WHITTIER UTILITY AUTHORITY
(A Component Unit of the City of Whittier, California)

Basic Financial Statements

Year ended June 30, 2012
(with Independent Auditors' Report Thereon)

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(A Component Unit of the City of Whittier, California)

Basic Financial Statements

Year ended June 30, 2012

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Board of Directors
Whittier Utility Authority
Whittier, California

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Authority as of June 30, 2012, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2012, 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* and should be considered in assessing the results of our audit.

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Management has omitted management's discussion and analysis that 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 the 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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 30, 2012

WHITTIER UTILITY AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2012

ASSETS	Sewer	Water	Solid Waste	Total
Current Assets:				
Cash and investments (Note 3)	$ 2,503,821	10,423,605	11,250,113	24,177,539
Receivables:				
Accounts	120,277	1,323,175	1,779,086	3,222,538
Interest	1,565	7,839	7,746	17,150
Inventory	-	353,552	-	353,552
Prepaid Items	-	453,000	-	453,000
Total Current Assets	2,625,663	12,561,171	13,036,945	28,223,779
Restricted Assets:				
Cash and investments with fiscal agents (Note 3)	-	8,187,951	864,571	9,052,522
Cash and investments (Note 3)	-	134,339	8,479,974	8,614,313
Receivables:				
Accounts	-	-	31,708	31,708
Interest	-	134	5,822	5,956
Total Restricted Assets:	-	8,322,424	9,382,075	17,704,499
Capital Assets, Net (Note 4)	2,780,507	23,605,374	11,007,058	37,392,939
Total Capital Assets, Net	2,780,507	23,605,374	11,007,058	37,392,939
Other Assets:				
Unamortized bond issuance costs	-	593,544	83,509	677,053
Total Other Assets	-	593,544	83,509	677,053
Total Assets	5,406,170	45,082,513	33,509,587	83,998,270
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable	$ 791	250,406	1,015,811	1,267,008
Accrued liabilities	5,179	31,872	35,763	72,814
Accrued interest payable	-	74,643	28,331	102,974
Bonds payable - current portion (Note 5)	-	440,000	400,000	840,000
Compensated absences - current portion (Note 5)	10,915	49,697	66,000	126,612
Total Current Liabilities	16,885	846,618	1,545,905	2,409,408
Noncurrent liabilities:				
Net OPEB liability (Notes 5 & 6)	31,337	56,821	94,010	182,168
Bonds payable - non-current portion (Note 5)	-	17,060,000	865,000	17,925,000
Compensated absences - non-current portion (Note 5)	20,271	92,293	122,570	235,134
Landfill closure and postclosure payable (Note 7)	-	-	11,038,693	11,038,693
Total Noncurrent Liabilities	51,608	17,209,114	12,120,273	29,380,995
Total Liabilities	68,493	18,055,732	13,666,178	31,790,403
Net Assets:				
Invested in capital assets, net of related debt	2,780,507	14,962,662	11,076,037	28,819,206
Restricted:				
Connection fees	-	134,339	-	134,339
Unrestricted	2,557,170	11,929,780	8,767,372	23,254,322
Total Net Assets	$ 5,337,677	27,026,781	19,843,409	52,207,867

See accompanying notes to basic financial statements.

WHITTIER UTILITY AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

	Sewer	Water	Solid Waste	Total
Operating Revenues:				
Charges for services	$ 2,216,426	7,504,391	8,503,432	18,224,249
Total Operating Revenues	2,216,426	7,504,391	8,503,432	18,224,249
Operating Expenses:				
Sewer operation	1,768,117	-	-	1,768,117
Water operation	-	8,106,526	-	8,106,526
Solid waste collection and disposal	-	-	8,060,099	8,060,099
Provisions for landfill closure and postclosure	-	-	(9,514,773)	(9,514,773)
Amortization	-	79,904	41,755	121,659
Depreciation	69,178	559,177	454,477	1,082,832
Total Operating Expenses	1,837,295	8,745,607	(958,442)	9,624,460
Operating Income (Loss)	379,131	(1,241,216)	9,461,874	8,599,789
Non-Operating Revenues (Expenses):				
Intergovernmental	-	610,183	23,452	633,635
Investment Income	11,710	74,384	99,845	185,939
Interest expense	-	(582,319)	(73,609)	(655,928)
Loss from disposal of capital assets	-	(289,243)	(68,752)	(357,995)
Rental income		464,741	465,393	930,134
Other revenue	-	-	11,932	11,932
Total Non-Operating Revenues (Expenses)	11,710	277,746	458,261	747,717
Changes in Net Assets	390,841	(963,470)	9,920,135	9,347,506
Net Assets at Beginning of the Year	4,946,836	27,990,251	9,923,274	42,860,361
Net Assets at End of the Year	$ 5,337,677	27,026,781	19,843,409	52,207,867

