

2009

Corona Utility Authority Corona, California

Component Unit Financial Statements and
Independent Auditors' Report
Year Ended June 30, 2009



CORONA UTILITY AUTHORITY

Component Unit Financial Statements
Year Ended June 30, 2009

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Corona Utility Authority
Corona, California

We have audited the accompanying financial statements of each major fund of the Corona Utility Authority (the "Authority"), a component unit of the City of Corona, as of and for the year ended June 30, 2009, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These basic component unit financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these basic component unit financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1.A, the basic component unit financial statements present only the Authority and are not intended to present fairly the financial position and results of operations of the City of Corona, California in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic component unit financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Authority as of June 30, 2009, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 24, 2009 on our consideration of the City of Corona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The *management's discussion and analysis*, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



November 24, 2009

CORONA UTILITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

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, 2009. 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 \$121.4 million.
- Capital assets increased \$1.6 million.
- Total debt decreased \$2.2 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, statement of cash flows and notes to the Component Unit Basic 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 2008, the Authority received a rate increase of 10% for both water and water reclamation.

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, 2009

The Corona Utility Authority's combined net assets for fiscal years end June 30, 2009 and 2008 were:

Table 1
Condensed Statements of Net Assets
(in millions)

	<u>2009</u>	<u>2008</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Current Assets	\$ 70.0	\$ 64.7	\$ 5.3	8.2%
Noncurrent Assets	16.5	17.5	(1.0)	-5.7%
Capital Assets	329.1	327.5	1.6	0.5%
Total Assets	<u>415.6</u>	<u>409.7</u>	<u>5.9</u>	<u>1.4%</u>
Current and Other Liabilities	26.0	28.1	(2.1)	-7.5%
Debt Outstanding	268.2	270.4	(2.2)	-0.8%
Total Liabilities	<u>294.2</u>	<u>298.5</u>	<u>(4.3)</u>	<u>-1.5%</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	60.9	57.2	3.7	6.5%
Unrestricted	60.5	54.0	6.5	12.0%
Total Net Assets	<u>\$ 121.4</u>	<u>\$ 111.2</u>	<u>\$ 10.2</u>	<u>9.2%</u>

The Corona Utility Authority's combined net assets increased 9.2% between fiscal years 2008 and 2009, to \$121.4 million.

Capital assets increased \$1.6 million due to improvements to the water and water reclamation systems.

Outstanding long-term debt decreased overall by \$2.2 million from prior year due to scheduled principal payments of \$4.2 million and the issuance of an installment agreement payable in the amount of \$2.0 million.

Unrestricted net assets decreased 12.0% to \$60.5 million.

CORONA UTILITY AUTHORITYManagement's Discussion and Analysis, continued
Year Ended June 30, 2009

Table 2
Condensed Statement of Revenues,
Expenses, and Changes in Net Assets
(in millions)

	<u>2009</u>	<u>2008</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating Revenue	\$ 76.2	\$ 68.1	\$ 8.1	11.9%
Non-operating Revenue	3.1	3.2	(0.1)	-3.1%
Total Revenues	<u>79.3</u>	<u>71.3</u>	<u>8.0</u>	<u>11.2%</u>
Operating Expense	54.5	58.9	(4.4)	-7.5%
Depreciation Expense	9.9	9.2	0.7	7.6%
Non-operating Expense	9.2	8.1	1.1	13.6%
Total Expenses	<u>73.6</u>	<u>76.2</u>	<u>(2.6)</u>	<u>-3.4%</u>
Income Before Capital Contributions and Transfers	5.7	(4.9)	10.6	216.3%
Capital Contributions	<u>6.7</u>	<u>19.8</u>	<u>(13.1)</u>	<u>-66.2%</u>
Change in Net Assets	12.4	14.9	(2.5)	-16.8%
Beginning Net Assets	111.2	96.3	14.9	15.5%
Adjustments to Net Assets	<u>(2.2)</u>	<u>-</u>	<u>(2.2)</u>	<u>100.0%</u>
Ending Net Assets	<u><u>\$ 121.4</u></u>	<u><u>\$ 111.2</u></u>	<u><u>\$ 10.2</u></u>	<u><u>9.2%</u></u>

The utility's operating revenue increased by 11.9% due to a 10% increase in water rates. Operating expenses decreased 7.5% primarily from the decrease in personnel expenses and utility expenses.

