

2012

Corona Utility Authority Corona, California

Component Unit Financial Statements and
Independent Auditors' Report
Year Ended June 30, 2012





CORONA

"THE CIRCLE CITY"

**Incorporated
July 13, 1896**

To Cherish Our Past - To Plan Our Future

CORONA UTILITY AUTHORITY

Component Unit Financial Statements**Year Ended June 30, 2012****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
- Deborah A. Harper, 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 the City of Corona, California, as of and for the year ended June 30, 2012, 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 Corona Utility Authority's management. Our responsibility is to express an opinion 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, 2012, and the respective changes in financial position and cash flows, thereof for the year then 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 28, 2012, 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.



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 as listed in the table of contents 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 & Lughard, LLP

Brea, California
November 28, 2012

CORONA UTILITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2012

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, 2012. 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 2011-12, the Authority reports total net assets of \$158.6 million.
- Capital assets increased \$15.6 million from the previous year.
- Total debt decreased \$5.3 million from the previous year as the result of payments of scheduled debt service.

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 February, 2012, the Authority increased potable water commodity rates 3.9%, which is comprised of a 1.7% pass-through rate increase from Western Municipal Water District (WMWD) and 2.2% increase for variable cost increase recovery.

Also effective February 2012, the Ready to Serve Charge was increased 2.2% for fixed cost increase recovery and funding of future Capital Improvement Projects.

Water Reclamation (sewer) rates increased 6% and Reclaimed Water commodity rates were increased 3.7 effective July 1, 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, 2012

The following schedule is a condensed version of the Corona Utility Authority's statement of net assets for fiscal years ended June 30, 2012 and 2011:

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

	<u>2012</u>	<u>2011</u>	<u>Dollar</u> <u>Change</u>	<u>Percentage</u> <u>Change</u>
Current Assets	\$ 88.7	\$ 90.3	\$ (1.6)	-1.8%
Noncurrent Assets	0.5	0.5	-	0.0%
Capital Assets	<u>337.0</u>	<u>321.4</u>	<u>15.6</u>	<u>4.9%</u>
Total Assets	<u>426.2</u>	<u>412.2</u>	<u>14.0</u>	<u>3.4%</u>
Current and Other Liabilities	12.8	9.4	3.4	36.2%
Debt Outstanding	<u>254.8</u>	<u>260.1</u>	<u>(5.3)</u>	<u>-2.0%</u>
Total Liabilities	<u>267.6</u>	<u>269.5</u>	<u>(1.9)</u>	<u>-0.7%</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	82.2	61.3	20.9	34.1%
Unrestricted	<u>76.4</u>	<u>81.4</u>	<u>(5.0)</u>	<u>-6.1%</u>
Total Net Assets	<u>\$ 158.6</u>	<u>\$ 142.7</u>	<u>\$ 15.9</u>	<u>11.1%</u>

The Corona Utility Authority's net assets increased 11.1% between fiscal years 2011 and 2012, to \$158.6 million.

Capital assets increased \$15.6 million due to the completion of several construction project during the year as well as a \$9.7 million restatement to the beginning balance as the result of recording prior years' developer capital contribution.

Outstanding long-term debt decreased by \$5.3 million due to normal debt service payments.

Invested in Capital Assets, Net of Related Debt increased by \$20.9 million as the result of the combination of the increase of capital assets and the decrease in outstanding debts.

Unrestricted net assets decreased by 5% to \$76.4 million.

Table 2 on the following page is a condensed version of the Authority's statement of revenues, expenses and change in net assets for the fiscal years ended June 30, 2012 and 2011 respectively.