See accompanying notes to basic financial statements.

WHITTIER UTILITY AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	Sewer	Water	Solid Waste	Total
Cash flows from operating activities:				
Receipts from customers	$ 2,186,262	9,465,396	8,329,894	19,981,552
Payments to suppliers for goods for services	(1,186,226)	(6,606,334)	(6,227,461)	(14,020,021)
Payments to employees for services	(596,103)	(2,270,432)	(1,670,645)	(4,537,180)
Non-operating rental income revenue received	-	464,741	465,393	930,134
Net cash provided by operating activities	403,933	1,053,371	897,181	2,354,485
Cash flows from noncapital financing activities:				
Receipts from other governmental agencies	-	610,183	23,452	633,635
	-	-	11,932	11,932
Net cash provided by noncapital financing activities	-	610,183	35,384	645,567
Cash flows from capital and related financing activities:				
Purchase of capital assets	(231,641)	(643,200)	(509,643)	(1,384,484)
Principal payments on long-term debt	-	(425,000)	(375,000)	(800,000)
Interest and fiscal agent fees paid on long-term debt	-	(583,370)	(82,007)	(665,377)
Net cash used for capital and related financing activities	(231,641)	(1,651,570)	(966,650)	(2,849,861)
Cash flows from investing activities:				
Interest received on investments	14,994	107,944	144,171	267,109
Net cash provided by investing activities	14,994	107,944	144,171	267,109
Net increase in cash and cash equivalents	187,286	119,928	110,086	417,300
Cash and cash equivalents at beginning of the year	2,316,535	18,625,967	20,484,572	41,427,074
Cash and cash equivalents at end of year (Note 3)	$ 2,503,821	18,745,895	20,594,658	41,844,374
Reconciliation of cash and cash equivalents to amounts reported on the statement of net assets:				
Reported on the statement of net assets:				
Cash and investments	$ 2,503,821	10,423,605	11,250,113	24,177,539
Cash and investments - restricted	-	134,339	8,479,974	8,614,313
Cash and investments with fiscal agents	-	8,187,951	864,571	9,052,522
Cash and investments - restricted				
Cash and cash equivalents at end of the year	$ 2,503,821	18,745,895	20,594,658	41,844,374

(Continued)

See accompanying notes to basic financial statements.

WHITTIER UTILITY AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012

	Sewer	Water	Solid Waste	Total
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	$ 379,131	(1,241,216)	9,461,874	8,599,789
Adjustments to reconcile income (loss) from operating to net cash provided by operating activities:				
Depreciation	69,178	559,177	454,477	1,082,832
Amortization	-	79,904	41,755	121,659
Rental Income	-	464,741	465,393	930,134
(Increase)/ decrease in accounts receivable	(30,164)	1,962,056	(108,320)	1,823,572
Increase in prepaid items	-	(453,000)	-	(453,000)
Decrease in inventory	-	2,429	-	2,429
(Decrease)/ increase in accounts payable	(23,195)	(276,000)	120,205	(178,990)
Decrease in accrued liabilities	(8,981)	(62,244)	(72,312)	(143,537)
Increase in net OPEB liability	10,880	17,612	13,886	42,378
Increase/ (decrease) in compensated absences	7,084	(88)	34,996	41,992
Decrease in landfill closure and postclosure	-	-	(9,514,773)	(9,514,773)
Total Adjustments	24,802	2,294,587	(8,564,693)	(6,245,304)
Net Cash Provided by Operating Activities	$ 403,933	1,053,371	897,181	2,354,485

See accompanying notes to basic financial statements.

