

PERRIS
PUBLIC UTILITY AUTHORITY
FINANCIAL STATEMENTS
Year Ended June 30, 2013

Perris Public Utility Authority
Financial Statements
Year Ended June 30, 2013

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Perris Public Utility Authority
Perris, California

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the 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.

Auditor's 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 Authority'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 Authority'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.

Opinions

In our opinion, the 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, 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.

Emphasis of Matters

Change in Accounting Principle

As discussed in Note 1G and 1H to the financial statements, in 2013, the Authority adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Going Concern

The accompanying financial statements have been prepared assuming that the Perris Public Utility Authority will continue as a going concern. As discussed in Note 8 to the financial statements, the Authority has a deficit in net position. 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 8. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Other Matters

Required Supplementary Information

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2013, on our consideration of the 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 the Authority's internal control over financial reporting and compliance.

Jeaman Ramirez & Smith, Llc.

Riverside, California
December 3, 2013

Perris Public Utility Authority
Statement of Net Position
June 30, 2013

ASSETS

Current Assets:

Cash	\$ 100,189
Accounts Receivable	289,800
Interest Receivable	106

Noncurrent Assets:

Land, Not Being Depreciated	300,564
Capital Assets, Net of Depreciation	<u>9,639,797</u>

Total Assets	<u>10,330,456</u>
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities	321,749
Compensated Absences - Current Portion	1,468
Deposits	92,250

Noncurrent Liabilities:

Advance from Other Agencies	1,997,781
Advance from City of Perris	524,225
Compensated Absences Payable	5,870
Notes Payable	<u>9,360,000</u>

Total Liabilities	<u>12,303,343</u>
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NET POSITION

Unrestricted	<u>(1,972,887)</u>
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Total Net Position (Deficit)	<u><u>\$ (1,972,887)</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 Position
Year Ended June 30, 2013

OPERATING REVENUES

Charges for Services	\$ 599,238
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Total Operating Revenues	599,238
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OPERATING EXPENSES

Maintenance and Operations	73,253
Contractual Services	272,641
Administrative and General	220,932
Depreciation	321,079
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Total Operating Expenses	887,905
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Operating Income (Loss)	(288,667)
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NON-OPERATING REVENUES (EXPENSES)

Investment Earnings	(156)
Settlement Agreements	(200,000)
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Total Non-Operating Revenues (Expenses)	(200,156)
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Change in Net Position	(488,823)
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Net Position, Beginning of Year	(1,484,064)
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Net Position, End of Year	\$ (1,972,887)
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The accompanying notes are an integral part of this statement.

Perris Public Utility Authority
Statement of Cash Flows
Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 582,297
Cash Payments for Employee Services	(57,889)
Cash Payments to Suppliers for Goods and Services	(501,859)
Cash Payments for Litigation Settlements	(200,000)

Net Cash Provided by (Used for) Operating Activities	(177,451)
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Proceeds from Long-Term Obligations	196,474
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Net Cash Provided by (Used for) Noncapital Financing Activities	196,474
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CASH FLOWS FROM INVESTING ACTIVITIES

Investment Earnings	(61)
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Net Cash Provided by (Used for) Investing Activities	(61)
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Net Increase (Decrease) in Cash and Cash Equivalents	18,962
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Cash and Cash Equivalents - Beginning of Year	81,227
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Cash and Cash Equivalents - End of Year	\$ 100,189
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RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES

Operating Income (Loss)	\$ (288,667)
Litigation Settlements	(200,000)
Adjustments to Reconcile Net Operating Income to Net Cash Provided by (Used for) Operating Activities:	
Depreciation	321,079
Changes in Assets and Liabilities:	
Accounts Receivable (Increase) Decrease	(25,066)
Deposits (Increase) Decrease	8,125
Accounts Payable and Accrued Liabilities Increase (Decrease)	10,225
Compensated Absences Increase (Decrease)	(3,147)

TOTAL CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ (177,451)
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The accompanying notes are an integral part of this statement.

Perris Public Utility Authority
Notes to Financial Statements
Year Ended June 30, 2013

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, 2013

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.

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, 2013, 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 Position. 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, 2013

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) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. Currently, the Authority does not report any deferred outflows.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. Currently, the Authority does not report any deferred inflows.

H) Net Position

GASB No. 63 requires that the difference between assets, liabilities and deferred inflow of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position classified as net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding principal of related debt. Restricted net position is the net position that has external constraints placed on them by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions, or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

I) 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.

Perris Public Utility Authority
Notes to Financial Statements
Year Ended June 30, 2013

2) CASH AND INVESTMENTS

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

Statement of Net Position:

Cash \$ 100,189

Cash and investments consist of the following:

Deposits with Financial Institutions \$ 100,189

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⁽¹⁾</u>	<u>Maximum Percentage Of Portfolio⁽²⁾</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

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

⁽²⁾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.

Perris Public Utility Authority
Notes to Financial Statements
Year Ended June 30, 2013

2) CASH AND INVESTMENTS - Continued

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.

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, 2013, no deposits of the Authority with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. As of June 30, 2013, the Authority held no investments.

3) CAPITAL ASSETS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Depreciated:				
Land	\$ 300,564	\$ _____	\$ _____	\$ 300,564
Total Capital Assets Not Depreciated	<u>300,564</u>	<u>0</u>	<u>0</u>	<u>300,564</u>
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	<u>996,070</u>			<u>996,070</u>
Total Capital Assets Being Depreciated	<u>\$ 11,083,784</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,083,784</u>

Perris Public Utility Authority
Notes to Financial Statements
Year Ended June 30, 2013

3) CAPITAL ASSETS - Continued

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less Accumulated Depreciation:				
Major Equipment	\$ (69,385)	\$ (19,824)	\$	\$ (89,209)
Structures and Improvements	(20,226)	(5,779)		(26,005)
Reservoirs	(125,094)	(35,741)		(160,835)
Mains	(564,140)	(161,183)		(725,323)
Services	(155,799)	(44,514)		(200,313)
Meters	(23,838)	(6,811)		(30,649)
Hydrants	(65,688)	(18,768)		(84,456)
Wells	<u>(98,738)</u>	<u>(28,459)</u>		<u>(127,197)</u>
Total Accumulated Depreciation	<u>(1,122,908)</u>	<u>(321,079)</u>	<u>0</u>	<u>(1,443,987)</u>
Total Capital Assets Being Depreciated, Net	<u>9,960,876</u>	<u>(321,079)</u>	<u>0</u>	<u>9,639,797</u>
Capital Assets, Net of Depreciation	<u>\$ 10,261,440</u>	<u>\$ (321,079)</u>	<u>\$ 0</u>	<u>\$ 9,940,361</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 \$7,338 at June 30, 2013 with \$1,468 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, 2013. 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, \$128,007, and \$196,474 in fiscal years 2010, 2011, and 2013, 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 \$524,225 as of June 30, 2013.

Perris Public Utility Authority
Notes to Financial Statements
Year Ended June 30, 2013

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, 2013, 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, 2013.

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 position of \$(488,823), and its liabilities exceeded its assets by \$1,972,887 for the fiscal year ended June 30, 2013. These factors raise substantial doubt about the Authority's ability to continue as a going concern. The Authority's management settled a lawsuit with the homeowners' association and performed a rate study to determine rate charges necessary to cover operating costs of the Authority, debt service on the note with McCanna Ranch Water Company, and lost revenue recovery for prior year operations. The Authority approved the rate increase to cover each of the obligations listed and anticipates substantial recovery of the enterprises' financial health in the next five years. 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.