

COACHELLA SANITARY DISTRICT

1515 Sixth Street
Coachella, CA 92236

COMPONENT UNIT
FINANCIAL STATEMENTS



For The Year Ended June 30, 2005

COACHELLA SANITARY DISTRICT

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June 30, 2005

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Coachella Sanitary District
Coachella, California

We have audited the accompanying basic financial statements of the Coachella Sanitary District (a component unit of the City of Coachella), as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the management of the Coachella Sanitary District. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the District's 2004 financial statements and, in our report dated December 15, 2004 we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Coachella Sanitary District as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

December 23, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Coachella Sanitary District's (District) financial performance for the fiscal year ended June 30, 2005 provides a comparison of current year to prior year ending results based on the District's financial statements, an analysis on the District's overall financial position and results of operations. This is provided to assist readers in evaluating the District's financial position and significant changes that occurred during the year. In addition, it describes the activities that occurred during the year affecting the District's capital assets and long-term debt. We finish our discussion and analysis with a description of currently known facts, decisions, and conditions that are expected to have a significant effect on the financial position or results of operations. Please read it in conjunction with the Coachella Sanitary District's financial statements.

FINANCIAL HIGHLIGHTS

- The Coachella Sanitary District's net assets increased \$3.6 million, or 59.7 percent.
- During the year, the District had revenues of \$6.34 million and expenses of \$2.84 million. Revenues exceeded expenses as reported by the District by \$3.5 million for the fiscal year.
- The District's revenues increased \$2.54 million, or 66.8 percent from the prior year, while expenses increased \$.32 million, or 12.6 percent.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements, notes to the financial statements, the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets and Statement of Activities (on pages 3 and 4) provide information about the activities of the District as a whole and present a long-term view of the District's finances.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities:

Our analysis of the District as a whole begins on page 3 (Table 1) beginning with The Statement of Net Assets. The Statement of Net Assets presents information on the districts assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The Statement of Activities (Table 2) presents information showing how the District's assets changed during the most recent fiscal year 2004-05.

REPORTING THE DISTRICT'S FINANCIAL STATEMENTS

District Financial Statements:

The Coachella Sanitary District operates as a utility enterprise fund and presents its basic financial statements using the economic resources measurement focus and the full accrual basis of accounting which is similar to the accounting used by most private-sector companies. Under the accrual basis of accounting all current year revenues and expenses are accounted for regardless of when cash is received or paid.

District revenues are principally supported by taxes and user fees for services that are intended to recover all or a significant portion of their costs. The City of Coachella is financially accountable for the District; however the City reports its financial information separately from the District.

The District's financial statements are comprised of two main components: The basic financial statements and the notes to the financial statements. These financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

THE DISTRICT AS A WHOLE

The District's net assets increased over the prior year \$3.65 million from \$6.10 million to \$9.75 million. Our analysis below focuses on both the net assets (Table 1) and changes in net assets (Table 2) of the District's activities.

Table 1
Net Assets

	<u>FY 2004-05</u>	<u>FY 2003-04</u>	<u>Percentage Change FY 04 - FY 05</u>
Current and other assets	\$ 3,387,664	\$ 1,609,128	110.5%
Capital assets	<u>14,809,887</u>	<u>8,260,282</u>	<u>79.3%</u>
Total assets	18,197,551	9,869,410	17.8%
Long-term debt outstanding	5,259,900	3,060,184	71.9%
Other liabilities	<u>3,186,816</u>	<u>703,555</u>	<u>353.0%</u>
Total liabilities	8,446,716	3,763,739	5.8%
Net assets:			
Invested in capital assets, net of related debt	11,079,915	5,100,098	117.2%
Restricted	2,355,128	432,605	444.4%
Unrestricted	(3,684,208)	572,968	-743.0%
Total net assets	<u>\$ 9,750,835</u>	<u>\$ 6,105,671</u>	<u>59.7%</u>

The District's Net Assets are made-up of three components: Investment in Capital Assets, Net of Related Debt, Restricted Net Assets and Unrestricted Net Assets. Unrestricted Net Assets, the part of net assets that can be used to finance day-to-day operations, decreased from \$.57 million to \$(3.68) million, or (743.9) percent.

Total assets increased by \$8.3 million primarily due to the increase in capital assets. During the same period total liabilities increased by \$4.69 million, the majority of the increase was due to the issuing of new debt.

