

**PERRIS**  
**PUBLIC UTILITY AUTHORITY**  
**FINANCIAL STATEMENTS**  
Year Ended June 30, 2012



**Perris Public Utility Authority  
Annual Audit Report  
Year Ended June 30, 2012**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Perris Public Utility Authority  
Perris, California

We have audited the accompanying financial statements of the business-type activities of the Perris Public Utility Authority (the "Authority"), a component unit of the City of Perris, as of and for the year ended June 30, 2012, which comprise the Authority's basic component unit financial statements, as listed in the table of contents. These basic component unit financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic component unit financial statements based on our audit.

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

As discussed in Note 1.A, the financial statements present only the Authority and are not purport to, and do not, present fairly the financial position of City of Perris as of June 30, 2012, and the changes in its financial position, or, where applicable, its cash flows for the year then ended 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 the business-type activities of the Authority as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Perris Public Utility Authority, will continue as a going concern. As discussed in Note 7 to the financial statements, the Authority has a deficit in net assets. This condition raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 7. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2012 on our consideration of the City of Perris internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Management has not presented *Management's Discussion and Analysis* that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

*Teaman Ramirez & Smith, Llc.*

Riverside, California  
December 20, 2012





**Perris Public Utility Authority**  
**Statement of Net Assets**  
June 30, 2012

**ASSETS**

Current Assets:

Cash	\$ 81,227
Accounts Receivable	264,734
Interest Receivable	201

Noncurrent Assets:

Land, Not Being Depreciated	300,564
Capital Assets, Net of Depreciation	<u>9,960,876</u>

Total Assets	<u>10,607,602</u>
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities	311,524
Compensated Absences - Current Portion	2,097
Deposits	84,125

Noncurrent Liabilities:

Advance from Other Agencies	1,997,781
Advance from City of Perris	327,751
Compensated Absences Payable	8,388
Notes Payable	<u>9,360,000</u>

Total Liabilities	<u>12,091,666</u>
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**NET ASSETS**

Unrestricted	<u>(1,484,064)</u>
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Total Net Assets (Deficit)	<u><u>\$ (1,484,064)</u></u>
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The accompanying notes are an integral part of this statement.

**Perris Public Utility Authority**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
Year Ended June 30, 2012

<b>OPERATING REVENUES</b>	
Charges for Services	<u>\$ 572,930</u>
Total Operating Revenues	<u>572,930</u>
<b>OPERATING EXPENSES</b>	
Maintenance and Operations	100,804
Contractual Services	239,658
Administrative and General	293,864
Depreciation	<u>321,079</u>
Total Operating Expenses	<u>955,405</u>
Operating Income (Loss)	<u>(382,475)</u>
<b>NON-OPERATING REVENUE</b>	
Investment Income	<u>838</u>
Total Non-Operating Revenue	<u>838</u>
Change in Net Assets	(381,637)
Net Assets, Beginning of Year	<u>(1,102,427)</u>
Net Assets, End of Year	<u><u>\$ (1,484,064)</u></u>

The accompanying notes are an integral part of this statement.

**Perris Public Utility Authority**  
**Statement of Cash Flows**  
Year Ended June 30, 2012

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Customers	\$ 541,400
Cash Payments for Employee Services	(73,417)
Cash Payments to Suppliers for Goods and Services	<u>(452,879)</u>
Net Cash Provided (Used) by Operating Activities	<u>15,104</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Advances to Other Governments	<u>(3,464)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(3,464)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment Income	<u>716</u>
Net Cash Provided (Used) by Investing Activities	<u>716</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>12,356</b>
Cash and Cash Equivalents - Beginning of Year	<u>68,871</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 81,227</u></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Operating Income	\$ (382,475)
Adjustments to Reconcile Net Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	321,079
Changes in Assets and Liabilities:	
Accounts Receivable (Increase) Decrease	(41,035)
Deposits (Increase) Decrease	9,505
Accounts Payable and Accrued Liabilities Increase (Decrease)	107,798
Compensated Absences Increase (Decrease)	<u>232</u>
<b>TOTAL CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u><u>\$ 15,104</u></u>

The accompanying notes are an integral part of this statement.

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**Perris Public Utility Authority**  
**Notes to Financial Statements**  
Year Ended June 30, 2012

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A) Reporting Entity**

The City of Perris (City) and the Perris Redevelopment Agency (Agency) formed a Joint Powers Authority, pursuant to a Joint Exercise Powers Agreement, dated as of December 29, 1999, by and between the Agency and the City. The Perris Public Utility Authority (Utility Authority) was created to assist the City in its financing objectives by purchasing and operating the Sewer and Water systems from the City. On February 1, 2012, the Perris Redevelopment Agency was dissolved by legislation from the California State Legislature and a decision by the California Supreme Court. The City of Perris is the Successor Agency of the Perris Redevelopment Agency which oversees the remaining activities of the former Perris Redevelopment Agency.

