in accounts receivable at year-end. Unbilled accounts receivable totaled \$13,810,000 and \$9,280,000 at June 30, 1997 and 1996, respectively.



\$15,355,000 and the payroll attributable to Electric Utility employees covered by PERS was \$12,658,000 and \$12,587,000 for the years ended June 30, 1997 and 1996, respectively.

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

NOTE 10 DEFERRED COMPENSATION

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

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, properly or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City, subject to the claims of the City's general creditors. Participants' rights under the plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The City believes it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

Recent legislation requires that a trust be established by January 1, 1999 for the exclusive benefit of eligible employees and their beneficiaries.

NOTE 11 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. Effective July 1, 1986, the City became self-insured. Costs relating to the litigation of claims are charged to expense as incurred.

NOTE 12 REFUNDS

Since fiscal year 1986, the Electric Utility has received refunds from SCE totaling \$139,066,000. These refunds have been placed in the RSA. At June 30, 1997 and 1996, total principal and interest in the RSA amounted to \$24,565,000 and \$37,177,000, 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.

NOTE 13 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 percent of the generation output of IPAs 1,600 megawatt two unit coal-fueled generating station (the Station) in central Utah. Unit 1 of the Station became available for commercial operation June 10, 1986. Unit 2 was commercially available May 1, 1987. Cost of construction of the Station and related transmission lines, including the Southern Transmission System (STS) from Utah to Southern California, was financed principally through sales of IPAs power supply revenue bonds and payments in aid of construction by SCPPA. The City has agreed with SCPPA to purchase rights to 17.6 percent 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 IPAs 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 will be considered a cost of purchased power. As of June 30, 1997 IPA has issued \$5.0 billion in revenue bonds and revenue bond anticipation notes to finance construction of the Station and SCPPA has issued \$1.2 billion in revenue bonds and revenue bond anticipation notes to finance payments in aid of construction.



Notes to Financial Statements *(continued)*

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

| Fiscal Year | Amount |
|-------------|---------------|
| 1998 | \$103,306,000 |
| 1999 | \$103,232,000 |
| 2000 | \$103,326,000 |
| 2001 | \$103,442,000 |
| 2002 | \$96,756,000 |

On July 1, 1988, the Certificate of Completion of the initial facilities of the Intermountain Power Project (IPP) was executed and as a result the surplus in IPA's Construction Fund was transferred to IPA's General Reserve Fund and will be allocated to the various participants based on the Plan for the Disposition of Surplus Funds. The Electric Utility's share of these surplus funds was approximately \$31 million, which the Electric Utility has used to reduce IPP purchased power costs.

Deregulation Legislation

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

Litigation

A number of claims and suits are pending against the City for alleged damages to persons and property and for other alleged liabilities arising out of matters usually incidental to the operation of a utility such as the electric system of the City. In the opinion of management, the exposure under these claims and suits would not materially affect the financial position of the Electric Utility as of June 30, 1997.

Capital Expenditures

The Electric Utility's budget for fiscal 1997-98 provides for capital expenditures of approximately \$31,867,000, of which \$6,823,000 is expected to be funded by bond proceeds and contributions in aid of construction.

NOTE 14 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. On May 2, 1995, the United States Bankruptcy Court (Bankruptcy Court), approved a Comprehensive Settlement Agreement entered into by and among the County, the Pool and a majority of the Pool Participants, of which the City was a part, which allowed the City to recover approximately 80% of its investment in the Pool and allowed certain classes of claims against the County (Settlement Secured Claims and Repayment Claims) for the balance of its investment.

Subsequently, in late 1995, an agreement (the Joint Agreement) was proposed and later accepted by a majority of the Pool Participants, providing for a funding source and settlement of the County bankruptcy, which allowed the County to emerge from bankruptcy in May 1996. The Joint Agreement provided that the Settlement Secured Claims and Repayment Claims, which are impaired classes of claims under the bankruptcy, would be made nonrecourse as against the County, and would be paid only from net litigation proceeds of pool-related litigation if and when recovered by the County from third-party defendants. In addition, under the Joint Agreement, net litigation proceeds from pool-related litigation would be distributed among the Pool Participants and the County in accordance with a complex formula. The Joint Agreement provided for the establishment of a \$50 million litigation fund to pay litigation costs incurred in pool-related litigation.

As the City's investment in the Pool was commingled for investment purposes, the receivable was allocated to all City funds based on each fund's November 30, 1994 cash balance. The Electric Utility's allocated non-recovered principal balance of the Pool, amounting to \$4,103,000 at June 30, 1997, is considered to be long-term in nature and is classified as "Orange County receivable."

The outcome of the pool-related litigation is not determinable and, therefore, the ultimate collectibility of the receivable cannot reasonably be estimated. However, in the opinion of the Electric Utility management, any nonrecovered claims will not materially affect the financial position of the Electric Utility.

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. To date, the Electric Utility has reserved \$30,983,000 as Anaheim's estimated share of the decommissioning cost of San Onofre. Based on a cost estimate completed by SCE and approved by the California Public Utility Commission (CPUC), the Electric Utility plans to set aside approximately \$4 million per year to fund this obligation. Decommissioning is expected to commence around the year 2013.

Debt Issuance Costs

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

Bond Refunding Costs

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

Vacation and Sick Pay

Vacation and sick pay for all City employees are paid by the General Benefits and Insurance Fund of the City. The General Benefits and Insurance Fund is reimbursed through payroll charges to the Electric Utility based on estimates of benefits to be earned during the year. Vested vacation and sick pay benefits are accrued in the General Benefits and Insurance Fund and amounted to \$1,164,000 and \$999,000 for the Electric Utility at June 30, 1997 and 1996, respectively.

Reclassifications

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

Restatement of Retained Earnings

The Electric Utility has adjusted and restated beginning retained earnings and long-term debt as of July 1, 1995. The adjustment accounts for the accretion on capital appreciation bonds of \$3,080,000. Of this amount, \$572,000 represents amortization of the accretion for the year ended June 30, 1996 which has been recorded as an increase in interest expense.

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.

New Accounting Pronouncements

In March 1997, the GASB issued Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." For governmental entities, such as the Electric Utility, GASB 31 establishes fair value standards for investments in (a) participating interest-earning investment contracts, (b) external investment pools, (c) open-end funds, (d) debt securities, and (e) equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values.

The Electric Utility is required to adopt this new standard in connection with the organization's 1998 financial statements, and in management's opinion this adoption will not have a material effect on the Electric Utility's financial condition.



NOTE 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.

