



Sonnenberg & Company, CPAs

A Professional Corporation

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Leonard C. Sonnenberg, CPA

Coachella Sanitary District Component Unit Financial Report Year Ended June 30, 2012

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Coachella Sanitary District
Coachella, California

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

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

As described more fully in Note 1. A, these financial statements present only the District and are not intended to present fairly the financial position and results of operations of the City of Coachella in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of June 30, 2012, and the changes in financial position and cash flows, where applicable, thereof 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 a report dated December 10, 2012 on our consideration of the Coachella Sanitary District's internal control over financial reporting and on 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.

The Coachella Sanitary District has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of the basic financial statements.


Sonnenberg & Company, CPAs

December 10, 2012

Coachella Sanitary District
Statement of Net Assets
June 30, 2012

ASSETS

Current Assets:

Cash and Investments	\$ 320,426
Restricted Cash and Investments	6,131,304
Accounts Receivable (Net of Allowance for Uncollectible of \$258,244)	529,196
Due from Other Governments	<u>220,756</u>
Total Current Assets	<u>7,201,682</u>

Noncurrent Assets:

Capital Assets Not Being Depreciated	6,289,719
Capital Assets Being Depreciated	55,909,112
Less: Accumulated Depreciation	(20,290,219)
Deferred Charges	<u>190,843</u>
Total Noncurrent Assets	<u>42,099,455</u>

Total Assets	<u>49,301,137</u>
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LIABILITIES

Current Liabilities:

Accounts Payable	663,742
Accrued Wages	60,060
Accrued Interest Payable	215,381
Bonds Payable - Current Portion	194,612
Loans Payable - Current Portion	<u>1,115,227</u>
Total Current Liabilities	<u>2,249,022</u>

Noncurrent Liabilities:

Compensated Absences - Less Current Portion	109,673
Net OPEB Obligation	84,542
Bonds Payable - Less Current Portion	9,131,781
Loans Payable - Less Current Portion	<u>20,374,100</u>
Total Noncurrent Liabilities	<u>29,700,096</u>

Total Liabilities	<u>31,949,118</u>
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	11,092,892
Restricted for:	
Capital Projects	6,131,304
Debt Service	215,381
Unrestricted	<u>(87,558)</u>
Total Net Assets	<u>\$ 17,352,019</u>

The accompanying notes are an integral part of this financial statement.

Coachella Sanitary District
Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2012

OPERATING REVENUES

Charges for Services	\$ 4,737,748
Connection Charges	169,008
Other	<u>116,677</u>

Total Operating Revenues	<u>5,023,433</u>
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OPERATING EXPENSES

Salaries and Benefits	758,956
Administrative and General	742,714
Professional Services	286,047
Materials and Supplies	112,109
Repairs and Maintenance	95,054
Utilities	283,162
Depreciation and Amortization	<u>1,234,341</u>

Total Operating Expenses	<u>3,512,383</u>
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Operating Income	<u>1,511,050</u>
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NON-OPERATING REVENUES (EXPENSES)

Property Taxes	88,747
Interest Income	35,366
Interest Expense and Fiscal Charges	<u>(875,413)</u>

Total Non-Operating Revenues (Expenses)	<u>(751,300)</u>
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Income Before Contributions	759,750
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Contributions to Other Governments	14,289
Contributions from Other Governments	<u>(218,608)</u>

Change in Net Assets	555,431
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Net Assets, Beginning of Year	<u>16,796,588</u>
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Net Assets, End of Year	<u><u>\$ 17,352,019</u></u>
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Coachella Sanitary District
Statement of Cash Flows
Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 4,896,191
Payments to Suppliers	(1,087,482)
Payments to Employees	<u>(740,675)</u>
Net Cash Provided by Operating Activities	<u>3,068,034</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Property Taxes	<u>88,747</u>
Net Cash Provided by Noncapital and Related Financing Activities	<u>88,747</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal Paid on Long-term Debt	(1,031,157)
Interest Paid on Long-term Debt	(883,205)
Proceeds from Long-term Debt	2,378,959
Acquisition and Construction of Capital Assets	(5,659,790)
Contribution from Other Government	<u>(218,608)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(5,399,512)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on Investments	<u>66,883</u>
Net Cash Provided by Investing Activities	<u>66,883</u>
Net Change in Cash and Cash Equivalents	(2,175,848)
Cash and Cash Equivalents - Beginning of the Year	<u>8,627,578</u>
Cash and Cash Equivalents - End of the Year	<u><u>\$ 6,451,730</u></u>

