

2007

Corona Utility Authority Corona, California

Component Unit Financial Statements and
Independent Auditors' Report
Year Ended June 30, 2007



Prepared according to the GASB 34 reporting model

CORONA UTILITY AUTHORITY

Component Unit Financial Statements
Year Ended June 30, 2007

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CORONA UTILITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2007

This discussion and analysis of the Corona Utility Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- As of the close of the fiscal year, the Authority reports total net assets of \$96.4 million.
- Capital assets increased \$22.4 million.
- Total debt decreased \$1.5 million. This decrease is a result of new debt of \$2.0 million and normal amortization of \$3.5 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

Corona Utility Authority's basic financial statements include a statement of net assets, statement of revenues, expenses and changes in fund net assets, statements of cash flows and notes to the financial statements.

The Authority's financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

RATES

Effective July 2006, the Authority received a rate increase of 7% for water and 4% for wastewater.

FINANCIAL ANALYSIS

The Statement of Net Assets includes all of the utility's assets and liabilities and provides information about the nature and amount of investment in resources and the obligations to creditors.

CORONA UTILITY AUTHORITY

Management's Discussion and Analysis, continued
Year Ended June 30, 2007

The Corona Utility Authority's combined Net Assets for fiscal years end June 30, 2006 and 2007 were:

Table 1

**Condensed Statements of Net Assets
(in millions)**

	<u>2006</u>	<u>2007</u>	<u>Total Dollar Change</u>	<u>Total Percentage Change</u>
Current Assets	\$ 59.5	\$ 62.4	\$ 2.9	4.9%
Noncurrent Assets	19.5	18.5	(1.0)	-5.1%
Capital Assets	<u>278.2</u>	<u>300.6</u>	<u>22.4</u>	<u>8.1%</u>
Total Assets	<u>357.2</u>	<u>381.5</u>	<u>24.3</u>	<u>6.8%</u>
Current and Other Liabilities	30.5	26.2	(4.3)	-14.1%
Debt Outstanding	<u>260.4</u>	<u>258.9</u>	<u>(1.5)</u>	<u>-0.6%</u>
Total Liabilities	<u>290.9</u>	<u>285.1</u>	<u>(5.8)</u>	<u>-2.0%</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	19.4	41.7	22.3	114.9%
Restricted	0.1	0.1	-	0.0%
Unrestricted	<u>46.8</u>	<u>54.6</u>	<u>7.8</u>	<u>16.7%</u>
Total Net Assets	<u>\$ 66.3</u>	<u>\$ 96.4</u>	<u>\$ 30.1</u>	<u>45.4%</u>

The Corona Utility Authority's combined Net Assets increased 45.4% between fiscal years 2006 and 2007, to \$96.4 million.

Capital assets increased \$22.3 million due to \$2.3 million for the recycled water project and \$20.0 million in improvements to the water and sewer systems.

Long-term Debt Outstanding decreased \$1.5 million since 2006 due to retired debt for scheduled principal payments.

Unrestricted net assets increased 16.7% to \$54.6 million. \$10.6 million is designated for specific capital projects for the Authority.

CORONA UTILITY AUTHORITYManagement's Discussion and Analysis, continued
Year Ended June 30, 2007**Table 2****Condensed Statement of Revenues,
Expenses, and Changes in Net Assets
(in millions)**

	<u>2006</u>	<u>2007</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating Revenue	\$ 59.8	\$ 65.1	\$ 5.3	8.9%
Non-operating Revenue	1.4	2.4	1.0	71.4%
Total Revenues	<u>61.2</u>	<u>67.5</u>	<u>6.3</u>	<u>10.3%</u>
Operating Expense	48.8	52.4	3.6	7.4%
Depreciation Expense	7.1	7.8	0.7	9.9%
Non-operating Expense	8.5	7.9	(0.6)	-7.1%
Total Expenses	<u>64.4</u>	<u>68.1</u>	<u>3.7</u>	<u>5.7%</u>
Income Before Capital Contributions and Transfers	(3.2)	(0.6)	2.6	-81.2%
Capital Contributions	<u>12.4</u>	<u>30.7</u>	<u>18.3</u>	<u>147.6%</u>
Change in Net Assets	9.2	30.1	20.9	227.2%
Beginning Net Assets	58.8	66.3	7.5	12.8%
Adjustments to Net Assets	<u>(1.7)</u>	<u>-</u>	<u>1.7</u>	<u>-100.0%</u>
Ending Net Assets	<u>\$ 66.3</u>	<u>\$ 96.4</u>	<u>\$ 30.1</u>	<u>45.4%</u>

The utility's operating revenue increased by 8.9% due to an increase in water consumption and utility rates. Operating expenses increased 7.4% primarily from an increase in personnel expenses and utility materials and supplies expenses.

