

# 2013

## ***Corona Utility Authority Corona, California***

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Component Unit Financial Statements and  
Independent Auditors' Report  
Year Ended June 30, 2013





To Cherish Our

**CORONA**

**"THE CIRCLE CITY"**

**Incorporated  
July 13, 1896**

To Plan Our Future

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**CORONA UTILITY AUTHORITY**

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**Component Unit Financial Statements****Year Ended June 30, 2013****Table of Contents**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors of the Corona Utility Authority  
Corona, California

### **Report on Financial Statements**

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, 2013, and the related notes to the financial statements, which collectively comprise the Corona Utility Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



Board of Directors of the Corona Utility Authority  
Corona, California

### ***Opinions***

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, 2013, and, the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2013 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* in considering Corona Utility Authority's internal control over financial reporting and compliance.

*Lance, Soll & Luyhard, LLP*

Brea, California  
December 4, 2013

# **CORONA UTILITY AUTHORITY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Fiscal Year Ended June 30, 2013**

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, 2013. 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 2012-13, the Authority reports total net position of \$167.7 million.
- Capital assets increased by \$6.1 million from the previous year.
- Total debt excluding unamortized bond premium decreased by \$2.0 million from the previous year as the result of normal scheduled debt service payments.
- The Authority refunded four of its outstanding long-term obligations in the current year, realized \$8.2 million savings in net present value on future debt service payments.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The Corona Utility Authority's basic financial statements include a statement of net position, statement of revenues, expenses and changes in fund net position, 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, 2013, the Authority increased potable water commodity rates 6.6%, which is comprised of a 4.2% pass-through rate increase from Western Municipal Water District (WMWD) and 2.4% increase for variable cost increase recovery.

Also effective February 2012, the Ready to Serve Charge was increased 2.4% for fixed cost increase recovery and funding of future Capital Improvement Projects.

Water Reclamation (sewer) rates increased 2.7% and the Reclaimed Water Ready to Serve Charge and commodity rates were increased 2.7% effective July 1, 2012.

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**CORONA UTILITY AUTHORITY**

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Management's Discussion and Analysis (continued)  
Year Ended June 30, 2013

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**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.

The following schedule is a condensed version of the Corona Utility Authority's statement of net position for fiscal years ended June 30, 2013 and 2012:

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

	<u>2013</u>	<u>2012</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Current Assets	\$ 90.2	\$ 88.7	\$ 1.5	1.7%
Noncurrent Assets		0.5	(0.5)	-100.0%
Capital Assets	<u>343.1</u>	<u>337.0</u>	<u>6.1</u>	<u>1.8%</u>
<b>Total Assets</b>	<u>433.3</u>	<u>426.2</u>	<u>7.1</u>	<u>1.7%</u>
Deferred Charge on Refunding	<u>1.0</u>		<u>1.0</u>	<u>100.0%</u>
<b>Total Assets</b>	<u>1.0</u>	<u>-</u>	<u>1.0</u>	<u>100.0%</u>
Current and Other Liabilities	9.8	12.8	(3.0)	-23.4%
Bond Issuance Premium	4.0		4.0	100.0%
Debt Outstanding	<u>252.8</u>	<u>254.8</u>	<u>(2.0)</u>	<u>-0.8%</u>
<b>Total Liabilities</b>	<u>266.6</u>	<u>267.6</u>	<u>(1.0)</u>	<u>-0.4%</u>
Net Investment in Capital Assets	86.3	82.2	4.1	5.0%
Unrestricted	<u>81.4</u>	<u>76.4</u>	<u>5.0</u>	<u>6.5%</u>
<b>Total Net Position</b>	<u>\$ 167.7</u>	<u>\$ 158.6</u>	<u>\$ 9.1</u>	<u>5.7%</u>

The Corona Utility Authority's net position increased 9.1% between fiscal years 2012 and 2013, to \$167.7 million.

Capital assets increased \$6.1 million due to the purchase new equipment and infrastructure during the year.

Long-term debt excluding unamortized bond premium decreased by \$2.0 million due to normal scheduled debt service payments.

Net investment in capital assets increased by \$4.1 million due to the combination of the increased capital assets and decreased debt.

Unrestricted net position increased by 6.5% to \$81.4 million.



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**CORONA UTILITY AUTHORITY**

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Management's Discussion and Analysis (continued)  
Year Ended June 30, 2013

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Table 2 on below is a condensed version of the Authority's statement of revenues, expenses and change in net position for the fiscal years ended June 30, 2013 and 2012 respectively:

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

	<u>2013</u>	<u>2012</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating Revenue	\$ 85.1	\$ 79.7	\$ 5.4	6.8%
Non-operating Revenue	11.1	1.3	9.8	753.8%
Total Revenues	<u>96.2</u>	<u>81.0</u>	<u>15.2</u>	<u>18.8%</u>
Operating Expense	64.4	61.3	3.1	5.1%
Depreciation Expense	10.8	10.7	0.1	0.9%
Non-operating Expense	14.4	14.5	(0.1)	-0.7%
Total Expenses	<u>89.6</u>	<u>86.5</u>	<u>3.1</u>	<u>3.6%</u>
Income Before Capital Contributions	6.6	(5.5)	12.1	-220.0%
Capital Grants & Contributions	<u>2.6</u>	<u>11.7</u>	<u>(9.1)</u>	<u>-77.8%</u>
Change in Net Position	9.2	6.2	3.0	48.4%
Beginning Net Position, Restated	<u>158.5</u>	<u>152.4</u>	<u>6.1</u>	<u>4.0%</u>
Ending Net Position	<u>\$ 167.7</u>	<u>\$ 158.6</u>	<u>\$ 9.1</u>	<u>5.7%</u>

The Authority's operating revenue increased by 6.8% due the increase in consumption and rate increase for potable and reclaimed water. Operating expenses increased 5.1% due to the increase in personnel and contractual costs.