**Reconciliation of Operating Income to Net Cash
Provided (Used) by Operating Activities:**

Operating Income	\$ 1,511,050
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation and Amortization	1,234,341
Change in Assets and Liabilities:	
Decrease (Increase) in Accounts Receivable	(127,242)
Increase (Decrease) in Accounts Payable	431,604
Increase (Decrease) in Accrued Payroll	8,545
Increase (Decrease) in Compensated Absences	(16,156)
Increase (Decrease) in Net OPEB Obligation	<u>25,892</u>

Net Cash Provided By Operating Activities	<u><u>\$ 3,068,034</u></u>
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Noncash Investing, Capital and Related Financing Activities

Amortization of Premium/Discount on Bonds	<u>\$ 3,430</u>
Amortization of Bond Issue Costs	<u><u>\$ 8,389</u></u>

The accompanying notes are an integral part of this financial statement.

Coachella Sanitary District
Notes to Financial Statements
Year Ended June 30, 2012

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Coachella Sanitary District
Notes to Financial Statements
Year Ended June 30, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

The Coachella Sanitary District's (the District) General Fund is classified as an enterprise fund in the City of Coachella's (the City) basic financial statements. The City's council members serve as the Board of Directors for the District.

The District is an integral part of the reporting entity of the City of Coachella. The funds of the District have been blended within the financial statements of the City of Coachella because the Board of Directors is the governing board of the District and exercises control over the operations of the District. Only the funds of the District are included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the City of Coachella, California.

The District's office and records are located at 1515 Sixth Street, Coachella, California 92236.

The Board of Directors are as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Eduardo Garcia	President	November 2014
Steven Hernandez	Director	November 2014
Arturo Aviles	Director	November 2014
Emmanuel Martinez	Director	November 2016
Magdalena M. Zepeda	Director	November 2016

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

The District'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 Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in manner similar to a private business enterprise, where the intent of the District 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. The District's 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.

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.

Coachella Sanitary District
Notes to Financial Statements
Year Ended June 30, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

The accounting policies of the District conform to generally accepted accounting principles as applicable to enterprise funds. In accordance with GASB statement 20, the District 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 Investment

Effective July 1, 1997, the District adopted the provisions of Governmental Accounting standards Board 9(GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Pools", which require governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the District has reported certain investments at fair value.

The District's cash and investments are in short-term highly liquid instruments, with original maturities of three months or less. For the purposes of the statement of cash flows, all cash and investments are considered to be short term and, accordingly, are classified as cash and cash equivalents.

The District's funds are pooled with the City of Coachella's cash and investments in order to generate optimum investment return.

D) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F) Capital Assets

The cost of additions to the utility plant and major replacements of retired units of property is capitalized. The District defines capital assets as those with initial, individual cost of more than \$5,000. Costs include direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on funds borrowed to finance construction. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any gain or loss resulting from the disposal is credited or charged in the statement of revenues, expenses and changes in net assets. The cost of current repairs, maintenance, and minor replacements is charged to expense. Construction-in-progress primarily relates to ongoing projects that have not been placed in service at year end.

Coachella Sanitary District
Notes to Financial Statements
Year Ended June 30, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

F) Capital Assets – Continued

Depreciation has been provided using the straight-line method over the following estimated useful lives:

Buildings	45 years
Machinery	5-30 years
Office Equipment	5-10 years
Sewer Improvements	25-100 years

G) Budgetary Accounting

Although the District prepares and adopts an annual budget, budgetary information is not presented because the District is not legally required to adopt a budget.

H) Uncollectible Accounts

Uncollectible accounts are determined by the allowance method, based upon prior experience and management's assessment of the collectability of existing specific accounts.

I) Long-Term Debt and Related Costs

Long-Term debt is reported at face value, net of applicable discounts, premiums and deferred loss on refunding. Costs related the issuance of debt are deferred and amortized over the lives of the various debt issues. Losses occurring from advance refunding of debt are deferred and amortized as interest expense over the remaining life of the defeased bonds, or the life of the newly issued bonds, whichever is shorter.