Depreciation expense increased 7.6% which is consistent with the increase in depreciable assets.

CORONA UTILITY AUTHORITY

Management's Discussion and Analysis, continued
Year Ended June 30, 2009

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, 2009, net capital assets of the authority totaled \$329.1 million. Refer to the Notes to the Component Unit Basic Financial Statements No. 6 for detail regarding capital assets.

Capital Assets (in millions)

	<u>Original Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Water Utility			
Land	\$ 1.7	\$ -	\$ 1.7
Water reclamation Rights	9.2	-	9.2
Buildings and Improvements	45.1	(13.4)	31.7
Equipment, Vehicles & Machinery	28.4	(13.7)	14.7
Construction in Progress	14.0	-	14.0
Infrastructure	179.9	(36.7)	143.2
Total Water Capital Assets	<u>278.3</u>	<u>(63.8)</u>	<u>214.5</u>
Water Reclamation Utilities			
Land	0.6	-	0.6
Buildings and Improvements	44.2	(13.7)	30.5
Equipment, Vehicles & Machinery	32.0	(11.9)	20.1
Construction in Progress	5.6	-	5.6
Infrastructure	71.5	(13.7)	57.8
Total Water Reclamation Capital Assets	<u>153.9</u>	<u>(39.3)</u>	<u>114.6</u>
Total Utility Capital Assets	<u>\$ 432.2</u>	<u>\$ (103.1)</u>	<u>\$ 329.1</u>

DEBT ADMINISTRATION

The debt of the Corona Utility Authority decreased in fiscal year 2008-09 by \$2.2 million, the result of the water utility incurring \$2 million in new debt for acquisition of certain water facilities and the retirement of debt from scheduled principal payments. Refer to the Notes to the Component Unit Basic Financial Statements No. 8 for additional information.

A summary of long-term obligation transactions of the Authority for the year ended June 30, 2009 is presented on the following page.

CORONA UTILITY AUTHORITY

Management's Discussion and Analysis, continued
Year Ended June 30, 2009

	<u>Balance July 1, 2008</u>	<u>Incurred or Issued</u>	<u>Satisfied or Matured</u>	<u>Balance June 30, 2009</u>
Contract Payable	\$ 690,391	\$ -	\$ -	\$ 690,391
Term Loan Payable	41,990,148	-	2,364,710	39,625,438
Loan Payable	14,331,065	-	342,134	13,988,931
Capital Lease	172,628,344	-	-	172,628,344
Long-term Installments Payable	<u>40,712,024</u>	<u>2,000</u>	<u>1,432,024</u>	<u>39,282,000</u>
Total Debt	<u>\$ 270,351,972</u>	<u>\$ 2,000</u>	<u>\$ 4,138,868</u>	<u>\$ 266,215,104</u>

Corona Utility Authority Budget Variances – Water Utility

The original budget of fiscal year 2008-09 (or adopted) for Water utility was in the amount of \$55,469,544, compared to the revised beginning budget in the amount of \$69,845,250, there was a net increase of \$14,375,706. The increase included a carry over of prior fiscal year's unspent capital improvement projects appropriations of \$10,422,536 as well as committed purchase orders of \$3,953,170.

Original Budget	\$ 55,469,544
Continued Appropriations	10,422,536
Encumbrances	<u>3,953,170</u>
Beginning Balance	69,845,250
Supplemental Changes	<u>(2,795,430)</u>
Final Budget	<u>\$ 67,049,820</u>

The fiscal year 2008-09's final budget of \$67,049,820 was a reduction of \$2,795,430 from the beginning budget of \$69,845,250. This was a result of an overall reduction of appropriations to the Water utility. During the fiscal year, an additional appropriation was approved in the amount of \$700,000 for the construction of Well No. 31. After an evaluation of various other capital projects, many were reduced or closed. The following are the major capital projects where reductions occurred: \$310,030 for Waterline Replacement – Weirick Road, \$287,000 for Emergency Waterline Repair, \$263,250 for Waterline Installation Sixth Street, \$224,585 for the Replacement of Existing Pressure Reducing Stations, \$200,000 for Implementation of Groundwater Management Objectives, \$176,825 for the Sierra Del Oro Filter Valve Replacement, \$135,645 for Mechanical Systems Repair and Replacement at Water Treatment Facilities, \$115,795 for New Pressure Reducing Stations, \$114,520 for Water Facilities Security Enhancements, \$104,765 for Local Groundwater Augmentation Efforts, \$103,160 for the Automated Meter Reading System, \$101,555 for Minor Water System Improvements, \$90,000 for Waterline Replacement – Small Pipeline Projects, \$90,000 for Sierra Del Oro/Mangular Reservoir Rehabilitation, and \$80,935 for Water Facilities Aesthetics Improvements.