Depreciation expense increased 9.9% which is consistent with the increase in depreciable assets.

CORONA UTILITY AUTHORITY

Management's Discussion and Analysis, continued

Year Ended June 30, 2007

CAPITAL ASSETS

The capital assets of the Corona Utility Authority are those assets that are used in the performance of the Authority's functions. At June 30, 2007, net capital assets of the authority totaled \$300.6 million. Refer to the Notes to the Component Unit Basic Financial Statements No. 8 for detail regarding capital assets.

	Original Cost	Accumulated Depreciation	Book Value
Water Utility			
Land	\$ 1.7	\$ -	\$ 1.7
Wastewater Rights	9.2	-	9.2
Buildings and Improvements	45.1	(11.5)	33.6
Equipment, Vehicles & Machinery	25.8	(10.7)	15.1
Construction in Progress	13.0	-	13.0
Infrastructure	165.3	(30.5)	134.8
Total Water Capital Assets	<u>260.1</u>	<u>(52.7)</u>	<u>207.4</u>
Wastewater Utilities			
Land	0.6	-	0.6
Buildings and Improvements	43.2	(11.7)	31.5
Equipment, Vehicles & Machinery	13.8	(8.4)	5.4
Construction in Progress	5.9	-	5.9
Infrastructure	61.2	(11.4)	49.8
Total Wastewater Capital Assets	<u>124.7</u>	<u>(31.5)</u>	<u>93.2</u>
Total Utility Capital Assets	<u>\$ 384.8</u>	<u>\$ (84.2)</u>	<u>\$ 300.6</u>

CORONA UTILITY AUTHORITY

Management’s Discussion and Analysis, continued
 Year Ended June 30, 2007

DEBT ADMINISTRATION

The debt of the Corona Utility Authority decreased in FY 2006-07 by \$1.5 million, due to retired debt from scheduled principal payments. Refer to the Notes to the Component Unit Basic Financial Statements No. 6 through No. 11 for detail regarding debt.

	<u>Balance July 1, 2006</u>	<u>Incurred or Issued</u>	<u>Satisfied or Matured</u>	<u>Balance June 30, 2007</u>
Installment Agreement Payable	\$ 296,437	\$ -	\$ 123,530	\$ 172,907
Contract Payable	716,572	-	-	716,572
Term Loan Payable	43,428,701	2,037,485	2,143,878	43,322,308
Capital Lease	172,628,344	-	-	172,628,344
Long-term Installments Payable	43,310,000	-	1,290,000	42,020,000
Total Debt	<u>\$ 260,380,054</u>	<u>\$ 2,037,485</u>	<u>\$ 3,557,408</u>	<u>\$ 258,860,131</u>

Corona Utility Authority Budget Variances – Water Utility

The FY 2006-07 original budget (or adopted) amount of \$50,996,116 compared to the final budget amount of \$59,083,501 shows a net increase of \$8,087,385.

Included in this figure are prior FY 2005-06 capital improvement projects of \$8,350,476 and committed purchase orders of \$2,616,168 carried forward. The resulting beginning budget balance is \$61,962,760.

Original Budget	+	Cont. Appropriations	+	Encumbrances	=	Beg. Balance	+	Supplemental Chgs.	=	Final Budget
\$50,996,116	+	8,350,476	+	2,616,168	=	61,962,760	+	(2,879,259)	=	\$59,083,501

Comparing the beginning budget of \$61,962,760 to the final budget of \$59,083,501 indicates the water funds had overall reductions to budgetary appropriations totaling \$2,879,259 for the 2006-07 fiscal year. During the fiscal year, one major new appropriation was \$1.0 million for the Ontario Ave Transmission Main project. After an evaluation of various capital projects, several were reduced or closed. The following are the major capital projects where reductions occurred: various waterline replacements totaling \$1.2 million, Corporation Yard Expansion facility project of \$1.7 million, \$0.2 million for the Pressure Station Safety Modifications project, \$0.2 million for the Ontario Booster Relocation project and \$0.1 million to the Emergency Generator project.

CORONA UTILITY AUTHORITY

Management's Discussion and Analysis, continued
Year Ended June 30, 2007

Corona Utility Authority Budget Variances – Wastewater Utility

Comparing the FY 2006-07 original budget (or adopted) amount of \$28,786,660 to the final budget amount of \$33,268,582 shows a net increase of \$4,481,922.

Included in this figure are prior FY 2005-06 capital improvement projects of \$9,462,790 and committed purchase orders of \$1,904,324 from the prior June 30 balance carried forward. The resulting beginning budget balance is \$40,153,774.