J) Compensated Absences

In accordance with GASB Statement No. 16, a liability is recorded for unused vacation, sick and other leave balances since the employees' entitlement to theses balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either time off taken by employees or payment upon termination or retirement.

K) Net Assets

Net assets are comprised of the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net assets are classified in the following three components:

Invested in capital Assets, net of Related Debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent capital related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Coachella Sanitary District
Notes to Financial Statements
Year Ended June 30, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

L) Net Assets – Continued

Restricted – This component of net assets consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. At June 30, 2012, restricted net assets consist of certain resources set aside for the reserve requirements and repayment of long-term debt, as well as monies received and unspent from developers for construction.

Unrestricted Net Assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

2) PROPERTY TAX CALENDAR

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien Date	January 1
Levy Date	July 1 to June 30
Due Date	1 st Installment – November 1
	2 nd Installment – March 1
Delinquent Date	1 st Installment – December 10
	2 nd Installment – April 10

3) CASH AND INVESTMENTS

The District’s cash is pooled with the City of Coachella’s funds for investment purposes, with interest being allocated on the basis of the District’s overall percentage of participation. Investment policies and associated risk factors applicable to the District’s funds are those of the City and are included in the City’s financial statements. Cash and investments of the District as of June 30, 2012 are as follows:

Statement of Net Assets:

Cash and Investments - Pooled Cash	\$ 320,426
Restricted:	
Cash and Investments	<u>6,131,304</u>
Total Cash and Investments	<u>\$ 6,451,730</u>

Cash and investments held and invested by fiscal agents on behalf of the District are pledged for payment or security of certain long-term debt issuances. Fiscal agents are mandated by bond indentures as to the types of investments in which debt proceeds can be invested.

Coachella Sanitary District
Notes to Financial Statements
Year Ended June 30, 2012

4) CAPITAL ASSETS

The following is a summary of changes in capital assets for the year:

	<u>Beginning Balance</u>	<u>Transfers/ Adjustments</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, Not Depreciated:					
Land	\$ 452,919	\$	\$	\$	\$ 452,919
Construction in Progress	962,157	(934,845)	5,836,800	(27,312)	5,836,800
Total Capital Assets, Not Depreciated	<u>1,415,076</u>	<u>(934,845)</u>	<u>5,836,800</u>	<u>(27,312)</u>	<u>6,289,719</u>
Capital Assets Being Depreciated:					
Buildings	949,841	(189,756)			760,085
Machinery and Equipment	5,202,587		7,346		5,209,933
Infrastructure	48,971,537	1,124,601		(157,044)	49,939,094
Total Capital Assets Being Depreciated	<u>55,123,965</u>	<u>934,845</u>	<u>7,346</u>	<u>(157,044)</u>	<u>55,909,112</u>
Less Accumulated Depreciation:					
Buildings	(258,167)		(20,856)	12,048	(266,975)
Machinery and Equipment	(3,260,289)		(143,803)		(3,404,092)
Infrastructure	(15,549,164)	(306)	(1,069,682)		(16,619,152)
Total Accumulated Depreciation	<u>(19,067,620)</u>	<u>(306)</u>	<u>(1,234,341)</u>	<u>12,048</u>	<u>(20,290,219)</u>
Total Capital Assets Being Depreciated, Net	<u>36,056,345</u>	<u>934,539</u>	<u>(1,226,995)</u>	<u>(144,996)</u>	<u>35,618,893</u>
Governmental Activities Capital Assets, Net of Depreciation	<u>\$ 37,471,421</u>	<u>\$ (306)</u>	<u>\$ 4,609,805</u>	<u>\$ (172,308)</u>	<u>\$ 41,908,612</u>

Depreciation expense in the amount of \$1,234,341 is included in the operating expenses.