CORONA UTILITY AUTHORITY

Management's Discussion and Analysis, continued
Year Ended June 30, 2009

Corona Utility Authority Budget Variances – Water Reclamation Utility

The original budget of fiscal year 2008-09 (or adopted) for Water Reclamation utility was in the amount of \$31,247,911, comparing to the revised beginning budget in the amount of \$40,363,842, there was a net increase of \$9,115,931. The increase included a carry over of prior fiscal year's unspent capital improvement projects appropriations of \$8,642,583 as well as committed purchase orders of \$473,348.

Original Budget	\$	31,247,911
Continued Appropriations		8,642,583
Encumbrances		473,348
Beginning Balance		40,363,842
Supplemental Changes		(3,956,907)
Final Budget	\$	<u>36,406,935</u>

The fiscal year 2008-09's final budget of \$34,406,935 was a reduction of \$3,956,907 from the beginning budget of \$40,363,842. This was a result of an overall reduction of appropriations to the Water Reclamation utility. After an evaluation of various capital projects, many were reduced or closed. The following are the major capital projects where reductions occurred: \$500,000 for Collection System Deficiencies, \$399,850 for Sewer Main Replacement – Lincoln, \$393,800 for the Bioreactor Membrane Replacement at Water Reclamation Facility #3, \$318,695 for the Prado Basin Corps of Engineers Levee, \$222,375 for Emergency Sewer Repair/Replacement, \$214,540 for Corrosion Control for Water Reclamation Infrastructure, \$200,000 for Instrumentation Enhancement at Water Reclamation Facilities, \$177,250 for Sewer Main Rehabilitation, \$177,010 for System Repairs, Replacement and Upgrades at Water Reclamation Facility #3, \$170,670 for Regional Studies, \$148,840 for Water Reclamation Telemetry Upgrades, \$148,495 for Cota Street Lift Station, \$131,965 for Facilities Security Enhancements, and \$60,160 for Electrical Service Upgrades at Water Reclamation Facility #2.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The Water utility is expected to serve over 42,000 customers with approximately 41,500-acre feet of water in fiscal year 2009-10. The recycled water system will provide 5,000-acre feet of reclaimed water to parks and commercial customers.
- The Water Reclamation system is expected to treat about 13.5 million gallons of sewage per day in fiscal year 2009-10.

CORONA UTILITY AUTHORITY

Management's Discussion and Analysis, continued
Year Ended June 30, 2009

Water utility sales and the water reclamation service charges are expected to increase slightly less than 1% from the previous budget year projections based on normal usage.

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 or need any additional financial information, contact the City of Corona Finance Department 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, 2009

	Water	Water Reclamation	Total
Assets:			
Current Assets			
Cash and Investments	\$ 30,647,566	\$ 25,071,215	\$ 55,718,781
Accounts Receivable, Net	7,956,220	1,801,474	9,757,694
Interest Receivable	249,693	204,170	453,863
Due from Other Governmental Agencies	1,011,275	-	1,011,275
Inventories and Prepayments	2,615,463	-	2,615,463
Restricted Assets:			
Cash and Investments	415,194	18,590	433,784
Total Current Assets	42,895,411	27,095,449	69,990,860
Noncurrent Assets			
Interfund Advances from the City	473,875	-	473,875
Long-term Agreement Receivable	16,000,000	-	16,000,000
Capital Assets:			
Land, water reclamation rights & construction in progress	24,932,969	6,157,986	31,090,955
Depreciable buildings, property, equipment and infrastructure, net	189,575,503	108,479,802	298,055,305
Total Noncurrent Assets	230,982,347	114,637,788	345,620,135
Total Assets	273,877,758	141,733,237	415,610,995
Liabilities:			
Current Liabilities			
Accounts Payable and Accrued Liabilities	5,361,014	1,579,055	6,940,069
Unearned Revenue	859,786	-	859,786
Compensated Absences Payable	442,781	287,009	729,790
Long-term Debt - Due within one year	2,532,691	1,868,340	4,401,031
Liabilities Payable from Restricted Assets	415,194	18,590	433,784
Total Current Liabilities	9,611,466	3,752,994	13,364,460
Noncurrent Liabilities			
Unearned Revenue	17,000,000	-	17,000,000
Interfund Advances due to the City	-	13,631,136	13,631,136
Compensated Absences Payable	66,314	-	66,314
Long-term Debt - Due in More than One Year	169,024,012	81,156,925	250,180,937
Total Noncurrent Liabilities	186,090,326	94,788,061	280,878,387
Total Liabilities	195,701,792	98,541,055	294,242,847
Net Assets:			
Invested in Capital Assets, Net of Related Debt	42,951,769	17,981,387	60,933,156
Restricted	-	-	-
Unrestricted	35,224,197	25,210,795	60,434,992
Total Net Assets	\$ 78,175,966	\$ 43,192,182	\$ 121,368,148

