

COACHELLA WATER AUTHORITY

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2010



Coachella Water Authority
Annual Financial Report
Year Ended June 30, 2010

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Coachella Water Authority
Coachella, California

We have audited the accompanying financial statements of the business-type activities of the Coachella Water Authority (the "Authority"), a component unit of the City of Coachella, as of and for the year ended June 30, 2010, which comprise the Authority's basic component unit financial statements listed in the table of contents. These financial statements are the responsibility of the Authority'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 Authority 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 respective financial position of the business-type activities of the Authority as of June 30, 2010, and the respective changes in financial position and cash flows, 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 March 29, 2011 on our consideration of the City of Coachella's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Authority has not presented the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States have determined is necessary to supplement, although not required to be part of, the basic component unit financial statements.

Teaman Ramirez & Smith, Inc.

March 29, 2011



Coachella Water Authority
Statement of Net Assets
June 30, 2010

ASSETS

Current Assets:

Cash and Investments	\$ 580,667
Restricted Cash and Investments	3,738,595
Accounts Receivable (Net of Allowance for Uncollectible of \$184,512)	710,078
Interest Receivable	<u>23,633</u>
Total Current Assets	<u>5,052,973</u>

Noncurrent Assets:

Capital Assets Not Being Depreciated	2,153,631
Capital Assets Being Depreciated	56,729,443
Less: Accumulated Depreciation	(21,390,597)
Deferred Charges	<u>509,776</u>
Total Noncurrent Assets	<u>38,002,253</u>

Total Assets	<u>43,055,226</u>
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LIABILITIES

Current Liabilities:

Accounts Payable	203,933
Deposits Payable	408,796
Accrued Wages	41,738
Accrued Interest Payable	280,489
Compensated Absences - Current Portion	47,355
Bonds Payable - Current Portion	<u>340,241</u>
Total Current Liabilities	<u>1,322,552</u>

Noncurrent Liabilities:

Compensated Absences - Less Current Portion	119,918
Net OPEB Obligation	62,220
Bonds Payable - Less Current Portion	<u>16,291,342</u>
Total Noncurrent Liabilities	<u>16,473,480</u>

Total Liabilities	<u>17,796,032</u>
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	20,560,894
Restricted	3,760,434
Unrestricted	<u>937,866</u>
Total Net Assets	<u>\$ 25,259,194</u>

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

Coachella Water Authority
Statement of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2010

OPERATING REVENUES

Charges for Services	\$ 3,418,160
Connection Charges	420,391
Other	7,214
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Total Operating Revenues	3,845,765
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OPERATING EXPENSES

Salaries and Benefits	1,143,796
Administrative and General	606,560
Professional Services	146,014
Materials and Supplies	279,633
Repairs and Maintenance	16,150
Utilities	645,772
Depreciation and Amortization	1,240,037
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Total Operating Expenses	4,077,962
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Operating Income (Loss)	(232,197)
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NON-OPERATING REVENUES (EXPENSES)

Investment Income	93,526
Interest Expense and Fiscal Charges	(754,975)
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Total Non-Operating Revenues (Expenses)	(661,449)
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Income Before Contributions	(893,646)
	<hr/>

Contributions from Other Governments	8,500
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Change in Net Assets	(885,146)
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Net Assets, Beginning of Year	26,144,340
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Net Assets, End of Year	\$ 25,259,194
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The accompanying notes are an integral part of this financial statement.

Coachella Water Authority
Statement of Cash Flows
Year Ended June 30, 2010

Cash Flows from Operating Activities

Receipts from Customers	\$ 3,605,960
Payments to Suppliers	(1,609,435)
Payments to Employees	(1,108,605)
	<u>887,920</u>
Net Cash Provided (Used) by Operating Activities	<u>887,920</u>

Cash Flows from Noncapital Financing Activities

Contributions from Other Governments	<u>8,500</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>8,500</u>

Cash Flows from Capital and Related Financing Activities

Principal Payments	(328,135)
Interest Paid	(772,886)
Acquisition and Construction of Capital Assets	(439,181)
	<u>(1,540,202)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,540,202)</u>

Cash Flows from Investing Activities

Investment Income	<u>80,516</u>
Net Cash Provided (Used) by Investing Activities	<u>80,516</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(563,266)

Cash and Cash Equivalents - Beginning of the Year	<u>4,882,528</u>
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Cash and Cash Equivalents - End of the Year	<u><u>\$ 4,319,262</u></u>
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Reconciliation of Operating Income (Loss) to Net Cash