Coachella Sanitary District
Notes to Financial Statements
Year Ended June 30, 2012

5) LONG-TERM LIABILITIES

The following is a summary of the changes in long-term liabilities for the year:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	\$ 125,829	\$ 22,189	\$ (38,345)	\$ 109,673	\$
OPEB Obligation	58,650	25,892		84,542	
Loan Payable	19,960,470	2,575,022	(1,046,165)	21,489,327	1,115,227
Revenue Bonds					
2005A Wastewater	5,060,000		(125,000)	4,935,000	130,000
2005B Wastewater	4,725,161		(62,027)	4,663,134	64,612
Total Revenue Bonds	9,785,161	-	(187,027)	9,598,134	194,612
Less: Deferred Amounts					
Bond Discounts	(81,466)	3,431		(78,035)	
Refunding Gain / Loss	(202,541)	8,836		(193,705)	
Total	<u>\$ 29,646,103</u>	<u>\$ 2,635,370</u>	<u>\$ (1,271,537)</u>	<u>\$ 31,009,936</u>	<u>\$ 1,309,839</u>

6) COMPENSATED ABSENCES

For the Sanitary District, accumulated vacation, sick and administrative leave benefits payable in future years amounted to \$125,829 at June 30, 2012 and is reflected as a noncurrent liability.

7) LOANS PAYABLE

On September 26, 2005 the Coachella Sanitary District entered into a loan payable from the State of California State Water Resources Control Board. The terms of this loan provide for drawing funds for the expansion of the sewer treatment plant up to \$23,658,615. As of April 2008 the full amount of \$23,658,615 was withdrawn. Repayment of this loan shall be paid in annual installments commencing on twenty years after completion of construction. The estimated completion date was March 31, 2007 but the project was not completed until April 2008. The interest rate on this note is 2.3%.

\$18,914,305

On September 14, 2011 the Coachella Sanitary District entered into a loan payable from the United States Department of Agriculture. The terms of this loan provide for drawing funds for the expansion of the sewer treatment plant up to \$3,000,000. As of June 30, 2012, the \$2,575,022 was withdrawn. Repayment of this loan shall be paid in annual installments commencing twenty years after completion of construction. The estimated completion date was September 4, 2012. The interest rate on this note is 2.375%.

\$ 2,575,022

Total Loans

\$ 21,489,327

Coachella Sanitary District
Notes to Financial Statements
Year Ended June 30, 2012

7) LOANS PAYABLE - Continued

The future debt requirements of the loan are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 1,115,227	\$ 514,232	\$ 1,629,459
2014	1,139,842	488,963	1,628,805
2015	1,170,023	463,137	1,633,160
2016	1,195,784	436,624	1,632,408
2017	1,222,137	409,528	1,631,665
2018-2022	6,547,688	1,619,142	8,166,830
2023-2027	7,338,604	867,629	8,206,233
2028-2032	340,000	193,210	533,210
2033-2037	385,000	150,697	535,697
2038-2042	430,000	103,077	533,077
2043-2047	485,000	49,166	534,166
2048-2049	120,022	3,208	123,230
Total	\$ 21,489,327	\$ 5,298,613	\$ 26,787,940

8) REVENUE BONDS

On March 30, 2005, the Coachella Financing Authority issued \$5,725,000 Wastewater Revenue Refunding Bonds; Series 2005A for the Coachella Sanitary District, to advance refund the outstanding amount of the Coachella Sanitary District Wastewater Revenue Refunding Certificates of Participation Series 1995 and to finance on-going capital improvements to the Wastewater Enterprise. Interest on the bonds is payable October 1 and April 1 of each year. Interest on the bonds accrues at rates varying from 3.00% to 4.70% per annum. Principal on serial and term bonds is payable in annual installments ranging from \$105,000 to \$335,000 commencing April 1, 2006, through April 1, 2035. At June 30, 2012, the cash reserve balance for debt service is \$320,426 which is sufficient to cover the Bond Indenture Reserve Requirement. The District, with the issuance of the bonds, entered into a rate covenant agreement. For the year ended June 30, 2012, the District met the rate covenant as required by the bond indenture.

\$ 4,935,000

On September 26, 2005, the Coachella Financing Authority issued \$5,000,000 Wastewater Revenue Refunding Bonds (USDA), Series 2005B for the Coachella Sanitary District, to finance on-going capital improvements to the Wastewater Enterprise. Interest on the bonds is payable September 26 and March 26 of each year. Interest on the bonds accrues at 4.125% per annum. Principal on the bonds is payable in annual installments ranging from \$50,573 to \$248,591, commencing September 26, 2006, through September 26, 2045.