CORONA UTILITY AUTHORITY**Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2009**

	<u>Water</u>	<u>Water Reclamation</u>	<u>Totals</u>
Operating Revenues:			
Utility Service Charges	\$ 45,218,491	\$ 25,780,759	\$ 70,999,250
Fees and Permits	1,670,929	183,004	1,853,933
Fines and Penalties	1,275,415	17,000	1,292,415
Other Revenues	1,491,519	593,015	2,084,534
Total Operating Revenues	<u>49,656,354</u>	<u>26,573,778</u>	<u>76,230,132</u>
Operating Expenses:			
Personnel Services	7,373,534	5,537,962	12,911,496
Contractual	1,761,776	777,539	2,539,315
Materials and Supplies	19,082,976	9,449,136	28,532,112
Utilities	6,676,334	3,903,184	10,579,518
Depreciation	5,709,852	4,154,390	9,864,242
Total Operating Expenses	<u>40,604,472</u>	<u>23,822,211</u>	<u>64,426,683</u>
Operating Income (Loss)	<u>9,051,882</u>	<u>2,751,567</u>	<u>11,803,449</u>
Non-Operating Revenues (Expenses):			
Investment Earnings	1,665,544	1,431,538	3,097,082
Interest Expense	(5,680,141)	(3,018,670)	(8,698,811)
Other Expense	(460,780)	-	(460,780)
Total Non-Operating Revenues	<u>(4,475,377)</u>	<u>(1,587,132)</u>	<u>(6,062,509)</u>
Income (Loss) before Contributions and Operating Transfers	4,576,505	1,164,435	5,740,940
Capital Grants and Contributions	<u>3,422,991</u>	<u>3,267,478</u>	<u>6,690,469</u>
Change in Net Assets	7,999,496	4,431,913	12,431,409
Total Net Assets - Beginning, as Restated	70,176,470	38,760,269	108,936,739
Total Net Assets - Ending	<u>\$ 78,175,966</u>	<u>\$ 43,192,182</u>	<u>\$121,368,148</u>

See Accompanying Notes to Basic Component Unit Financial Statements

CORONA UTILITY AUTHORITY

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2009

	Water	Water Reclamation	Totals
Cash Flow from Operating Activities:			
Cash Received from Customers/Other Funds	\$ 49,689,746	\$ 26,695,114	\$ 76,384,860
Cash Payments to Suppliers of Goods and Services	(29,035,487)	(14,710,372)	(43,745,859)
Cash Payments to Employees for Services	(7,372,145)	(5,586,687)	(12,958,832)
Net Cash Provided by (Used for) Operating Activities	<u>13,282,114</u>	<u>6,398,055</u>	<u>19,680,169</u>
Cash Flows from Noncapital Financing Activities:			
Payments Received from Other Governmental Agencies	1,000,000	-	1,000,000
Unearned Revenue	(895,941)		(895,941)
Cash Payments to Other Funds	(460,780)		(460,780)
Interfund Advance Payable	-	(699,929)	(699,929)
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>(356,721)</u>	<u>(699,929)</u>	<u>(1,056,650)</u>
Cash Flows from Capital and Related Financing Activities:			
Capital Grants and Contributions	987,296	976,244	1,963,541
Acquisition and Construction of Capital Assets	(7,550,676)	(875,962)	(8,426,638)
Principal Paid on Capital Debt	(2,337,254)	(1,101,685)	(3,438,939)
Proceeds from Capital Debt	2,000,000	-	2,000,000
Interest Paid on Capital Debt	(5,680,141)	(3,018,670)	(8,698,811)
Net Cash (Used for) Capital and Related Financing Activities	<u>(12,580,775)</u>	<u>(4,020,073)</u>	<u>(16,600,848)</u>
Cash Flows from Investing Activities:			
Interest on Investments	1,760,692	1,479,100	3,239,792
Net Cash Provided by (Used for) Investing Activities	<u>1,760,692</u>	<u>1,479,100</u>	<u>3,239,792</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>2,105,310</u>	<u>3,157,153</u>	<u>5,262,463</u>
Cash and Cash Equivalents			
Beginning, Restated	28,957,450	21,932,652	50,890,102
Ending (including \$433,784 in restricted accounts)	<u>\$ 31,062,760</u>	<u>\$ 25,089,805</u>	<u>\$ 56,152,565</u>