Statutes (Govt. Codes 53600 et al, 16429.1 and 53684), as further limited by the City's Investment Policy, authorize the City to invest in obligations of the U.S. Government, Federal Agencies, Medium Term Notes, Certificates of Deposit, Bankers Acceptances, Commercial Paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, Local Agency Investment Fund (State Pool), County Pools, Repurchase Agreements, Reverse Repurchase Agreements, Mutual Funds and Collateralized Negotiable Instruments.

Classification of Credit Risk

Cash and 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.

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

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

| | |
|---|---------------|
| Cash and Investments pooled with the City Treasurer | \$94,839,000 |
| Investments held with Trustee | 68,709,000 |
| | \$163,548,000 |

Cash and investments are recorded on the Electric Utility Fund Balance Sheet as follows:

| | |
|--|---------------|
| Restricted assets - Cash and Investments | \$132,405,000 |
| Current assets - Cash and Investments | 31,143,000 |
| | \$163,548,000 |

At June 30, 1997, cash and investments were categorized as follows:

| | Category | | | Uncategorized | Carrying Amount | Market Value |
|----------------------------------|--------------|---|---|---------------|-----------------|---------------|
| | 1 | 2 | 3 | | | |
| Investments held with Trustee | | | | | | |
| U.S. Government securities | \$26,224,000 | - | - | \$ - | \$26,224,000 | \$27,213,000 |
| Mutual funds | - | - | - | 2,226,000 | 2,226,000 | 2,226,000 |
| Guaranteed investment contracts | - | - | - | 40,259,000 | 40,259,000 | 40,259,000 |
| Cash and investments pooled with | | | | | | |
| City Treasurer | - | - | - | 94,839,000 | 94,839,000 | 94,697,000 |
| | \$26,224,000 | - | - | \$137,324,000 | \$163,548,000 | \$164,395,000 |

Investments held with Trustee

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

NOTE 3 OPERATING EXPENSES

Operating expenses shared with the Water Utility amounted to \$11,970,000 and \$12,603,000 for the fiscal years ended June 30, 1997 and 1996, respectively, of which \$9,576,000 and \$10,082,000, 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.

NOTE 4 UNAMORTIZED PROJECT COSTS

Unamortized project costs represent advance payments made to participating agencies for preliminary engineering and environmental impact studies for the related projects.

NOTE 5 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 percent ownership interest in



San Onofre Nuclear Generating Station (SONGS), Units 2 and 3, and subsequently ownership was later increased to 3.16 percent by agreement of the parties. In the settlement agreement, SCE agreed to provide the necessary transmission service to deliver the output of SONGS to Anaheim. 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 percent; San Diego Gas & Electric Company, 20.00 percent; and the City of Riverside 1.79 percent. Maintenance and operation of SONGS remain the responsibility of SCE, as operating agent for the City.

The Electric Utility's cumulative share of construction costs, which amounted to \$196,178,000 at June 30, 1997, was included in utility plant. The Electric Utility recorded depreciation related to SONGS of \$7,474,000 and \$6,729,000, for the fiscal years ended June 30, 1997 and 1996, respectively. The Electric Utility made provisions during fiscal years 1997 and 1996 for disposal costs of spent nuclear fuel of \$0 and \$564,000, respectively, and for future decommissioning costs (Note 1) of \$3,008,000 and \$3,797,000, respectively. Decommissioning costs along with the Electric Utility's share of SONGS operating costs have been included in operating expenses.

NOTE 7 LONG-TERM DEBT

Long-term debt consists of the following:

Electric Revenue Bonds, Issue of 1986, TIC 7.01%, dated March 1, 1985, sold March 4, 1986 in the amount of \$129,275,000, of which (1) \$38,970,000 serial bonds at rates of 6.60% to 6.90% maturing through October 1, 2001, (2) \$30,665,000 term bonds at rate of 5.75% maturing through October 1, 2004, and (3) \$37,885,000 term bonds at rate of 5.75% maturing through October 1, 2007. These bonds were advance refunded on October 31, 1996.

Electric Revenue Bonds, Second Issue of 1986, TIC 6.77% dated October 15, 1986, sold November 25, 1986 in the amount of \$77,780,000, of which (1) \$18,135,000 serial bonds at rate of 6.50% maturing from October 1, 1999 through 2002, and \$30,150,000 term bonds at rate of 6.75% maturing through October 1, 2007, were advance refunded on June 1, 1993, and (2) \$7,500,000 serial bonds at rates of 6.30% to 6.40% maturing from October 1, 1997 through 1998. These bonds were advance refunded on October 31, 1996.

Electric Revenue Bonds, Issue of 1991, dated and sold May 29, 1991 in the amount of \$3,434,000, at rate of 6.50%, mature serially from October 1, 1999 to October 1, 2004 in annual principal installments ranging from \$135,500 to \$730,000. The total debt service is \$4,299,000 to maturity.

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 purchase price was approximately \$56,000,000, including insurance and a portion of the coal inventory.

NOTE 6 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 and construction costs related to the undergrounding of facilities. The balance outstanding at June 30, 1997 and 1996 totaled \$21,900,000 and \$23,900,000, respectively. The interest rates on this debt at June 30, 1997, ranged between 3.50 percent and 3.80 percent with maturities ranging from 10 to 136 days. The Electric Utility continues to maintain a \$28,000,000 revolving credit agreement, which can be used in the event that the commercial paper cannot be refinanced as it matures. During fiscal year 1997, there were no amounts borrowed from the revolving credit agreement.

| | June 30, 1997 | June 30, 1996 |
|--|---------------|---------------|
| | \$ — | \$113,800,000 |
| | — | 10,940,000 |
| | 3,318,000 | 3,343,000 |



Notes to Financial Statements (continued)

