

2011

Corona Utility Authority Corona, California

Component Unit Financial Statements and
Independent Auditors' Report
Year Ended June 30, 2011





To Cherish Our

CORONA

"THE CIRCLE CITY"

**Incorporated
July 13, 1896**

To Plan Our Future

CORONA UTILITY AUTHORITY

Component Unit Financial Statements**Year Ended June 30, 2011****Table of Contents**

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CERTIFIED PUBLIC ACCOUNTANTS

- Brandon W. Burrows, CPA
- David E. Hale, CPA, CFP
A Professional Corporation
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
- Bryan S. Gruber, CPA

INDEPENDENT AUDITORS' REPORT

Board of Directors of the Corona Utility Authority
Corona, California

We have audited the accompanying financial statements of each major fund of the Corona Utility Authority, a component unit of City of Corona, California, as of and for the year ended June 30, 2011, which collectively comprise the Corona Utility Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corona Utility Authority's management. Our responsibility is to express opinions on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1.A, the basic component unit financial statements present only the Corona Utility Authority and are not intended to present fairly the financial position and results of operation 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 Corona Utility Authority as of June 30, 2011, 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 our report dated November 23, 2011, on our consideration of the Corona Utility Authority'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 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.



CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors of the Corona Utility Authority
Corona, California

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Lance, Soll & Lingham, LLP

Brea, California
November 23, 2010

CORONA UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2011

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, 2011. 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 2010-11, the Authority reports total net assets of \$142.7 million.
- Capital assets decreased \$5.9 million.
- Total debt decreased \$3.9 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The 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 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 January 1, 2011, the Authority received a pass-through rate increase to the commodity charge for potable water, which increased tiered water rates effective March, 2011.

FINANCIAL ANALYSIS

The statement of net assets includes all of the Authority'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, 2011

The following schedule is a condensed version of the Corona Utility Authority's statement of net assets for fiscal years end June 30, 2011 and 2010:

Table 1
Corona Utility Authority's Net Assets
(in millions)

| | <u>2011</u> | <u>2010</u> | <u>Dollar Change</u> | <u>Percentage Change</u> |
|--|-----------------|-----------------|--------------------------|------------------------------|
| Current Assets | \$ 90.3 | \$ 80.4 | \$ 9.9 | 12.3% |
| Noncurrent Assets | 0.5 | 0.5 | - | 0.0% |
| Capital Assets | 321.4 | 327.3 | (5.9) | -1.8% |
| Total Assets | <u>412.2</u> | <u>408.2</u> | <u>4.0</u> | <u>1.0%</u> |
| | | | | |
| Current and Other Liabilities | 9.4 | 7.6 | 1.8 | 23.7% |
| Debt Outstanding | 260.1 | 264.0 | (3.9) | -1.5% |
| Total Liabilities | <u>269.5</u> | <u>271.6</u> | <u>(2.1)</u> | <u>-0.8%</u> |
| | | | | |
| Net Assets | | | | |
| Invested in Capital Assets, Net of Related Debt | 61.3 | 63.3 | (2.0) | -3.2% |
| Unrestricted | 81.4 | 73.3 | 8.1 | 11.1% |
| Total Net Assets | <u>\$ 142.7</u> | <u>\$ 136.6</u> | <u>\$ 6.1</u> | <u>4.5%</u> |

The Corona Utility Authority's net assets increased 4.5% between fiscal years 2010 and 2011, to \$142.7 million.

Capital assets decreased \$5.9 million due to the net of depreciation and improvements to the water and water reclamation systems.

Outstanding long-term debt decreased overall by \$3.9 million due to scheduled principal payments of \$5.1 million and the increase of loan payable in the amount of \$1.2 million.

Unrestricted net assets increased 11.1% to \$81.4 million.

CORONA UTILITY AUTHORITY

Management's Discussion and Analysis (continued)
Year Ended June 30, 2011

Table 2 below is a condensed version of the Authority's statement of revenues, expenses and change in net assets for the fiscal years ended June 30, 2011 and 2010 respectively.

Table 2

Corona Utility Authority's Changes in Net Assets
(in millions)

| | <u>2011</u> | <u>2010</u> | <u>Dollar Change</u> | <u>Percentage Change</u> |
|--|-----------------|-----------------|--------------------------|------------------------------|
| Operating Revenue | \$ 75.5 | \$ 83.3 | \$ (7.8) | -9.4% |
| Non-operating Revenue | 1.8 | 2.7 | (0.9) | -33.3% |
| Total Revenues | <u>77.3</u> | <u>86.0</u> | <u>(8.7)</u> | <u>-10.1%</u> |
| Operating Expense | 49.3 | 56.1 | (6.8) | -12.1% |
| Depreciation Expense | 10.3 | 10.0 | 0.3 | 3.0% |
| Non-operating Expense | 13.4 | 9.4 | 4.0 | 42.6% |
| Total Expenses | <u>73.0</u> | <u>75.5</u> | <u>(2.5)</u> | <u>-3.3%</u> |
| Income Before Capital Contributions and Transfers | 4.3 | 10.5 | (6.2) | -59.0% |
| Capital Contributions | <u>3.2</u> | <u>4.7</u> | <u>(1.5)</u> | <u>-31.9%</u> |
| Change in Net Assets | 7.5 | 15.2 | (7.7) | -50.7% |
| Beginning Net Assets, Restated | <u>135.2</u> | <u>121.4</u> | <u>13.8</u> | <u>11.4%</u> |
| Ending Net Assets | <u>\$ 142.7</u> | <u>\$ 136.6</u> | <u>\$ 6.1</u> | <u>4.5%</u> |

The Authority's operating revenue decreased by 9.4% due to decrease in other revenues and miscellaneous refunds. Operating expenses decreased 12.1% due to lower utility expenses.