NOTE 1 – ORGANIZATION

The Whittier Utility Authority (Authority) was formed by action of the Whittier City Council on February 1, 2002. The Authority was formed for the purpose of purchasing and operating the City's water, solid waste, and wastewater operations.

The Authority is an integral part of the reporting entity and a component unit of the City. The funds of the Authority have been included within the scope of the basic financial statements of the City because the City Council is the governing board 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, results of operations and cash flows of the City of Whittier.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The Authority's Enterprise Funds are used to account for funds that are financed and operated in a manner similar to private business enterprises, where the intent of the Board of Directors is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

B. Basis of Accounting

Proprietary fund financial statements are reported using the *economic resources measurement focus* and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Authority receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for the Enterprises Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

B. Basis of Accounting, (Continued)

All funds of the Authority follow private-sector guidance including Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before December 1, 1989, Accounting Principles Board Opinions and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The Authority has the option of following subsequent private-sector guidance. The Authority has elected not to follow subsequent private-sector guidance.

C. Cash and Investments

The Authority's cash and investments are governed by and in compliance with the California Government Code. Cash and investments are held in the City/Authority's investment pool. Therefore, for purposes of the statement of cash flows, the Authority considers the entire pooled amount to be cash and cash equivalents.

The Authority has adopted the provisions for Statement No. 31, of Governmental Accounting Standards Board (GASB), *Accounting and Financial reporting for Certain Investments and for External Investment Pools* (GASB No. 31). This statement requires that certain investments and external investment pools be reported at fair value.

D. Investments with Bond Trustee

In accordance with terms of the bond indenture related to the 1993 Sewer Bonds, the 2003 and 2009 Water Bonds, reserve and other funds were invested with the Bond Trustee. The Bond Trustee invests these funds in accordance with the terms of the bond indenture; accordingly, such funds were invested primarily in U.S. government and government agency securities and money market funds, which invest in such securities. Such investments are stated at fair value.

E. Capital Assets

Upon the original formation of the Authority on February 1, 2002, the Authority leased the existing water, wastewater, and solid waste capital assets of the City of Whittier. The capital assets leased were valued based upon an independent third-party appraisal as of the formation date of the Authority; however, property, plant, and equipment are carried at historical cost, or for donated assets, at fair value on the date donated.

Normal maintenance and repair costs that do not add to the value of the capital assets or materially extend capital asset lives are not capitalized. Improvements that extend the life of the capital assets with an initial cost of $10,000 ($100,000 for infrastructure) or more are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

E. Capital Assets, (Continued)

In accordance with accounting principles generally accepted in the United States of America, depreciation is not recorded for land or construction in progress. Depreciation was recorded on a straight-line basis over the estimated useful lives of the capital assets as follows:

Buildings and improvements	20-40 years
Pipes and storage facilities	20-60 years
Sewer lines and water lines	20-60 years
Water and sewer rights	20-60 years
Machinery and equipment	5-15 years
Field and shop equipment	5-15 years
Furniture and fixtures	5-15 years
Vehicles	5-15 years

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. Inventory

Inventory of materials and supplies are carried at cost on an average cost basis. The Authority uses the consumption method of accounting for inventories.

H. Bond Discounts/Issuance Costs

Bond discounts, issuance costs, and deferred loss on refundings, for proprietary fund types are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method.

NOTE 3 – CASH AND INVESTMENTS

Cash balances of the Authority are combined and invested by the Treasurer of the City of Whittier in legally allowable securities. Earnings from such investments are allocated to the respective funds on the basis of applicable cash balance of each fund.

Bank balances are insured by a combination of federal depository insurance and the multiple financial institution collateral pool. Amounts deposited through the Local Agency Investment Fund are invested by the fund in accordance with Government Code Sections 16430 and 16480, and are not insured.