Provided (Used) by Operating Activities:

Operating Income (Loss)	\$ (232,197)
Adjustments to Reconcile Operating Income to	
Net Cash Provided (Used) by Operating Activities:	
Depreciation and Amortization	1,240,037
Change in Assets and Liabilities:	
Decrease (Increase) in Accounts Receivable	(261,117)
Decrease (Increase) in Prepaids	21,305
Increase (Decrease) in Accounts Payable	63,389
Increase (Decrease) in Deposits Payable	21,312
Increase (Decrease) in Compensated Absences	(15,157)
Increase (Decrease) in Accrued Wages	(11,872)
Increase (Decrease) in Net OPEB Obligation	62,220
	<u>62,220</u>

Net Cash Provided By Operating Activities	<u><u>\$ 887,920</u></u>
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Noncash Investing, Capital and Financing Activities

Amortization of Premium/Discount on Bonds	\$ 13,684
Amortization of Bond Issue Costs	22,164

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

Coachella Water Authority
Notes to Financial Statements
Year Ended June 30, 2010

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Coachella Water Authority
Notes to Financial Statements
Year Ended June 30, 2010

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

The Coachella Water Authority (the Authority) was formed on July 1, 2003, under a joint powers agreement. It is governed by the Board of Directors made up of the City of Coachella's council members. The City of Coachella owns the water enterprise and leases it to the water authority on a 55 year lease. The purpose of the water authority is to provide water service to the citizens of Coachella as well as commercial and agricultural consumers.

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

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

The Board of Directors consists of the following:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Eduardo Garcia	President	November 2010
Steven Hernandez	Director	November 2010
Jesse Villarreal	Director	November 2010
Emanuel Martinez	Director	November 2012
Gilbert Ramirez, Jr.	Director	November 2012

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

The Authority's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as they are applicable to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The Authority reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Authority is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Authority'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 Water Authority
Notes to Financial Statements
Year Ended June 30, 2010

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 Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to enterprise funds. In accordance with GASB Statement 20, the Authority 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 Investments

Effective July 1, 1997, the Authority 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 Authority has reported certain investments at fair value.

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

D) Inventories

Inventories are recorded as expenses when the items are purchased. The Authority does not maintain significant levels of inventory to require the recording of inventory on the Authority's balance sheet.

E) 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 Authority 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

Coachella Water Authority
Notes to Financial Statements
Year Ended June 30, 2010

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

F) Capital Assets - Continued

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.

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

Buildings	45 years
Machinery	5 - 30 years
Office Equipment	5 - 10 years
Water System Improvements	45 - 65 years

G) Budgetary Accounting

Although the Authority 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 collectibility 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 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 defeased bonds, or the life of the newly issued bonds, whichever is shorter.

J) Employee 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 these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off 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:

Coachella Water Authority
Notes to Financial Statements
Year Ended June 30, 2010

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

K) Net Assets - Continued

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.

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, 2010, restricted net assets consist of connection fees received and unspent from developers for construction and expansion of the water enterprise.

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) CASH AND INVESTMENTS

The Authority's cash is pooled with the City of Coachella's funds for investment purposes, with interest being allocated on the basis of the Authority's overall percentage of participation. Investment policies and associated risk factors applicable to the Authority's funds are those of the City and are included in the City's financial statements. Cash and investments of the Authority as of June 30, 2010 are as follows:

Statement of Net Assets:	
Cash and Investments – Pooled Cash	\$ 580,667
Restricted:	
Cash and Investments	<u>3,738,595</u>
Total Cash and Investments	<u>\$ 4,319,262</u>

Restricted cash and investments are held and invested by fiscal agents on behalf of the Authority and 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 Water Authority
Notes to Financial Statements
Year Ended June 30, 2010

3) CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Depreciated:				
Land	\$ 315,935	\$	\$	\$ 315,935
Construction in Progress	1,413,977	423,719		1,837,696
Total Capital Assets Not Depreciated	1,729,912	423,719	-	2,153,631
Capital Assets, Being Depreciated:				
Machinery and Equipment	6,285,727	1,065		6,286,792
Buildings	198,416			198,416
Infrastructure	50,229,838	14,397		50,244,235
Total Capital Assets Being Depreciated	56,713,981	15,462	-	56,729,443
Less Accumulated Depreciation				
Machinery and Equipment	(4,477,565)	(216,614)		(4,694,179)
Buildings	(167,160)	(4,960)		(172,570)
Infrastructure	(15,527,550)	(996,298)		(16,523,848)
Total Accumulated Depreciation	(20,172,725)	(1,217,872)	-	(21,390,597)
Total Capital Assets Being Depreciated, Net	36,541,256	(1,202,410)		35,338,846
Capital Assets, Net of Depreciation	\$ 38,271,168	\$ (778,691)	\$ -	\$ 37,492,477

Depreciation expense in the amount of \$1,217,872 is included in operating expenses.