In fiscal year 2011-12, capital contributions increased by \$8.5 million due to the contributed capital asset and developer fees collected for a large multi-unit apartment complex project. In the current fiscal year, capital contribution decreased by \$9.1 million because there was no development activity.

Non-operating revenue increased by \$9.8 million due to the amortized bond issuance premium and contribution received from the City that were related to the issuance of 2012 Water Revenue bonds and 2013 Wastewater Revenue bonds.

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**CORONA UTILITY AUTHORITY**

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Management's Discussion and Analysis (continued)  
Year Ended June 30, 2013

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**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, 2013, net capital assets of the Authority totaled \$343.1 million. Refer to the Notes to the Component Unit Basic Financial Statements No. 4 for details regarding capital assets.

**Table 3**  
**Corona Utility Authority's Capital Assets**  
(in millions)

	<b>Original Cost</b>	<b>Accumulated Depreciation</b>	<b>Book Value</b>
<b>Water Utilities</b>			
Land	\$ 2.6	\$ -	\$ 2.6
Water Rights	9.2	-	9.2
Buildings and Improvements	45.1	(16.8)	28.3
Equipment, Vehicles & Machinery	35.1	(20.4)	14.7
Construction in Progress	4.1	-	4.1
Computer Software	-	-	-
Infrastructure	214.9	(51.2)	163.7
<b>Total Water Capital Assets</b>	<b>311.0</b>	<b>(88.4)</b>	<b>222.6</b>
<b>Water Reclamation Utilities</b>			
Land	0.6	-	0.6
Wastewater Rights	0.6	-	0.6
Buildings and Improvements	46.4	(17.8)	28.6
Equipment, Vehicles & Machinery	38.9	(18.8)	20.1
Construction in Progress	4.4	-	4.4
Infrastructure	85.6	(19.4)	66.2
<b>Total Water Reclamation Capital Assets</b>	<b>176.5</b>	<b>(56.0)</b>	<b>120.5</b>
<b>Total Capital Assets</b>	<b>\$ 487.5</b>	<b>\$ (144.4)</b>	<b>\$ 343.1</b>

**DEBT ADMINISTRATION**

The Authority's long-term debt excluding unamortized bond premium decreased by \$2.0 million in Fiscal Year 2012-13 as a result of normal scheduled debt service payments. During the current reporting period, the Authority refunded several long-term obligations, including the 1998 Water Revenue bonds, the 1997 Certificates of Participation, the 2003 Recycled Water and Biosolids Project Certification of Participation (part of the 2003 Clearwater Cogeneration Project), and the 1997 State Revolving Loan. Total amount of debt defeased was \$54.3 million, and the net present value savings the Authority realized was \$8.2 million.

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**CORONA UTILITY AUTHORITY**

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Management's Discussion and Analysis (continued)  
Year Ended June 30, 2013

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In order to refund the above debts and raise capital for new projects, two revenue bonds were issued by the Corona Utility Authority, the 2012 Water Revenue bonds and the 2013 Wastewater Revenue bonds. Total amount of issuance was \$56.8 million, among which \$14.1 million was new capital.

Table 4 below is the summary of long-term obligation transactions of the Authority for the year ended June 30, 2013.

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

	<u>Balance</u> <u>July 1, 2012</u>	<u>Incurred or</u> <u>Issued</u>	<u>Satisfied or</u> <u>Matured</u>	<u>Balance</u> <u>June 30, 2013</u>
Contract Payable	\$ 0.7	\$ -	\$ -	\$ 0.7
Term Loan Payable	32.2	-	10.8	21.4
Loan Payable	13.1	-	13.1	-
Capital Lease	172.6	-	-	172.6
Long-term Installments Payable	36.2	-	34.9	1.3
Revenue Bonds	-	56.8	-	56.8
Unamortized Bond Premium	-	4.0	-	4.0
<b>Total Debt</b>	<u>\$ 254.8</u>	<u>\$ 60.8</u>	<u>\$ 58.8</u>	<u>\$ 256.8</u>

### **CORONA UTILITY AUTHORITY BUDGETARY HIGHLIGHTS**

The original budget of Fiscal Year 2012-13 for the Water Utility was \$77,312,067. The adopted budget includes an increase of \$20,746,210 due to the carry over of prior fiscal year's unspent capital improvement projects appropriations of \$15,742,973, and encumbered purchase orders of \$5,003,237.

Original Budget	\$ 77,312,067
Continued Appropriations	15,742,973
Encumbrances	<u>5,003,237</u>
Beginning Balance	98,058,277
Supplemental Changes	<u>2,830,119</u>
Final Budget	<u>\$ 100,888,396</u>

The final budget had an increase of \$2,830,119 from the adopted budget as a result of an overall increase of appropriations to the Water Utility. During the fiscal year, additional appropriations were approved in the amount of \$2,000,000 for the Home Gardens Water District Well Collection Project, \$1,600,000 for the Hidden Springs Road

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**CORONA UTILITY AUTHORITY**

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Management’s Discussion and Analysis (continued)  
Year Ended June 30, 2013

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Waterline Project, \$350,000 for the Corona Airport Waterline, \$350,000 for the Home Gardens Water District Well Interconnection Project, and \$350,000 for the Well Improvement Project. After an evaluation of various other capital projects, many were reduced or eliminated. The following are the major capital projects that had significant reductions: \$532,729 for the City Park Reclaimed Waterline, \$465,000 for the Desalter Interstage Project, \$400,000 for the Cota Pond Expansions project, and \$390,000 for the Waterline Replacement at Smith. There were 15 additional projects, with a combined total of \$1,154,216 that were closed or reduced during the fiscal year.