Capital contribution decreased by 31.9% due to decrease in contributed capital asset and developer impact fee revenues.

CORONA UTILITY AUTHORITY

Management's Discussion and Analysis (continued)
Year Ended June 30, 2011

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, 2011, net capital assets of the Authority totaled \$321.4 million. Refer to the Notes to the Component Unit Basic Financial Statements No. 5 for details regarding capital assets.

Corona Utility Authority's Capital Assets
(in millions)

| | <u>Original Cost</u> | <u>Accumulated Depreciation</u> | <u>Book Value</u> |
|---|--------------------------|-------------------------------------|-----------------------|
| Water Utilities | | | |
| Land | \$ 2.0 | \$ - | \$ 2.0 |
| Water Reclamation Rights | 9.2 | - | 9.2 |
| Buildings and Improvements | 45.3 | (15.2) | 30.1 |
| Equipment, Vehicles & Machinery | 33.4 | (17.0) | 16.4 |
| Construction in Progress | 3.4 | - | 3.4 |
| Infrastructure | 192.5 | (43.3) | 149.2 |
| Total Water Capital Assets | <u>285.8</u> | <u>(75.5)</u> | <u>210.3</u> |
| Water Reclamation Utilities | | | |
| Land | 0.6 | - | 0.6 |
| Buildings and Improvements | 44.2 | (15.6) | 28.6 |
| Equipment, Vehicles & Machinery | 31.9 | (15.3) | 16.6 |
| Construction in Progress | 3.9 | - | 3.9 |
| Infrastructure | 77.7 | (16.3) | 61.4 |
| Total Water Reclamation Capital Assets | <u>158.3</u> | <u>(47.2)</u> | <u>111.1</u> |
| Total Capital Assets | <u>\$ 444.1</u> | <u>\$ (122.7)</u> | <u>\$ 321.4</u> |

DEBT ADMINISTRATION

The debt of the Corona Utility Authority decreased in Fiscal Year 2010-11 by \$3.9 million. This is the result of a \$5.1 million retirement of debt from scheduled principal payments, net against the issuance of a new loan to finance the construction of a reclaimed water line for El Cerrito Park. Refer to the Notes to the Component Unit Basic Financial Statements No. 7 for additional information.

CORONA UTILITY AUTHORITY

Management's Discussion and Analysis (continued)
Year Ended June 30, 2011

Below is the summary of long-term obligation transactions of the Authority for the year ended June 30, 2011.

| | <u>Balance July 1, 2010</u> | <u>Incurred or Issued</u> | <u>Satisfied or Matured</u> | <u>Balance June 30, 2011</u> |
|--------------------------------|---------------------------------|-------------------------------|---------------------------------|----------------------------------|
| Contract Payable | \$ 690,391 | \$ - | \$ - | \$ 690,391 |
| Term Loan Payable | 37,206,652 | - | 2,482,678 | 34,723,974 |
| Loan Payable | 13,631,135 | 1,250,000 | 873,455 | 14,007,680 |
| Capital Lease | 172,628,344 | - | - | 172,628,344 |
| Long-term Installments Payable | <u>39,855,550</u> | <u>-</u> | <u>1,791,484</u> | <u>38,064,066</u> |
| Total Debt | <u><u>\$ 264,012,072</u></u> | <u><u>\$ 1,250,000</u></u> | <u><u>\$ 5,147,617</u></u> | <u><u>\$ 260,114,455</u></u> |

CORONA UTILITY AUTHORITY BUDGETARY HIGHLIGHTS

The original budget of Fiscal Year 2010-11 for the Water utility was \$60,407,331. The beginning balance of the adopted budget was increased by \$14,896,235 due to the carry over of prior fiscal year's unspent capital improvement projects appropriations of \$14,255,810 and encumbered purchase orders of \$640,425.

| | |
|--------------------------|-----------------------------|
| Original Budget | \$ 60,407,331 |
| Continued Appropriations | 14,255,810 |
| Encumbrances | <u>640,425</u> |
| Adopted Budget | 75,303,566 |
| Supplemental Changes | <u>3,425,868</u> |
| Final Budget | <u><u>\$ 78,729,434</u></u> |

The Fiscal Year 2010-11's final budget of \$78,729,434 was an increase of \$3,425,868 from the adopted budget of \$75,303,566. This was a result of an overall increase of appropriations to the Water utility. During the fiscal year, catch-up lease payments were made in the amount of \$2,600,000. Also, additional appropriations were approved in the amount of \$1,500,000 for the relocation of Well No. 24 and \$670,450 for the realignment of the Alta Vista Waterline. After an evaluation of various other capital projects, many were reduced or eliminated. The following are the major capital projects that had significant reductions: \$2,000,000 for the Transmission Main Zone 5, \$700,000 for the Proposition 50 Project, \$500,000 for the Chase Reclaimed Waterline, and \$500,000 for the Stagecoach Park Reclaimed Water.