CORONA UTILITY AUTHORITY**Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2009**

	<u>Water</u>	<u>Water Reclamation</u>	<u>Totals</u>
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities:			
Operating Income (Loss)	\$ 9,051,882	\$ 2,751,567	\$ 11,803,449
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities:			
Depreciation	5,709,852	4,154,390	9,864,242
Changes in Assets and Liabilities:			
Accounts Receivable	44,667	121,336	166,003
Due from Other Governmental Agencies	(11,275)	-	(11,275)
Inventories and Prepayments	(880,180)	-	(880,180)
Accounts Payable and Accrued Liabilities	(634,221)	(580,513)	(1,214,734)
Compensated Absences Payable	1,389	(48,725)	(47,336)
Net Cash Provided by (Used for) Operating Activities	<u>\$ 13,282,114</u>	<u>\$ 6,398,055</u>	<u>\$ 19,680,169</u>
Noncash Investing, Capital, and Financing Activities:			
Contributions of capital assets from developers	<u>\$ 2,435,695</u>	<u>\$ 2,291,234</u>	<u>\$ 4,726,929</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, 2009

1. Reporting Entity and Summary of Significant Accounting Policies

A. Description of the Reporting Entity

The Corona Utility Authority (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.

The Authority consists of the Water Enterprise Fund and the Water Reclamation Enterprise Fund. These funds account for the operations of the Water Utility and Water Reclamation System, respectively. Both funds render services on a user charge basis to residents and businesses located within 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 expenses, as appropriate.

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 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.

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

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements

Year Ended June 30, 2009, continued

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.

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 Authority pools cash with the City's 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.

4. 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, 2009, continued

E. 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.

F. 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.

G. 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.

H. 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 for non-infrastructure items and \$100,000 for infrastructure assets. 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

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.

The Authority reports all infrastructure in its basic financial statements in accordance to the Governmental Accounting Standards Board (GASB) Statement No. 34.

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements Year Ended June 30, 2009, continued

2. Cash and Investments

The Authority's cash is pooled with City funds for investment purposes, with interest being allocated on the basis of the Authority's overall percentage of 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, 2009 cash and investments of the Authority was as follows:

Unrestricted Cash and Investments - Pooled Cash	\$	55,718,781
Restricted Cash and Investments:		
Retention & Escrow Accounts		433,784
Total Cash and Investments	\$	56,152,565

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. Receivables

As of June 30, 2009, the Authority had \$9,757,694 in accounts receivables. Receivables are reported net of allowance for uncollectibles, which were established based on current collection experience. Allowances for uncollectibles were \$227,053 for water utility billing.

4. Long-Term Interagency Receivable

As of June 30, 2009, the Authority has an interagency receivable 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.

5. Long-Term Agreement Receivable/Unearned Revenues

The Long-Term Receivable and corresponding Unearned 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 unearned revenues consist of water customer prepayments.

6. Capital Assets

In accordance with GASB Statement No. 34, the Authority has reported all capital assets including infrastructure in the 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 table on the following page presents summary information on infrastructure assets.

