CITY OF COACHELLA
COACHELLA, CALIFORNIA

COACHELLA SANITARY DISTRICT
COMPONENT UNIT FINANCIAL REPORT

JUNE 30, 2014

Sonnenberg & Company CPAs
A Professional Corporation

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, 2014

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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 Coachella Sanitary District (the "District"), a component unit of the City of Coachella, California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Coachella Sanitary District, a component unit of the City of Coachella, California, as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

December 3, 2014

Sonnenberg & Company, CPAs

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Coachella Sanitary District
Statement of Net Position
June 30, 2014

ASSETS		
Current Assets:		
Restricted Cash and Investments	$	6,694,221
Accounts Receivable (Net of Allowance for Uncollectible of $253,342)		546,800
Due from Other Governments		1,209
Total Current Assets		7,242,230
Noncurrent Assets:		
Capital Assets Not Being Depreciated		452,919
Capital Assets Being Depreciated		61,860,435
Less: Accumulated Depreciation		(22,919,993)
Total Noncurrent Assets		39,393,361
Total Assets	$	46,635,591
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amount From Debt Refunding	$	176,031
LIABILITIES		
Current Liabilities:		
Accounts Payable	$	114,910
Accrued Wages		89,597
Accrued Interest Payable		163,774
Compensated Absences - Current Portion		83,082
Bonds Payable - Current Portion		210,110
Loans Payable - Current Portion		1,170,023
Total Current Liabilities		1,831,496
Noncurrent Liabilities:		
Compensated Absences - Less Current Portion		83,081
Net OPEB Obligation		142,432
Bonds Payable - Less Current Portion		8,919,932
Loans Payable - Less Current Portion		18,409,820
Total Noncurrent Liabilities		27,555,265
Total Liabilities	$	29,386,761
DEFERRED INFLOWS OF RESOURCES		-
NET POSITION		
Net Investment in Capital Assets		10,683,476
Restricted for:		
Capital Projects		6,694,221
Unrestricted Deficit		47,164
Total Net Position	$	17,424,861

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

Coachella Sanitary District
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2014

OPERATING REVENUES		
Charges for Services	$	5,079,634
Connection Charges		103,611
Other		94,894
Total Operating Revenues		5,278,139
OPERATING EXPENSES		
Salaries and Benefits		1,157,490
Administrative and General		827,833
Professional Services		271,656
Materials and Supplies		229,441
Repairs and Maintenance		141,693
Utilities		379,042
Depreciation and Amortization		1,400,544
Total Operating Expenses		4,407,699
Operating Income		870,440
NON-OPERATING REVENUES (EXPENSES)		
Property Taxes		78,565
Interest Income		33,206
Interest Expense and Fiscal Charges		(839,738)
Total Non-Operating Revenues (Expenses)		(727,967)
Income Before Contributions		142,473
Contributions to the City of Coachella		(556,125)
Contributions from the City of Coachella		1,343
Total Contributions		(554,782)
Change in Net Position	$	(412,309)
Net Position, Beginning of Year		17,837,170
Net Position, End of Year	$	17,424,861

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

Coachella Sanitary District
Statement of Cash Flows
Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	$ 5,316,897
Payments to Suppliers	(1,860,017)
Payments to Employees	(1,093,608)
Net Cash Provided by Operating Activities	2,363,272
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Property Taxes	78,565
Net Cash Provided by Noncapital Financing Activities	78,565
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal Paid on Long-term Debt	(1,332,950)
Interest Paid on Long-term Debt	(892,499)
Contributions to/ from Other Government	(554,782)
Net Cash Used by Capital and Related Financing Activities	(2,780,231)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on Investments	33,206
Net Cash Provided by Investing Activities	33,206
Net Change in Cash and Cash Equivalents	(305,188)
Cash and Cash Equivalents - Beginning of the Year	6,999,409
Cash and Cash Equivalents - End of the Year	$ 6,694,221
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income	$ 870,440
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation and Amortization	1,400,544
Change in Assets and Liabilities:	
Decrease (Increase) in Accounts Receivable	38,758
Increase (Decrease) in Accounts Payable	(10,352)
Increase (Decrease) in Accrued Payroll	13,422
Increase (Decrease) in Compensated Absences	23,253
Increase (Decrease) in Net OPEB Obligation	27,207
Net Cash Provided By Operating Activities	$ 2,363,272
Noncash Investing, Capital and Financing Activities	
Amortiization of (Premium)/Discount on Bonds	$ 3,430

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

Coachella Sanitary District
Notes to Financial Statements
Year Ended June 30, 2014

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:

Name	Title	Term Expires
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.

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 counting 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 9GASB) 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. The City does not believe that any of its capital assets have been impaired.

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 applicable discounts, premiums, deferred losses on refunding. Costs related to the issuance of debt are expensed when incurred in accordance with GASB 65. Losses occurring from advance and current refunding of debt are deferred outflows of resources and are amortized as interest expense over the remaining life of the bonds.

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 Position

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

Net Investment in Capital Assets – This component of net position 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 position component as the unspent proceeds.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

L) Net Position – Continued

Restricted – This component of net position 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, 2014, restricted net position consists 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 Position – This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

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	1st Installment – November 1
	2nd Installment – March 1
Delinquent Date	1st Installment – December 10
	2nd 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, 2014 are as follows:

Statement of Net Position:		
Cash and Investments - Pooled Cash	$	-
Restricted:		
Cash and Investments		6,694,221
Total Cash and Investments	$	6,694,221

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.