The original budget of Fiscal Year 2012-13 for the Water Reclamation Utility was \$35,783,200. Comparing the original to the adopted budget in the amount of \$44,503,146, there was a net increase of \$8,719,946. The increase included a carryover of prior fiscal year’s unspent capital improvement projects appropriations of \$7,531,616 as well as encumbered purchase orders of \$1,188,330.

During the fiscal year, additional appropriations were approved for the Water Reclamation Utility. Major changes include the following increases: \$2,000,000 for the Western Riverside County Regional Wastewater Authority, \$575,000 for Lift Station Improvements, \$500,000 for Research and Railroad Sewer Line, \$200,000 for the Water Reclamation Facility #1 CCT Influent Line, and \$200,000 for the Ponds Influent Piping. There was a budget reduction, totaling \$1,419,451, for the Sewer Main Replacement capital project during the fiscal year.

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

Original Budget	\$ 35,783,200
Continued Appropriations	7,531,616
Encumbrances	<u>1,188,330</u>
Adopted Budget	44,503,146
Supplemental Changes	<u>1,762,360</u>
Final Budget	<u>\$ 46,265,506</u>

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

The Water Utility is expected to serve over 42,000 customers with approximately 32,000-acre feet of water in Fiscal Year 2013-14. 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 13.25 million gallons of sewage per day in Fiscal Year 2013-14.

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**CORONA UTILITY AUTHORITY**

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Management's Discussion and Analysis (continued)  
Year Ended June 30, 2013

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Water utility sales are estimated to increase in FY 2013-14 by 3.4% 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 2013-14 by 1.2% 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](mailto:finance@ci.corona.ca.us).

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*CORONA UTILITY AUTHORITY*

***COMPONENT UNIT BASIC FINANCIAL STATEMENTS***

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**CORONA UTILITY AUTHORITY****Statement of Net Position****June 30, 2013**

	<u>Water</u>	<u>Water Reclamation</u>	<u>Total</u>
<b>Assets:</b>			
Current Assets			
Cash and Investments	\$ 30,914,552	\$ 27,498,356	\$ 58,412,908
Accounts Receivable, Net	10,090,845	2,376,388	12,467,233
Interest Receivable	112,781	100,664	213,445
Due from Other Governmental Agencies	1,241,322		1,241,322
Inventories and Prepayments	2,930,889		2,930,889
Restricted Assets:			
Cash and Investments	11,290,190	3,689,592	14,979,782
Total Current Assets	<u>56,580,579</u>	<u>33,665,000</u>	<u>90,245,579</u>
Noncurrent Assets			
Capital Assets:			
Intangible Assets	22,922		22,922
Land, water reclamation rights & construction in progress	15,863,011	5,606,267	21,469,278
Depreciable buildings, property, equipment and infrastructure, net	206,672,208	114,867,413	321,539,621
Total Noncurrent Assets	<u>222,558,141</u>	<u>120,473,680</u>	<u>343,031,821</u>
Total Assets	<u>279,138,720</u>	<u>154,138,680</u>	<u>433,277,400</u>
<b>Deferred Outflow of Resources:</b>			
Deferred Charge on Refunding	<u>140,550</u>	<u>853,429</u>	<u>993,979</u>
<b>Liabilities:</b>			
Current Liabilities			
Accounts Payable and Accrued Liabilities	5,918,236	1,328,300	7,246,536
Unearned Revenue	1,772,629		1,772,629
Compensated Absences Payable	331,355	236,748	568,103
Long-term Debt - Due within One Year Net of Unamortized Premium	3,571,889	1,195,289	4,767,178
Liabilities Payable from Restricted Assets	56,136	23,543	79,679
Total Current Liabilities	<u>11,650,245</u>	<u>2,783,880</u>	<u>14,434,125</u>
Noncurrent Liabilities			
Compensated Absences Payable	75,929	89,909	165,838
Long-term Debt - Due in More than One Year Net of Unamortized Premium	164,615,105	87,387,939	252,003,044
Total Noncurrent Liabilities	<u>164,691,034</u>	<u>87,477,848</u>	<u>252,168,882</u>
Total Liabilities	<u>176,341,279</u>	<u>90,261,728</u>	<u>266,603,007</u>
<b>Net Position:</b>			
Net Investment in Capital Assets Unrestricted	54,371,147	31,890,452	86,261,599
	48,566,844	32,839,929	81,406,773
<b>Total Net Position</b>	<u>\$102,937,991</u>	<u>\$ 64,730,381</u>	<u>\$167,668,372</u>

See accompanying notes to basic component unit financial statements.