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements

Year Ended June 30, 2009, continued

Infrastructure Assets

Description	Historical Cost	Accumulated Depreciation	Net Cost
Business-Type Activities:			
Basic Approach:			
Water	\$ 179,899,823	\$ (36,740,106)	\$ 143,159,717
Water Reclamation	71,516,865	(13,717,869)	57,798,996
Total Business-Type Activities	\$ 251,416,688	\$ (50,457,975)	\$ 200,958,713

Capital Assets of the Authority for the year ended June 30, 2009, consisted of the following:

	Restated Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Business-Type Activities				
Land	\$ 2,295,366	\$ -	\$ -	\$ 2,295,366
Buildings and Improvements	88,280,508	1,045,976	(46,416)	89,280,068
Machinery and Equipment	59,677,937	846,046	(45,726)	60,478,257
Water Reclamation rights	9,180,000			9,180,000
Construction in Progress	16,079,048	6,473,941	(2,937,401)	19,615,588
Infrastructure	243,599,543	7,817,145		251,416,688
Total	\$ 419,112,402	\$ 16,183,108	\$ (3,029,543)	\$ 432,265,967
Accumulated Depreciation	(93,320,328)	(9,864,242)	64,863	(103,119,707)
Total Capital Assets	\$ 325,792,074	\$ 6,318,866	\$ (2,964,680)	\$ 329,146,260

Beginning balance for capital assets has been restated by \$1,737,461 due to a reclassification of Water construction in progress to maintenance and repairs expenses. Refer to Note 11 for additional information.

7. Compensated Absences

As of June 30, 2009, the Authority has compensated absences of \$796,104 which represent accumulated annual leave. As shown in the table below, the long-term portion of this debt, amounting to \$66,314 and is expected to be paid in future years from future resources.

	Balance July 1, 2008	Incurred	Satisfied	Balance June 30, 2009	Amounts Due Within One Year	Amounts Due in More than One Year
Water	\$ 507,706	\$ 432,645	\$ 431,256	\$ 509,095	\$ 442,781	\$ 66,314
Water Reclamation	335,734	317,043	365,768	287,009	287,009	-
Total	\$ 843,440	\$ 749,688	\$ 797,024	\$ 796,104	\$ 729,790	\$ 66,314

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements **Year Ended June 30, 2009, continued**

8. Long-Term Obligations

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2009:

	Balance July 1, 2008	Incurred or Issued	Satisfied or Matured	Balance June 30, 2009	Amounts Due Within One Year	Amounts Due in More Than One Year
Contracts Payable	690,391	-	-	690,391	-	690,391
Term Loans Payable	41,990,148	-	2,364,710	39,625,438	2,418,786	37,206,652
Loans Payable	14,331,065	-	342,134	13,988,931	357,795	13,631,136
Capital Leases	172,628,344	-	-	172,628,344	-	172,628,344
Long Term Installments	40,712,024	2,000,000	1,432,024	41,280,000	1,624,450	39,655,550
Totals	\$ 270,351,972	\$ 2,000,000	\$ 4,138,868	\$ 268,213,104	\$ 4,401,031	\$ 263,812,073

A. Contracts Payable

Contracts Payable arise from the acquisition of certain water and water reclamation facilities and represent amounts due to Western Municipal Water District payable from future water and water reclamation 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, 2009 was \$690,391.

B. Term Loans Payable

The following Term Loans Payable were outstanding at June 30, 2009:

Loan	Balance
State Revolving Fund Loan Contract No. 6-807-5850-0	\$ 12,955,280
State Revolving Fund Loan Contract No. C-06-4802-110	26,670,158
Total Term Loans Payable	\$ 39,625,438

On September 17, 1996, and February 20, 1997, the Authority 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 \$22,854,357, for expansion of the Water Reclamation 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, 2009 was \$12,955,280.

CORONA UTILITY AUTHORITY**Notes to the Component Unit Basic Financial Statements
Year Ended June 30, 2009, continued**

Fiscal Year	State Revolving Fund Loan 6-807-5850-0		
	Principal	Interest	Total
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	1,239,059	264,234	1,503,293
2014	1,273,752	229,541	1,503,293
2015-2019	6,924,134	592,331	7,516,465
Totals	\$ 12,955,280	\$ 2,077,650	\$ 15,032,930

On June 10, 2003, the Authority 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 \$30,228,817, for construction of facilities at the Water Reclamation 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 \$1,944,995 through the year 2026. The amount outstanding at June 30, 2009 was \$26,670,158.