Original Budget	+	Cont. Appropriations	+	Encumbrances	=	Beg. Balance	+	Supplemental Chgs.	=	Final Budget
\$28,786,660	+	9,462,790	+	1,904,324	=	40,153,774	+	(6,885,192)	=	\$33,268,582

Comparing the beginning budget of \$40,153,774 to the final budget of \$33,268,582 indicates the wastewater funds had overall reductions to budgetary appropriations of \$6,885,192 for the 2007-08 fiscal year. Major changes included a reduction of \$1.7 million for the Corporation Yard Expansion facility project, \$2.5 million in reductions for Sewer Mains – at Serfas Club/Pine Crest and at Rimpau, reductions of \$2.1 million for the Various Wastewater Lift Station Repairs capital projects and a reduction of \$0.3 million of the Well Field Development project.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The Water Utility is expected to serve over 41,150 customers with approximately 45,750-acre feet of water in fiscal year 2007-08. The recycled water system will provide 3,700-acre feet of reclaimed water, per day to parks and commercial customers. Agricultural water is expected to provide 200-acre feet water in FY 2007-08.
- The Wastewater System is expected to treat about 13.5 million gallons of sewage per day in fiscal year 2007-08.
- Water utility sales are expected to increase 11.5% and the sewer service charges will be increased 12%, from the previous budget year projections due to the October 2007 approved user rate increases.

CORONA UTILITY AUTHORITY

Management's Discussion and Analysis, continued

Year Ended June 30, 2007

CONTACTING THE CORONA UTILITY AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Corona Utility Authority's finances and to show the Corona Utility Authority's accountability for the money it receives. If you have questions about this report, separate reports of the City's component units or need any additional financial information, contact the Office of Finance at 400 South Vicentia Ave, Corona, California, 92882, phone 951-279-3500 or e-mail to finance@ci.corona.ca.us.

CORONA UTILITY AUTHORITY

COMPONENT UNIT BASIC FINANCIAL STATEMENTS

CORONA UTILITY AUTHORITY

Statement of Net Assets Proprietary Funds June 30, 2007

	Water	Wastewater	Total
Assets:			
Current Assets			
Cash and Investments	\$ 26,219,530	\$ 20,248,073	\$ 46,467,603
Accounts Receivable, Net	8,048,988	1,796,321	9,845,309
Interest Receivable	255,282	200,545	455,827
Due from Other Governmental Agencies	1,316,594	2,675,693	3,992,287
Inventories and Prepayments	1,533,830	-	1,533,830
Restricted Assets:			
Cash and Investments	135,362	14,941	150,303
Total Current Assets	37,509,586	24,935,573	62,445,159
Noncurrent Assets			
Due from Other Governmental Agencies	473,875	-	473,875
Long-term Agreement Receivable	18,000,000	-	18,000,000
Capital Assets:			
Land & wastewater rights & construction in progress	23,881,748	6,466,332	30,348,080
Depreciable buildings, property, equipment	183,538,112	86,722,464	270,260,576
Total Noncurrent Assets	225,893,735	93,188,796	319,082,531
Total Assets	263,403,321	118,124,369	381,527,690
Liabilities:			
Current Liabilities			
Accounts Payable and Accrued Liabilities	3,959,268	1,562,093	5,521,361
Deferred Revenues	347,801	-	347,801
Compensated Absences Payable	535,378	353,720	889,098
Long-term Debt - Due within one year	2,367,651	1,414,260	3,781,911
Liabilities Payable from Restricted Assets	27,870	14,941	42,811
Total Current Liabilities	7,237,968	3,345,014	10,582,982
Noncurrent Liabilities			
Deferred Revenues	19,122,585	-	19,122,585
Compensated Absences Payable	371,506	-	371,506
Long-term Debt - Due in More than One Year	170,930,817	84,147,403	255,078,220
Total Noncurrent Liabilities	190,424,908	84,147,403	274,572,311
Total Liabilities	197,662,876	87,492,417	285,155,293
Net Assets:			
Invested in Capital Assets, Net of Related Debt	34,294,392	7,627,133	41,921,525
Restricted	107,492	-	107,492
Unrestricted	31,338,561	23,004,819	54,343,380
Total Net Assets	\$ 65,740,445	\$ 30,631,952	\$ 96,372,397