**CORONA UTILITY AUTHORITY****Statement of Revenues, Expenses and Changes in Fund Net Position  
Year Ended June 30, 2013**

	<u>Water</u>	<u>Water Reclamation</u>	<u>Totals</u>
<b>Operating Revenues:</b>			
Utility Service Charges	\$ 51,042,654	\$ 29,353,868	\$ 80,396,522
Fees and Permits	1,201,234	419,423	1,620,657
Fines and Penalties	632,783	376,456	1,009,239
Other Revenues	1,029,537	470,465	1,500,002
Total Operating Revenues	<u>53,906,208</u>	<u>30,620,212</u>	<u>84,526,420</u>
<b>Operating Expenses:</b>			
Personnel Services	7,641,060	5,320,422	12,961,482
Contractual	4,834,223	1,852,580	6,686,803
Materials and Supplies	25,733,864	10,841,432	36,575,296
Utilities	5,222,861	2,926,565	8,149,426
Depreciation	6,484,631	4,299,612	10,784,243
Total Operating Expenses	<u>49,916,639</u>	<u>25,240,611</u>	<u>75,157,250</u>
Operating Income (Loss)	<u>3,989,569</u>	<u>5,379,601</u>	<u>9,369,170</u>
<b>Non-Operating Revenues (Expenses):</b>			
Investment Earnings	25,611	5,782	31,393
Operating Grants and Contributions	34,050		34,050
Amortization of Bond Issuance Premium	3,293,370	596,937	3,890,307
Interest Expense	(7,688,807)	(4,120,894)	(11,809,701)
Contribution Received from Primary Government	4,611,058	3,077,659	7,688,717
Contribution Paid to Primary Government	(2,624,229)		(2,624,229)
Total Non-Operating Revenues	<u>(2,348,947)</u>	<u>(440,516)</u>	<u>(2,789,463)</u>
Income Before Contribution	1,640,622	4,939,085	6,579,707
Capital Grants and Contributions	1,555,782	990,044	2,545,826
Change in Net Position	3,196,404	5,929,129	9,125,533
<b>Total Net Position - Beginning</b>	100,383,050	58,212,362	158,595,412
<b>Restatement</b>	<u>(641,463)</u>	<u>588,890</u>	<u>(52,573)</u>
<b>Total Net Position - Beginning, Restated</b>	<u>99,741,587</u>	<u>58,801,252</u>	<u>158,542,839</u>
<b>Total Net Position - Ending</b>	<u>\$102,937,991</u>	<u>\$ 64,730,381</u>	<u>\$167,668,372</u>

See accompanying notes to basic component unit financial statements.



**CORONA UTILITY AUTHORITY****Statement of Cash Flows  
Year Ended June 30, 2013**

	<u>Water</u>	<u>Water Reclamation</u>	<u>Totals</u>
<b>Cash Flow from Operating Activities:</b>			
Cash Received from Customers/Other Funds	\$ 52,084,737	\$ 30,212,780	\$ 82,297,517
Cash Payments to Suppliers of Goods and Services	(36,966,059)	(16,546,472)	(53,512,531)
Cash Payments to Employees for Services	(7,574,255)	(5,289,944)	(12,864,199)
Net Cash Provided by Operating Activities	<u>7,544,423</u>	<u>8,376,364</u>	<u>15,920,787</u>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Operating Grants and Contributions	34,050	-	34,050
Cash Received from Primary Government	4,611,058	3,077,659	7,688,717
Cash Payments to Primary Government	(2,624,229)	-	(2,624,229)
Net Cash Provided by Noncapital Financing Activities	<u>2,020,879</u>	<u>3,077,659</u>	<u>5,098,538</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Capital Grants and Contributions	2,434,146	990,044	3,424,191
Acquisition and Construction of Capital Assets	(11,373,183)	(5,670,544)	(17,043,727)
Principal Paid on Capital Debt	(5,005,820)	(6,476,847)	(11,482,667)
Interest Paid on Capital Debt	(7,744,790)	(4,356,366)	(12,101,156)
Proceeds from Bond Sales	12,868,950	3,944,680	16,813,630
Net Cash Used for Capital and Related Financing Activities	<u>(8,820,697)</u>	<u>(11,569,033)</u>	<u>(20,389,730)</u>
<b>Cash Flows from Investing Activities:</b>			
Interest on Investments	75,956	28,395	104,351
Net Cash Provided by Investing Activities	<u>75,956</u>	<u>28,395</u>	<u>104,351</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>820,561</u>	<u>(86,615)</u>	<u>733,946</u>
<b>Cash and Cash Equivalents</b>			
Beginning	41,384,181	31,274,563	72,658,744
Ending (including \$14,979,782 in restricted accounts)	<u>\$ 42,204,742</u>	<u>\$ 31,187,948</u>	<u>\$ 73,392,690</u>
<b>Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities:</b>			
Operating Income (Loss)	\$ 3,989,569	\$ 5,379,601	\$ 9,369,170
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities:			
Depreciation	6,484,631	4,299,612	10,784,243
Write-off of Capital Assets	13,253	2,696	15,949
Changes in Assets and Liabilities:			
Accounts Receivable	(1,782,608)	(407,432)	(2,190,040)
Inventories and Prepayments	33,612	-	33,612
Accounts Payable and Accrued Liabilities	(1,260,839)	(928,591)	(2,189,430)
Compensated Absences Payable	66,805	30,478	97,283
Net Cash Provided by (Used for) Operating Activities	<u>\$ 7,544,423</u>	<u>\$ 8,376,364</u>	<u>\$ 15,920,787</u>

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***CORONA UTILITY AUTHORITY***

***NOTES TO THE COMPONENT UNIT BASIC FINANCIAL STATEMENTS***

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**CORONA UTILITY AUTHORITY**

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Notes to the Component Unit Basic Financial Statements  
Year Ended June 30, 2013

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**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 position, a statement of revenues, expenses and changes in net position, 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 position. The statement of revenues, expenses and changes in fund net position presents increases (revenues) and decreases (expenses) in total net position. 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.

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**CORONA UTILITY AUTHORITY**

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Notes to the Component Unit Basic Financial Statements (continued)  
Year Ended June 30, 2013

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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 Position**

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

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**CORONA UTILITY AUTHORITY**

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Notes to the Component Unit Basic Financial Statements (continued)  
Year Ended June 30, 2013

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**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.