Fiscal Year	State Revolving Fund Loan C-06-4802-110		
	Principal	Interest	Total
2010	\$ 1,278,241	\$ 666,754	\$ 1,944,995
2011	1,310,197	634,798	1,944,995
2012	1,342,952	602,043	1,944,995
2013	1,376,526	568,469	1,944,995
2014	1,410,939	534,056	1,944,995
2015-2019	7,601,769	2,123,207	9,724,976
2020-2024	8,600,703	1,124,272	9,724,975
2025-2026	3,748,831	141,160	3,889,991
Totals	\$ 26,670,158	\$ 6,394,759	\$ 33,064,917

C. Loans Payable

On June 30, 2008, the Corona Utility Authority entered into a loan agreement with the City of Corona to finance the acquisition of the Bio-solids Drying Facility from the City for a total of \$14,667,175. The outstanding loan bears interest from 4.25% to 5.00%. The Authority will make semi-annual payments through September 2031. Annual installments vary from \$1,006,373 to \$1,022,992. The outstanding loan amount at June 30, 2009 was \$13,988,931.

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements

Year Ended June 30, 2009, continued

Fiscal Year	Loans Payable to City - Bio-Solid Drying Facility		
	Principal	Interest	Total
2010	\$ 357,795	\$ 665,537	\$ 1,023,332
2011	373,456	650,018	1,023,474
2012	387,912	635,760	1,023,672
2013	402,369	621,930	1,024,299
2014	415,620	606,576	1,022,196
2015-2019	2,370,841	2,725,572	5,096,413
2020-2024	3,020,173	2,057,471	5,077,644
2025-2029	3,853,823	1,202,256	5,056,079
2030-2032	2,806,942	215,098	3,022,040
Totals	\$ 13,988,931	\$ 9,380,218	\$ 23,369,149

D. Capital Leases

a. Fund Financial Statements

Capital Leases at June 30, 2009 were as follows:

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

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 water reclamation 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 water reclamation facilities. The term of the leases are 55 years at which time the Authority will own the capital assets of the water and water reclamation facilities.

The capital assets of the water and water reclamation 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. For the fiscal year ending June 30, 2009, the annual lease payment was calculated with a 3.5% growth factor over the fiscal year 2007-08 base amount. The original fiscal year 2006-07 lease payment base was established (or calculated) as 8% of the appropriate sales revenue of that related activity. For fiscal year 2009-10, the lease payment is calculated with a 4% growth factor.

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements Year Ended June 30, 2009, continued

d. Capital Lease Payments

At June 30, 2009, the future minimum lease payments required under the capital leases and the net present value of the future lease payments are shown as follows:

Fiscal Year	Water Facility	Water Reclamation Facility
2010	\$ 3,458,942	\$ 1,860,095
2011	3,597,300	1,934,499
2012	3,741,192	2,011,879
2013	3,890,840	2,092,354
2014	4,046,473	2,176,048
2015-2019	19,054,299	10,453,649
2020-2024	16,362,575	9,449,272
2025-2029	13,773,044	8,372,315
2030-2034	11,230,164	7,189,592
2035-2039	9,156,769	6,173,947
2040-2044	7,422,799	5,286,365
2045-2049	5,782,758	4,282,765
2050-2054	4,422,263	3,402,053
2055-2056	880,244	1,123,849
Total Lease payments	\$ 106,819,662	\$ 65,808,682

e. 2009 Transactions

In fiscal year 2008-09, the following related party transactions were recorded by the City and the Authority:

Capital Lease Payment	Amount
Water Utility	\$ 3,325,906
Water Reclamation Utility	1,788,553
Total Payment from the Authority to the City	\$ 5,114,459

E. Long Term Installment Payable Agreements

As of June 30, 2009, the balances outstanding were:

Installment Agreement- 1997 Certificates of Participation	\$ 3,555,000
Installment Agreement- 2003 Certificates of Participation	6,400,000
Installment Agreement- 1998 Water Revenue Bonds	29,325,000
Installment Agreement – Elsinore Valley Municipal Water District	2,000,000
Total Long Term Installments Payable	\$ 41,280,000

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

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements

Year Ended June 30, 2009, continued

\$6,425,000 of the 1986 Sunkist Water Reclamation 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 Authority Water Reclamation Treatment Plant No. 2 (Sunkist Plant). The new bonds bear interest 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 an installment lease agreement (Corona Public Improvement Corporation to the Water Reclamation Utility) from revenues of the Water Reclamation Capacity Fund and as such have been shown as long-term obligations (Long-Term Installments Payable) of the Water Reclamation.