Cash and Investments with Fiscal Agents

The Authority has funds held by a trustee/fiscal agent pledged for the payment or security of certain bonds. The California Government Code provides these funds, in the absence of specific statutory provisions governing the issuance of bonds, may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments its trustees or fiscal agents may make. These ordinances, resolutions, and indentures are generally more restrictive than the Authority's general investment policy. In no instance have additional types of investments, not permitted by the Authority's general investment policy, been authorized.

See the City of Whittier's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012 for further disclosure regarding the pooled cash and investments and related risks.

Cash and investments are reported as follows in the Statement of Net Assets:

Cash and investments, pooled with the City of Whittier	$ 24,177,539
Restricted assets:	
Cash and investments with fiscal agents	9,052,522
Cash and investments , pooled with the City of Whittier	8,614,313
	$ 41,844,374

Cash and investments held by the Authority at June 30, 2012 consisted of the following:

Deposits pooled with the City of Whittier	$ 32,791,852
Investments with fiscal agents	9,052,522
Total	$ 41,844,374

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

Equity in the Cash and Investment Pool of the City of Whittier

The Authority has no separate bank accounts or investments other than the Authority's equity in the cash and investment pool managed by the City of Whittier. The Authority is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Whittier. The Authority has not adopted an investment policy separate from that of the City of Whittier. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an amortized cost basis.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investments In One Issuer
Ceritificates of Deposit	None	30%	None
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	60%	None
Money Market Funds	None	None	None
Banker's Acceptances	5 years	20%	10%
Commercial Paper	5 years	20%	10%
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None
Medium Term Corporate Notes	5 years	30%	None

NOTE 3 – CASH AND INVESTMENTS, (CONTINUED)

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 great the sensitivity of its fair value to changes in market interest rates.

One of the ways that the Authority manages its exposure to interest rate is by purchasing a combination of shorter-term and longer-term investments 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 flows and liquidity needed for operations. Information about the sensitivity of the fair values of the Authority's investments and those held by bond trustees to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

	Total	Remaining Maturity 6 Months Or Less
Held by Fiscal Agents:		
U.S. Treasury Note	$ 8,122,481	8,122,481
Federal Agency Securities	930,041	930,041
Total	$ 9,052,522	9,052,522

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. Presented below is the minimum rating required by (where applicable) the California Government code, the Authority's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

			Ratings as of Fiscal Year End		
	Total	Minimum Legal Rating	Exempt From Disclosure	AAA	AA+
Held by Fiscal Agents:					
U.S. Treasury Note	$ 8,122,481	N/A	-	8,122,481	-
Federal Agency Securities	930,041	N/A	-	-	930,041
Total	$ 9,052,522		-	8,122,481	930,041

NOTE 3 – CASH AND INVESTMENTS, (CONTINUED)

Custodial Credit Risk

The Authority does not have significant separate certificates of deposit or demand accounts held by bond trustee that are subject to disclosable custodial credit risk (as defined by GASB Statement No. 40). The Authority does not have direct investments in securities subject to disclosable custodial credit risk (as defined by GASB Statement No. 40).

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 governmental 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.

For the investments held by bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2012 was as follows:

	Balance at July 1, 2011	Additions	Transfers/ Deletion	Balance at June 30, 2012
Sewer Activity				
Capital assets, being depreciated:				
Improvements	$ 3,216,481	231,641	-	3,448,122
Less - accumulated depreciation	(598,437)	(69,178)	-	(667,615)
Total capital assets, net	$ 2,618,044	162,463	-	2,780,507
Water Activity				
Capital assets, not being depreciated:				
Land	$ 598,955	-	-	598,955
Construction in progress	2,176,271	643,200	-	2,819,471
Total capital assets, not being depreciated	2,775,226	643,200	-	3,418,426
Capital assets, being depreciated:				
Improvements	30,928,029	-	(1,191,237)	29,736,792
Buildings	1,123,295	-	-	1,123,295
Field and shop equipment	285,331	-	-	285,331
Furniture and fixtures	16,823	-	-	16,823
Office machines	43,168	-	(13,384)	29,784
Total water capital assets, being depreciated	32,396,646	-	(1,204,621)	31,192,025
Less - accumulated depreciation for				
Improvements	(10,057,807)	(533,517)	904,862	(9,686,462)
Buildings	(1,091,879)	(5,149)	-	(1,097,028)
Machinery and equipment	(211,592)	(20,511)	10,516	(221,587)
Total accumulated depreciation	(11,361,278)	(559,177)	915,378	(11,005,077)
Total water capital assets, being depreciated, net	21,035,367	(559,177)	(289,243)	20,186,948
Total capital assets, net	$ 23,810,594	84,023	(289,243)	23,605,374