4) CAPITAL ASSETS

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital Assets, Not Depreciated:					
Land	$ 452,919	$	$	$	$ 452,919
Construction in Progress	-				-
Total Capital Assets, Not Depreciated	452,919	-	-	-	452,919
Capital Assets Being Depreciated:					
Buildings	760,085				760,085
Machinery and Equipment	5,209,933				5,209,933
Infrastructure	55,890,417				55,890,417
Total Capital Assets Being Depreciated	61,860,435	-	-	-	61,860,435
Less Accumulated Depreciation:					
Buildings	(287,830)		(20,855)		(308,685)
Machinery and Equipment	(3,521,459)		(115,888)		(3,637,347)
Infrastructure	(17,722,427)		(1,251,534)		(18,973,961)
Total Accumulated Depreciation	(21,531,716)	-	(1,388,277)	-	(22,919,993)
Total Capital Assets Being Depreciated, Net	40,328,719	-	(1,388,277)	-	38,940,442
Business-Type Activities Capital Assets, Net of Depreciation	$ 40,781,638	$ -	$ (1,388,277)	$ -	$ 39,393,361

Depreciation expense in the amount of $1,388,277 is included in the operating expenses.

5) DEFERRED OUTFLOWS OF RESOURCES

The following is a summary of the changes in deferred outflows of resources for the year:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Refunding Gain/Loss	$ (184,868)	$ 8,837	$	$ (176,031)	$
Total	$ (184,868)	$ 8,837	$ -	$ (176,031)	$ -

6) LONG-TERM LIABILITES

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	$ 142,910	$ 23,253		$ 166,163	$ 83,082
OPEB Obligation	115,225	27,207		142,432	
Loans Payable	20,719,685		(1,139,842)	19,579,843	1,170,023
Revenue Bonds					
2005A Wastewater	4,805,000		(135,000)	4,670,000	140,000
2005B Wastewater	4,598,522		(67,305)	4,531,217	70,110
Total Revenue Bonds	9,403,522	-	(202,305)	9,201,217	210,110
Less:					
Bond Discounts	(74,605)	3,430		(71,175)	
Total	$ 30,306,737	$ 53,890	$ (1,342,147)	$ 29,018,480	$ 1,463,215

7) COMPENSATED ABSENCES

For the Sanitary District, accumulated vacation, sick and administrative leave benefits payable in future years amounted to $166,163 at June 30, 2014. The City has estimated that $83,082 will be paid in the next year and is reflected as a current liability. The City has estimated that $83,081 will not be paid in the next year and is reflected as a noncurrent liability.

8) 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%.

$ 16,749,237

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, 2014 only $2,830,606 was withdrawn. Repayment of this loan shall be paid in annual installments through October 1, 2050. The project was completed on September 4, 2012. The interest rate on this note is 2.375%.

$ 2,830,606

Total Loans $ 19,579,843

8) LOANS PAYABLE - Continued

The future debt requirements of the loan are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	$ 1,170,023	471,879	1,641,902
2016	1,195,784	445,425	1,641,209
2017	1,222,137	418,330	1,640,467
2018	1,249,096	390,637	1,639,733
2019	1,281,675	362,336	1,644,011
2020-2024	6,854,783	1,363,273	8,218,056
2025-2029	4,630,738	559,267	5,190,005
2030-2034	360,000	222,016	582,016
2035-2039	400,000	177,958	577,958
2040-2044	455,000	128,618	583,618
2045-2049	505,000	72,806	577,806
2050-2052	255,607	14,234	269,841
Total	$ 19,579,843	$ 4,626,779	$ 24,206,622

9) 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 Sanity 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, 2014, the cash reserve balance for debt service is $356,877 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, 2014, the District met the rate covenant as required by the bond indenture.

$ 4,670,000

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.

$ 4,531,217

Total Revenue Bonds $ 9,201,217

9) REVENUE BONDS - Continued

The future debt requirements of revenue bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	$ 210,110	$ 402,885	$ 612,995
2016	218,032	394,770	612,802
2017	226,075	386,137	612,212
2018	239,246	377,141	616,387
2019	247,548	367,590	615,138
2020-2024	1,402,304	1,674,575	3,076,879
2025-2029	1,748,142	1,347,563	3,095,705
2030-2034	2,207,949	932,750	3,140,699
2035-2039	1,186,474	474,977	1,661,451
2040-2044	1,101,489	244,679	1,346,168
2045-2046	413,848	37,246	451,094
Total	$ 9,201,217	$ 6,640,313	$ 15,841,530

10) 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 Sate 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, 2014, 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.

10) 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, 2014, the City and the District 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, 2014, the City and the District did not have a liability to the Authority for worker's compensation losses.

11) CONTINGENCIES AND COMMITMENTS

At June 30, 2014, 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.

12) POST-EMPLOYMENT BENEFITS

The District, through the City, offers post-employment benefits to eligible employees. The Net OPEB Obligation of $142,432 in the Statement of Net Position 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.