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**CORONA UTILITY AUTHORITY**

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Notes to the Component Unit Basic Financial Statements (continued)  
Year Ended June 30, 2013

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**I. Effect of New (GASB) Pronouncements**

GASB Statement No. 63 – In June 2011, GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Positions. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflow of resources and the resulting net position. This statement was effective on June 30, 2013. The Authority implemented this statement as of June 30, 2013.

GASB Statement No. 65 – In March 2012, GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. The statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflow of resources. This statement is effective on June 30, 2014. The Authority implemented this statement as of June 30, 2013.

**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, 2013 cash and investments of the Authority was as follows:

Unrestricted Cash and Investments - Pooled Cash	\$ 58,412,908
Restricted Cash and Investments:	
Retention & Investment with Fiscal Agent	14,979,782
<b>Total Cash and Investments</b>	<b><u>\$ 73,392,690</u></b>

Retention accounts are pooled with other funds of the primary government. Escrow accounts are held in the name of the primary government, the City of Corona, and the escrow funds are invested under the terms of the respective escrow agreements.

**3. Receivables**

As of June 30, 2013, the Authority had \$12,467,233 in accounts receivables. Receivables are reported net of allowance for uncollectible, which were established based on current collection experience. Allowances for uncollectible were \$403,208 for the Water Utility.

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**CORONA UTILITY AUTHORITY**

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Notes to the Component Unit Basic Financial Statements (continued)  
Year Ended June 30, 2013

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**4. 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.

Description	Historical Cost	Accumulated Depreciation	Net Cost
Water Utilities	\$ 214,914,318	\$ (51,216,521)	\$ 163,697,797
Water Reclamation Utilities	85,585,187	(19,383,987)	66,201,200
Total Infrastructure Assets	<u>\$ 300,499,505</u>	<u>\$ (70,600,508)</u>	<u>\$ 229,898,997</u>

Capital Assets of the Authority for the year ended June 30, 2013, consisted of the following:

Description	Restated Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Land	\$ 2,612,981	\$ 667,496		\$ 3,280,477
Building and Improvements	88,700,228	2,684,120		91,384,348
Equipment, Vehicles and Machinery	65,325,875	8,913,638	(158,719)	74,080,794
Water Reclamation Rights	9,180,000	600,000		9,780,000
Computer Software	38,204			38,204
Construction in Progress Infrastructure	12,437,790	14,007,196	(18,036,184)	8,408,802
	292,292,044	8,207,461		300,499,505
Total Capital Assets	470,587,122	35,079,911	(18,194,903)	487,472,130
Accumulated Depreciation	(133,798,836)	(10,784,243)	142,770	(144,440,309)
Total Capital Assets net of Accumulated Depreciation	<u>\$ 336,788,286</u>	<u>\$ 24,295,668</u>	<u>\$ (18,052,133)</u>	<u>\$ 343,031,821</u>

Beginning balance of Construction in Progress was restated by \$(229,684) as the result of reclassifying prior years' capital expenses to operation expenses. Please refer to Note 10 for additional information of the restatement.

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**CORONA UTILITY AUTHORITY**

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Notes to the Component Unit Basic Financial Statements (continued)  
Year Ended June 30, 2013

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**5. Compensated Absences**

As of June 30, 2013, the Authority has compensated absences of \$733,941 which represent accumulated annual leave.

	Balance July 1, 2012	Incurred	Satisfied	Balance June 30, 2013	Amounts Due Within One Year	Amounts Due in More than One Year
Water	\$ 340,479	\$ 402,999	\$ 336,194	\$ 407,284	\$ 331,355	\$ 75,929
Water Reclamation	296,179	267,226	236,748	326,657	236,748	89,909
Total	<u>\$ 636,658</u>	<u>\$ 670,225</u>	<u>\$ 572,942</u>	<u>\$ 733,941</u>	<u>\$ 568,103</u>	<u>\$ 165,838</u>

**6. Long-Term Obligations**

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2013:

	Balance July 1, 2012	Incurred or Issued	Satisfied or Matured	Balance June 30, 2013	Amounts Due Within One Year	Amounts Due in More Than One Year
Contracts Payable	\$ 690,391	\$ -	\$ -	\$ 690,391	\$ -	\$ 690,391
Term Loans Payable	32,175,712		10,813,470	21,362,242	1,410,939	19,951,303
Loans Payable	13,119,769		13,119,769	-		
Capital Leases	172,628,344			172,628,344		172,628,344
Long Term Installments	36,195,246		34,896,469	1,298,777	194,445	1,104,332
Revenue Bonds		56,770,000		56,770,000	1,165,000	55,605,000
Unamortized Bond Premium		4,020,468		4,020,468	1,996,794	2,023,674
Totals	<u>\$ 254,809,462</u>	<u>\$ 60,790,468</u>	<u>\$ 58,829,708</u>	<u>\$ 256,770,222</u>	<u>\$ 4,767,178</u>	<u>\$ 252,003,044</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, 2013 was \$690,391.



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**CORONA UTILITY AUTHORITY**

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Notes to the Component Unit Basic Financial Statements (continued)  
Year Ended June 30, 2013

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**B. Term Loans Payable**

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 future 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, 2013 was \$21,362,242.

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
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
2018	1,557,413	387,582	1,944,995
2019-2022	8,390,930	1,334,045	9,724,975
2023-2026	5,554,952	280,034	5,834,986
Totals	<u>\$ 21,362,242</u>	<u>\$ 3,922,694</u>	<u>\$ 25,284,936</u>

**C. 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.

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 leases 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 capital 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 was calculated with a 3.5% to 4.0%

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**CORONA UTILITY AUTHORITY**

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Notes to the Component Unit Basic Financial Statements (continued)  
Year Ended June 30, 2013

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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. In Fiscal Year 2011-12, the annual lease payment for Water Utility was calculated with a discount rate of 6.0% with a catch-up payment for the prior years in the amount of \$311,015, and the Water Reclamation Utility's lease payment was discounted at 5.7% of the lease principal amount. For fiscal year ended June 30, 2013, the lease payment for Water and Water Reclamation utilities were calculated with a discount rate of 5.5% and 4.8% respectively.