The original budget of Fiscal Year 2010-11 for Water Reclamation utility was in the amount of \$33,382,771. Compared to the revised beginning budget in the amount of \$40,495,187, there was a net increase of \$7,112,416. The increase included a carry over of prior fiscal year's unspent capital improvement projects appropriations of \$6,610,020 as well as encumbered purchase orders of \$502,396.

CORONA UTILITY AUTHORITY

Management's Discussion and Analysis (continued)
Year Ended June 30, 2011

Although there was an increase in the amount of \$1,400,000 in appropriations for catch-up lease payments, the Fiscal Year 2010-11's final budget of \$39,330,243 was a reduction of \$1,164,944 from the adopted budget of \$40,495,187. This was a result of major reduction to the Water Reclamation utility's capital improvement project appropriations. The following are the main capital projects that had significant budgetary reductions: \$4,000,000 for the Water Reclamation Facility 1B Expansion, \$390,000 for the Sewer Main Replacement – Rincon, and \$388,697 for the Lift Station Improvement at Water Reclamation Facility No. 2. Additional appropriations of \$1,720,000 were made for the Membrane Bioreactor Project.

Changes to the original budget of Water Reclamation utility are presented below:

| | |
|--------------------------|----------------------|
| Original Budget | \$ 33,382,771 |
| Continued Appropriations | 6,610,020 |
| Encumbrances | <u>502,396</u> |
| Adopted Budget | 40,495,187 |
| Supplemental Changes | <u>(1,164,944)</u> |
| Final Budget | <u>\$ 39,330,243</u> |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The Water utility is expected to serve over 41,500 customers with approximately 40,000-acre feet of water in Fiscal Year 2011-12. The reclaimed water system will provide 4,000-acre feet of reclaimed water to parks, schools, institutional and commercial customers.
- The Water Reclamation system is expected to treat about 14.75 million gallons of sewage per day in Fiscal Year 2011-12.

Water utility sales are estimated to increase by 9.15% from the previous budget year projections due to rate increases for potable and reclaimed water and historical consumption factors. The water reclamation service charges are expected to increase by 6.4% from the previous budget year projections due to a rate increase and normal usage patterns.

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****June 30, 2011**

| | <u>Water</u> | <u>Water Reclamation</u> | <u>Total</u> |
|--|----------------------|------------------------------|-----------------------|
| Assets: | | | |
| Current Assets | | | |
| Cash and Investments | \$ 42,948,684 | \$ 32,565,451 | \$ 75,514,135 |
| Accounts Receivable, Net | 7,940,781 | 1,909,570 | 9,850,351 |
| Interest Receivable | 227,275 | 172,951 | 400,226 |
| Due from Other Governmental Agencies | 1,783,928 | 2,710 | 1,786,638 |
| Inventories and Prepayments | 2,520,961 | | 2,520,961 |
| Restricted Assets: | | | |
| Cash and Investments | 56,088 | 160,246 | 216,334 |
| Total Current Assets | <u>55,477,717</u> | <u>34,810,928</u> | <u>90,288,645</u> |
| Noncurrent Assets | | | |
| Interfund Advances from the City | 473,875 | | 473,875 |
| Long-term Agreement Receivable | 15,366 | 14,552 | 29,918 |
| Capital Assets: | | | |
| Intangible Assets | 38,204 | | 38,204 |
| Land, water reclamation rights & construction in progress | 14,590,070 | 4,580,587 | 19,170,657 |
| Depreciable buildings, property, equipment and infrastructure, net | 195,659,350 | 106,508,980 | 302,168,330 |
| Total Noncurrent Assets | <u>210,776,865</u> | <u>111,104,119</u> | <u>321,880,984</u> |
| Total Assets | <u>266,254,582</u> | <u>145,915,047</u> | <u>412,169,629</u> |
| Liabilities: | | | |
| Current Liabilities | | | |
| Accounts Payable and Accrued Liabilities | 4,875,152 | 2,094,996 | 6,970,148 |
| Unearned Revenue | 1,597,310 | | 1,597,310 |
| Compensated Absences Payable | 367,894 | 245,646 | 613,540 |
| Long-term Debt - Due within one year | 3,306,772 | 1,998,222 | 5,304,994 |
| Liabilities Payable from Restricted Assets | 56,088 | 160,246 | 216,334 |
| Total Current Liabilities | <u>10,203,216</u> | <u>4,499,110</u> | <u>14,702,326</u> |
| Noncurrent Liabilities | | | |
| Unearned Revenue | | | |
| Interfund Advances due to the City | | | |
| Compensated Absences Payable | | | |
| Long-term Debt - Due in More than One Year | 163,950,558 | 90,858,903 | 254,809,461 |
| Total Noncurrent Liabilities | <u>163,950,558</u> | <u>90,858,903</u> | <u>254,809,461</u> |
| Total Liabilities | <u>174,153,774</u> | <u>95,358,013</u> | <u>269,511,787</u> |
| Net Assets: | | | |
| Invested in Capital Assets, Net of Related Debt | 43,030,294 | 18,232,442 | 61,262,736 |
| Unrestricted | 49,070,514 | 32,324,592 | 81,395,106 |
| Total Net Assets | <u>\$ 92,100,808</u> | <u>\$ 50,557,034</u> | <u>\$ 142,657,842</u> |

See accompanying notes to basic component unit financial statements.