CORONA UTILITY AUTHORITY

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds Year Ended June 30, 2007

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
Operating Revenues:			
Utility Service Charges	\$ 39,152,742	\$ 20,870,418	\$ 60,023,160
Fees and Permits	1,470,943	39,790	1,510,733
Fines and Penalties	899,513	-	899,513
Other Revenues	1,743,940	914,771	2,658,711
Total Operating Revenues	<u>43,267,138</u>	<u>21,824,979</u>	<u>65,092,117</u>
Operating Expenses:			
Personnel Services	10,008,315	6,275,767	16,284,082
Contractual	1,603,426	1,339,590	2,943,016
Materials and Supplies	16,428,551	8,439,096	24,867,647
Utilities	5,307,821	3,978,467	9,286,288
Depreciation	5,077,999	2,747,239	7,825,238
Total Operating Expenses	<u>38,426,112</u>	<u>22,780,159</u>	<u>61,206,271</u>
Operating Income (Loss)	<u>4,841,026</u>	<u>(955,180)</u>	<u>3,885,846</u>
Non-Operating Revenues:			
Investment Earnings	1,239,368	1,139,328	2,378,696
Interest Expense	(4,554,867)	(2,296,602)	(6,851,469)
Total Non-Operating Revenues	<u>(3,315,499)</u>	<u>(1,157,274)</u>	<u>(4,472,773)</u>
Income (Loss) before Contributions and Operating Transfers	1,525,527	(2,112,454)	(586,927)
Capital Grants and Contributions	19,037,809	11,668,951	30,706,760
Transfers In	233,219	1,439,723	1,672,942
Transfers Out	(233,219)	(1,439,723)	(1,672,942)
Change in Net Assets	20,563,336	9,556,497	30,119,833
Total Net Assets - Beginning of Year	<u>45,177,109</u>	<u>21,075,455</u>	<u>66,252,564</u>
Total Net Assets - End of Year	<u>\$ 65,740,445</u>	<u>\$ 30,631,952</u>	<u>\$ 96,372,397</u>

CORONA UTILITY AUTHORITY

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2007

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
Cash Flow from Operating Activities:			
Cash Received from Customers/Other Funds	\$ 41,611,204	\$ 19,215,878	\$ 60,827,082
Cash Payments to Suppliers of Goods and Services	(26,789,422)	(14,394,646)	(41,184,068)
Cash Payments to Employees for Services	(9,900,157)	(6,334,179)	(16,234,336)
Internal Activity - Payments from Other Funds			
Net Cash Provided by (Used for) Operating Activities	<u>4,921,625</u>	<u>(1,512,947)</u>	<u>3,408,678</u>
Cash Flows from Noncapital Financing Activities:			
Transfers Received	233,219	1,439,723	1,672,942
Transfers Paid	(233,219)	(1,439,723)	(1,672,942)
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities:			
Capital Grants and Contributions	4,488,386	2,673,215	7,161,601
Acquisition and Construction of Capital Assets	(3,870,885)	(1,641,643)	(5,512,528)
Principal Paid on Capital Debt	(2,192,544)	(1,364,864)	(3,557,408)
Proceeds from Capital Debt	2,037,485	-	2,037,485
Interest Paid on Capital Debt	(5,537,904)	(2,296,602)	(7,834,506)
Net Cash (Used for) Capital and Related Financing Activities	<u>(5,075,462)</u>	<u>(2,629,894)</u>	<u>(7,705,356)</u>
Cash Flows from Investing Activities:			
Interest on Investments	1,187,273	1,135,730	2,323,003
Net Cash (Used for) Investing Activities	<u>1,187,273</u>	<u>1,135,730</u>	<u>2,323,003</u>
Net Decrease in Cash and Cash Equivalents	1,033,436	(3,007,111)	(1,973,675)
Cash and Cash Equivalents - Beginning of Year	25,321,456	23,270,125	48,591,581
Cash and Cash Equivalents - End of Year	<u>\$ 26,354,892</u>	<u>\$ 20,263,014</u>	<u>\$ 46,617,906</u>

CORONA UTILITY AUTHORITY

**Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2007**

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities:			
Operating Income (Loss)	\$ 4,841,026	\$ (955,180)	\$ 3,885,846
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities:			
Depreciation	5,077,999	2,747,239	7,825,238
Inventory adjustments	(177,855)	(38,692)	(216,547)
Changes in Assets and Liabilities:			
Accounts Receivable	(1,533,349)	45,827	(1,487,522)
Due from Other Governmental Agencies	(122,585)	(2,654,928)	(2,777,513)
Inventories and Prepayments	(600,898)	-	(600,898)
Accounts Payable and Accrued Liabilities	(2,879,177)	(598,802)	(3,477,979)
Deferred Revenues	208,306	-	208,306
Compensated Absences Payable	108,158	(58,412)	49,746
Net Cash Provided by (Used for) Operating Activities	<u>\$ 4,921,625</u>	<u>\$ (1,512,947)</u>	<u>\$ 3,408,677</u>
Noncash Investing, Capital, and Financing Activities:			
Contributions of capital assets from developers	\$ 14,549,423	\$ 8,995,736	\$ 23,545,159
Write-off of capital assets	-	-	-
Net Noncash Investing, Capital, and Financing Activities	<u>\$ 14,549,423</u>	<u>\$ 8,995,736</u>	<u>\$ 23,545,159</u>



CORONA UTILITY AUTHORITY

NOTES TO THE COMPONENT UNIT

BASIC FINANCIAL STATEMENTS

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements Year Ended June 30, 2007