NOTE 4 – CAPITAL ASSETS, (CONTINUED)

	Balance at July 1, 2011	Additions	Transfers/ Deletion	Balance at June 30, 2012
Solid Waste Activity				
Capital assets, not being depreciated:				
Land	$ 2,227,801	-	-	2,227,801
Total capital assets, not being depreciated	$ 2,227,801	-	-	2,227,801
Capital assets, being depreciated:				
Improvements	$ 14,730,054	509,643	(569,995)	14,669,702
Buildings	151,033	-	-	151,033
Field and shop equipment	179,650	-	-	179,650
Office machines	31,925	-	-	31,925
Total solid waste capital assets, being depreciated	15,092,662	509,643	(569,995)	15,032,310
Less - accumulated depreciation for				
Improvements	(5,956,261)	(445,597)	501,244	(5,900,614)
Buildings	(148,884)	(394)		(149,278)
Machinery and equipment	(194,675)	(8,486)		(203,161)
Total accumulated depreciation	(6,299,820)	(454,477)	501,244	(6,253,053)
Total capital assets, being depreciated, net	8,792,842	55,166	(68,751)	8,779,257
Total capital assets, net	$ 11,020,643	55,166	(68,751)	11,007,058

NOTE 4 – CAPITAL ASSETS, (CONTINUED)

	Balance at July 1, 2011	Additions	Transfers/ Deletion	Balance at June 30, 2012
Total Authority				
Capital assets, not being depreciated:				
Land	$ 2,826,756	-	-	2,826,756
Construction in progress	2,176,271	643,200	-	2,819,471
Total capital assets, not being depreciated	5,003,027	643,200	-	5,646,227
Capital assets, being depreciated:				
Improvements	48,874,564	741,284	(1,761,232)	47,854,616
Buildings	1,274,328	-	-	1,274,328
Field and shop equipment	464,981	-	-	464,981
Furniture and fixtures	16,823	-	-	16,823
Office machines	75,093	-	(13,384)	61,709
Total capital assets, being depreciated	50,705,789	741,284	(1,774,616)	49,672,457
Less - accumulated depreciation for				
Improvements	(16,612,505)	(1,048,292)	1,406,106	(16,254,691)
Buildings	(1,240,763)	(5,543)	-	(1,246,306)
Machinery and equipment	(406,267)	(28,997)	10,516	(424,748)
Total accumulated depreciation	(18,259,535)	(1,082,832)	1,416,622	(17,925,745)
Total capital assets, being depreciated, net	32,446,254	(341,548)	(357,994)	31,746,712
Total capital assets, net	$ 37,449,281	301,652	(357,994)	37,392,939

Depreciation expense has been included by function in the Statement of Activities as follows:

Sewer	$ 69,178
Water	559,177
Solid Waste	454,477
Total	$ 1,082,832

NOTE 5 – LONG-TERM DEBT

The following is a summary of changes in long-term debt as of June 30, 2012:

	Balance July 1, 2011	Additions	Reductions	June 30, 2012	Due in One Year
Sewer Fund:					
Compensated Absences	$ 24,102	18,230	(11,146)	31,186	10,915
Net OPEB obligations	20,457	15,860	(4,980)	31,337	-
	44,559	34,090	(16,126)	62,523	10,915
Water Fund:					
Compensated Absences	142,078	114,532	(114,620)	141,990	49,697
Water Revenue Bonds - 2003 A	9,015,000	-	(235,000)	8,780,000	245,000
Water Revenue Bonds - 2009 A	8,910,000	-	(190,000)	8,720,000	195,000
Net OPEB obligations	39,209	26,642	(9,030)	56,821	-
	18,106,287	141,174	(548,650)	17,698,811	489,697
Solid Waste Fund:					
Compensated Absences	153,574	115,659	(80,663)	188,570	66,000
Solid Waste Revenue Refunding Bonds - 1993A	1,640,000	-	(375,000)	1,265,000	400,000
Landfill closure and postclosure	20,553,466	-	(9,514,773)	11,038,693	-
Net OPEB obligation	80,124	28,826	(14,940)	94,010	-
	22,427,164	144,485	(9,985,376)	12,586,273	466,000
Total	$ 40,578,010	319,749	(10,550,152)	30,347,607	966,612

NOTE 5 – LONG-TERM DEBT, (CONTINUED)

Revenue Bonds Payable, Solid Waste Fund 1993 Series A

In December of 1993, the City of Whittier sold $5,935,000 of Solid Waste Revenue Bonds, 1993 Series A. The proceeds were used to refund the Solid Waste Revenue Bonds, 1987 Series A and make improvements to prior projects.

Bonds maturing on August 1, 2014 in the amount of $2,340,000 are term bonds and bear interest at 5.375%. Bonds maturing on or after August 1, 2004 are subject to redemption in whole or in part by lot prior to their stated maturities on any date commencing on or after August 1, 2003, at a premium ranging from 2% in 2003 to 0% in 2005. The term bonds are subject to mandatory redemption in whole or in part by lot, without premium, commencing August 1, 2009 at a premium ranging from 2% in 2003 to 0% in 2005. The term bonds are subject to mandatory redemption in whole or in part by lot, without premium, commencing August 1, 2009 and on each August 1 thereafter from sinking fund payments made by the Authority. The required reserve for the Solid Waste Revenue Bonds, 1993 Series A, is $457,825. As of June 30, 2012, the reserve was $469,408. The bonds are payable from the net revenues of the existing solid waste collection and disposal enterprise of the Authority.

The Authority has pledged future solid waste revenues, net specified operating expenses, to repay $5,935,000. Net revenues are defined in the bond documents as operating income, less specified operating expenses, plus specified non operating income. The bonds are payable through 2014. Net revenues must be equal to at least 1.50 times the aggregate amount of principal and interest on the bonds. The total principal and interest remaining to be paid on the bond is $1,265,000 and $104,409, respectively. Principal and interest paid for the current year and total net revenues were $453,072 and $670,011, respectively.

Revenue Bonds Payable, Water Fund 2003 Series A

On March 4, 2003, the Authority issued revenue Bonds in the amount of $10,945,000 in order to advance refund the 1993 Water Revenue Refunding Bonds in the amount of $6,610,000, pay for discounts and costs of issuance, and finance improvements to the water production and distribution activities. In lieu of a reserve account, the Authority used some of the proceeds of issuance to purchase a reserve fund surety bond.

The bonds consist of $3,855,000 of serial bonds maturing in part each June 1, beginning in 2003 and ending in 2018. Interest rates on the serial bonds vary from 2.00% to 4.50%. The issue also consists of $7,090,000 of term bonds with maturity dates beginning on June 1, 2023 and then each subsequent 5-year period until final maturity in 2033.

NOTE 5 – LONG-TERM DEBT, (CONTINUED)

The Authority has pledged future water revenues, net specified operating expenses, to repay the bond. The Authority has covenanted to provide net revenues equal to at least 1.25 times the annual amount of principal and interest due on the bonds. For the fiscal year ended June 30, 2012, the net revenues were equal to or greater than the required amount times the aggregate amount of principal and interest. The bonds are payable through 2033. The total principal and interest remaining to be paid on the bond is $8,780,000 and $5,506,318. Principal and interest paid for the current year and total net revenues were $665,188 and $1,252,586, respectively.

Revenue Bonds Payable, Water Fund 2009 Series A

On October 14, 2009, the Authority issued Water Revenue Bonds 2009 Series A for $9,095,000. The proceeds were used to (i) finance various improvements to the City's water production, storage, and distribution enterprise, (ii) fund a reserve fund for the Bonds, and (iii) pay the costs of issuance of the Bonds.