The City and the Utility Authority entered into a "Purchase Agreement", dated March 16, 2000, to sell the Sewer and Water Enterprise from the City to the Utility Authority. The sale price was based upon the completion of an appraisal of the Enterprise, which was not completed until November 2000. On August 28, 2001, the original purchase agreement was rescinded and replaced by a new purchase agreement. This agreement was subsequently rescinded on February 12, 2002. Therefore, transactions related to the sale have not been enacted nor are they presented in these financial statements. The Utility Authority, in December 2008, purchased the McCanna Ranch Water Company.

The Authority's office and records are located at City Hall, 101 North "D" Street, Perris, California, telephone number (951) 943-2906.

The Authority is a component unit of the City of Perris and, accordingly, the financial statements of the Authority are included in the financial statements of the City of Perris. The Authority is an integral part of the reporting entity of the City of Perris. The funds of the Authority have been blended within the financial statements of the City because the City Council of the City of Perris is the governing board of the Authority and exercises control over the operations of the Authority. Only the funds of the Authority are included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the City of Perris.

**B) Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The Authority's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as they are applicable to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The Authority reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Authority is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges and space rentals. The Authority financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred regardless of the timing of related cash flows.

**Perris Public Utility Authority**  
**Notes to Financial Statements**  
Year Ended June 30, 2012

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**B) Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued**

Proprietary funds distinguish operating revenues and expenses from those revenues and expenses that are non-operating. Operating revenues are those revenues that are generated by utility services while operating expenses pertain directly to the furnishing of those services. Non-operating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of utility services.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to governmental enterprise funds. In accordance with GASB Statement 20, the Authority has elected to apply all Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989, with the exception of those that conflict with or contradict GASB Pronouncements.

**C) Cash and Cash Equivalents**

In accordance with GASB Statement 9, for purposes of the Statement of Cash Flows, all cash and investments with original maturities of 90 days or less are considered cash or cash equivalents.

**D) Investments**

As a governmental entity other than an external investment pool in accordance with GASB 31, the Authority's investments are stated at fair value except for interest-earning investment contracts. At June 30, 2012, the Authority held no investments; therefore, no adjustment is reflected in these financial statements.

**E) Uncollectible Accounts Receivable**

The Authority uses the allowance method for uncollectible accounts receivable but deemed no allowance is necessary.

**F) Capital Assets**

Capital assets, which include land, buildings, building improvements, machinery, vehicles, and infrastructure assets, are reported in the Statement of Net Assets. Capital assets are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Capital assets purchased in excess of \$5,000, and buildings and building improvements purchased in excess of \$20,000 are capitalized if they have an expected useful life of 2 years or more. Infrastructure is capitalized if cost is in excess of \$50,000 and it has an expected useful life of 2 years or more. The cost of normal maintenance and repairs that do not add to the value of the asset's lives are not capitalized.

Major capital outlay for capital assets and improvements are capitalized as projects are constructed. For debt-financed capital assets, interest incurred during the construction phase is reflected in the capitalization value of the asset constructed, net of interest earned on the invested proceeds over the same period. Capital assets acquired through lease obligations are valued at the present value of future lease payments at the date acquired. Donated capital assets are valued at their estimated fair market value at the date of donation.

**Perris Public Utility Authority**  
**Notes to Financial Statements**  
Year Ended June 30, 2012

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**F) Capital Assets - Continued**

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements and in the fund financial statements of the proprietary funds. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The range of lives used for depreciation purposes for each capital asset class is as follows:

Buildings	30 - 45 years
Building Improvements	7 - 30 years
Machinery	6 - 15 years
Vehicles	5 - 15 years
Infrastructure	20 - 40 years
Structures and Improvements	35 - 40 years
Reservoirs and Manholes	50 - 60 years
Boosters	25 years
Other Equipment and Services	35 - 60 years

**G) Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues, and expenses/expenditures, as appropriate, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

**2) CASH AND INVESTMENTS**

Cash and Investments are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash	<u>\$ 81,227</u>

Cash and investments consist of the following:

Deposits with Financial Institutions	<u>\$ 81,227</u>
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**Perris Public Utility Authority**  
**Notes to Financial Statements**  
Year Ended June 30, 2012

**2) CASH AND INVESTMENTS - Continued**

**Investments Authorized by the California Government Code and the Authority's Investment Policy**

The table below identifies the investment types that are authorized by the Authority's investment policy. The table also identifies certain provisions of the California Government Code (or the Authority's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity<sup>(1)</sup></u>	<u>Maximum Percentage Of Portfolio<sup>(2)</sup></u>	<u>Maximum Investment In One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	80%	None
U.S. Agency Securities	5 years	80%	None
Banker's Acceptances	180 days	20%	5%
Commercial Paper	270 days	15% of market value	5%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	90 days	20%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	80%	None
Bank / Time Deposits	5 years	25%	None

<sup>(1)</sup>No more than 50% of the portfolio shall have maturity dates in excess of 2 years at any given time.

<sup>(2)</sup>Excluding amounts held by bond trustee that are not subject to California Government Code Restrictions.

**Investments Authorized by Debt Agreements**

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy.

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rates risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.