CORONA UTILITY AUTHORITY**Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended June 30, 2011**

| | Water | Water Reclamation | Totals |
|--|----------------------|------------------------------|-----------------------|
| Operating Revenues: | | | |
| Utility Service Charges | \$ 45,737,724 | \$ 26,317,303 | \$ 72,055,027 |
| Fees and Permits | 1,224,845 | 461,067 | 1,685,912 |
| Fines and Penalties | 638,714 | 370,058 | 1,008,772 |
| Other Revenues | 502,704 | 212,775 | 715,479 |
| Total Operating Revenues | <u>48,103,987</u> | <u>27,361,203</u> | <u>75,465,190</u> |
| Operating Expenses: | | | |
| Personnel Services | 7,193,372 | 4,764,074 | 11,957,446 |
| Contractual | 1,796,244 | 1,405,091 | 3,201,335 |
| Materials and Supplies | 18,066,643 | 8,206,714 | 26,273,357 |
| Utilities | 5,149,183 | 2,695,946 | 7,845,129 |
| Depreciation | 6,103,574 | 4,199,202 | 10,302,776 |
| Total Operating Expenses | <u>38,309,016</u> | <u>21,271,027</u> | <u>59,580,043</u> |
| Operating Income (Loss) | <u>9,794,971</u> | <u>6,090,176</u> | <u>15,885,147</u> |
| Non-Operating Revenues (Expenses): | | | |
| Investment Earnings | 936,325 | 693,193 | 1,629,518 |
| Operating Grants and Contributions | 122,308 | | 122,308 |
| Interest Expense | (8,482,508) | (4,446,856) | (12,929,364) |
| Other Expense | (460,780) | | (460,780) |
| Total Non-Operating Revenues | <u>(7,884,655)</u> | <u>(3,753,663)</u> | <u>(11,638,318)</u> |
| Income Before Contribution and Transfers | 1,910,316 | 2,336,513 | 4,246,829 |
| Capital Grants and Contributions | 2,549,714 | 695,353 | 3,245,067 |
| Change in Net Assets | 4,460,030 | 3,031,866 | 7,491,896 |
| Total Net Assets - Beginning | 88,421,184 | 48,148,902 | 136,570,086 |
| Restatement | <u>(780,406)</u> | <u>(623,734)</u> | <u>(1,404,140)</u> |
| Total Net Assets - Beginning, As Restated | <u>87,640,778</u> | <u>47,525,168</u> | <u>135,165,946</u> |
| Total Net Assets - Ending | <u>\$ 92,100,808</u> | <u>\$ 50,557,034</u> | <u>\$ 142,657,842</u> |

See accompanying notes to basic component unit financial statements.

CORONA UTILITY AUTHORITY**Statement of Cash Flows****Year Ended June 30, 2011**

| | <u>Water</u> | <u>Water Reclamation</u> | <u>Totals</u> |
|---|----------------------|------------------------------|----------------------|
| Cash Flow from Operating Activities: | | | |
| Cash Received from Customers/Other Funds | \$ 46,744,141 | \$ 27,291,720 | \$ 74,035,861 |
| Cash Payments to Suppliers of Goods and Services | (23,423,989) | (11,639,985) | (35,063,974) |
| Cash Payments to Employees for Services | (7,282,980) | (4,806,949) | (12,089,929) |
| Net Cash Provided by (Used for) Operating Activities | <u>16,037,172</u> | <u>10,844,786</u> | <u>26,881,958</u> |
| Cash Flows from Noncapital Financing Activities: | | | |
| Operating Grants and Contributions | 122,308 | - | 122,308 |
| Cash Payments to Other Funds | (460,780) | - | (460,780) |
| Net Cash Used for Noncapital Financing Activities | <u>(338,472)</u> | <u>-</u> | <u>(338,472)</u> |
| Cash Flows from Capital and Related Financing Activities: | | | |
| Capital Grants and Contributions | 2,216,522 | 369,490 | 2,586,013 |
| Acquisition and Construction of Capital Assets | (2,783,436) | (2,379,850) | (5,163,286) |
| Proceeds from Sale of Capital Assets | - | 44,426 | 44,426 |
| Principal Paid on Capital Debt | (3,216,682) | (1,930,935) | (5,147,617) |
| Proceeds from Capital Debt | 1,250,000 | - | 1,250,000 |
| Interest Paid on Capital Debt | (8,482,508) | (4,446,856) | (12,929,364) |
| Net Cash Used for Capital and Related Financing Activities | <u>(11,016,104)</u> | <u>(8,343,725)</u> | <u>(19,359,829)</u> |
| Cash Flows from Investing Activities: | | | |
| Interest on Investments | 950,403 | 709,819 | 1,660,222 |
| Net Cash Provided by (Used for) Investing Activities | <u>950,403</u> | <u>709,819</u> | <u>1,660,222</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | <u>5,632,999</u> | <u>3,210,880</u> | <u>8,843,879</u> |
| Cash and Cash Equivalents | | | |
| Beginning | <u>37,371,773</u> | <u>29,514,817</u> | <u>66,886,590</u> |
| Ending (including \$216,334 in restricted accounts) | <u>\$ 43,004,772</u> | <u>\$ 32,725,697</u> | <u>\$ 75,730,469</u> |
| Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities: | | | |
| Operating Income (Loss) | \$ 9,794,971 | \$ 6,090,176 | \$ 15,885,147 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities: | | | |
| Depreciation | 6,103,574 | 4,199,202 | 10,302,776 |
| Loss on Sale of Capital Assets | 14,572 | (30,628) | (16,056) |
| Changes in Assets and Liabilities: | | | |
| Accounts Receivable | 423,460 | (66,774) | 356,687 |
| Due from Other Governmental Agencies | (1,783,306) | (2,710) | (1,786,016) |
| Accounts Payable and Accrued Liabilities | 1,573,509 | 698,394 | 2,271,903 |
| Compensated Absences Payable | (89,608) | (42,875) | (132,483) |
| Net Cash Provided by (Used for) Operating Activities | <u>\$ 16,037,172</u> | <u>\$ 10,844,786</u> | <u>\$ 26,881,958</u> |
| Noncash Investing, Capital, and Financing Activities: | | | |
| Contributions of capital assets from developers | <u>\$ 333,192</u> | <u>\$ 325,863</u> | <u>\$ 659,055</u> |