The following Internal Balances – Capital Leases were outstanding at June 30, 2013:

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

#### Capital Lease Payments

At June 30, 2013, the future minimum lease payments required under the capital leases and the net present value of the future lease payments for the Water Utility are presented below:

<b>Corona Utility Authority</b>		
<b>Future Lease Payments - Water Utility</b>		
<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014		\$ 5,346,473
2015		5,346,473
2016		3,590,150
2017		3,397,942
2018		3,215,345
2019-2023		13,641,807
2024-2028		10,268,472
2029-2033		7,658,250
2034-2038		5,638,510
2039-2043		4,075,673
2044-2048		2,866,380
2049-2053		1,474,496
2054-2056		278,825
Total Future Lease Payments	<u>-</u>	<u>\$ 66,798,796</u>
Discharge of Obligations	106,819,662	
Present Value of Total Lease Payment	<u>\$ 106,819,662</u>	

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**CORONA UTILITY AUTHORITY**

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Notes to the Component Unit Basic Financial Statements (continued)  
Year Ended June 30, 2013

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At June 30, 2013, the future minimum lease payments required under the capital leases and the net present value of the future lease payments for the Water Reclamation Utility are presented below:

<b>Corona Utility Authority</b>		
<b>Future Lease Payments - Water Reclamation Utility</b>		
<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014		\$ 2,876,048
2015		2,876,048
2016		2,041,048
2017		2,041,048
2018		2,041,048
2019-2023		9,170,272
2024-2028		6,943,084
2029-2033		5,219,728
2034-2038		3,886,228
2039-2043		2,854,391
2044-2048		2,055,976
2049-2053		1,566,909
2054-2056		850,675
Total Future Lease Payments	-	<u>\$ 44,422,503</u>
Discharge of Obligations	65,808,682	
Present Value of Total Lease Payment	<u>\$ 65,808,682</u>	

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 2012-13, the following lease payments were made by the Authority:

<u>Leasee</u>	<u>Amount</u>
Water Utility	\$ 5,840,840
Water Reclamation Utility	3,142,354
<b>Total Payment from the Authority to the City</b>	<u><u>\$ 8,983,194</u></u>

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**CORONA UTILITY AUTHORITY**

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Notes to the Component Unit Basic Financial Statements (continued)  
Year Ended June 30, 2013

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**D. Long Term Installment Payable Agreements**

On December 1, 2008, the Authority and Elsinore Valley Municipal Water District entered into an agreement for a total of \$2,500,000 for the purpose of acquiring certain assets. The loan is payable over a period of 10 years at the rate of 4.277% interest in equal annual installments of \$250,000 through June 2019. The amount outstanding at June 30, 2013 was \$1,298,777.

The annual debt service requirements for the Elsinore Valley Municipal Water District Agreement are presented below:

Fiscal Year	Elsinore Valley Municipal Water District Agreement		
	Principal	Interest	Total
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	229,910	20,090	250,000
2019	239,745	10,255	250,000
Totals	<u>\$ 1,298,777</u>	<u>\$ 201,223</u>	<u>\$ 1,500,000</u>

**E. Revenue Bonds**

As of June 30, 2013, the Authority has the following outstanding revenue bonds:

Description	Balance
2012 Water Revenue Bonds	\$ 35,880,000
2013 Wastewater Revenue Bonds	20,890,000
Total Long Term Installment Payable	<u>\$ 56,770,000</u>

**2012 Water Revenue Bonds**

On August 1, 2012, the Authority issued the 2012 Water Revenue bonds in the amount of \$35,880,000 (plus a premium of \$5.8 million) with interest rates ranging from 2.0% to 5.0% to refund several outstanding Authority debts and to fund for certain capital improvement projects for the Water Utility. The 2012 Water Revenue bonds possessed an underlying credit rating of "AA" from Standard & Poor's.

The refunded debts were the Corona Public Financing Authority (CPFA) 1998 Water Revenue bonds and the recycled water portion of the 2003 Certificates of Participation (Clearwater Cogen/Recycled Water Project). Of the total proceeds, \$12.3 million was to fund for the construction of certain reservoir and blending facility.

The outstanding bonds bear interest from 2.0% to 5.0% and are due in annual installments ranging from \$1,165,000 to \$2,240,000 through 2030 with term bonds in the amount of \$5,155,000 due on September 1, 2032. The bonds are considered a liability of the Water Utility fund.

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**CORONA UTILITY AUTHORITY**

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Notes to the Component Unit Basic Financial Statements (continued)  
Year Ended June 30, 2013

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The annual debt service requirements for the 2012 Water Revenue bonds are presented below:

Fiscal Year	2012 Water Revenue Bonds		
	Principal	Interest	Total
2014	\$ 1,165,000	\$ 1,472,200	\$ 2,637,200
2015	1,310,000	1,447,450	2,757,450
2016	1,335,000	1,414,325	2,749,325
2017	1,375,000	1,387,425	2,762,425
2018	1,390,000	1,359,700	2,749,700
2019-2023	7,695,000	5,990,850	13,685,850
2024-2028	9,570,000	4,041,875	13,611,875
2029-2033	12,040,000	1,534,250	13,574,250
Totals	<u>\$ 35,880,000</u>	<u>\$ 18,648,075</u>	<u>\$ 54,528,075</u>

#### 2013 Wastewater Revenue Bonds

On June 26, 2013, the Authority issued the 2013 Wastewater Revenue bonds in the amount of 20,890,000 (plus a premium of \$2.1 million) with interest rates ranging from 2.0% to 4.0% to refund several outstanding Authority debts and to fund for certain capital improvement projects for the Wastewater Utility. The 2013 Wastewater Revenue bonds possessed an underlying credit rating of "AA" from Standard & Poor's.