CORONA UTILITY AUTHORITY

Management's Discussion and Analysis (continued)
Year Ended June 30, 2012

Table 2
Corona Utility Authority's Changes in Net Assets
(in millions)

	<u>2012</u>	<u>2011</u>	<u>Dollar</u> <u>Change</u>	<u>Percentage</u> <u>Change</u>
Operating Revenue	\$ 79.7	\$ 75.5	\$ 4.2	5.6%
Non-operating Revenue	1.3	1.8	(0.5)	-27.8%
Total Revenues	<u>81.0</u>	<u>77.3</u>	<u>3.7</u>	<u>4.8%</u>
Operating Expense	61.3	49.3	12.0	24.3%
Depreciation Expense	10.7	10.3	0.4	3.9%
Non-operating Expense	14.5	13.4	1.1	8.2%
Total Expenses	<u>86.5</u>	<u>73.0</u>	<u>13.5</u>	<u>18.5%</u>
Income Before Capital Contributions and Transfers	(5.5)	4.3	(9.8)	-227.9%
Capital Grants & Contributions	<u>11.7</u>	<u>3.2</u>	<u>8.5</u>	<u>265.6%</u>
Change in Net Assets	6.2	7.5	(1.3)	-17.3%
Beginning Net Assets, Restated	<u>152.4</u>	<u>135.2</u>	<u>17.2</u>	<u>12.7%</u>
Ending Net Assets	<u>\$ 158.6</u>	<u>\$ 142.7</u>	<u>\$ 15.9</u>	<u>11.1%</u>

The Authority's operating revenue increased by 5.6% due to 2.5% increase in consumption and 6.0% rate increase for Water Reclamation utility. Operating expenses increased 24.3% due to a planned program that has been adopted by the Authority to enhance the maintenance on infrastructure, facilities and equipment.

Capital contribution increased by \$8.5 million from the previous year primarily due to the increase in contributed capital asset and developer impact fee revenues. In Fiscal Year 2011-12, total developer capital contribution was \$7.1 million, increased by \$6.4 million from last year; impact fee was \$3.2 million, an increase of \$2.7 million from the previous year, as a result of the development of a high density residential complex.

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, 2012, net capital assets of the Authority totaled \$337.0 million. Refer to the Notes to the Component Unit Basic Financial Statements No. 5 for details regarding capital assets.

CORONA UTILITY AUTHORITY

Management's Discussion and Analysis (continued)
Year Ended June 30, 2012

Table 3
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	43.9	(15.9)	28.0
Equipment, Vehicles & Machinery	33.5	(18.7)	14.8
Construction in Progress	4.4	-	4.4
Computer Software	-	-	-
Infrastructure	207.0	(47.5)	159.5
Total Water Capital Assets	<u>300.0</u>	<u>(82.1)</u>	<u>217.9</u>
Water Reclamation Utilities			
Land	0.6	-	0.6
Buildings and Improvements	44.8	(16.8)	28.0
Equipment, Vehicles & Machinery	31.8	(17.0)	14.8
Construction in Progress	8.3	-	8.3
Infrastructure	85.3	(17.9)	67.4
Total Water Reclamation Capital Assets	<u>170.8</u>	<u>(51.7)</u>	<u>119.1</u>
Total Capital Assets	<u>\$ 470.8</u>	<u>\$ (133.8)</u>	<u>\$ 337.0</u>

DEBT ADMINISTRATION

The debt of the Corona Utility Authority decreased in Fiscal Year 2011-12 by \$5.3 million due to retirement of debt from scheduled principal payments. Refer to the Notes to the Component Unit Basic Financial Statements No. 7 for additional information.

Table 4 below is the summary of long-term obligation transactions of the Authority for the year ended June 30, 2012.