Table 2
Changes in Net Assets

	<u>FY 2004-05</u>	<u>FY 2003-04</u>	<u>Percentage Change FY 04 - FY 05</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 2,329,473	\$ 2,057,923	13%
Connection fees	2,084,738	1,640,099	27%
Other Income	126,774	36,709	245%
Non-Operating Revenues			
Taxes	37,635	44,245	-15%
Interest	24,537	20,776	18%
Transfers In	1,734,260	-	100%
Total revenues	<u>6,337,417</u>	<u>3,799,752</u>	<u>66.8%</u>
Expenses:			
Operating expenses	2,237,757	2,113,201	5.9%
Other expenses	323,448	165,034	96.0%
Non-Operating Expenses			
Interest expense	274,776	241,444	13.8%
Transfers Out	-	-	0.0%
Total expenses	<u>2,835,981</u>	<u>2,519,679</u>	<u>12.6%</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 3,501,436</u>	<u>\$ 1,280,073</u>	<u>173.5%</u>

Total revenues increased from \$3.8 million to \$6.34 million, a 66.8 percent increase (see table 2). The major factor that contributed to the increase was the increase in connection fees, charge for services and transfers in from reimbursement of certain expenses.

The following schedule represents the net cost of providing services:

Table 3**Net (Expense) Revenue**

	<u>FY 2004-05</u>	<u>FY 2003-04</u>
General revenue	\$ 6,337,417	\$ 3,799,752
Operating expenses	(2,561,205)	(2,278,235)
Interest on long-term debt	(274,776)	(241,444)
Total net cost	<u>\$ 3,501,436</u>	<u>\$ 1,280,073</u>

THE DISTRICT'S FUNDS**Budgetary Highlights**

During the year, with the recommendation from the District's staff, the District's Board revised the District budget several times. Adjustments were made on a monthly basis as the District's staff requested additional appropriations to cover the cost of projects that either had change orders for additional work, or the estimated cost at the beginning of the project was under-estimated. At mid-year, adjustments were made as department heads requested increases or decreases to their budgets to maintain their current level of services. At year-end, budgets were adjusted for unanticipated expenditures. The District's Board approves all adjustments that either increase or decrease appropriations.

Formal budgetary integration is employed as a management control device during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION**Capital Assets**

At the end of 2005, the District had \$14.8 million (net of accumulated depreciation) invested in a broad range of capital assets, including land, buildings and improvements, machinery and equipment, and construction in progress (See Table 4). This amount represents a net increase (including additions and deductions) of \$6.55 million, or 79.3 percent over last year.

Table 4
Capital Assets at Year-End
(Net of Accumulated Depreciation)

	<u>FY 2004-05</u>	<u>FY 2003-04</u>	<u>Percentage Change FY 04-FY 05</u>
Land	\$ 334,001	\$ 334,001	0.0%
Buildings & improvements	4,468,316	4,566,369	-2.1%
Equipment	2,912,981	3,016,762	-3.4%
Construction-in-progress	7,094,589	343,150	1967.5%
Total capital assets	<u>\$ 14,809,887</u>	<u>\$ 8,260,282</u>	<u>79.3%</u>

This year increases in capital assets pertained to the installation of a sewer trunk line, design of sewer treatment plant, and aeration upgrades.

Debt

At year-end, the District had \$5.36 million in outstanding debt which is an increase of 69.8 percent over last year.

Table 5
Outstanding Debt at Year-End

	<u>FY 2004-05</u>	<u>FY 2003-04</u>	<u>Percentage Change FY 04-FY 05</u>
Certificates of participation	\$ -	\$ 3,340,000	-100.0%
Revenue refunding bonds	5,725,000	-	100.0%
discount			
on refunding	(258,053)	(179,816)	43.5%
Unamortized bond discount	(102,047)	-	100.0%
Total outstanding debt	<u>\$ 5,364,900</u>	<u>\$ 3,160,184</u>	<u>69.8%</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In preparing the 2005-2006 budget, management looked at several economic factors such as increased labor cost's and employee benefits, increased energy costs and increased professional monitoring and testing fees. In addition, the District is in the final stages of a service and connection fee study.

As the District continues to grow with new residential and commercial development, the demand for increased levels of services will grow accordingly. To meet this demand the District has committed to a \$24 million treatment plant expansion.

The District's conservative approach has provided a high level of service. During the 2005-2006 fiscal year the District will continue its commitment to provide a high level of customer service.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Department, at the City of Coachella, 1515 6th Street, Coachella CA, 92236.