The refunded debts were: the Biosolids Project portion of the 2003 Certificates of Participation (Clearwater Cogen/Recycled Water Project), the outstanding Corona Public Improvement Corporation (CPIC) 1997 Certificates of Participation (Sunkist Plant), the State Water Resources Control Board loan contract # 6-807-5850-0 (WWTP#1). Of the total proceeds, \$3.9 million was to fund for the improvement of certain influent screening, aeration and centrifuge facilities at Water Reclamation Facility No. 1.

The outstanding bonds bear interest from 2.0% to 4.0% and are due in annual installments ranging from \$590,000 to \$2,400,000 through 2028 with term bonds in the amount of \$2,860,000 due on September 1, 2031. The bonds are considered a liability of the Wastewater Utility fund.

The annual debt service requirements for the 2013 Wastewater Revenue bonds are presented on the following page.

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**CORONA UTILITY AUTHORITY**

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Notes to the Component Unit Basic Financial Statements (continued)  
Year Ended June 30, 2013

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Fiscal Year	2013 Wastewater Revenue Bonds		
	Principal	Interest	Total
2014	\$ -	\$ 549,821	\$ 549,821
2015	2,145,000	786,450	2,931,450
2016	2,330,000	730,050	3,060,050
2017	2,400,000	647,100	3,047,100
2018	1,940,000	560,300	2,500,300
2019-2023	4,525,000	2,049,000	6,574,000
2024-2028	3,815,000	1,248,575	5,063,575
2029-2033	3,735,000	310,676	4,045,676
Totals	<u>\$ 20,890,000</u>	<u>\$ 6,881,972</u>	<u>\$ 27,771,972</u>

**F. Defeased Debt**State Revolving Fund Loan Contract No. 6-807-5850-0

On June 26, 2013, the Authority paid off the State Revolving Fund Loan Contract No. 6-807-5850-0 with proceeds from the 2013 Wastewater Revenue bonds. The loan was entered with the State Water Resources Control Board of the State of California on September 17, 1996 and February 20, 1997 for a total of \$22,244,222 for purposes of expansion of the Water Reclamation Facility No. 1. The loan was payable over a period of 20 years at the rate of 2.8% interest in equal installments of \$1,503,293 through October 2018.

The Authority made a principal payment of \$9,436,944 with the accrued interest. As a result of the refunding, the Authority realized economic gains (the difference between the present value of the debt service payments on the old and new debt) of \$341,065, or 4.2% of the principal amount being refunded.

1997 Refunding Certificates of Participation

On June 26, 2013, the Authority issued the 2013 Wastewater Revenue bonds and placed a portion of the proceeds in the amount of \$961,145 (including a premium of \$56,145) in an irrevocable trust account held by an escrow agent for the call of the CPIC 1997 Refunding Certificates of Participation. The 1997 COPs was subsequently called on July 9, 2013.

The 1997 COPs was issued on January 21, 1997 by the CPIC in the amount of \$7,010,000 for the purposes of refunding the remaining \$6,425,000 of the 1986 Sunkist Wastewater Treatment Facilities Certificates of Participation and to pay the costs incurred in connection with the issuance, sale, and delivery of the bonds as well as to establish a reserve fund. The original certificates were issued to finance the acquisition, construction and installation of certain improvements to the City's Wastewater (currently referred to as Water Reclamation) Treatment Facility No. 2 (Sunkist Plant). The 1997 COPs bore interest rates from 5.20% to 5.50% and were due in annual installments ranging from \$385,000 to \$530,000 through August 1, 2016.

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**CORONA UTILITY AUTHORITY**

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Notes to the Component Unit Basic Financial Statements (continued)  
Year Ended June 30, 2013

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As the result of the refunding, the Authority realized economic gains (the difference between the present value of the debt service payments on the old and new debt) of \$114,422, or 5.8% of the principal amount being refunded. The refunding met the requirements of an in-substance defeasance and the liability of the refunded certificates was removed from the Authority's financial statements in the current fiscal year.

#### 1998 CPFA Water Revenue Bonds

On August 1, 2012, the Authority issued the 2012 Water Revenue bonds and placed a portion of the proceeds in the amount of \$23,719,795 (including a premium of \$3,204,795) in an irrevocable trust account held by an escrow agent for the call of the CPFA 1998 Water Revenue bonds. The 1998 Water Revenue bonds were subsequently called on September 4, 2012.

The CPFA 1998 Water Revenue bonds were issued in the amount of \$36,690,000 to finance the cost of the construction of a ground water desalting system and to refinance the outstanding 1994 Water System Improvement Project Certificates of Participation. The 1998 Water Revenue bonds bore interest rates from 4.25% to 4.75% and were due in annual installments ranging from \$965,000 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.

As the result of the refunding, the Authority realized economic gains (the difference between the present value of the debt service payments on the old and new debt) of \$4,780,440, or 18.1% of the principal amount being refunded.