| Long-term debt consists of the following: | June 30, 1997 | June 30, 1996 |
|---|--------------------|--------------------|
| Electric Revenue Bonds, Issue of 1993, TIC 5.07%, dated June 1, 1993, sold June 23, 1993, in the amount of \$60,700,000. The remaining principal of \$54,275,000, at rates ranging from 4.30% to 5.10%, mature serially through October 1, 2007 in annual principal installments ranging from \$790,000 to \$6,615,000. The total debt service is \$71,978,000 to maturity. | 54,275,000 | 55,025,000 |
| Anaheim Public Financing Authority Revenue Bonds, Issue of 1993, TIC 5.68%, dated June 1, 1993, sold June 30, 1993, in the amount of \$71,300,000. The remaining principal includes: (1) \$43,860,000 at rates ranging from 5.00% to 5.55%, mature serially through October 1, 2013 in annual principal installments ranging from \$335,000 to \$5,555,000, (2) \$7,115,000 at rates of 5.60% are term bonds maturing through October 1, 2017 subject to mandatory redemption from October 1, 2014 to October 1, 2016, in annual principal installments ranging from \$2,205,000 to \$2,540,000, and (3) \$19,425,000 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 \$2,725,000 to \$3,790,000. The total debt service is \$128,140,000 to maturity. | 70,400,000 | 70,715,000 |
| Anaheim Public Financing Authority Revenue Bonds, Second Issue of 1993, TIC 5.80%, dated July 1, 1993, sold August 12, 1993 in the amount of \$62,810,000. The remaining principal includes: (1) \$3,505,000 at rates ranging from 4.50% to 5.40%, mature serially through October 1, 2009 subject to optional redemption on or after October 1, 2003, in annual principal installments ranging from \$120,000 to \$485,000, and (2) \$57,720,000 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 \$45,000 to \$6,690,000. The total debt service is \$131,734,000 to maturity. | 61,225,000 | 61,735,000 |
| Electric Revenue Bonds, Issue of 1994, TIC 5.69%, dated July 1, 1994, sold August 3, 1994 in the amount of \$5,280,000 issued by Financing Authority for Resource Efficiency of California (FARECal), at rates ranging from 4.60% to 5.90% mature serially July 1, 1997 through 2010 subject to optional redemption on or after July 1, 2004, in annual principal installments ranging from \$325,000 to \$585,000. The total debt service is \$7,199,000 to maturity. | 5,280,000 | 5,280,000 |
| Electric Revenue Bonds, Issue of 1996, TIC 4.77%, dated October 1, 1996, sold October 31, 1996, in the amount of \$95,395,000 at rates ranging from 4.25% to 5.00%, mature serially to October 1, 2007, in annual principal installments ranging from \$10,045,000 to \$13,565,000. The total debt service is \$113,592,000 to maturity. | 95,395,000 | - |
| Total revenue bond debt | 289,893,000 | 320,838,000 |
| Note payable to Internal Service Fund of the City, 8.95%, issued October 13, 1984, in the amount of \$1,342,000, the remaining annual principal and interest payments ranging from \$27,000 to \$145,000 through October 31, 2003. The total debt service is \$880,000 to maturity. | 674,000 | 752,000 |
| Electric System Certificates of Participation (Combustion Turbine Peaking Plant), TIC 7.31%, dated September 15, 1989, sold October 12, 1989 in the amount of \$44,336,145.10, of which \$25,395,000 was advance refunded on June 1, 1993. The remaining principal of \$18,730,000, at rates ranging from 6.70% to 7.20%, mature through October 1, 2006 in annual principal installments ranging from \$2,180,000 to \$2,845,000. The total debt service is \$19,041,000 to maturity. | 18,730,000 | 20,775,000 |

Long-term debt consists of the following:

| | June 30, 1997 | June 30, 1996 |
|--|----------------------|----------------------|
| Electric System Certificates of Participation (Public Utilities Building), TIC 7.15%, dated November 1, 1990, sold November 12, 1990 in the amount of \$41,605,000, of which \$40,240,000 was advance refunded on June 1, 1993. The remaining principal of \$1,150,000, at rates ranging from 6.20% to 6.50%, mature through October 1, 2001 in annual principal installments ranging from \$185,000 to \$395,000. The total debt service is \$1,320,000 to maturity. | 1,150,000 | 1,275,000 |
| Electric System Certificates of Participation, Issue of 1997, TIC 5.92%, dated May 1, 1997, sold May 13, 1997 in the amount of \$25,000,000 issued by Financing Authority for Resource Efficiency of California (FARECal), of which (1) \$10,110,000 at rates ranging from 4.50% to 6.00%, mature serially through April 1, 2015 in annual principal installments ranging from \$355,000 to \$855,000, but the certificates maturing after April 1, 2012 are subject to optional redemption on or after April 1, 2007, (2) \$1,860,000 term certificates at rate of 5.50% are maturing through April 1, 2017 in annual principal installments ranging from \$905,000 to \$955,000 and (3) \$5,620,000 term certificates at rate of 5.625% are maturing April 1, 2022 in annual principal installments ranging from \$1,005,000 to \$1,250,000, and (4) \$7,410,000 term certificates at rate of 5.75% are maturing through April 1, 2027 in annual principal installments ranging from \$1,405,000 to \$1,575,000. The total debt service is \$52,265,000 to maturity. | 25,000,000 | - |
| Total other debt | 45,554,000 | 22,802,000 |
| Total debt | 335,447,000 | 343,640,000 |
| Less: current portion | (17,740,000) | (13,543,000) |
| Less: bond discounts | (9,133,000) | (12,920,000) |
| Total long-term debt | \$308,574,000 | \$317,177,000 |

Annual debt service requirements at June 30, 1997 to maturity are as follows:

| Fiscal Year | Revenue Bond Debt | | | Other Debt | | | Total Debt Service |
|-------------|----------------------|----------------------|----------------------|---------------------|---------------------|---------------------|----------------------|
| | Principal | Interest | Total | Principal | Interest | Total | |
| 1998 | \$14,935,000 | \$14,552,000 | \$29,487,000 | \$2,805,000 | \$1,581,000 | \$4,386,000 | \$33,873,000 |
| 1999 | 15,555,000 | 13,882,000 | 29,437,000 | 3,048,000 | 1,555,000 | 4,603,000 | 34,040,000 |
| 2000 | 19,341,000 | 13,082,000 | 32,423,000 | 813,000 | 1,433,000 | 2,246,000 | 34,669,000 |
| 2001 | 20,175,000 | 12,160,000 | 32,335,000 | 918,000 | 1,383,000 | 2,301,000 | 34,636,000 |
| 2002 | 18,660,000 | 11,252,000 | 29,912,000 | 3,394,000 | 1,342,000 | 4,736,000 | 34,648,000 |
| Thereafter | 201,227,000 | 102,121,000 | 303,348,000 | 34,576,000 | 20,658,000 | 55,234,000 | 358,582,000 |
| | \$289,893,000 | \$167,049,000 | \$456,942,000 | \$45,554,000 | \$27,952,000 | \$73,506,000 | \$530,448,000 |

Interest costs of \$1,717,000 and \$1,728,000 have been capitalized to utility plant for the fiscal years ended June 30, 1997 and 1996, 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, 1997 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.



Notes to Financial Statements (continued)

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

| | June 30, 1997 | June 30, 1996 |
|--|---------------|---------------|
| Held by Fiscal Agent: | | |
| Bond Reserve Fund | \$16,725,000 | \$34,042,000 |
| Bond Service Fund | 513,000 | 140,000 |
| Bond Construction Fund | 24,262,000 | 3,169,000 |
| Decommissioning Reserve | 27,209,000 | 21,484,000 |
| Certificates of Participation Proceeds | - | 2,351,000 |
| Held by City Treasurer: | | |
| Bond Service Account | 17,617,000 | 15,025,000 |
| Renewal and Replacement Account | 24,681,000 | 23,590,000 |
| Decommissioning and Fuel Reserves | 20,275,000 | 22,632,000 |
| Restricted Bond Proceeds | 922,000 | 1,344,000 |
| Restricted Rebate | 201,000 | 130,000 |
| | \$132,405,000 | \$123,907,000 |

The Electric Utility's interest and other finance charges, except for capitalized interest, for the years ended June 30, 1997 and 1996, were \$19,903,000 and \$21,864,000, respectively.