See accompanying notes to basic component unit financial statements.

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, 2011

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 and Water Reclamation utilities, respectively. Both funds render services on a user charge basis to residents and businesses located within the City of Corona.

B. Basis of Accounting/Masurement 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.

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements (continued)
Year Ended June 30, 2011

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.

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 (continued)
Year Ended June 30, 2011

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 infrastructures 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 (continued)
Year Ended June 30, 2011

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, 2011 cash and investments of the Authority was as follows:

| | |
|---|------------------------------------|
| Unrestricted Cash and Investments - Pooled Cash | \$ 75,514,135 |
| Restricted Cash and Investments: | |
| Retention & Escrow Accounts | 216,334 |
| Total Cash and Investments | <u><u>\$ 75,730,469</u></u> |

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, 2011, the Authority had \$9,850,351 in accounts receivables. Receivables are reported net of allowance for uncollectibles, which were established based on current collection experience. Allowances for uncollectibles were \$367,093 for water utility billing.

4. Long-Term Interagency Receivable

As of June 30, 2011, 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. 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 below presents summary information on infrastructure assets.

| <u>Description</u> | <u>Historical Cost</u> | <u>Accumulated Depreciation</u> | <u>Net Cost</u> |
|-----------------------------|------------------------------|---------------------------------|------------------------------|
| Water Utilities | \$ 192,534,863 | \$ (43,313,628) | \$ 149,221,235 |
| Water Reclamation Utilities | 77,688,485 | (16,287,988) | 61,400,497 |
| Total Infrastructure Assets | <u><u>\$ 270,223,348</u></u> | <u><u>\$ (59,601,616)</u></u> | <u><u>\$ 210,621,732</u></u> |

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements (continued)
Year Ended June 30, 2011

Capital Assets of the Authority for the year ended June 30, 2011, consisted of the following:

| Description | Restated | Increases | Decreases | Balance |
|---|-----------------------|---------------------|------------------------|-----------------------|
| | Balance | | | June 30, 2011 |
| | July 1, 2010 | | | |
| Land | \$ 2,575,042 | \$ 37,937 | \$ - | \$ 2,612,979 |
| Building and Improvements | 89,449,069 | 36,800 | - | 89,485,869 |
| Equipment, Vehicles and Machinery | 64,700,479 | 743,341 | (182,676) | 65,261,144 |
| Water Reclamation Rights | 9,180,000 | - | - | 9,180,000 |
| Computer Software | - | 38,204 | - | 38,204 |
| Construction in Progress | 16,425,160 | 5,047,632 | (14,095,114) | 7,377,678 |
| Infrastructure | 256,209,807 | 14,013,541 | - | 270,223,348 |
| Total Capital Assets | 438,539,557 | 19,917,455 | (14,277,790) | 444,179,222 |
| Accumulated Depreciation | (112,653,561) | (10,302,776) | 154,306 | (122,802,031) |
| Total Capital Assets net of Accumulated Depreciation | <u>\$ 325,885,996</u> | <u>\$ 9,614,679</u> | <u>\$ (14,123,484)</u> | <u>\$ 321,377,191</u> |

Beginning balance of construction in progress has been restated by \$(1,404,141) as the result of reclassifying prior years' capital expenses to operation expenses. Please refer to Note 10 for additional information on the restatement.

6. Compensated Absences

As of June 30, 2011, the Authority has compensated absences of \$613,540 which represent accumulated annual leave, which is expected to be paid in the next year.

| | Balance | Incurred | Satisfied | Balance | Amounts | Amounts Due |
|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------|
| | July 1, 2010 | | | June 30, 2011 | Due Within | in More than |
| | | | | | One Year | One Year |
| Water | \$ 457,502 | \$ 292,498 | \$ 382,106 | \$ 367,894 | \$ 367,894 | \$ - |
| Water Reclamation | 288,521 | 231,627 | 274,502 | 245,646 | 245,646 | - |
| Total | <u>\$ 746,023</u> | <u>\$ 524,125</u> | <u>\$ 656,608</u> | <u>\$ 613,540</u> | <u>\$ 613,540</u> | <u>\$ -</u> |

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements (continued)
Year Ended June 30, 2011