**Perris Public Utility Authority**  
**Notes to Financial Statements**  
Year Ended June 30, 2012

**2) CASH AND INVESTMENTS - Continued**

**Concentration of Credit Risk**

The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Government Code.

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2012, no deposits of the Authority with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. As of June 30, 2012, the Authority held no investments.

**3) CAPITAL ASSETS**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Depreciated:				
Land	\$ 300,564	\$	\$	\$ 300,564
Total Capital Assets Not Depreciated	300,564	0	0	300,564
Capital Assets Being Depreciated:				
Major Equipment	396,481			396,481
Structures and Improvements	244,829			244,829
Reservoirs	1,608,367			1,608,367
Mains	5,641,405			5,641,405
Services	1,335,421			1,335,421
Meters	204,327			204,327
Hydrants	656,884			656,884
Wells	996,070			996,070
Total Capital Assets Being Depreciated	\$ 11,083,784	\$ 0	\$ 0	\$ 11,083,784

**Perris Public Utility Authority  
Notes to Financial Statements  
Year Ended June 30, 2012**

**3) CAPITAL ASSETS - Continued**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less Accumulated Depreciation:				
Major Equipment	\$ (49,561)	\$ (19,824)	\$	\$ (69,385)
Structures and Improvements	(14,447)	(5,779)		(20,226)
Reservoirs	(89,353)	(35,741)		(125,094)
Mains	(402,957)	(161,183)		(564,140)
Services	(111,285)	(44,514)		(155,799)
Meters	(17,027)	(6,811)		(23,838)
Hydrants	(46,920)	(18,768)		(65,688)
Wells	<u>(70,278)</u>	<u>(28,460)</u>		<u>(98,738)</u>
Total Accumulated Depreciation	<u>(801,828)</u>	<u>(321,080)</u>	<u>0</u>	<u>(1,122,908)</u>
Total Capital Assets Being Depreciated, Net	<u>10,281,956</u>	<u>(321,080)</u>	<u>0</u>	<u>9,960,876</u>
Capital Assets, Net of Depreciation	<u>\$ 10,582,520</u>	<u>\$ (321,080)</u>	<u>\$ 0</u>	<u>\$ 10,261,440</u>

**4) COMPENSATED ABSENCES PAYABLE**

Accumulated vacation and sick leave benefits and compensatory time payable in future years when used by City employees amounted to \$10,485 at June 30, 2012 with \$2,097 estimated to be due within one year.

**5) ADVANCE FROM OTHER AGENCIES**

The Perris Redevelopment Agency advanced the Authority \$1,997,781 in fiscal year 2009. These advances were used to assist the Authority in acquiring the McCanna Ranch Water Company. This advance is not expected to be paid within one year and bears no interest. Currently, there is no debt service schedule available. The balance of this advance is \$1,997,781 as of June 30, 2012. During the 2012 fiscal year, the Perris Redevelopment Agency was dissolved and the advance is now with the Successor Agency of the Perris Redevelopment Agency (see Note 1A).

**6) ADVANCE FROM CITY OF PERRIS**

The City of Perris advanced the Authority \$202,983 and \$128,007 in fiscal years 2010 and 2011, respectively. These advances were used to assist the Authority with general operations. This advance is not expected to be paid within one year and bears no interest. Currently, there is no debt service schedule available. The balance of these advances is \$327,751 as of June 30, 2012.

**Perris Public Utility Authority**  
**Notes to Financial Statements**  
Year Ended June 30, 2012

**7) NOTES PAYABLE**

On December 12, 2008, the Perris Public Utility Authority entered into a promissory note with McCanna Ranch Water Company for \$9,360,000. The note is for the acquisition of the company's capital assets and operations. Interest on the note accrues at 2% per annum. The note is secured by the issuance of bonds. The first bond is required to equal or exceed \$4,950,000. The remaining \$4,410,000 shall be determined by the subsequent issuance of bonds according to the promissory note covenants. As of June 30, 2012, the Utility Authority has not issued bonds to finance the promissory note. The promissory note, currently, has no debt service schedule available. The balance of the promissory note is \$9,360,000 as of June 30, 2012.

**8) COMMITMENTS AND CONTINGENCIES**

**Going Concern and Management's Plan**

As shown in the basic financial statements, the Authority had a negative change in net assets of \$(381,637), and its liabilities exceeded its assets by \$1,484,064 for the fiscal year ended June 30, 2012. These factors raise substantial doubt about the City's ability to continue as a going concern. The Authority's management is currently in the process of settling a lawsuit with homeowners' associations. Through this settlement, the Authority's management anticipates to resolve the amount of rate charges to cover the operating costs of the Authority. The ability of the Authority to continue as a going concern is dependent on the progress of the plan in subsequent fiscal years. These financial statements do not include any adjustments that might be necessary if the Authority is unable to continue as a going concern.

**Homeowners' Association Litigation**

Two homeowners' associations within the City of Perris are challenging the Authority's purchase of the McCanna Ranch Water Company. The original lawsuit was filed on or about March 28, 2009 against the Authority and City of Perris. Currently, there are no estimated liabilities with this litigation.