NOTE 8 ADVANCED REFUNDING

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

The proceeds received from the sales of the bond issues were used to refund the outstanding bond issues or to deposit in an irrevocable escrow fund held by the Escrow Agent, an amount which, when combined with interest earnings thereon, is at least equal to the sum of the outstanding principal amount of the bonds, the interest to accrue thereon to and including the first optional redemption date thereof, and the premium required to redeem the bonds outstanding on such date. Accordingly, the trust account assets and the liability for defeased bonds are not included in the Electric Utility's financial statements. These transactions defeased the outstanding bond issues with a resultant reduction in annual debt service during the term of the issues.

| Issue | Principal Amount Outstanding June 30, 1997 | Principal Amount Refunded | Net Present Value Savings |
|------------------------------------|---|---------------------------------|---------------------------------|
| 1993 APFA Bond Refunding | | | |
| 1989 Certificates of Participation | \$25,395,000 | \$25,395,000 | \$ 439,000 |
| 1990 Certificates of Participation | 40,240,000 | 40,240,000 | 1,619,000 |
| | \$65,635,000 | \$65,635,000 | \$2,058,000 |

On October 31, 1996, the Electric Utility issued \$95,395,000 in Electric Revenue Bonds, Issue of 1996, to advance refund \$107,520,000 in Electric Revenue Bonds, Issue of 1986 and \$7,500,000 in Electric Revenue Bonds, Second Issue of 1986. Over the life of the 1996 bonds, the Electric Utility reduced debt service by \$42,611,000 with a net present value savings of approximately \$6,024,000.

NOTE 9 PENSION PLAN

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

As a condition of participation, employees are required to contribute a percentage 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's total payroll was \$15,248,000 and

INDEPENDENT AUDITORS' REPORT

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 1997 and 1996, and the related statements of income, changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Electric Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Utility Fund of the City of Anaheim, California, as of June 30, 1997 and 1996, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

Ernst + Young LLP

October 3, 1997
Orange County, California





WATER UTILITY FUND BALANCE SHEETS

(in thousands)

| | June 30, 1997 | June 30, 1996 |
|-----------------------------------|------------------|------------------|
| ASSETS | | |
| Utility plant: | | |
| Land | \$1,554 | \$1,554 |
| Source of water supply | 20,802 | 20,802 |
| Pumping plant | 28,741 | 28,546 |
| Transmission and distribution | 151,326 | 148,255 |
| General plant | 2,712 | 2,712 |
| Gross utility plant | 205,135 | 201,869 |
| Less: accumulated depreciation | (38,945) | (35,167) |
| Construction work in progress | 10,530 | 8,267 |
| Net utility plant | 176,720 | 174,969 |
| Restricted assets: | | |
| Cash and investments | 16,087 | 16,118 |
| Accounts receivable | 208 | 140 |
| Accrued interest receivable | 220 | 200 |
| Total restricted assets | 16,515 | 16,458 |
| Unrestricted current assets: | | |
| Cash and investments | 8,551 | 5,847 |
| Accounts receivable | 10,597 | 9,411 |
| Accrued interest receivable | 289 | 178 |
| Materials and supplies | 195 | 237 |
| Purchased water in storage | 371 | 337 |
| Total unrestricted current assets | 20,003 | 16,010 |
| Other assets: | | |
| Orange County receivable | 517 | 517 |
| MWDOC pipeline receivable | 982 | 1,054 |
| Unamortized bond refunding cost | 1,647 | 1,832 |
| Unamortized debt issuance cost | 316 | 354 |
| Total other assets | 3,462 | 3,757 |
| TOTAL ASSETS | \$216,700 | \$211,194 |

(continued)

WATER UTILITY FUND BALANCE SHEETS

(in thousands)

June 30, 1997 June 30, 1996

EQUITY AND LIABILITIES

Equity:

| | | |
|--------------------------------------|----------|----------|
| Beginning contribution by the City | \$19,280 | \$19,280 |
| Contributions in aid of construction | 78,407 | 77,366 |
| Retained earnings | 67,351 | 61,619 |
| Total equity | 165,038 | 158,265 |

Long-term liabilities:

| | | |
|---|--------|--------|
| Long-term debt obligation, less current | 43,513 | 44,767 |
| Capital lease obligation, less current | 1,182 | 1,293 |
| Total long-term liabilities | 44,695 | 46,060 |

Current liabilities (payable from restricted assets):

| | | |
|--------------------------------------|-------|-------|
| Current portion of long-term debt | 808 | 768 |
| Accounts payable | 101 | 299 |
| Accrued interest | 646 | 667 |
| Customer deposits | 885 | 787 |
| Total restricted current liabilities | 2,440 | 2,521 |

Current liabilities (payable from unrestricted current assets):

| | | |
|--|-------|-------|
| Current portion of long-term debt | 517 | 490 |
| Current portion of capitalized lease | 111 | 107 |
| Accounts payable and accrued expenses | 3,670 | 3,627 |
| Customer deposits | 229 | 124 |
| Total unrestricted current liabilities | 4,527 | 4,348 |

Commitments and contingencies:

| | | |
|--|---|---|
| | - | - |
|--|---|---|

| | | |
|-------------------------------------|------------------|------------------|
| TOTAL EQUITY AND LIABILITIES | \$216,700 | \$211,194 |
|-------------------------------------|------------------|------------------|

See accompanying notes



WATER UTILITY FUND STATEMENTS OF INCOME

| | (in thousands) | |
|-------------------------------|----------------|---------------|
| | YEAR ENDED | |
| | June 30, 1997 | June 30, 1996 |
| Operating revenues: | | |
| Sale of water | \$36,848 | \$35,181 |
| Other operating revenues | 694 | 1,322 |
| Total operating revenues | 37,542 | 36,503 |
| Operating expenses: | | |
| Cost of water | 14,687 | 14,907 |
| Operations | 5,454 | 5,782 |
| Maintenance | 4,099 | 3,782 |
| Depreciation | 2,991 | 2,547 |
| Total operating expenses | 27,231 | 27,018 |
| Operating income | 10,311 | 9,485 |
| Other income (expense): | | |
| Interest income | 1,424 | 1,100 |
| Interest expense | (2,242) | (2,058) |
| Non-operating expense, net | (2,280) | - |
| Total other income (expenses) | (3,098) | (958) |
| Net income | \$7,213 | \$8,527 |