The bonds consist of $3,150,000, in which the interest is excluded from gross income for purposes of federal income taxation ("Tax-Exempt Bonds"). The remaining $5,945,000 portion of the bonds is issued as bonds designated as "Direct Payment Build America Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009 ("Build America Bonds"), the interest on which is not excluded from gross income for purposes of federal income taxation. The Tax-Exempt Bonds mature in the years 2011 to 2039 and are payable in annual installments of $185,000 to $515,000. The Build America Bonds maturing on June 1, 2029, are also subject to mandatory redemption, on June 1 of each year, commencing June 1, 2025, at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium, from mandatory sinking fund account in annual installments of $295,000 to $345,000. The Build America Bonds maturing on June 1, 2039, are also subject to mandatory redemption, on June 1 in each year, commencing June 1, 2030, at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium, from mandatory sinking fund account payments made by the Authority in annual installments of $360,000 to $515,000. The Authority is eligible for a cash subsidy payment from the United Stated Treasury equal to 35% of the interest payable on the Bonds, which will be pledged to the payment of the Bonds, the 2003 Bonds and all Parity Debt.

The Authority has pledged future water revenues, net specified operating expenses, to repay the bond. The Authority has covenanted to provide net revenues equal to at least 1.25 times the annual amount of principal and interest due on the bonds. The bonds are payable through 2039. The reserve requirement was $669,887 and the reserve as of June 30, 2012 was $669,887. The total principal and interest remaining to be paid on the bond is $8,720,000 and $2,319,934. Principal and interest paid for the current year and total net revenues were $668,137 and $1,252,586, respectively. The total capitalized interest on the bond is $330,205 and the current portion is $1,773,422.

NOTE 5 – LONG-TERM DEBT, (CONTINUED)

The annual requirements to amortize long-term debt outstanding as of June 30, 2012 are as follows:

	1993 Solid Waste Revenue Bonds		
Years Ending June 30,	Principal	Interest	Total
2013	$ 400,000	57,244	457,244
2014	865,000	47,165	912,165
Total	$ 1,265,000	104,409	1,369,409

	2003A Water Revenue Bonds		
Years Ending June 30,	Principal	Interest	Total
2013	$ 245,000	421,375	666,375
2014	260,000	411,820	671,820
2015	275,000	401,420	676,420
2016	290,000	389,870	679,870
2017	305,000	377,545	682,545
2018-2022	1,735,000	1,666,788	3,401,788
2023-2027	2,205,000	1,206,500	3,411,500
2028-2032	2,815,000	598,500	3,413,500
2033	650,000	32,500	682,500
Total	$ 8,780,000	5,506,318	14,286,318

	2009A Water Revenue Bonds		
Years Ending June 30,	Principal	Interest	Total
2013	$ 195,000	474,337	669,337
2014	195,000	470,437	665,437
2015	205,000	464,587	669,587
2016	210,000	458,436	668,436
2017	215,000	452,137	667,137
2018-2022	1,200,000	2,136,435	3,336,435
2023-2027	1,480,000	1,842,310	3,322,310
2028-2032	1,805,000	1,357,544	3,162,544
2033-2037	2,205,000	743,552	2,948,552
2038-2039	1,010,000	95,770	1,105,770
Total	$ 8,720,000	8,495,545	17,215,545

NOTE 5 – LONG-TERM DEBT, (CONTINUED)

Years Ending June 30,	Total Principal	Total Interest	Total Total
2013	$ 840,000	952,956	1,792,956
2014	1,320,000	929,422	2,249,422
2015	480,000	866,007	1,346,007
2016	500,000	848,306	1,348,306
2017	520,000	829,682	1,349,682
2018-2022	2,935,000	3,803,223	6,738,223
2023-2027	3,685,000	3,048,810	6,733,810
2028-2032	4,620,000	1,956,044	6,576,044
2033-2037	2,855,000	776,052	3,631,052
2038-2039	1,010,000	95,770	1,105,770
Total	$ 18,765,000	14,106,272	32,871,272

NOTE 6 – OTHER POST EMPLOYMENT BENEFITS

The Authority, as part of the City, also makes contributions for other post employment benefits (OPEB). The Whittier Utility Authority Funds assumes its share of OPEB costs based upon the results of actuarial studies. The OPEB liability for the Whittier Utility Authority at June 30, 2012 was $182,168.