1. Reporting Entity and Summary of Significant Accounting Policies

A. Description of the Reporting Entity

The Corona Utility Authority (the Authority) is a joint powers authority which was established on February 6, 2002 pursuant to a Joint Exercise of Powers Agreement between the City of Corona and the Redevelopment Agency of the City of Corona in accordance with the Joint Powers Law (Articles 1 through 4 of Chapter 5, Division 7, Title 1 of the California Government Code) for the purpose of assisting the City in the leasing of the Utility System. The Authority's Officers are the Corona City Council. The Authority is a separate legal entity, which is financially accountable to the City of Corona. It is considered a component unit of the City and, accordingly, is included in the comprehensive annual financial report of the City of Corona.

B. Basis of Accounting/Measurement Focus

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The Authority applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, to the business type activities, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the committee on Accounting Procedure. The Authority applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund and all non-major funds aggregated.

Proprietary funds are accounted for using the *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements

Year Ended June 30, 2007, continued

C. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Authority's policy is to apply restricted net assets first.

D. Cash, Cash Equivalents and Investments

1. Cash Management

The City pools cash resources of its various funds to facilitate cash management. Cash in excess of current requirements is invested and reported as investments. It is the City's intent to hold investments until maturity. However, the City may, in response to market conditions, sell investments prior to maturity in order to improve the quality, liquidity or yield of the portfolio. Interest earnings are apportioned among funds based on ending accounting period cash and investment balances.

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and highly liquid investments with original maturities of three months or less at the time of acquisition.

2. Investments Valuation

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

3. State Investment Pool

The City participates in the Local Agency Investment Fund (LAIF), an investment pool managed by the State of California. LAIF has invested a portion of the pooled funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as a result of changes in interest rates.

E. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Authority considered all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All cash and investments of the proprietary fund types are pooled with the City's pooled cash and investments.

CORONA UTILITY AUTHORITY

**Notes to the Component Unit Basic Financial Statements
Year Ended June 30, 2007, continued**

F. Unbilled Services Receivable

Utility Revenue is recorded when earned. Customers are billed monthly. The estimated value of services provided, but unbilled, at year-end has been included in the accompanying financial statements.

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. Inventories and Prepaid Items

Inventory is valued at cost using the first in, first out method. Inventory in the Proprietary Funds consists of expendable supplies held for future consumption or capitalization. The cost is recorded as an expense when inventory items are consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

I. Capital Assets

The Authority's assets are capitalized at historical cost or estimated historical cost. The Authority follows the City policy, which has set the capitalization threshold for reporting capital assets at \$25,000. Gifts or contributions of capital assets are recorded at fair market value when received. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings -----	20-50 years
Improvements -----	20 years
Equipment -----	3-20 years
Infrastructure -----	25-65 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the Authority has included the value of all infrastructure into the 2006-07 Basic Financial Statements.

The Authority defines infrastructure as the basic physical assets that allow the Authority to function. The assets include the water purification and distribution system, sewer collection and treatment system; and buildings combined with the site amenities such as parking and landscaped areas used by the Authority in the conduct of its business. Each major infrastructure system can be divided into subsystems. These subsystems were not delineated in the Basic Financial Statements. The appropriate operating department maintains information regarding the subsystems.

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements

Year Ended June 30, 2007, continued

For all Authority infrastructure systems, the Authority uses the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. The Authority commissioned an appraisal of Authority owned infrastructure and property as of June 30, 1999 and has completed an internal update for June 30, 2007. This appraisal determined the original cost, which is defined as the actual cost to acquire new property in accordance with market prices at the time of first construction/acquisition. Original costs were developed in one of three ways: 1) historical records; 2) standard unit costs appropriate for the construction/acquisition date; or 3) present cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date. The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date on a straight line, un-recovered cost method was computed using industry accepted life expectancies for each infrastructure subsystem. The book value was then computed by deducting the accumulated depreciation from the original cost.

2. Cash and Investments

The Authority’s cash is pooled with other City funds for investment purposes, with interest being allocated on the basis of the Authority’s overall percentage participation. Investment policies and associated risk factors applicable to the Authority’s funds are those of the City and are included in the City’s financial statements. As of June 30, 2007 cash and investments of the Authority was as follows:

Unrestricted Cash and Investments - Pooled Cash	\$ 46,467,603
Restricted Cash and Investments:	
Cash with Fiscal Agents	107,492
Retention & Escrow Accounts	42,811
Total Cash and Investments	<u>\$ 46,617,906</u>

Restricted cash and investments purchased by the fiscal agent are held in safekeeping by the fiscal agent. Additionally, the investments are held in the fiscal agent’s name, not the Authority’s name. Retention accounts are pooled with other City funds. Escrow accounts are held in the name of the City and the Escrow funds are invested under the terms of the Escrow Agreement.