Table 4
Corona Utility Authority's Long-Term Obligations
(in millions)

	<u>Balance July 1, 2011</u>	<u>Incurred or Issued</u>	<u>Satisfied or Matured</u>	<u>Balance June 30, 2012</u>
Contract Payable	\$ 0.7	\$ -	\$ -	\$ 0.7
Term Loan Payable	34.7	-	2.5	32.2
Loan Payable	14.0	-	0.9	13.1
Capital Lease	172.6	-	-	172.6
Long-term Installments Payable	38.1	-	1.9	36.2
Total Debt	<u>\$ 260.1</u>	<u>\$ -</u>	<u>\$ 5.3</u>	<u>\$ 254.8</u>

CORONA UTILITY AUTHORITY

Management's Discussion and Analysis (continued)
Year Ended June 30, 2012

CORONA UTILITY AUTHORITY BUDGETARY HIGHLIGHTS

The original budget of Fiscal Year 2011-12 for the Water Utility was \$67,113,541. The adopted budget includes an increase of \$19,658,991 due to the carry over of prior fiscal year's unspent capital improvement projects appropriations of \$18,123,533, and encumbered purchase orders of \$1,535,458.

Original Budget	\$ 67,113,541
Continued Appropriations	18,123,533
Encumbrances	<u>1,535,458</u>
Adopted Budget	86,772,532
Supplemental Changes	<u>(5,064,232)</u>
Final Budget	<u><u>\$ 81,708,300</u></u>

The final budget had a decrease of \$5,064,232 from the adopted budget as a result of an overall decrease of appropriations to the Water Utility. During the fiscal year, additional appropriations were approved in the amount of \$550,000 for the Arlington Desalter, \$414,821 for the Masters Drive Reclaimed Waterline Project, \$320,000 for the Temescal Basin Channel Aquifer, \$305,200 for the Sampson Flow Control Valve Automation, \$236,000 for Well 14, and \$135,000 for 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: \$3,000,000 for the SR-91 DWP Freeway Relocations, \$2,000,000 for the Cota Ponds Expansion/Modification, \$558,614 for the Reclaimed Water Tie-In project, and \$374,952 for the Booster Station Fire Protection Systems. There were 16 additional projects, with a combined total of \$1,395,495 that were closed or reduced during the fiscal year.

The original budget of Fiscal Year 2011-12 for the Water Reclamation Utility was \$31,017,709. Comparing the original to the adopted budget in the amount of \$39,937,674, there was a net increase of \$8,919,965. The increase included a carry over of prior fiscal year's unspent capital improvement projects appropriations of \$2,420,594 as well as encumbered purchase orders of \$6,499,371.

During the fiscal year, additional appropriations were approved for the Water Reclamation Utility. Major changes include the following increases: \$448,000 for the El Cerrito Sewer Main, \$380,000 for Phase II of the Solar Power System Project, \$350,000 for Cota Sewer Improvements, \$200,000 for the Membrane Bioreactor, and \$200,000 for the Water Reclamation Facility #1 Natural Gas Line. There was a budget reduction, totaling \$267,779, for two capital projects that were closed during the fiscal year.

CORONA UTILITY AUTHORITY

Management's Discussion and Analysis (continued)
Year Ended June 30, 2012

Changes to the original and adopted budget of Water Reclamation Utility are presented below:

Original Budget	\$ 31,017,709
Continued Appropriations	2,420,594
Encumbrances	<u>6,499,371</u>
Adopted Budget	39,937,674
Supplemental Changes	<u>1,488,713</u>
Final Budget	<u>\$ 41,426,387</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The Water Utility is expected to serve over 42,000 customers with approximately 40,000-acre feet of water in Fiscal Year 2012-13. The reclaimed water system will provide 4,300-acre feet of reclaimed water to parks, schools, institutional and commercial customers.
- The Water Reclamation system is expected to treat about 13.25 million gallons of sewage per day in Fiscal Year 2012-13.