7. Long-Term Obligations

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2011:

| | Balance July 1, 2010 | Incurred or Issued | Satisfied or Matured | Balance June 30, 2011 | Amounts Due Within One Year | Amounts Due in More Than One Year |
|------------------------|-------------------------|-----------------------|-------------------------|--------------------------|-----------------------------------|---|
| Contracts Payable | \$ 690,391 | \$ - | \$ - | \$ 690,391 | \$ - | \$ 690,391 |
| Term Loans Payable | 37,206,652 | - | 2,482,678 | 34,723,974 | 2,548,262 | 32,175,712 |
| Loans Payable | 13,631,135 | 1,250,000 | 873,455 | 14,007,680 | 887,912 | 13,119,768 |
| Capital Leases | 172,628,344 | - | - | 172,628,344 | | 172,628,344 |
| Long Term Installments | 39,855,550 | - | 1,791,484 | 38,064,066 | 1,868,820 | 36,195,246 |
| Totals | <u>\$ 264,012,072</u> | <u>\$ 1,250,000</u> | <u>\$ 5,147,617</u> | <u>\$ 260,114,455</u> | <u>\$ 5,304,994</u> | <u>\$ 254,809,461</u> |

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, 2011 was \$690,391.

B. Term Loans Payable

The following Term Loans Payable were outstanding at June 30, 2011:

| Description | Balance |
|--|----------------------|
| State Revolving Fund Loan Contract No. 6-807-5850-0 | \$ 10,642,254 |
| State Revolving Fund Loan Contract No. C-06-4802-110 | 24,081,720 |
| Total Term Loans Payable | <u>\$ 34,723,974</u> |

State Revolving Fund Loan Contract No. 6-807-5850-0

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, 2011 was \$10,642,254.

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements (continued)
Year Ended June 30, 2011

Annual debt service requirements for the State Revolving Fund Loan 6-807-5850-0 are presented below:

| Fiscal Year | State Revolving Fund Loan 6-807-5850-0 | | |
|-------------|--|---------------------|----------------------|
| | Principal | Interest | Total |
| 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 | 1,309,417 | 193,876 | 1,503,293 |
| 2016 | 1,346,081 | 157,212 | 1,503,293 |
| 2017-2019 | 4,268,635 | 241,244 | 4,509,879 |
| Totals | <u>\$ 10,642,254</u> | <u>\$ 1,384,090</u> | <u>\$ 12,026,344</u> |

State Revolving Fund Loan Contract No. C-06-4802-110

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, 2011 was \$24,081,720. Annual debt service requirements for the State Revolving Fund Loan C-06-4802-110 are presented below:

| Fiscal Year | State Revolving Fund Loan C-06-4802-110 | | |
|-------------|---|---------------------|----------------------|
| | Principal | Interest | Total |
| 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 | 1,446,213 | 498,782 | 1,944,995 |
| 2016 | 1,482,368 | 462,627 | 1,944,995 |
| 2017-2021 | 7,986,608 | 1,738,367 | 9,724,975 |
| 2022-2026 | 9,036,114 | 688,862 | 9,724,976 |
| Totals | <u>\$ 24,081,720</u> | <u>\$ 5,093,206</u> | <u>\$ 29,174,926</u> |

C. Loans Payable

The following Loans Payable were outstanding at June 30, 2011:

| Description | Balance |
|--|----------------------|
| Loans Payable to City - Bio-Solid Drying Facility | \$ 13,257,680 |
| Loans Payable to City - El Cerrito Park Reclaimed Water Line | 750,000 |
| Total Term Loans Payable | <u>\$ 14,007,680</u> |

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements (continued)
Year Ended June 30, 2011

Bio-Solid Drying Facility Loan 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, 2011 was \$13,257,680.

| Fiscal Year | Loans Payable to City - Bio-Solid Drying Facility | | |
|-------------|---|---------------------|----------------------|
| | Principal | Interest | Total |
| 2012 | \$ 387,912 | \$ 635,760 | \$ 1,023,672 |
| 2013 | 402,369 | 621,930 | 1,024,299 |
| 2014 | 415,620 | 606,577 | 1,022,197 |
| 2015 | 432,486 | 589,614 | 1,022,100 |
| 2016 | 449,352 | 569,731 | 1,019,083 |
| 2017-2021 | 2,609,372 | 2,478,963 | 5,088,335 |
| 2022-2026 | 3,329,780 | 1,740,184 | 5,069,964 |
| 2027-2031 | 4,248,962 | 797,358 | 5,046,320 |
| 2032 | 981,827 | 24,546 | 1,006,373 |
| Totals | <u>\$ 13,257,680</u> | <u>\$ 8,064,663</u> | <u>\$ 21,322,343</u> |

El Cerrito Park Reclaimed Water Line

On August 18, 2010 the Corona Utility Authority entered into a loan agreement with the City of Corona to finance the construction of a reclaimed water line for El Cerrito Park in the amount of \$1,250,000. The Authority makes annual payments in the amounts of \$500,000 in fiscal years 2010-11 and 2011-12, and \$250,000 in fiscal years 2012-13. The outstanding loan amount at June 30, 2011 was \$750,000.

| Fiscal Year | El Cerrito Park Reclaimed Water Line Loan | | |
|-------------|---|-------------|-------------------|
| | Principal | Interest | Total |
| 2012 | \$ 500,000 | \$ - | \$ 500,000 |
| 2013 | 250,000 | - | 250,000 |
| Totals | <u>\$ 750,000</u> | <u>\$ -</u> | <u>\$ 750,000</u> |

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements (continued)
Year Ended June 30, 2011

D. Internal Balances – Capital Lease ReceivableRelated Parties

In 2002, the 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.