WATER UTILITY FUND STATEMENTS OF CHANGES IN RETAINED EARNINGS

| | (in thousands) | |
|--|----------------|---------------|
| | YEAR ENDED | |
| | June 30, 1997 | June 30, 1996 |
| Balance at beginning of year | \$61,619 | \$54,380 |
| Net income for the year | 7,213 | 8,527 |
| Transfer to the General Fund of the City | (1,481) | (1,288) |
| Balance at end of year | \$67,351 | \$61,619 |

See accompanying notes

WATER UTILITY FUND STATEMENTS OF CASH FLOWS

| | (in thousands) | |
|---|----------------|---------------|
| | YEAR ENDED | |
| | June 30, 1997 | June 30, 1996 |
| Cash flows from operating activities: | | |
| Operating income | \$10,311 | \$9,485 |
| Adjustments to reconcile operating income to net cash provided by operations: | | |
| Depreciation | 2,991 | 2,547 |
| Amortization of debt issuances costs, discounts and refundings | 293 | 300 |
| Changes in assets and liabilities: | | |
| Current accounts receivable | (1,254) | (2,929) |
| Orange County receivable | - | 42 |
| MWDOC pipeline | 72 | 69 |
| Materials and supplies | 42 | (29) |
| Purchased water in storage | (34) | 485 |
| Accounts payable and accrued expenses | (155) | (1,498) |
| Customer deposits | 203 | 159 |
| Total adjustments | 2,158 | (854) |
| Net cash provided by operating activities | 12,469 | 8,631 |
| Cash flows from non-capital financing activities: | | |
| Transfer to the City's General Fund | (1,481) | (1,288) |
| Non-operating expense | (2,280) | - |
| Net cash used in non-capital financing activities | (3,761) | (1,288) |
| Cash flows from capital and related financing activities: | | |
| Capital expenditures | (5,160) | (5,942) |
| Principal reduction in debts and capitalized lease | (1,364) | (1,320) |
| Interest paid | (2,263) | (2,076) |
| Contributions in aid of construction | 1,459 | 581 |
| Net cash used in capital and related financing activities | (7,328) | (8,757) |
| Cash flows from investing activities: | | |
| Purchase of investment securities | (9,098) | (14,366) |
| Proceeds from sale and maturity of investment securities | 4,247 | 8,174 |
| Interest received | 1,293 | 1,032 |
| Reduction in obligations under reverse repurchase agreements | - | (1,375) |
| Net cash used in investing activities | (3,558) | (6,535) |
| Decrease in cash and cash equivalents | (2,178) | (7,949) |
| Cash and cash equivalents at beginning of year | 7,272 | 15,221 |
| Cash and cash equivalents at end of year | \$5,094 | \$7,272 |
| Cash and cash equivalents at end of year | \$5,094 | \$7,272 |
| Investments | 19,544 | 14,693 |
| Total cash and investments | \$24,638 | \$21,965 |
| Schedule of noncash financing and investing activities: | | |
| Contributions in aid of construction | \$1,059 | \$1,859 |

See accompanying notes.





NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Utility Plant and Depreciation

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

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

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

Depreciation on contributed assets is charged directly to contributions in aid of construction. During fiscal years 1997 and 1996, \$1,477,000 and \$1,458,000, respectively, was 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 are carried at cost or amortized cost, except for deferred compensation investments which are carried at fair value. The fair values of investments are estimated based on quoted market prices for those or similar investments. Additional information pertinent to the value of these investments is provided in Note 2. No loss is recorded when fair values decline below cost, as such declines are considered temporary. The City intends to either hold the investments until maturity or until fair values equal or exceed cost. 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 \$2,550,000 and \$3,584,000 at June 30, 1997 and 1996, 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 \$418,000 and \$341,000 for the Water Utility at June 30, 1997 and 1996, 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.

Reclassifications

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

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.

New Accounting Pronouncements

In March 1997, the GASB issued Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." For governmental entities, such as the Water Utility, GASB 31 establishes fair market value standards for investments in (a) participating interest-earning investment contracts, (b) external investment pools, (c) open-end funds, (d) debt securities, and (e) equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values.

The Water Utility is required to adopt this new standard in connection with the organization's 1998 financial statements, and in management's opinion this adoption will not have a material effect on the Water Utility's financial condition.

NOTE 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.

Statutes (Govt. Codes 53600 et al, 16429.1 and 53684), as further limited by the City's Investment Policy, authorize the City to invest in obligations of the U.S. Government, Federal Agencies, Medium Term Notes, Certificates of Deposit, Bankers Acceptances, Commercial Paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, Local Agency Investment Fund (State Pool), County Pools, Repurchase Agreements, Reverse Repurchase Agreements, Mutual Funds and Collateralized Negotiable Instruments.

Classification of Credit Risk

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

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

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

| | |
|-------------------------------|--------------|
| Cash and Investments pooled | |
| with City Treasurer | \$20,238,000 |
| Investments held with Trustee | 4,400,000 |
| | <hr/> |
| | \$24,638,000 |

Cash and investments are recorded on the Water Utility Fund Balance Sheet as follows:

| | |
|--|--------------|
| Restricted assets - Cash and Investments | \$16,087,000 |
| Current assets - Cash and Investments | 8,551,000 |
| | <hr/> |
| | \$24,638,000 |



Notes to Financial Statements (continued)

At June 30, 1997, cash and investments were categorized as follows:

| | Category | | | Uncategorized | Carrying Amount | Market Value |
|--|-------------|---|---|---------------|-----------------|--------------|
| | 1 | 2 | 3 | | | |
| Investments held with Trustee | | | | | | |
| Repurchase agreements | \$2,463,000 | - | - | \$ - | \$ 2,463,000 | \$ 2,463,000 |
| Guaranteed investment contracts | - | - | - | 1,937,000 | 1,937,000 | 1,937,000 |
| Cash and investment pooled with | | | | | | |
| City Treasurer | - | - | - | 20,238,000 | 20,238,000 | 20,208,000 |
| | \$2,463,000 | - | - | \$22,175,000 | \$24,638,000 | \$24,608,000 |

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. 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.

NOTE 3 OPERATING EXPENSES

Operating expenses shared with the Electric Utility amounted to \$11,970,000 and \$12,603,000 for the fiscal years ended June 30, 1997 and 1996, respectively, of which \$2,394,000 and \$2,521,000, 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.