3. Long-Term Interagency Receivable

As of June 30, 2007, the Authority has interagency receivables of \$473,875 which represents a reserve with the Corona Public Financing Authority debt service fund related to the 2003 Certificates of Participation for the Recycled Water Project.

4. Long-Term Agreement Receivable/Deferred Revenues

The Long-Term Receivable and corresponding Deferred Revenues in the Water Fund represent unearned revenue from a long term agreement between Metropolitan Water District of Southern California, Western Municipal Water District and the City of Corona which utilizes the Authority’s desalter plant to treat groundwater in conjunction with imported water as a means of increasing the potable water available to Corona customers. Additional deferred revenues consist of water customer prepayments.

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements Year Ended June 30, 2007, continued

5. Capital Assets

In accordance with GASB Statement No. 34, the Authority has reported all capital assets including infrastructure in the Government-Wide Statement of Net Assets. The Authority's infrastructure systems were reported using the basic approach whereby accumulated depreciation and depreciation expense have been recorded. The following table presents summary information on infrastructure assets.

Infrastructure Assets			
Description	Historical Cost	Accumulated Depreciation	Net Cost
Business-Type Activities:			
Basic Approach:			
Water	\$ 165,299,593	\$ (30,480,344)	\$ 134,819,249
Wastewater	61,245,515	(11,361,619)	49,883,896
Total Business-Type Activities	\$ 226,545,108	\$ (41,841,963)	\$ 184,703,145

Capital Assets of the Authority for the year ended June 30, 2007, consisted of the following:

All Capital Assets					
	Balance July 1, 2006	Increases	Decreases	Inventory Adjustments	Balance June 30, 2007
Business-Type Activities					
Land	\$ 2,295,366	\$ -	\$ -	\$ -	\$ 2,295,366
Buildings and Improvements	87,976,178	304,330	-	-	88,280,508
Machinery and Equipment	39,515,234	684,539	(608,273)	-	39,591,500
Wastewater rights	9,180,000	-	-	-	9,180,000
Construction in Progress	34,185,176	6,472,875	(21,431,999)	(353,338)	18,872,714
Infrastructure	181,735,489	44,672,828	-	136,791	226,545,108
Total	\$ 354,887,443	\$ 52,134,572	\$ (22,040,272)	\$ (216,547)	\$ 384,765,196
Accumulated Depreciation	(76,710,818)	(7,851,571)	405,849	-	(84,156,540)
Total Capital Assets	\$ 278,176,625	\$ 44,283,001	\$ (21,634,423)	\$ (216,547)	\$ 300,608,656

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements Year Ended June 30, 2007, continued

6. Long-Term Obligations

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2007:

	Balance July 1, 2006	Incurred or Issued	Satisfied or Matured	Balance June 30, 2007	Amounts Due Within One Year	Amounts Due in More than One Year
Installment Agreement Payable	\$ 296,437	-	\$ 123,530	\$ 172,907	\$ 148,236	\$ 24,671
Contracts Payable	716,572	-	-	716,572	-	716,572
Term Loan Payable	43,428,701	2,037,485	2,143,878	43,322,308	2,288,675	41,033,633
Capital Leases	172,628,344	-	-	172,628,344	-	172,628,344
Long-Term Installments Payable	43,310,000	-	1,290,000	42,020,000	1,345,000	40,675,000
Totals	\$ 260,380,054	\$ 2,037,485	\$ 3,557,408	\$ 258,860,131	\$ 3,781,911	\$ 255,078,220

7. Installment Agreement Payable

On June 28, 2005, the City of Corona entered into an agreement with Southern California Edison to make monthly installments for a delayed billing for electrical services to a meter installed at 219 West Grand Boulevard in November 2000 that was never billed for the period of May 2, 2002 to April 14, 2005, for a total of \$444,673. The Authority will make 36 equal payments of \$12,352 through May 2008. The amount outstanding at June 30, 2007 was \$172,907.

8. Contracts Payable

Contracts Payable arise from the acquisition of certain water and wastewater facilities and represent amounts due to Western Municipal Water District payable from future water and wastewater connection fees associated with the acquired facilities. Future connections are provided as needed in the area and as such cannot be scheduled. When connection fees are received the amounts attributable to the cost of physical connection are recognized as revenue. The amount outstanding at June 30, 2007 was \$716,572.

9. Term Loans Payable

The following Term Loans Payable were outstanding at June 30, 2007:

State Revolving Fund Loan Contract No. 6-807-5850-0	\$ 15,144,020
State Revolving Fund Loan Contract No. C-06-4802-110	28,178,288
Total Term Loans Payable	\$ 43,322,308

On September 17, 1996, and February 20, 1997, the City and the State Water Resources Control Board of the State of California entered into a State Revolving Fund Loan Contract No. 6-807-5850-0 in the amount of \$22,244,222, for expansion of the Wastewater Treatment Plant No. 1. The loan is payable over a period of 20 years at the rate of 2.8% interest in equal installments of \$1,503,293 through the year 2018. The amount outstanding at June 30, 2007 was \$15,144,020.