Water utility sales are estimated to increase in FY 2012-13 by 3.9% from the prior year due to rate increases for potable and reclaimed water and historical consumption factors. The water reclamation service charges are expected to increase in FY 2012-13 by 2.8% from the prior year 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, 2012**

	<u>Water</u>	<u>Water Reclamation</u>	<u>Total</u>
Assets:			
Current Assets			
Cash and Investments	\$ 41,343,934	\$ 31,016,644	\$ 72,360,578
Accounts Receivable, Net	8,731,126	1,966,246	10,697,372
Interest Receivable	163,126	123,277	286,403
Due from Other Governmental Agencies	2,119,686	2,710	2,122,396
Inventories and Prepayments	2,964,501		2,964,501
Restricted Assets:			
Cash and Investments	40,247	257,919	298,166
Total Current Assets	<u>55,362,620</u>	<u>33,366,796</u>	<u>88,729,416</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	30,563		30,563
Land, water reclamation rights & construction in progress	15,502,743	8,957,712	24,460,455
Depreciable buildings, property, equipment and infrastructure, net	202,368,110	110,158,842	312,526,952
Total Noncurrent Assets	<u>218,390,657</u>	<u>119,131,106</u>	<u>337,521,763</u>
Total Assets	<u>273,753,277</u>	<u>152,497,902</u>	<u>426,251,179</u>
Liabilities:			
Current Liabilities			
Accounts Payable and Accrued Liabilities	7,186,905	2,872,539	10,059,444
Unearned Revenue	1,852,037		1,852,037
Compensated Absences Payable	340,479	269,944	610,423
Long-term Debt - Due within one year	3,047,995	2,071,427	5,119,422
Liabilities Payable from Restricted Assets	40,247	257,919	298,166
Total Current Liabilities	<u>12,467,663</u>	<u>5,471,829</u>	<u>17,939,492</u>
Noncurrent Liabilities			
Compensated Absences Payable		26,235	26,235
Long-term Debt - Due in More than One Year	160,902,564	88,787,476	249,690,040
Total Noncurrent Liabilities	<u>160,902,564</u>	<u>88,813,711</u>	<u>249,716,275</u>
Total Liabilities	<u>173,370,227</u>	<u>94,285,540</u>	<u>267,655,767</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	53,950,857	28,257,651	82,208,508
Unrestricted	46,432,193	29,954,711	76,386,904
Total Net Assets	<u>\$100,383,050</u>	<u>\$ 58,212,362</u>	<u>\$158,595,412</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, 2012**

	<u>Water</u>	<u>Water Reclamation</u>	<u>Totals</u>
Operating Revenues:			
Utility Service Charges	\$ 46,944,763	\$ 28,055,728	\$ 75,000,491
Fees and Permits	1,407,787	405,721	1,813,508
Fines and Penalties	616,427	540,066	1,156,493
Other Revenues	1,274,788	470,606	1,745,394
Total Operating Revenues	<u>50,243,765</u>	<u>29,472,121</u>	<u>79,715,886</u>
Operating Expenses:			
Personnel Services	6,940,524	4,803,750	11,744,274
Contractual	3,028,575	1,642,243	4,670,818
Materials and Supplies	25,374,563	11,838,218	37,212,781
Utilities	4,930,505	2,779,347	7,709,852
Depreciation	6,378,292	4,332,178	10,710,470
Total Operating Expenses	<u>46,652,459</u>	<u>25,395,736</u>	<u>72,048,195</u>
Operating Income (Loss)	<u>3,591,306</u>	<u>4,076,385</u>	<u>7,667,691</u>
Non-Operating Revenues (Expenses):			
Investment Earnings	755,528	565,823	1,321,351
Operating Grants and Contributions	3,514		3,514
Interest Expense	(9,185,486)	(4,806,266)	(13,991,752)
Other Expense	(460,780)		(460,780)
Total Non-Operating Revenues	<u>(8,887,224)</u>	<u>(4,240,443)</u>	<u>(13,127,667)</u>
Income Before Contribution	(5,295,918)	(164,058)	(5,459,976)
Capital Grants and Contributions	7,686,989	4,001,501	11,688,490
Change in Net Assets	2,391,071	3,837,443	6,228,514
Total Net Assets - Beginning	92,100,808	50,557,034	142,657,842
Restatement	<u>5,891,171</u>	<u>3,817,885</u>	<u>9,709,056</u>
Total Net Assets - Beginning, As Restated	<u>97,991,979</u>	<u>54,374,919</u>	<u>152,366,898</u>
Total Net Assets - Ending	<u>\$ 100,383,050</u>	<u>\$ 58,212,362</u>	<u>\$ 158,595,412</u>

See accompanying notes to basic component unit financial statements.