NOTE 4 LONG-TERM DEBT

Long-term debt consists of the following:

| | June 30, 1997 | June 30, 1996 |
|--|---------------|---------------|
| Water Revenue Bonds, 1986 Series, TIC 7.048%, dated March 1, 1986, sold March 31, 1986 in the amount of \$7,160,000, of which \$1,170,000 maturing April 1, 1999 through 2001 were advance refunded on June 1, 1993. The remaining bonds (1) mature April 1, 1998 in a principal installment of \$345,000 at a rate of 6.7%, and (2) \$4,325,000 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 \$445,000 to \$650,000. Total remaining debt service is \$6,879,000 to maturity. | \$4,670,000 | \$4,995,000 |
| Water Revenue Bonds, 1988 Series, TIC 7.3765%, dated January 1, 1988, sold January 12, 1988 in the amount of \$5,000,000, of which \$3,830,000 maturing October 1, 1999 through 2012 were advance refunded on June 1, 1993. The remaining bonds mature to October 1, 1998 in annual principal installments of \$145,000 and \$155,000 at rates of 6.6% and 6.75%. Total remaining debt service is \$320,000 to maturity. | 300,000 | 435,000 |
| Water Revenue Bonds, 1990 Series, TIC 7.0227%, dated July 1, 1990, sold August 14, 1990 in the amount of \$9,000,000, of which \$7,010,000 maturing October 1, 2002 through 2016 were advance refunded on June 1, 1993. The remaining bonds mature serially to October 1, 2001 in annual principal installments of \$200,000 to \$260,000 at rates ranging from 6.35% to 6.7%. Total remaining debt service is \$1,350,000 to maturity. | 1,150,000 | 1,340,000 |
| Water Revenue Bonds, 1992 Series, TIC 5.9088%, dated March 15, 1992, sold April 9, 1992 in the amount of \$5,740,000 maturing serially to July 1, 2005. The annual principal installments range from \$380,000 to \$600,000 at rates ranging from 5.1% to 6.1%. Total remaining debt service is \$5,567,000 to maturity. | 4,320,000 | 4,685,000 |

Long-term debt consists of the following:

| | June 30, 1997 | June 30, 1996 |
|---|---------------------|---------------------|
| Water Revenue Bonds, 1993 Series, TIC 5.4734%, dated June 1, 1993, sold June 23, 1993 in the amount of \$13,545,000 maturing serially to October 1, 2016. The annual principal installments range from \$110,000 to \$970,000 at rates ranging from 4.1% to 5.5%. Total remaining debt service is \$20,728,000 to maturity. | 13,040,000 | 13,145,000 |
| Anaheim Public Financing Authority Revenue Bonds, Issue of 1994, TIC 5.231%, dated January 1, 1994, sold February 16, 1994, in the amount of \$20,000,000, of which (1) \$8,315,000 at rates ranging from 4.85% to 5.20%, mature serially through October 1, 2012, subject to optional redemption on or after April 1, 2004, in annual principal installments ranging from \$640,000 to \$1,700,000, and (2) \$11,685,000 term bonds at a rate of 5.25% mature through October 1, 2019, subject to mandatory redemption from October 1, 2013 to October 1, 2019 in annual principal installments ranging from \$620,000 to \$2,625,000. Total remaining debt service is \$37,052,000 to maturity. | 20,000,000 | 20,000,000 |
| Total revenue bond debt | 43,480,000 | 44,600,000 |
| Note payable to Internal Service Fund of the City, 8.95%, issued October 13, 1984 in the amount of \$335,000, semi-annual principal and interest payments ranging from \$27,000 to \$29,000 through October 31, 2003. Total remaining debt service of \$219,000 to maturity. | 169,000 | 188,000 |
| Advances from the Orange County Water District, 3.5%, a partial installment under terms of a \$750,000 per Well Construction Program Agreement, dated April 18, 1990, for the construction of Wells 46, 47 and 49, semi-annual principal and interest installment payments of \$94,000 through July 31, 2010. Total remaining debt service of \$2,311,000 to maturity. | 1,861,000 | 1,981,000 |
| Total other debt | 2,030,000 | 2,169,000 |
| Total debt | 45,510,000 | 46,769,000 |
| Less: current portion | (1,325,000) | (1,258,000) |
| Less: unamortized bond discounts | (672,000) | (744,000) |
| Total long-term debt | \$43,513,000 | \$44,767,000 |



Notes to Financial Statements *(continued)*

Annual debt service requirements at June 30, 1997 to maturity are as follows:

| Fiscal Year | Revenue Bond Debt | | | Other Debt | | | Long-Term Term Debt |
|-------------|---------------------|---------------------|---------------------|--------------------|------------------|--------------------|------------------------|
| | Principal | Interest | Total | Principal | Interest | Total | |
| 1998 | \$1,180,000 | \$2,313,000 | \$3,493,000 | \$145,000 | \$77,000 | \$222,000 | \$3,715,000 |
| 1999 | 1,260,000 | 2,234,000 | 3,494,000 | 151,000 | 71,000 | 222,000 | 3,716,000 |
| 2000 | 1,330,000 | 2,166,000 | 3,496,000 | 159,000 | 65,000 | 224,000 | 3,720,000 |
| 2001 | 1,400,000 | 2,094,000 | 3,494,000 | 165,000 | 58,000 | 223,000 | 3,717,000 |
| 2002 | 1,465,000 | 2,027,000 | 3,492,000 | 173,000 | 51,000 | 224,000 | 3,716,000 |
| Thereafter | 36,845,000 | 17,582,000 | 54,427,000 | 1,237,000 | 178,000 | 1,415,000 | 55,842,000 |
| | \$43,480,000 | \$28,416,000 | \$71,896,000 | \$2,030,000 | \$500,000 | \$2,530,000 | \$74,426,000 |

Interest costs of \$537,000 and \$801,000 have been capitalized to utility plant for fiscal years ended June 30, 1997 and 1996, 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, 1997 require the establishment of a Bond Service Account accumulating monthly one-sixth of the interest which will become due and payable on the outstanding bonds within the next six months and by one-twelfth of the principal amount which will mature and be payable on the outstanding bonds within the 12 months.

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

| | June 30, 1997 | June 30, 1996 |
|---------------------------------|---------------------|---------------------|
| Held by Fiscal Agent: | | |
| Bond Reserve Fund | \$4,400,000 | \$4,400,000 |
| Bond Construction Fund | - | 560,000 |
| Held by City Treasurer: | | |
| Bond Service Account | 1,454,000 | 1,433,000 |
| Renewal and Replacement Account | 1,662,000 | 1,667,000 |
| Restricted Bond Proceeds | 8,571,000 | 8,058,000 |
| | \$16,087,000 | \$16,118,000 |

The Water Utility's interest and other finance charges, except for capitalized interest, for the years ended June 30, 1997 and 1996 were \$2,242,000 and \$2,058,000, respectively.