CORONA UTILITY AUTHORITY**Notes to the Component Unit Basic Financial Statements
Year Ended June 30, 2007, continued**

Term Loan Payable			
State Revolving Loan 6-807-5850-0			
Fiscal Year Ending	Principal	Interest	Total
2008	\$ 1,079,260	424,033	\$ 1,503,293
2009	1,109,480	393,813	1,503,293
2010	1,140,545	362,748	1,503,293
2011	1,172,480	330,813	1,503,293
2012	1,205,310	297,983	1,503,293
2013-2017	6,552,081	964,384	7,516,465
2018-2019	2,884,864	121,722	3,006,586
Totals	\$ 15,144,020	\$ 2,895,496	\$ 18,039,516

On June 10, 2003, the City and the State Water Resources Control Board of the State of California entered into a State Revolving Fund Loan Contract No. C-06-4802-110 in the amount of \$29,272,302, for construction of facilities at the Wastewater Treatment Plant No. 1. These facilities provide recycled water to existing and potential users within the City. The loan is payable over a period of 20 years at the rate of 2.5% interest in equal annual installments of \$1,878,924 through the year 2025. The amount outstanding at June 30, 2007 was \$28,178,288, which includes \$2,037,485 incurred for the project during the fiscal year 2006-07.

Term Loan Payable			
State Revolving Loan C-06-4802-110			
Fiscal Year Ending	Principal	Interest	Total
2008	\$ 1,209,415	\$ 669,509	\$1,878,924
2009	1,204,702	674,222	1,878,924
2010	1,234,819	644,105	1,878,924
2011	1,265,690	613,234	1,878,924
2012	1,297,332	581,592	1,878,924
2013-2017	6,989,683	2,404,935	9,394,618
2018-2022	7,908,185	1,486,433	9,394,618
2023-2026	7,068,462	447,232	7,515,694
Totals	\$ 28,178,288	\$ 7,521,262	\$35,699,550

10. Capital Leases**A. Fund Financial Statements**

Capital Leases at June 30, 2007 were as follows:

Water Fund	\$ 106,819,662
Wastewater Fund	<u>65,808,682</u>
Total	<u>\$ 172,628,344</u>

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements

Year Ended June 30, 2007, continued

B. Related Parties

In 2002, the City of Corona (City) established the Corona Utility Authority (Authority) as a joint powers authority pursuant to a Joint Exercise of Powers Agreement between the City and the Redevelopment Agency of the City of Corona in accordance with the Joint Powers Law (Articles 1 through 4 of Chapter 5, Division 7, title 1 of the California Government Code) for the purpose of assisting the City in the leasing of the water and wastewater utility systems. The Authority's Officers are the Corona City Council.

C. Capital Lease Obligations

The Authority entered into capital leases with the City to lease the City's water and wastewater facilities. The term of the leases are 55 years at which time the Authority will own the capital assets of the water and wastewater facilities.

The capital assets of the water and wastewater facilities were recorded at the City's historical cost, net of accumulated depreciation, and related debt has also been recorded resulting in a lease payable for an amount equal to the net assets recorded on the City's financial statements. Lease payments are made quarterly for an amount equal to 8% of water and wastewater's utility service charges.

D. Capital Lease Payments

At June 30, 2007, the future minimum lease payments required under the capital leases and the net present value of the future lease payments were as follows:

Fiscal Year Ending	<u>Water Facility</u>	Lease Payment
2008		\$ 3,213,435
2009		3,325,906
2010		3,458,942
2011		3,597,300
2012		3,741,192
2013-2017		21,074,040
2018-2022		25,639,792
2023-2027		31,194,728
2028-2032		37,953,156
2033-2037		46,175,818
2038-2042		56,179,943
2043-2047		68,351,490
2048-2052		83,160,039
2053-2056		79,323,945
	Total minimum lease payments	<u>466,389,726</u>
	Less: Amount representing interest	<u>(359,570,064)</u>
	Present Value of Future Minimum Lease Payments	<u>\$ 106,819,662</u>

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements Year Ended June 30, 2007, continued

Fiscal Year Ending	Wastewater Facility	Lease Payment
2008		\$ 1,728,071
2009		1,788,553
2010		1,860,095
2011		1,934,499
2012		2,011,879
2013-2017		11,332,865
2018-2022		13,788,163
2023-2027		16,775,408
2028-2032		20,409,849
2033-2037		24,831,703
2038-2042		30,211,563
2043-2047		36,756,986
2048-2052		44,720,493
2053-2056		52,316,652
	Total minimum lease payments	260,466,779
	Less: Amount representing interest	(194,658,097)
	Present Value of Future Minimum Lease Payments	\$ 65,808,682