\$ 4,663,134

Total Revenues Bonds

\$ 9,598,134

Coachella Sanitary District
Notes to Financial Statements
Year Ended June 30, 2012

8) REVENUE BONDS - Continued

The future debt requirements of revenue bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 194,612	\$ 417,551	\$ 612,163
2014	202,305	410,452	612,757
2015	210,110	402,885	612,995
2016	218,032	394,770	612,802
2017	226,075	386,137	612,212
2018-2022	1,290,660	1,784,313	3,074,973
2023-2027	1,603,198	1,488,264	3,091,462
2028-2032	1,692,828	1,110,117	2,802,945
2033-2037	2,063,610	638,323	2,701,933
2038-2042	1,015,115	325,984	1,341,099
2043-2046	881,589	109,565	991,154
Total	\$ 9,598,134	\$ 7,468,361	\$ 17,066,495

9) OTHER INFORMATION

A) Employee Retirement System and Pension Plans

The District, through the City, is a participant in the Public Employee's Retirement System of the State of California covering all of its permanent employees. The excess, if any, of actuarially computed value of vested benefits over the amounts available in the pension fund would be liability of the City and not the District.

B) Risk Management

The District, through the City, is a member of the Public Entity Risk Management Authority (PERMA) formerly Coachella Valley Joint Powers Insurance District (CVJPIA), a joint powers Authority formed under Section 990 of the California Government Code for the purpose of jointly funding programs of insurance coverage for its members. The District is currently comprised of thirty-four participating member agencies.

The City participates in the liability, worker's compensation and long-term disability insurance programs of PERMA.

The Liability Program is a risk sharing pool with a deductible option. At June 30, 2012, coverage is provided from \$125,000 to \$10,000,000 per occurrence. This coverage represents a transfer of risk from the members of the Authority for those losses in excess of the member's self insured retentions (SIR). The City has a SIR of \$125,000. Covered losses include losses resulting from any one occurrence because of personal injury, property damage or public officials' errors and omissions. Member premiums are subject to retrospective rating adjustments.

Coachella Sanitary District
Notes to Financial Statements
Year Ended June 30, 2012

9) OTHER INFORMATION - Continued

B) Risk Management – Continued

For those members choosing to establish deductibles under the liability program, losses in excess of the deductible amounts are paid by the Authority from separated accounts maintained for each participant. The deductible feature of the program acts as claims servicing type of public entity risk pool and does not represent an additional transfer of risk. The City does not participate in the deductible pool. At June 30, 2012, the City did not have a liability to the Authority for claims losses.

The Worker's Compensation Insurance Program is a claims servicing pool, a banking pool and an insurance purchasing pool. As an insurance purchasing pool, the program allows participating members to benefit from the economies of scale in securing excess worker's compensation coverage. Coverage is provided from \$250,000 to \$10,000,000 for each accident or employee. The program, as a claims servicing pool maintains separate accounts for each program member from which that member's losses are paid. The worker's compensation insurance program does not provide for a transfer of risk and advance funds to pay member losses in excess of member funds on deposit in the manner of a banking pool. Participant premium deposits are subject to retroactive rating adjustments. At June 30, 2012, the City did not have a liability to the Authority for worker's compensation losses.

10) CONTINGENCIES AND COMMITMENTS

At June 30, 2012, in the opinion of the District's Administration, there are no outstanding matters which could have a significant effect on the financial position of the District.

11) POST-EMPLOYMENT BENEFITS

The District, through the City, offers post-employment benefits to eligible employees. The Net OPEB Obligation of \$84,542 in the Statement of Net Assets is the amount of the City's total Net OPEB Obligation that is allocated to the District. See the City's financial statements for more information, including the required note disclosures.



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Leonard C. Sonnenberg, CPA

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
Coachella Sanitary District
Coachella, California

We have audited the financial statements of the governmental activities and each major fund of the Coachella Sanitary District (the "District") as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 10, 2012. 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

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District'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 a 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 internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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*.

We noted certain matters that we reported to management of the District, in a separate letter dated December 10, 2012.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

December 10, 2012


Sonnenberg & Company, CPAs