#### 2003 Recycled Water Projects Certificates of Participation

On August 1, 2012, the Corona Utility Authority issued the 2012 Water Revenue bonds and placed a portion of the proceeds in the amount of \$5,542,929 (including a premium of \$712,929) in an irrevocable trust account held by an escrow agent for the call of the CPFA 2003 Certificates of Participation Recycled Water Project portion. Together with proceeds from the CUA 2013 Wastewater Revenue bonds and the payment from the City of Riverside, the 2003 Clearwater Cogeneration/Recycled Water Projects Certificates of Participation were called in its entirety on September 3, 2013.

As the result of the refunding, the City realized economic gains (the difference between the present value of the debt service payments on the old and new debt) of \$943,788, or 16.0% of the principal amount of the Recycled Water Project portion of the 2003 COP being refunded.

#### 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 the amount of \$14,667,175. The outstanding loan bore interests from 4.25% to 5.00%. The Authority was to make semi-annual payments through September 2031. Annual installments vary from \$1,006,373 to \$1,024,229.

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**CORONA UTILITY AUTHORITY**

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Notes to the Component Unit Basic Financial Statements (continued)  
Year Ended June 30, 2013

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As of June 30, 2013, the Authority had paid this loan in full with the proceeds from the 2013 Wastewater Revenue bonds. The Authority realized economic gains (the difference between the present value of the debt service payments on the old and new debt) of \$1,971,155, or 15.8% of the refunded loan balance.

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 made annual payments in the amounts of \$500,000 in fiscal years 2010-11 and 2011-12, and \$250,000 in Fiscal Year 2012-13. As of June 30, 2013, the El Cerrito Park Reclaimed Water Line loan has been paid in full.

**7. Classification of Net Position**

In the Basic Financial Statements, net position is classified in the categories listed on the following page.

Net Investment In Capital Assets – 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 Position – 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 Position – This category represents the net position of the Authority, which are not restricted for any project or other purpose.

**8. 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.



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**CORONA UTILITY AUTHORITY**

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Notes to the Component Unit Basic Financial Statements (continued)  
Year Ended June 30, 2013

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**9. Commitments and Contingencies**

On July 18, 2012, the City Council and the Corona Utility Authority Board approved addendum No. 6 to the Joint Exercise of Powers Agreement creating the Western Riverside County Regional Wastewater Authority (WRCRWA) admitted the City of Corona as a voting member of the WRCRWA. WRCRWA was formed as a joint powers authority in 1992 to construct and operate a regional wastewater conveyance, treatment and disposal system to serve its member agencies. Other member agencies included Home Gardens Sanitary District, Jurupa Community Services District, City of Norco, Santa Ana Watershed Project Authority, and Western Municipal Water District of Riverside County. To become a voting member of WRCRWA, the Authority was required to pay \$4.0 million in fees which represent membership and capacity of 2.0 million gallons per day (MGD). In addition, as a voting member of WRCRWA, the Authority was responsible for its proportional share of the WRCRWA's budget starting Fiscal Year 2012-13. The Authority was also committed to the WRCRWA Treatment Plant Expansion project, which required the City to pay 39.5% of the total project cost less the \$4.0 million paid as membership and the 2.0 MGD capacity fee. The estimated cost for the WRCRWA expansion project was approximately \$62 million. Construction was expected to begin in Fiscal Year 2013-14.

**10. Restatement**

Restatements to net position on the fund financial statements for Fiscal Year 2012-13 are summarized as follows:

	<u>Water</u>	<u>Water Reclamation</u>
Beginning Net Position, as Reported	\$100,383,050	\$ 58,212,362
Restatements	(641,463)	588,890
Beginning Net Position, as Restated	<u>\$ 99,741,587</u>	<u>\$ 58,801,252</u>

- a) Water Utility fund had a restatement of \$(641,463) to its beginning net position. This was a combination of writing off \$422,888 in accounts receivables that was incorrectly recognized as revenue in the prior year, and reclassifying \$218,575 from construction in progress to maintenance and repairs expenses.
- b) The beginning net position for the Water Reclamation Utility fund was adjusted by \$588,890 due to the reclassification of prior year expense to long-term agreement receivable in the amount of \$600,000. A payment of \$600,000 was made to the former Corona Redevelopment Agency to reimburse the certain developer agreement costs. The agreement required the developer for certain performance and the developer failed to fulfill its obligations, resulted in conveying a portion of its wastewater treatment capacity to the Authority. The capacity was recorded at cost for \$600,000 in the current year, less amortization of \$11,110, for a net adjustment of \$588,890 to the fund's net position.

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**CORONA UTILITY AUTHORITY**

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Notes to the Component Unit Basic Financial Statements (continued)  
Year Ended June 30, 2013

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**11. Subsequent Event**

On September 27, 2013, the Authority applied for a State Revolving Fund loan from the State of California, State Water Resources Control Board (SWRCB) in the amount of \$14,997,145 to fund the Water Reclamation Facility No. 2 Tertiary Filtration project. The project will significantly increase the Authority's capacity of Title 22 reclaimed water production. As of November 28, 2013, the loan has not been approved by the SWRCB.

On October 16, 2013, the City Council and the Corona Utility Authority Board authorized a loan repayment agreement with the Western Riverside County Regional Wastewater Authority (WRCRWA) and its member agencies. WRCRWA has applied for a State Revolving Fund loan (WRCRWA SRF Loan) from the State of California, State Water Resources Control Board in the amount of \$59,451,000 for the purpose of expanding the capacity of its wastewater treatment facilities. The Authority was obligated for 39.5% of the WRCRWA SRF Loan repayment. Other WRCRWA member agencies were obligated for the remaining 60.5%. The amount of the Authority's share of loan repayment was not known as of November 28, 2013 due to unknown final loan amount, rate and term.