NOTE 5 ADVANCED REFUNDING

When conditions have warranted, the Water 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 Water Utility's financial statements. These transactions defeased the outstanding bond issues with a resultant reduction in annual debt service during the term of the issues.

| Issue | Principal Amount Outstanding June 30, 1997 | Principal Amount Refunded | Net Present Value Savings |
|-----------------------------------|---|---------------------------------|---------------------------------|
| 1993 Water Revenue Bond Refunding | | | |
| 1990 Water Revenue Bond | \$7,010,000 | \$7,010,000 | \$472,000 |

NOTE 6 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 percent share in the capacity of the Allen-McColloch Pipeline. Future minimum lease payments under this lease are as follows:

| Years ending June 30, | |
|-------------------------------|-------------|
| 1998 | \$176,000 |
| 1999 | 178,000 |
| 2000 | 179,000 |
| 2001 | 181,000 |
| 2002 | 182,000 |
| Thereafter | 747,000 |
| | 1,643,000 |
| Less interest | (350,000) |
| Future minimum lease payments | \$1,293,000 |
| Current portion | \$ 111,000 |
| Long-term portion | 1,182,000 |
| | \$1,293,000 |

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



NOTE 7 PENSION PLAN

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

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

The Water Utility's total payroll was \$5,648,000 and \$4,808,000 and the payroll attributable to Water Utility employees covered by PERS was \$4,688,000 and \$3,941,000 for the years ended June 30, 1997 and 1996, respectively.

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

NOTE 8 DEFERRED COMPENSATION

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

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City, subject to the claims of the City's general creditors. Participants' rights under the plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The City believes it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

Recent legislation requires that a trust be established by January 1, 1999 for the exclusive benefit of eligible employees and their beneficiaries.

NOTE 9 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. Effective July 1, 1986, the City became self-insured. Costs relating to the litigation of claims are charged to expense as incurred.

NOTE 10 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, 1997.

Anaheim Hills Area Land Movement

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

Capital Expenditures

The Water Utility's budget for fiscal 1997-98 provides for capital expenditures of approximately \$9,235,000, of which \$5,244,000 is expected to be funded by bond proceeds and contributions in aid of construction.