BASIC FINANCIAL STATEMENTS

COACHELLA SANITARY DISTRICT

Balance Sheet

For the year ended June 30, 2005 with comparative totals
for the year ended June 30, 2004

ASSETS	2005	2004
Current Assets:		
Cash and investments (Note B)	\$ 14,590	\$ 1,025,973
Accounts receivable (Net of allowance for uncollectible of \$6,481)	500,534	52,823
Prepaid expenses	166,290	-
Interest receivable	53	3,397
Total Current Assets	681,467	1,082,193
Restricted Assets:		
Cash and investments:		
Revenue bond reserve account (Note B)	2,382,801	432,605
PERS reserve	73,833	73,833
Total Restricted Assets	2,456,634	506,438
Deferred Charges	249,563	20,497
Property, Plant and Equipment, at cost: (Note C)		
Land	334,001	334,001
Buildings	481,913	481,913
Improvements other than buildings	6,979,013	6,979,013
Machinery and equipment	5,173,045	5,168,575
Construction-in-progress	7,094,589	343,150
Total Property, Plant and Equipment	20,062,561	13,306,652
Less: Accumulated Depreciation	(5,252,674)	(5,046,370)
Net Property, Plant and Equipment	14,809,887	8,260,282
Total Assets	\$ 18,197,551	\$ 9,869,410

LIABILITIES	2005	2004
Current Liabilities (payable from current assets):		
Accounts payable	\$ 45,387	\$ 414,469
Accrued payroll	11,337	-
Compensated absences payable	88,077	129,821
Current portion of certificates of participation payable (Note D)	105,000	100,000
Total Current Liabilities (payable from current assets)	<u>249,801</u>	<u>644,290</u>
Current Liabilities (payable from restricted cash and investments):		
Accrued interest payable	60,216	59,265
Due to other funds	2,876,799	-
Total Current Liabilities (payable from restricted assets)	<u>2,937,015</u>	<u>59,265</u>
Long Term Liabilities:		
Revenue refunding bonds (Note D)	5,364,900	3,160,184
Less: Current portion	(105,000)	(100,000)
Total Long Term Liabilities	<u>5,259,900</u>	<u>3,060,184</u>
Total Liabilities	<u>8,446,716</u>	<u>3,763,739</u>
NET ASSETS		
Invested in capital assets, net of related debt	11,079,915	5,100,098
Restricted:		
Capital projects	2,000,000	-
Debt Service	355,128	432,605
Unrestricted	(3,684,208)	572,968
Total Net Assets, end of year	<u>\$ 9,750,835</u>	<u>\$ 6,105,671</u>

See accompanying notes to the basic financial statements.

COACHELLA SANITARY DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets For The Year Ended June 30, 2005 with comparative total for the year ended June 30, 2004.

	2005	2004
Operating Revenues:		
Charges for services	\$ 2,329,473	\$ 2,057,923
Connection charges	2,084,738	1,640,099
Other	126,774	36,709
TOTAL OPERATING REVENUES	4,540,985	3,734,731
Operating Expenses:		
Salaries and benefits	734,068	509,449
Administrative costs	56,477	29,673
Professional services	658,077	656,605
Materials and supplies	126,766	81,323
Repairs and maintenance	8,516	71,195
Equipment rental	12,120	37,708
Utilities	307,518	267,368
Insurance	-	41,107
General office	14,189	13,163
Depreciation and amortization	320,026	405,610
Other	323,448	165,034
TOTAL OPERATING EXPENSES	2,561,205	2,278,235
OPERATING INCOME	1,979,780	1,456,496
Non-Operating Revenues (Expenses):		
Taxes	37,635	44,245
Interest revenue	24,537	20,776
Interest expense and fiscal charges	(274,776)	(241,444)
TOTAL NON-OPERATING REVENUES (EXPENSE)	(212,604)	(176,423)
Income (Loss) Before Transfers	1,767,176	1,280,073
Transfers In	1,734,260	-
Change in Net Assets	3,501,436	1,280,073
Net Assets, beginning of year as restated (Note G)	6,249,399	4,825,598
Net Assets, end of year	\$ 9,750,835	\$ 6,105,671

See accompanying notes to the basic financial statements.

COACHELLA SANITARY DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2005 with comparative totals
for the year ended June 30, 2004.