Fiscal Year	1997 Refunding Certificates of Participation		
	Principal	Interest	Total
2010	\$ 370,000	\$ 181,750	\$ 551,750
2011	385,000	162,305	547,305
2012	405,000	141,563	546,563
2013	430,000	119,220	549,220
2014	450,000	95,348	545,348
2015-2017	1,515,000	127,617	1,642,617
Totals	\$ 3,555,000	\$ 827,803	\$ 4,382,803

The Authority 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	2003 Certificates of Participation - Recycled Water		
	Principal	Interest	Total
2010	\$ 165,000	\$ 304,388	\$ 469,388
2011	170,000	297,275	467,275
2012	180,000	290,725	470,725
2013	185,000	284,338	469,338
2014	190,000	277,300	467,300
2015-2019	1,085,000	1,245,875	2,330,875
2020-2024	1,380,000	940,750	2,320,750
2025-2029	1,765,000	549,375	2,314,375
2030-2032	1,280,000	98,250	1,378,250
Totals	\$ 6,400,000	\$ 4,288,275	\$ 10,688,275

On December 10, 1998, the Corona Public Financing Authority issued \$36,690,000 in 1998 Water Revenue Bonds to finance the cost of certain improvements to the Authority'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

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements

Year Ended June 30, 2009, continued

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 \$10,025,000 due on September 1, 2018, 2023 and 2028, respectively. The revenue bonds are payable pursuant to an installment purchase agreement (Corona Public Financing Authority to Water Utility) from revenues of the Water Enterprise Fund and as such have been shown as long-term obligations (Long-Term Installment Payable) of the Water Utility.

Fiscal Year	1998 Water Revenue Bonds		
	Principal	Interest	Total
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	1,050,000	1,227,525	2,277,525
2014	1,100,000	1,178,600	2,278,600
2015-2019	6,305,000	5,045,806	11,350,806
2020-2024	7,950,000	3,359,913	11,309,913
2025-2029	10,025,000	1,234,406	11,259,406
Totals	\$ 29,325,000	\$ 15,991,194	\$ 45,316,194

On December 1, 2008, the Authority entered into an agreement with Elsinore Valley Municipal Water District for the acquisition of certain water facilities for a total of \$2,000,000. The Authority will make 10 equal payments of \$250,000 through June 2019. The amount outstanding at June 30, 2009 was \$2,000,000.

Fiscal Year	Elsinore Valley Municipal Water District Agreement		
	Principal	Interest	Total
2010	\$ 164,450	\$ 85,550	\$ 250,000
2011	171,484	78,516	250,000
2012	178,820	71,180	250,000
2013	186,469	63,531	250,000
2014	194,445	55,555	250,000
2015-2016	1,104,332	145,668	1,250,000
Totals	\$ 2,000,000	\$ 500,000	\$ 2,500,000

9. 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.

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements

Year Ended June 30, 2009, continued

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.

10. Risk Management

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As a blended component unit of the City of Corona, the Authority participates in the City's fully self-insured workers' compensation and general liability programs. The Authority is also insured on property losses through a City policy with coverage of \$100,000,000, and deductibles of \$50,000. The Authority pays into the City's risk management internal service funds through a citywide cost allocation plan.

11. Restatements

At June 30, 2009, the City revised certain bond covenant calculation which resulted in a decrease to net assets of \$375,262 and \$176,594 in Water and Water Reclamation enterprise funds respectively. The Electric enterprise fund reflected an increase to the net assets of \$551,856.

At June 30, 2009, the City reclassified a Water construction in progress project as repairs and maintenance that was incorrectly recorded in prior years. The impact to net assets was a decrease of \$1,737,461.

The following restatement amounts were reported as of June 30, 2009:

	<u>Water</u>	<u>Water Reclamation</u>	<u>Total</u>
Fund Balances/Net Assets:			
As previously reported	\$ 72,289,193	\$ 38,936,863	\$ 111,226,056
Prior Period Adjustments	<u>(2,112,723)</u>	<u>(176,594)</u>	<u>(2,289,317)</u>
As restated	<u>\$ 70,176,470</u>	<u>\$ 38,760,269</u>	<u>\$ 108,936,739</u>

12. Subsequent Event

Effective September 4, 2009, the Authority has been approved for cost of living increases and pass-through increases for the next five years for water rates.