CORONA UTILITY AUTHORITY**Statement of Cash Flows
Year Ended June 30, 2012**

	<u>Water</u>	<u>Water Reclamation</u>	<u>Totals</u>
Cash Flow from Operating Activities:			
Cash Received from Customers/Other Funds	\$ 49,453,420	\$ 29,415,445	\$ 78,868,865
Cash Payments to Suppliers of Goods and Services	(31,519,318)	(15,384,592)	(46,903,910)
Cash Payments to Employees for Services	(6,967,939)	(4,753,217)	(11,721,156)
Internal Activity - Payments from Other Funds			
Net Cash Provided by (Used for) Operating Activities	<u>10,966,163</u>	<u>9,277,636</u>	<u>20,243,799</u>
Cash Flows from Noncapital Financing Activities:			
Operating Grants and Contributions	3,514		3,514
Cash Payments to Other Funds	(460,780)		(460,780)
Net Cash Used for Noncapital Financing Activities	<u>(457,266)</u>		<u>(457,266)</u>
Cash Flows from Capital and Related Financing Activities:			
Capital Grants and Contributions	3,575,636	3,096,354	6,671,990
Acquisition and Construction of Capital Assets	(4,096,598)	(7,649,481)	(11,746,079)
Proceeds from Sale of Capital Assets	64,054	13,348	77,402
Principal Paid on Capital Debt	(3,306,771)	(1,998,222)	(5,304,993)
Interest Paid on Capital Debt	(9,185,486)	(4,806,266)	(13,991,752)
Net Cash Used for Capital and Related Financing Activities	<u>(12,949,165)</u>	<u>(11,344,267)</u>	<u>(24,293,432)</u>
Cash Flows from Investing Activities:			
Interest on Investments	819,677	615,497	1,435,174
Net Cash Provided by Investing Activities	<u>819,677</u>	<u>615,497</u>	<u>1,435,174</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(1,620,591)</u>	<u>(1,451,134)</u>	<u>(3,071,725)</u>
Cash and Cash Equivalents			
Beginning	43,004,772	32,725,697	75,730,469
Ending (including \$298,166 in restricted accounts)	<u>\$ 41,384,181</u>	<u>\$ 31,274,563</u>	<u>\$ 72,658,744</u>
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities:			
Operating Income (Loss)	\$ 3,591,306	\$ 4,076,385	\$ 7,667,691
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities:			
Depreciation	6,378,292	4,332,178	10,710,470
Gain/(Loss) on Sale of Capital Assets	(38,047)		(38,047)
Changes in Assets and Liabilities:			
Accounts Receivable	(790,345)	(56,676)	(847,021)
Inventories and Prepayments	(443,540)		(443,540)
Accounts Payable and Accrued Liabilities	2,295,912	875,216	3,171,128
Compensated Absences Payable	(27,415)	50,533	23,118
Net Cash Provided by (Used for) Operating Activities	<u>\$ 10,966,163</u>	<u>\$ 9,277,636</u>	<u>\$ 20,243,799</u>
Noncash Investing, Capital, and Financing Activities:			
Contributions of capital assets from developers	<u>\$ 4,030,322</u>	<u>\$ 905,148</u>	<u>\$ 4,935,470</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 (continued)
Year Ended June 30, 2012

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 Corona Redevelopment Agency was dissolved as of January 31, 2012 through the Supreme Court decision on Assembly Bill 1X26. The City serves as the Successor Agency to the Redevelopment Agency of the City of Corona. 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/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.