	<u>2005</u>	<u>2004</u>
Increase (decrease) in cash and cash equivalents:		
Cash flows from operations:		
Receipts from customers	\$ 6,973,417	\$ 3,737,925
Payments to suppliers	<u>(2,761,676)</u>	<u>(1,610,739)</u>
Net cash Provided by Operating Activities	<u>4,211,741</u>	<u>2,127,186</u>
Cash flows from noncapital financing activities:		
Taxes	37,635	44,245
Transfers in	<u>1,734,260</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>1,771,895</u>	<u>44,245</u>
Cash flows from capital and related financing activities:		
Purchase of equipment	(4,470)	-
Payment for construction in progress	(6,751,439)	-
Payment for improvements other than buildings	-	(3,052,348)
Proceeds from issuance of long term debt	5,358,207	-
Principal paid on long-term debt	(3,340,000)	(95,000)
Interest paid on long term debt	(266,858)	(241,444)
Premium paid on retirement of refunded debt	<u>(64,800)</u>	<u>-</u>
Net cash provided by capital and related financing activities	<u>(5,069,360)</u>	<u>(3,388,792)</u>
Cash flows from investing activities:		
Interest on investments	<u>24,537</u>	<u>20,776</u>
Net cash provided by investing activities	<u>24,537</u>	<u>20,776</u>
Net increase (decrease) in cash and cash equivalents	<u>938,813</u>	<u>(1,196,585)</u>
Cash and cash equivalents, beginning of year	<u>1,458,578</u>	<u>2,655,163</u>
Cash and cash equivalents, end of year	<u>2,397,391</u>	<u>1,458,578</u>
Classified As:		
Current Assets	14,590	1,025,973
Restricted Assets	<u>2,382,801</u>	<u>432,605</u>
Totals	<u>\$ 2,397,391</u>	<u>\$ 1,458,578</u>

See accompanying notes to the basic financial statements.

COACHELLA SANITARY DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2005 with comparative totals
for the year ended June 30, 2004.

(Continued)

	<u>2005</u>	<u>2004</u>
Reconciliation of Operating Income to Net Cash Provided by Operations:		
Operating income	<u>\$ 1,979,780</u>	<u>\$ 1,456,496</u>
Adjustments not affecting cash:		
Depreciation and amortization	320,026	405,610
Prior year adjustments	44,330	
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(447,711)	3,194
(Increase) decrease in interest receivable	3,344	3,722
(Increase) decrease in prepaid expenses	(166,290)	-
Increase (decrease) in accounts payable	(369,082)	280,904
Increase (decrease) in accrued payroll	11,337	(4,944)
Increase (decrease) in comp. absences payable	(41,744)	(16,335)
Increase (decrease) in interest payable	951	(1,461)
Increase (decrease) due to other funds	<u>2,876,799</u>	<u>-</u>
Total Adjustments	<u>2,231,960</u>	<u>670,690</u>
Net cash provided by operations	<u>\$ 4,211,740</u>	<u>\$ 2,127,186</u>

See accompanying notes to the basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

COACHELLA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Coachella Sanitary District's (the "District") General Fund is classified as an Enterprise Fund in the City of Coachella's (the "City") general purpose financial statements. The City's council members serve as the Board of Directors for the District.

An Enterprise Fund is used to account for operations that are financed and operated in a manner similar to a private business enterprise where the intent is that the costs of providing goods or services to the general public on an accounting basis are recovered primarily through user charges.

Basis of Accounting

On July 1, 2002, the District adopted the provisions of GASB Statement No. 34 ("Statement 34") of the Governmental Accounting Standards Board, "Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments". Statement 34 established standards for external financial reporting for all state and local government entities which includes a balance sheet, a statement of revenues, expenses and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components invested in capital assets, net of related debt; restricted; and unrestricted.

The District's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting, to apply all applicable GASB Pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statements of net assets. Net assets (i.e. total

COACHELLA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

assets net of total liabilities) are segregated into; invested in capital assets, net of related debt; restricted for debt service; and unrestricted components.

Management of the District has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

Cash and Investments

Effective July 1, 1997, the District adopted the provisions of Governmental Accounting Standards Board (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 stated certain investments at fair value. The District adopted a revised investment policy on July 9, 2003. This policy allows the District to investment surplus monies in the State's Local Agency Investment Fund and in obligations of the U.S. Treasury. The type of investment complies with state laws.