E. 2007 Transactions

In 2007, the following related party transactions were recorded by the City and the Authority:

Capital Lease Payments:

Water Fund	\$ 3,104,769
Wastewater Fund	1,669,633
Total to the City	\$ 4,774,402

11. Long Term Installments Payable

As of June 30, 2007, the balances outstanding were:

Installment Agreement- 1997 Certificates of Participation	\$ 4,240,000
Installment Agreement- 2003 Certificates of Participation	6,710,000
Installment Agreement- 1998 Water Revenue Bonds	31,070,000
Total Long Term Installment Payable	\$ 42,020,000

On January 21, 1997, the Corona Public Improvement Corporation issued \$7,010,000 in 1997 Refunding Certificates of Participation for the purposes of refunding the remaining \$6,425,000 of the 1986 Sunkist Wastewater Treatment Facilities Certificates of Participation and to pay the costs incurred in connection with the issuance, sale, and delivery of the bonds as well as to establish a reserve fund. The original certificates were issued to finance the acquisition, construction and installation of certain improvements to the City's Wastewater Treatment Plant No. 2 (Sunkist Plant). The new bonds bear interest

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements

Year Ended June 30, 2007, continued

rates from 4.90% to 5.50% and are due in annual installments ranging from \$335,000 to \$530,000 through August 1, 2016. The certificates are payable pursuant to a installment lease agreement (Corona Public Improvement Corporation to the Wastewater Utility) from revenues of the Wastewater Capacity fund and as such have been shown as long-term obligations (Long-Term Installments Payable) of the Wastewater.

Fiscal Year Ending	1997 Refunding Certificates of Participation		
	Principal	Interest	Total
2008	\$ 335,000	\$ 216,893	\$ 551,893
2009	350,000	199,935	549,935
2010	370,000	181,750	551,750
2011	385,000	162,305	547,305
2012	405,000	141,563	546,563
2013-2017	2,395,000	342,185	2,737,185
Totals	\$ 4,240,000	\$ 1,244,631	\$ 5,484,631

The City purchased the Recycled Water Project from the Corona Public Financing Authority pursuant to an Installment Purchase agreement for a principal amount of \$7,155,000. The City will pay purchase payments to the Corona Public Financing Authority pursuant to a Recycled Water Project Lease Agreement (City of Corona to the Corona Utility Authority). The Corona Utility Authority will make payments to the City from net revenues of the recycled water system.

Fiscal Year Ending	Installment Purchase Agreement 2003 Certificates of Participation		
	Principal	Interest	Total
2008	\$ 155,000	\$ 316,238	\$ 471,238
2009	155,000	311,394	466,394
2010	165,000	304,388	469,388
2011	170,000	297,275	467,275
2012	180,000	290,725	470,725
2013-2017	995,000	1,341,388	2,336,388
2018-2022	1,250,000	1,072,250	2,322,250
2023-2027	1,600,000	717,500	2,317,500
2028-2032	2,040,000	264,750	2,304,750
Totals	\$ 6,710,000	\$ 4,915,908	\$ 11,625,908

The \$36,690,000 Corona Public Financing Authority 1998 Water Revenue Bonds were issued to finance the cost of certain improvements to the City's water system, consisting of the construction of a ground water desalting system and to refinance the outstanding 1994 Water System Improvement Project Certificates of Participation. The bonds bear interest from 4.00% to 4.75% and are due in annual installments ranging from \$855,000 to \$1,100,000 through 2013 with term bonds in the amount of \$6,305,000, \$7,950,000 and

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements

Year Ended June 30, 2007, continued

\$10,025,000 due on September 1, 2018, 2023 and 2028, respectively. The bonds are considered a liability of the water fund.

Installment Agreement 1998 Water Revenue Bonds			
Fiscal Year Ending	Principal	Interest	Total
2008	\$ 855,000	\$ 1,428,823	\$ 2,283,823
2009	890,000	1,393,478	2,283,478
2010	925,000	1,355,808	2,280,808
2011	965,000	1,315,876	2,280,876
2012	1,005,000	1,273,260	2,278,260
2013-2017	5,755,000	5,614,631	11,369,631
2018-2022	7,250,000	4,081,438	11,331,438
2023-2027	9,135,000	2,144,031	11,279,031
2028-2029	4,290,000	206,150	4,496,150
Totals	\$ 31,070,000	\$ 18,813,495	\$ 49,883,495

12. Classification of Net Assets

In the Government-Wide Financial Statements, net assets are classified in the following categories:

Invested In Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduces this category.

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets – This category represents the net assets of the Authority, which are not restricted for any project or other purpose.