ANAHEIM PUBLIC UTILITIES DEPARTMENT EMPLOYEES

ACUNA, ARMANDO
 ADAMS, DORIS C.
 AGHIJANY, EDWARD K.
 ALARIO, EDWARD G.
 ALBRIGHT, STEPHEN
 ALGARME, DAVID P.
 ALLEN, BERNARD K JR
 ALLEN, TIM W.
 ALVAREZ, NORMA
 AMATO, JAMES F.
 AMES, LOUIS E.
 AMIRY, AFKHAM A.
 ANDERSON, CAROL A.
 ANDERSON, STEVEN C.
 ANGHEL, GEORGETA
 ARAKAKI, YUSEI
 AREA, LYNN B.
 ARSENEAU, MARK R.
 ASKEY, STEVEN J.
 ASSIBEY, COREY O.
 ATIYA, VIOLA L.
 AVALOS, ABELARDO
 BACA, JOHN M.
 BALTES, MICHAEL J.
 BARLOW, LANA M.
 BARLOW, RANDY L.
 BARLOW, WAYNE J.
 BATCHMAN, JOHN W.
 BEASLEY, LA VAUGHN H.
 BEEBE, ROBERT J.
 BELK, THOMAS J.
 BELL, MICHAEL A.
 BENGOCHEA, RONALD D.
 BILLINGS, DAVE R.
 BJORKLUND, FLOYD B.
 BLACK, MICHAEL R.
 BLAIR, ROBERT
 BLANCO, PATRICK D.
 BOLLOM, ELDON W.
 BOOTHE, LARRY D.
 BOWEN, GRAHAM A.
 BOWERS, GERALD W.
 BOWMAN, BRUCE
 BRADLEY, RAYMOND S.
 BRIGGS, ROBERT D.
 BROCK, MAUREEN E.
 BROEKING, GREGORY A.
 BROWN, JOHN M.
 BUSHMAN, JOHN W.
 BUSTOS, CARLOS
 BUTERA, DAVID C.
 BUTRYN, BEATRICE A.
 BYROM, CHARLES
 CABANAYAN, EDGAR C.
 CALKINS, DONALD C.
 CAMPBELL, GEORGE C.
 CARR, ROBERT W.
 CASPER, MICHAEL E.
 CASTEEL, CINDY L.
 CASTELLON, RAMON P.
 CASTILLO, VIRGINIA
 CHAN, ANDY K.
 CHAPIN, GEORGE W.
 CHAVEZ, JOSE G.
 CHAVIRA, MAGDALIA Y.
 CONDON, JAMES R.
 CONNOR, THOMAS J.
 COOKE, TRACY W.
 COOLEY, STUART A.
 CORSON, GEORGE E.
 CORTEZ, EDERELL R.
 COSENTINO, WILLIAM J.
 COVER, MARIA M.
 CRABILL, DONNA E.
 CRAMER, DAVID S.
 CRAMER, RONALD W.
 CUPINO, JR, FIDEL G.
 CURRIER, ROBERT R.
 CURRY, DONALD D.
 DAVIDSON, DANA C.
 DAVIDSON, STEVEN M.
 DAVIS, ANTHONY C.
 DAVIS, CHARLES C.
 DAVIS, EDWARD J.
 DAVIS, JAMES B.
 DAVIS, ROBERT L.
 DAWSON, PETER E.
 DEGIDIO, JOHN L.
 DOMINGUEZ, RONALD W.
 DONALDSON, RONALD B.
 DORADO, MARIA D.
 DORADO, VICTOR M.
 DU COING, STEPHEN B.
 DU COING, WILLIAM F.
 DUBBERLY, AGNES K.
 DULEBOHN, JOHN T.
 DUMON, THOMAS E.
 DURBIN, BOBBY D.
 DYKES, DAVID M.
 ELLENBERGER, DENNIS H.
 ENTSMINGER, DAVID E.
 EPSTEIN, SHANA E.
 ERTEL, RODRICK L.
 ESPARZA, GABRIELLE M.
 ESPY, JULIE
 ESQUIVEL, MARIA A.
 ESTEBO, ANTHONY J.
 FARAONE, PATTI A.
 FAY, RONALD L.
 FELICIANO, SARAH L.
 FELIX, JOSEPH
 FELLING, JON S.
 FERGUSON, SHARON K.
 FINK, MARY E.
 FISHER, JAY C.
 FLORES, DARLENE F.
 FLOYD, CYNTHIA M.
 FLYNN, DEBBIE R.
 FLYNN, MARTHA J.
 FOLAND, DONALD L.
 FORT, KEITH
 FRAZEE, MARK A.
 FRAZIER, SHARON L.
 FULLER, ELAINE S.
 GABRELIAN, MICHELE M.
 GALANG, ABELARDO B.
 GALVAN, GILBERT
 GARCIA, ROSIE
 GARCIA, SYLVIA A.
 GARG, MAHENDRA K.
 GETZ, JAMES J.
 GILBERT, CHERYL D.
 GLOTFELTY, EDWARD A.
 GOEBEL, DONALD J.
 GOERING, GARY L.
 GOHIL, MONA K.
 GOMEZ, RICK D.
 GRIMES, PAUL G.
 GUILLEN, DILIA V.
 GUST, EARL W.
 HALBERT, STEVEN L.
 HARMON, JAMES H.
 HAUKE, DAVID E.
 HAUSMANN, LINDA L.
 HAYES, PHIL R.
 HEMATABADI, MOJTABA
 HEMATI, MAHBOUBEH B.
 HERBEL, GAYLE A.
 HERNANDEZ, DOLORES I.
 HERNANDEZ, EVANGELINE R.
 HERRERA, ROSE R.
 HERRING, SUSAN B.
 HEWETT, TIMOTHY L.
 HEWITT, THOMAS C.
 HIBBS, JERRY
 HILLARD, HERBERT
 HILLS, JOHN J.
 HOBBS, DARRELL L., JR.
 HOFFMAN, D. WAYNE
 HOFFMAN, RENEE
 HOLDEN, ROBERT T.
 HOLOUIN, RICARDO C.
 HOPPE, FREDERICH W.
 HORNER, CURTIS P.
 HORRELL, SUSAN A.
 HOUGHTALING, MARY M.
 HOWARD, FRANCIS J.
 HOWELL, REBECCA L.
 HUFFMAN, ERNEST W.
 IANNONE, DONALD
 JACKSON, KENNETH L.
 JEFFREY, WALTER G.
 JELENSKY, WALTER P.
 JOHANNSEN, STEVE R.
 JOHNSON, BERNELL H.
 JOHNSON, DONNA M.
 JOHNSON, ROGER E.
 JOHNSTON, MICHAEL L.
 JONAS, MICHAEL C.
 JONES, JOHN K.
 JOUHARIZADEH, MAHMOOD
 JUAREZ, MARISELA
 KANG, IAIE YOON
 KAUBLE, JAY A.
 KAZUNGU, MARY F.
 KIM, MI-JUNG
 KING, MIKE J.
 KUCHLER, WALTER
 KURTZ, KATHRYN A.
 LAHTINEN, LEE L.
 LAMBERT, DENNIS C.
 LANKARD, RICK E.
 LANKARD, STEVE S.
 LANZ, MEREDITH J.
 LARSEN, DENNIS R.
 LASLEY, EARL F.
 LAVIN, PATRICK
 LAYTON, APRIL R.
 LE BLANC, MICHAEL J.
 LE DUC, LINDA G.
 LE KHAC, THI
 LE, TRUC
 LEE, KYE Y.
 LEFEBVRE, GUY R.
 LEHMAN, JANIS G.
 LEUNG, K. ERIC
 LI, MEI-HUA
 LIEN, SHARON L.
 LIEU, FONG-YI
 LINTON, GEORGE W. JR.
 LONG, MARIANN S.
 LONSDALE, DARLENE L.
 LOPEZ, MARTINE
 LOPEZ, MONICA G.
 LOPEZ, ROSA M.
 LOWE, CLYDE E.
 LUCERO, MARCO A.
 LY, ADAM C.
 LY, DAVID DAI
 LYONS, MICHAEL J.
 MAC INTOSH, DALE S.
 MAC LENNAN, BONNIE L.
 MADDOX, BENJAMIN C.
 MADSEN, GREGORY W.
 MARTIN, CONSTANCE L.
 MARTIN, KATHLEEN M.
 MARTINEZ, GREGORY L.
 MARTINEZ, KATHLEEN C.
 MATHIS, RICHARD B.
 MC CORMACK, MICHAEL E.
 MC INNES, MICHAEL S.
 MC KEEHAN, ANDREE Y.
 MC KENZIE, MICHAEL E.
 MC KINNEY, STEVEN F.
 MC MENAMIN, ALBERT JR.
 MEEKS, GARY P.
 MEGLI, LELAND D.
 MENDEZ, DANIEL
 MERCHANT, GROVER R.
 MILLER, FLORENCE E.
 MIRAMONTES, YOLANDA
 MLUDEK, BERND R.
 MOON, PAUL H.
 MOORE, HARDY D.
 MOUJTAHED, SAED M.
 MOYLE, STEVE
 MUHAMMED, IBRAHEEM
 MULLEN, ROBERT M.
 MURDOCK, EDWARD A.
 NAKAYAMA, BENJAMIN A.
 NAMAN, ERDOGAN
 NASH, KENNETH R.
 NASH, MICHAEL D.
 NAZARI, LOLA
 NELSON, JEANETTE M.
 NGO, NGA QUYNH HOANG
 NGUYEN, MICHAEL H.
 NGUYEN, THINH D.
 NGUYEN, VICTORIA
 NOBLE, JULIA CHER
 NOROOZI, SAEID B.
 NYGARD, DON R.
 O'BRIEN, GREGORY S.
 O'KEEFE, MICHAEL P.
 OLIVAS, MICHAEL ANTHONY
 OLSHEFSKY, PAUL
 OLSON, TODD S.
 ONKEN, DAVID D.
 ONTIVEROS, JOHNNIE M.
 OVIEDO, ERNIE D., JR.
 OWENS, MARVIN G.
 PAGANO, JOHN
 PANERALI, WILLIAM A.
 PARDO, MARIBEL
 PARKER, LIANNE M.
 PATRICK, MICHAEL F.
 PECK, DOUGLAS M.
 PELLEGRINO, JOHN K.
 PERALTA, MOSES JR.
 PERKINS, PHILIP M.
 PETERSEN, JEFFREY J.
 PHAM, JOE B.
 PINE, DAVID E.
 PINTO, RUBY M.
 PIRAINO, RICHARD P.
 PORTILLO, NANCY
 POWERS, LARRY R.
 QUIAMBAO, DAISYLYN S.
 QUIAMBAO, LOURDELYN D.
 RALLS, VICKIE M.
 RAPPORT, MARY R.
 RAWSON, JAMES W.
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INDEPENDENT AUDITORS' REPORT

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 1997 and 1996, and the related statements of income, changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Water Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Utility Fund of the City of Anaheim, California, as of June 30, 1997 and 1996, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

Ernst + Young LLP

October 3, 1997
Orange County, California



City of Anaheim
PUBLIC UTILITIES DEPARTMENT

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