The District's cash and investments are in short-term highly liquid instruments, with original maturities of three months or less. For 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 cash and investments in order to generate optimum interest income. The information required by GASB Statement No. 40 is described in the notes the Financial Statements.

Inventories

Inventories are recorded as expenses when the items are purchased. The District does not maintain material inventory levels to warrant recording the inventories on the District's balance sheet.

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 assets with an initial, individual cost of more than \$5,000. Cost includes 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 profit or loss resulting from the disposal is credited or charged in the non-operating section of the

COACHELLA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

statements 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 into service at year end.

Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Building	45 years
Machinery	5-30 years
Office equipment	5-10 years
Sewer improvements	45-65 years

Long-Term Debt and Costs

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to 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 old bonds, or the life of the new bonds, whichever is shorter.

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from non-exchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the District's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

Compensated Absences Payable

The District accounts for compensated absences which reflect a liability for vacation, sick pay and other benefits due to employees. Unpaid compensation absences are recorded as a liability as the vested benefits to the employee accrue.

Allowance for Doubtful Accounts

The District charges doubtful accounts arising from sanitary receivables to bad debts expense when it is probable that the accounts will be uncollectible.

COACHELLA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Net Assets

Net assets comprise 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 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.

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.

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.”

B. CASH AND INVESTMENTS:

Cash and investments reported in the accompanying financial statements consisted of the following at June 30, 2005:

Cash and investments, at fair value	
Unrestricted	
Cash and investments	\$ 14,590
Restricted	
Bond cash reserves	<u>2,382,801</u>
Total cash and investments at fair value	<u>\$ 2,397,391</u>

Cash and investments as of June 30, 2005 consist of the following:

Deposits with governmental agencies	\$ 7,420
Investments	<u>2,389,971</u>
Total cash and investments at fair value	<u>\$ 2,397,391</u>

COACHELLA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

B. CASH AND INVESTMENTS (CONTINUED):

Investments Authorized by the District's Investment Policy

The table below identifies the investment types that are authorized by the District's investment policy. This table does not address investments of debt proceeds held by the bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provision of the District's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Demand deposits	N/A	None	None
Certificates of deposit	N/A	30%	\$ 99,000
Money market funds	N/A	10%	\$ 2 Million
Local Agency Investment Fund	N/A	\$ 30 Million	\$ 30 Million

*Excluding amounts held by bond trustee that are not subject to California government Code Restrictions.

Investments Authorized by debt Agreements

Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Money Market Mutual Funds	N/A	None	None

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 District manages its exposure to interest rate 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.

COACHELLA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

B. CASH AND INVESTMENTS (CONTINUED):

<u>Investment Type</u>	<u>Amount</u>	<u>Maturity Date</u>
Local Agency Investment Fund (LAIF)	\$ 7,170	None
Certificates of deposit	-	None
Held by bond trustee:		
Money market funds	<u>2,382,801</u>	Daily
	<u>\$ 2,389,971</u>	

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuation

The District did not have any investments considered to be highly sensitive to interest rate fluctuations as of June 30, 2005.

Credit Risk

The District's investment policy, or debt agreements and the actual rating as of the year-end for each investment type are as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>AAA</u>	<u>AA</u>	<u>Not Rated</u>
Local Agency Investment Fund (LAIF)	\$ 7,170	N/A	\$ -	\$ -	\$ -	\$ 7,170
Certificates of deposit held by bond trustee:						
Money market funds	<u>2,382,801</u>	A	-	<u>2,382,801</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,389,971</u>			<u>\$ 2,382,801</u>	<u>\$ -</u>	<u>\$ 7,170</u>

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount than can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the total District's investments are as follows:

COACHELLA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

B. CASH AND INVESTMENTS (CONTINUED):

<u>Investment Type</u>	<u>Amount</u>	<u>Issuer</u>
Money market funds	\$ 2,382,801	Blackrock Institutional Fund

Custodial Credit Risk.

Deposits are exposed to custodial risks if they are uninsured and uncollateralized. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District 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. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the District and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

All cash and certificates of deposit are entirely insured or collateralized. The California Government Code requires California banks and savings and loans associations to secure District deposits by pledging government securities, which equal at least 110% of the District's deposits. California law also permits financial institutions to secure District deposits by pledging first trust deed mortgage notes in excess of 150% of the District's deposits. Collateral requirements may be waived for deposits that are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

All of the District's investments are held in the name of the District with the District's custodial Bank or by the District's counterparty's trust department.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF invests some of its portfolio in derivatives. Detailed information on derivative investments held by this pool is not readily available.