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements (continued)
Year Ended June 30, 2012

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, 2012

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, 2012

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, 2012 cash and investments of the Authority was as follows:

Unrestricted Cash and Investments - Pooled Cash	\$ 72,360,578
Restricted Cash and Investments:	
Retention & Escrow Accounts	298,166
Total Cash and Investments	<u><u>\$ 72,658,744</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, 2012, the Authority had \$10,697,372 in accounts receivables. Receivables are reported net of allowance for uncollectibles, which were established based on current collection experience. Allowances for uncollectibles were \$371,813 for the Water Utility.

4. Long-Term Interagency Receivable

As of June 30, 2012, 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	\$ 207,014,516	\$ (47,485,624)	\$ 159,528,892
Water Reclamation Utilities	85,277,528	(17,908,606)	67,368,922
Total Infrastructure Assets	<u><u>\$ 292,292,044</u></u>	<u><u>\$ (65,394,230)</u></u>	<u><u>\$ 226,897,814</u></u>

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements (continued)
Year Ended June 30, 2012

Capital Assets of the Authority for the year ended June 30, 2012, consisted of the following:

Description	Restated	Increases	Decreases	Balance
	Balance			Balance
	July 1, 2011			June 30, 2012
Land	\$ 2,612,981			\$ 2,612,981
Building and Improvements	88,141,685	558,543		88,700,228
Equipment, Vehicles and Machinery	65,261,144	694,107	(629,376)	65,325,875
Water Reclamation Rights	9,180,000		-	9,180,000
Computer Software	38,204			38,204
Construction in Progress	7,377,560	9,139,941	(3,850,027)	12,667,474
Infrastructure	281,796,095	10,535,121	(39,172)	292,292,044
Total Capital Assets	454,407,669	20,927,712	(4,518,575)	470,816,806
Accumulated Depreciation	(123,321,422)	(10,859,258)	381,844	(133,798,836)
Total Capital Assets net of Accumulated Depreciation	<u>\$ 331,086,247</u>	<u>\$ 10,068,454</u>	<u>\$ (4,136,731)</u>	<u>\$ 337,017,970</u>

Beginning balance of Construction in Progress, Infrastructure and Buildings and Improvements were restated by \$9,709,056 as the result of recording prior years' developer funded infrastructure. Please refer to Note 10 for additional information on the restatement.

6. Compensated Absences

As of June 30, 2012, the Authority has compensated absences of \$636,658 which represent accumulated annual leave.

	Balance			Balance	Amounts	Amounts Due
	July 1, 2011	Incurred	Satisfied	June 30, 2012	Due Within	in More than
					One Year	One Year
Water	\$ 367,894	\$ 340,601	\$ 368,016	\$ 340,479	\$ 340,479	\$ -
Water Reclamation	245,646	320,477	269,944	296,179	269,944	26,235
Total	<u>\$ 613,540</u>	<u>\$ 661,078</u>	<u>\$ 637,960</u>	<u>\$ 636,658</u>	<u>\$ 610,423</u>	<u>\$ 26,235</u>

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements (continued)
Year Ended June 30, 2012

7. Long-Term Obligations

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2012:

	Balance July 1, 2011	Incurred or Issued	Satisfied or Matured	Balance June 30, 2012	Amounts Due Within One Year	Amounts Due in More Than One Year
Contracts Payable	\$ 690,391	\$ -	\$ -	\$ 690,391	\$ -	\$ 690,391
Term Loans Payable	34,723,974	-	2,548,262	32,175,712	2,615,585	29,560,127
Loans Payable	14,007,680	-	887,912	13,119,769	652,368	12,467,401
Capital Leases	172,628,344	-	-	172,628,344	-	172,628,344
Long Term Installments	38,064,066	-	1,868,820	36,195,246	1,851,469	34,343,777
Totals	<u>\$ 260,114,455</u>	<u>\$ -</u>	<u>\$ 5,304,994</u>	<u>\$ 254,809,462</u>	<u>\$ 5,119,422</u>	<u>\$ 249,690,040</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, 2012 was \$690,391.