Capital Lease Obligations

In February 2002, the Authority entered into capital leases with the City to lease the City's Water and Water Reclamation facilities. The terms of the leases are 55 years. The leases will terminate on February 6, 2056, at which time the Authority could renew the capital lease 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. The related debt has been recorded accordingly resulting in a lease payable for an amount equal to the net assets recorded on the City's financial statements. Per the Lease Agreements, maximum lease payments are calculated with a discount rate of 6.0%. The original lease payments since Fiscal Year 2001-02 through Fiscal Year 2007-08 were established as 5.0% to 8.0% of the corresponding utility sales revenues of that year, equivalent to discounting the lease principal amounts by a range from 1.2% to 3.0%. Starting Fiscal Year 2008-09 and continued to the next fiscal year, the lease payment is calculated with a 3.5% to 4.0% growth factor over the previous fiscal year, equivalent to discounting the lease principal amounts by 3.2% for Water Utilities and 2.8% for Water Reclamation Utilities. For the fiscal year ended June 30, 2011, the annual lease payments were calculated with a discount rate at 5.8% and 5.1% of the lease principal amounts for the Water and Water Reclamation utilities respectively.

The following Internal Balances – Capital Leases were outstanding at June 30, 2011:

| <u>Leasee</u> | <u>Balance</u> |
|---|-------------------------------------|
| Capital Lease - Water Utility | \$ 106,819,662 |
| Capital Lease - Water Reclamation Utility | 65,808,682 |
| Total Internal Balances - Capital Leases | <u><u>\$ 172,628,344</u></u> |

Capital Lease Payments

At June 30, 2011, the future minimum lease payments required under the capital leases and the net present value of the future lease payments for the Water and Water Reclamation Utilities are presented on the following page.

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements (continued)
Year Ended June 30, 2011

Water Utility Future Lease Payments

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------------------------|-----------------------|----------------------|
| 2012 | \$ - | \$ 6,991,192 |
| 2013 | | 5,840,840 |
| 2014 | | 5,996,473 |
| 2015 | | 4,696,473 |
| 2016 | | 3,590,150 |
| 2017-2021 | | 15,252,778 |
| 2022-2026 | | 11,515,011 |
| 2027-2031 | | 8,622,798 |
| 2032-2036 | | 6,384,858 |
| 2037-2041 | | 4,653,183 |
| 2042-2046 | | 3,313,246 |
| 2047-2051 | | 2,074,720 |
| 2052-2056 | | 699,106 |
| Total Future Lease Payments | <u>-</u> | <u>\$ 79,630,828</u> |
| Discharge of Obligations | 106,819,662 | |
| Present Value of Total Lease Payment | <u>\$ 106,819,662</u> | |

**Corona Utility Authority
Future Lease Payments - Water Reclamation Utility**

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------------------------|----------------------|----------------------|
| 2012 | \$ - | \$ 3,761,879 |
| 2013 | | 3,142,354 |
| 2014 | | 3,226,048 |
| 2015 | | 2,526,048 |
| 2016 | | 2,041,048 |
| 2017-2021 | | 9,884,274 |
| 2022-2026 | | 7,766,090 |
| 2027-2031 | | 5,856,554 |
| 2032-2036 | | 4,378,992 |
| 2037-2041 | | 3,235,683 |
| 2042-2046 | | 2,351,012 |
| 2047-2051 | | 1,688,656 |
| 2052-2056 | | 1,468,098 |
| Total Future Lease Payments | <u>-</u> | <u>\$ 51,326,736</u> |
| Discharge of Obligations | 65,808,682 | |
| Present Value of Total Lease Payment | <u>\$ 65,808,682</u> | |

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements (continued)
Year Ended June 30, 2011

All lease payments are considered as interest payments toward the lease obligation. The Authority's obligations under the Lease Agreements shall be forgiven, discharged and excused upon the date the aggregate amount of payments made by the Authority to the City equals the amount of the principal amount of the lease obligation.

Current Year Transactions

During Fiscal Year 2010-11, the following lease payments were made by the Authority:

| <u>Payee</u> | <u>Amount</u> |
|---|---------------------|
| Water Utility | \$ 6,197,300 |
| Water Reclamation Utility | \$ 3,334,499 |
| Total Payment from the Authority to the City | \$ 9,531,799 |

E. Long Term Installment Payable Agreements

As of June 30, 2011, the balances outstanding were:

| <u>Description</u> | <u>Balance</u> |
|---|----------------------|
| Installment Agreement- 1997 Certificates of Participation | \$ 2,800,000 |
| Installment Agreement- 2003 Certificates of Participation | 6,065,000 |
| Installment Agreement- 1998 Water Revenue Bonds | 27,435,000 |
| Installment Agreement- Elsinore Valley Municipal Water District | 1,664,066 |
| Installment Agreement- Joy Street Water Purchase Agreement | 100,000 |
| Total Long Term Installment Payable | <u>\$ 38,064,066</u> |

1997 Refunding Certificates of Participation

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 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.