COACHELLA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

C. CAPITAL ASSETS

A summary of changes in capital assets at June 30, 2005 is as follows:

	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005
Land	\$ 334,001	\$ -	\$ -	\$ 334,001
Buildings	481,913	-	-	481,913
Improvements other than buildings	6,979,013	-	-	6,979,013
Machinery and equipment	5,168,575	4,470	-	5,173,045
Construction-in-progress	343,150	6,751,439	-	7,094,589
Total	13,306,652	6,755,909	-	20,062,561
Accumulated depreciation	(5,046,370)	(206,304)	-	(5,252,674)
Capital asets, net	\$ 8,260,282	\$ 6,549,605	\$ -	\$ 14,809,887

Depreciation expense in the amount of \$206,304 is included as part of the operating expenses.

D. LONG-TERM LIABILITIES:

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Certificate of participation	\$ 3,340,000	\$ -	\$ (3,340,000)	\$ -	\$ -
Revenue refunding bonds	-	5,725,000	-	5,725,000	105,000
	3,340,000	5,725,000	(3,340,000)	5,725,000	105,000
Less: unamortized deferred amount on refunding	(179,816)	(85,297)	7,060	(258,053)	-
Less: unamortized bond discount	-	(102,904)	857	(102,047)	-
Total Long-Term Liabilities	\$ 3,160,184	\$ 5,536,799	\$ (3,332,083)	\$ 5,364,900	\$ 105,000

COACHELLA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

D. LONG-TERM LIABILITIES (CONTINUED):

On March 30, 2005; the Sanitary District issued \$5,725,000 in revenue refunding bonds, series 2005A with an average interest rate of 4.20% for the early refunding of \$3,340,000 of outstanding 1995 revenue certificates of participation with an average interest rate of 7.08%. The carrying amount of the 2005A bonds reflected on the balance sheet as of June 30, 2005, is comprised as follows:

Revenue refunding bonds at June 30, 2005	\$ 5,725,000
Less: Unamortized discount on bonds and deferred amount on refunding	<u>(360,100)</u>
Carrying amount of revenue refunding bonds	<u>\$ 5,364,900</u>

The annual requirements to amortize revenue refunding bonds including principal and interest payments are as follows:

<u>Year Ending June 30,</u>	
2006	\$ 345,863
2007	351,019
2008	352,869
2009	349,569
2010	351,269
2011-2015	1,756,188
2016-2020	1,757,036
2021-2025	1,760,176
2026-2030	1,760,319
2031-2035	<u>1,757,780</u>
Total principal and interest	10,542,087
Less: Interest payments	<u>(4,817,087)</u>
Total principal due	<u>\$ 5,725,000</u>

COACHELLA SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

E. ADVANCE REFUNDING OF DEBT:

On April 1, 2005, the City issued \$5.725 million in wastewater revenue refunding bonds with interest rates ranging between 3.00% and 4.50%. The City issued the bonds to advance refund of \$3.340 million of the outstanding series of 1995 bonds with 6.30% interest rate. The City used the net proceeds along with other resources to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 2005 series of bonds. The outstanding balance of the refunding bonds is \$5,725,000 at June 30, 2005.

The advance refunding reduced total debt service payments over the next 20 years by nearly \$4.80 million. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1.14 million.

F. PRIOR YEAR DEFEASANCE OF DEBT:

On September 1, 1995, the Sanitary District defeased certain revenue certificates of participation by placing the proceeds of new certificates in irrevocable trust to provide for all future debt service payment on the old certificates. Accordingly, the trust account assets and the liability for the defeased certificates are not included in the District's financial statements. On June 30, 2005, \$795,000 in certificates outstanding are considered defeased.

G. RESTATEMENT OF BEGINING NET ASSETS:

During the year ended June 30, 2005, the District made the following adjustments to the beginning net assets:

Net assets at beginning of the year	\$ 6,105,671
To adjust for voided check	1,391
To adjust cash with fiscal agent	1,195
To adjust accumulated depreciation	99,398
To adjust compensated absences liability	<u>41,744</u>
Net assets at beginning of the year as restated	<u><u>\$ 6,249,399</u></u>

H. PRIOR YEAR SUMMARIZED INFORMATION:

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principals. Accordingly, such information should be read in conjunction with the District's Financial Statements for the year ended June 30, 2004, from which the summarized information was derived.