Further information regarding the Authority's participation in PERS and OPEB may be found in the City's Comprehensive Annual Financial Report.

NOTE 7 – LANDFILL CLOSURE AND POSTCLOSURE PAYABLE

Federal and state laws and regulations require the Authority to place a final cover on its Savage Canyon landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Authority reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used. The $11,038,693 reported as landfill closure and postclosure care liability at June 30, 2012 represents the cumulative amount reported to date based on the use of 51.21% of the estimated capacity of the landfill. The Authority will recognize the remaining estimated cost of closure and postclosure care of $10,516,491 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2012. The Authority expects to close the landfill in the year 2048. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The Authority is required by federal and state laws and regulations to accumulate assets held in trust to finance closure and postclosure care.

NOTE 7 – LANDFILL CLOSURE AND POSTCLOSURE PAYABLE, (CONTINUED)

At June 30, 2012 assets of $8,479,974 are held for these purposes. These are reported as restricted assets on the Statement of Net Assets. The closure and postclosure care costs are primarily funded by a portion of the fee collected from landfill users. Postclosure costs will be covered from revenues of the Solid Waste Collection operation and interest earnings on the accumulated assets held in trust. During the fiscal year, the City contracted an engineer to review the closure and post-closure estimates. The close and post-closure estimates were revised with the corresponding decrease in the liability recorded in the Provision for Landfill Closure and Postclosure expense.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

The City of Whittier and the Whittier Public Financing Authority created the Whittier Utility Authority (Authority) on February 1, 2002. The Whittier Utility Authority leased from the City of Whittier all of its utility enterprise assets. The authority has also entered into a management agreement with the City for the operation and maintenance of the utility enterprises. The lease expires on January 31, 2057, and all of the utility enterprise assets and activities revert back to the City. The minimum annual lease payments from the Authority to City amount to $878,743. The maximum amount of lease payments over the term of the lease cannot exceed $143,609,173, which is based on the 2003 appraisal value.

Future minimum lease payment requirements are as follows:

Years Ending June 30,	Minimum Lease Payment
2013	$ 878,743
2014	878,743
2015	878,743
2016	878,743
2017	878,743
2018-2022	4,393,715
2023-2027	4,393,715
2028-2032	4,393,715
2033-2037	4,393,715
2038-2042	4,393,715
2043-2047	4,393,715
2048-2052	4,393,715
2053-2057	4,393,715
Total	$ 39,543,435

NOTE 9 – SUBSEQUENT EVENTS

On November 8, 2012, the City of Whittier's Utility Authority ("Authority") issued Water Revenue Bonds, Series 2012 ("Bonds") for $10,085,000. The proceeds of the Bonds will be used to (a) finance various improvements to the City's water production, storage and distribution enterprise, (b) refund the Authority's outstanding Water Revenue Bonds, 2003 Series A, issued to finance and refinance various improvements, and (c) pay the costs of issuance of the Bonds. Improvements include (a) the replacement of Pumping Plant No. 2, including a new pump building with office, new pumps and motors, and new plant piping, (b) replacement of the settling basin at Pumping Plant No. 2, and (c) the expansion and upgrade of the Supervisory Control and Data Acquisition System. The principal of the Bonds is payable commencing June 1, 2013 through June 1, 2033, and interest rates vary from 2% to 5%.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Whittier Utility Authority
Whittier, California

We have audited the accompanying financial statements of the business-type activities and each major fund of the Whittier Utility Authority ("Authority"), a component unit of the City of Whittier, California, as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated November 30, 2012. Our report included an explanatory paragraph regarding the Authority's omission of management's discussion and analysis which, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board. 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.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal* control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all the deficiencies in the internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Directors, and Authority's management, others within the entity and the State Controller and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., LLP

Ranch Cucamonga, California
November 30, 2012