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements (continued)
Year Ended June 30, 2011

The annual debt service requirements for the 1997 Refunding Certificates of Participation are as follows:

| Fiscal Year | 1997 Refunding Certificates of Participation | | |
|-------------|--|-------------------|---------------------|
| | Principal | Interest | Total |
| 2012 | \$ 405,000 | \$ 141,563 | \$ 546,563 |
| 2013 | 430,000 | 119,220 | 549,220 |
| 2014 | 450,000 | 95,347 | 545,347 |
| 2015 | 480,000 | 70,005 | 550,005 |
| 2016 | 505,000 | 43,038 | 548,038 |
| 2017 | 530,000 | 14,575 | 544,575 |
| Totals | <u>\$ 2,800,000</u> | <u>\$ 483,748</u> | <u>\$ 3,283,748</u> |

2003 Certificates of Participation – Recycled Water

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. The annual debt service requirements for the 2003 Recycled Water Certificates of Participation are as follows:

| Fiscal Year | 2003 Certificates of Participation - Recycled Water | | |
|-------------|---|---------------------|---------------------|
| | Principal | Interest | Total |
| 2012 | \$ 180,000 | \$ 290,725 | \$ 470,725 |
| 2013 | 185,000 | 284,338 | 469,338 |
| 2014 | 190,000 | 277,300 | 467,300 |
| 2015 | 200,000 | 269,500 | 469,500 |
| 2016 | 205,000 | 260,375 | 465,375 |
| 2017-2021 | 1,190,000 | 1,133,250 | 2,323,250 |
| 2022-2026 | 1,525,000 | 795,625 | 2,320,625 |
| 2027-2031 | 1,940,000 | 364,250 | 2,304,250 |
| 2032 | 450,000 | 11,250 | 461,250 |
| Totals | <u>\$ 6,065,000</u> | <u>\$ 3,686,613</u> | <u>\$ 9,751,613</u> |

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements (continued)
Year Ended June 30, 2011

1998 Water Revenue Bonds

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 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. The annual debt service requirements for the 1998 Water Revenue Bonds are as follows:

| Fiscal Year | 1998 Water Revenue Bonds | | |
|-------------|--------------------------|----------------------|----------------------|
| | Principal | Interest | Total |
| 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 | 1,145,000 | 1,126,106 | 2,271,106 |
| 2016 | 1,200,000 | 1,070,413 | 2,270,413 |
| 2017-2021 | 6,920,000 | 4,417,975 | 11,337,975 |
| 2022-2026 | 8,725,000 | 2,568,206 | 11,293,206 |
| 2027-2029 | 6,290,000 | 457,425 | 6,747,425 |
| Totals | <u>\$ 27,435,000</u> | <u>\$ 13,319,510</u> | <u>\$ 40,754,510</u> |

Elsinore Valley Municipal Water District Agreement

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, 2011 was \$1,664,066. The annual debt service requirements for the Elsinore Valley Municipal Water District Agreement are as follows:

| Fiscal Year | Elsinore Valley Municipal Water District Agreement | | |
|-------------|--|-------------------|---------------------|
| | Principal | Interest | Total |
| 2012 | \$ 178,820 | \$ 71,180 | \$ 250,000 |
| 2013 | 186,469 | 63,531 | 250,000 |
| 2014 | 194,445 | 55,555 | 250,000 |
| 2015 | 202,762 | 47,238 | 250,000 |
| 2016 | 211,435 | 38,565 | 250,000 |
| 2017-19 | 690,135 | 59,865 | 750,000 |
| Totals | <u>\$ 1,664,066</u> | <u>\$ 335,934</u> | <u>\$ 2,000,000</u> |

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements (continued)
Year Ended June 30, 2011

Joy Water Company Purchase Agreement

On April 7, 2010, the Authority entered into an agreement with Joy Water Company to purchase wells, pipeline and related fixtures and equipment for a total of \$500,000, which included a loan for \$200,000. The Authority will make 2 equal payments of \$100,000 through June 2012. The amount outstanding at June 30, 2011 was \$100,000.

| Fiscal Year | Joy Water Company Purchase Agreement | | |
|-------------|--------------------------------------|----------|------------|
| | Principal | Interest | Total |
| 2012 | \$ 100,000 | \$ 1,750 | \$ 101,750 |
| Totals | \$ 100,000 | \$ 1,750 | \$ 101,750 |

8. 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 reduce 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.

9. 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.

10. Restatement

In Fiscal Year 2010-11, the Authority restated the beginning balance of net assets for the Water and Water Reclamation funds by \$(780,406) and \$(623,734) respectively. Due to reclassification of construction in progress projects as repairs in the Water and Water Reclamation funds in the amounts of \$780,406 and \$623,734.

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements (continued)
Year Ended June 30, 2011

Below is a summary of restatements made on the fund financial statements for the Fiscal Year 2010-11:

| | <u>Water</u> | <u>Water Reclamation</u> |
|-------------------------------------|----------------------|------------------------------|
| Beginning Fund Balance, as Reported | \$ 88,421,184 | \$ 48,148,902 |
| Restatements | (780,406) | (623,734) |
| Beginning Fund Balance, as Restated | <u>\$ 87,640,778</u> | <u>\$ 47,525,168</u> |

11. Subsequent Event

Effective May 18, 2011 the Authority was approved to increase tiered water rates and water budgets, which went into effect in July, 2011. In addition, sewer rates were affected by an annual cost of living increase effective July, 2011 and each subsequent July.