B. Term Loans Payable

The following Term Loans Payable were outstanding at June 30, 2012:

Description	Balance
State Revolving Fund Loan Contract No. 6-807-5850-0	\$ 9,436,944
State Revolving Fund Loan Contract No. C-06-4802-110	22,738,768
Total Term Loans Payable	<u>\$ 32,175,712</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, 2012 was \$9,436,944.

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements (continued)
Year Ended June 30, 2012

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
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	1,383,771	119,522	1,503,293
2018-2019	2,884,864	121,722	3,006,586
Totals	<u>\$ 9,436,944</u>	<u>\$ 1,086,107</u>	<u>\$ 10,523,051</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, 2012 was \$22,738,768. 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
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	1,519,427	425,568	1,944,995
2017-2021	8,186,273	1,538,702	9,724,975
2022-2026	7,317,022	462,959	7,779,981
Totals	<u>\$ 22,738,768</u>	<u>\$ 4,491,163</u>	<u>\$ 27,229,931</u>

C. Loans Payable

The following Loans Payable were outstanding at June 30, 2012:

Description	Balance
Loans Payable to City - Bio-Solid Drying Facility	\$ 12,869,769
Loans Payable to City - El Cerrito Park Reclaimed Water Line	250,000
Total Term Loans Payable	<u>\$ 13,119,769</u>

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements (continued)
Year Ended June 30, 2012

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 \$1,024,229. The outstanding loan amount at June 30, 2012 was \$12,869,769.

Fiscal Year	Loans Payable to City - Bio-Solid Drying Facility		
	Principal	Interest	Total
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	472,241	546,691	1,018,932
2018-2022	2,739,479	2,345,242	5,084,721
2023-2027	3,496,028	1,569,538	5,065,566
2028-2032	4,462,194	579,579	5,041,773
Totals	<u>\$ 12,869,769</u>	<u>\$ 7,428,902</u>	<u>\$ 20,298,671</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 Year 2012-13. The outstanding loan amount at June 30, 2012 was \$250,000.

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

D. Internal Balances – Capital Lease Receivable

Related 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.

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements (continued)
Year Ended June 30, 2012

The Corona Redevelopment Agency was dissolved as of January 31, 2012 through the Supreme Court decision on Assembly Bill 1X26. The City serves as the Successor Agency to the Redevelopment Agency of the City of Corona. 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, 2012, the annual lease payment for Water Utility was calculated at \$6,991,992 which included a discount rate of 6.0% of the lease principal plus a catch-up payment for prior years in the amount of \$311,015. For Water Reclamation Utility, the annual lease payment was calculated at a discount rate of 5.7% of the lease principal amount for the fiscal year ended June 30, 2012.

The following Internal Balances – Capital Leases were outstanding at June 30, 2012:

<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>\$ 172,628,344</u>

Capital Lease Payments

At June 30, 2012, 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, 2012

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ -	\$ 5,840,840
2014		5,346,473
2015		5,346,473
2016		3,590,150
2017		3,397,942
2018-2022		14,426,639
2023-2027		10,875,760
2028-2032		8,128,158
2033-2037		6,002,115
2038-2042		4,357,024
2043-2047		3,084,084
2048-2052		1,779,440
2053-2056		464,538
Total Future Lease Payments	<u>-</u>	<u>\$ 72,639,636</u>
Discharge of Obligations	<u>106,819,662</u>	
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>
2013	\$ -	\$ 3,142,354
2014		2,876,048
2015		2,876,048
2016		2,041,048
2017		2,041,048
2018-2022		9,573,915
2023-2027		7,344,035
2028-2032		5,529,977
2033-2037		4,126,293
2038-2042		3,040,149
2043-2047		2,199,711
2048-2052		1,614,844
2053-2056		1,159,387
Total Future Lease Payments	<u>-</u>	<u>\$ 47,564,857</u>
Discharge of Obligations	<u>65,808,682</u>	
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, 2012

All lease payments are considered 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 2011-12, the following lease payments were made by the Authority:

<u>Leasee</u>	<u>Amount</u>
Water Utility	\$ 6,991,192
Water Reclamation Utility	3,761,879
Total Payment from the Authority to the City	<u>\$ 10,753,071</u>

E. Long Term Installment Payable Agreements

As of June 30, 2012, the balances outstanding were:

<u>Description</u>	<u>Balance</u>
Installment Agreement- 1997 Certificates of Participation	\$ 2,395,000
Installment Agreement- 2003 Certificates of Participation	5,885,000
Installment Agreement- 1998 Water Revenue Bonds	26,430,000
Installment Agreement- Elsinore Valley Municipal Water District	1,485,246
Total Long Term Installment Payable	<u>\$ 36,195,246</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, 2012

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
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>\$ 2,395,000</u>	<u>\$ 342,185</u>	<u>\$ 2,737,185</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 Authority will make payments to the City from net revenues of its water utility.

On August 1, 2012, the Authority advance refunded the 2003 Recycled Water Certificates of Participation by placing the proceeds on new bonds in an irrevocable trust to provide for all future debt service payments on the 2003 Bonds. The 2003 Bonds will be fully defeased on September 1, 2013. At June 30, 2012, the outstanding balance of the 2003 bonds were \$5,885,000.

The annual debt service requirements for the 2003 Recycled Water Certificates of Participation for fiscal year 2013 are as follows:

Fiscal Year	2003 Certificates of Participation - Recycled Water		
	Principal	Interest	Total
2013	\$ 185,000	\$ 284,338	\$ 469,338
2014	5,700,000 *	140,550	467,300
Totals	<u>\$ 5,885,000</u>	<u>\$ 424,888</u>	<u>\$ 936,638</u>

* *Principal amount to call bond on September 1, 2013.*

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.

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements (continued)
Year Ended June 30, 2012

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. As of June 30, 2012, outstanding balance of the 1998 Water Revenue Bonds was \$26,430,000.

On September 1, 2012, these bonds were fully defeased with the proceeds of the Corona Utility Authority 2012 Water Revenue Bonds. Refer to Note 11, Subsequent Events for additional information on bond defeasance.

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, 2012 was \$1,485,246. 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
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	220,480	29,520	250,000
2018-19	469,655	30,345	500,000
Totals	<u>\$ 1,485,246</u>	<u>\$ 264,754</u>	<u>\$ 1,750,000</u>

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 made two equal payments in the amount of \$100,000 in fiscal years 2010-11 and 2011-12. As of June 30, 2012, this purchase agreement was paid in full.

8. Classification of Net Assets

In the Government-Wide Financial Statements, net assets are classified in the categories listed on the following page.

CORONA UTILITY AUTHORITY

Notes to the Component Unit Basic Financial Statements (continued)
Year Ended June 30, 2012

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 2011-12, the Authority restated its beginning balance of net assets for the Water and Water Reclamation utilities by \$5,891,171 and \$3,817,885 respectively. The restatement was resulted by recording prior years' developer capital contribution. Below is a summary of restatements made to each of the utilities in Fiscal Year 2011-12:

	<u>Water</u>	<u>Water Reclamation</u>
Beginning Fund Balance, as Reported	\$ 92,100,808	\$ 50,557,034
Restatements	5,891,171	3,817,885
Beginning Fund Balance, as Restated	<u>\$ 97,991,979</u>	<u>\$ 54,374,919</u>

11. Subsequent Event

On August 1, 2012, the Corona Utility Authority closed on \$35,880,000 Water Revenue Bonds for the advanced refunding of the CPFA 1998 Water Revenue Bonds, portion of the CPFA 2003 Certificates of Participation, and the construction of certain reservoir and blending facility. Proceeds for the advanced refundings were placed in two separate irrevocable trusts to provide for all future debt service payments and defeasances of the 1998 Bonds and the 2003 COPs. On September 1, 2012, the CPFA 1998 Water Revenue Bonds were fully defeased. The 2003 Recycled Water COPs will be called on September 1, 2013.