4) 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	\$ 182,430	\$ 34,977	\$ 50,134	\$ 167,273	\$ 47,355
OPEB Obligation		62,220		62,220	
2003 Water Revenue Bond	11,645,000		280,000	11,365,000	290,000
Deferred Amount:					
Bond Premium	328,402		13,684	314,718	
2008 Water Revenue Bonds (USDA)	5,000,000		48,135	4,951,865	50,241
Total Long-Term Liabilities	\$ 17,155,832	\$ 97,197	\$ 391,953	\$ 16,861,076	\$ 387,596

Coachella Water Authority
Notes to Financial Statements
Year Ended June 30, 2010

5) COMPENSATED ABSENCES

For the Water Authority, accumulated vacation, sick and administrative leave benefits payable in future years amounted to \$167,273 at June 30, 2010. Only \$47,355 is estimated to be paid in the next year, and is reflected as a current liability.

6) BONDS PAYABLE

A) 2003 Water Revenue Bonds

On July 15, 2003, the Coachella Water Authority issued \$13,410,000 Water Revenue Bonds, Series 2003 to advance refund the outstanding amount of the Water Revenue Refunding Certificates of Participation Series 1992 and to finance on-going capital improvements to the water system. Interest on the bonds is payable September 1 and March 1 of each year. Interest on the bonds accrues at rates varying from 2.00% to 4.63% per annum. Principal on serial and term bonds is payable in annual installments ranging from \$245,000 to \$795,000 commencing March 1, 2004, through March 1, 2033. Concurrently with the issuance of the bonds, a surety policy was purchased in lieu of maintaining a reserve balance. The Authority, with the issuance of the bonds, entered into a rate covenant agreement. For the year ended June 30, 2010, the Authority met the rate covenant as required by the bond indenture.

The annual requirements to amortize the debt are:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 290,000	\$ 545,388	\$ 835,388
2012	300,000	534,513	834,513
2013	315,000	522,512	837,512
2014	325,000	509,912	834,912
2015	340,000	496,913	836,913
2016-2020	1,930,000	2,251,613	4,181,613
2021-2025	2,455,000	1,732,750	4,187,750
2026-2030	3,130,000	1,055,000	4,185,000
2031-2033	2,280,000	231,500	2,511,500
Total	<u>\$ 11,365,000</u>	<u>\$ 7,880,101</u>	<u>\$ 19,245,101</u>

B) 2008 Water Revenue Bonds (USDA)

On July 16, 2008, the Coachella Water Authority issued \$5,000,000 Water Revenue Bonds (USDA), Series 2008 to finance on-going capital improvements to the Water Enterprise. Interest on the bonds is payable January 1 and July 1 each year, and accrues at 4.375% per annum. Principal on the bonds is payable in annual installments ranging from \$48,135 to \$255,746 commencing July 1, 2009, through July 1, 2048.

Coachella Water Authority
Notes to Financial Statements
Year Ended June 30, 2010

6) BONDS PAYABLE - Continued

B) 2008 Water Revenue Bonds (USDA) – Continued

The annual requirements to amortize the debt are:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 50,241	\$ 215,545	\$ 265,786
2012	52,439	213,299	265,738
2013	54,733	210,955	265,688
2014	57,128	208,508	265,636
2015	59,627	205,954	265,581
2016-2020	339,626	987,370	1,326,996
2021-2025	420,708	904,513	1,325,221
2026-2030	521,150	801,874	1,323,024
2031-2035	645,574	674,728	1,320,302
2036-2040	799,703	517,229	1,316,932
2041-2045	990,630	322,128	1,312,758
2046-2047	960,306	86,277	1,046,583
Total	<u>\$ 4,951,865</u>	<u>\$ 5,348,380</u>	<u>\$ 10,300,245</u>

7) OTHER INFORMATION

A) Employee Retirement System and Pension Plans

The Authority, 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 the actuarially computed value of vested benefits over the amounts available in the pension fund would be a liability of the City and not the Authority.

B) Risk Management

The Authority, through the City, is a member of the Public Entity Risk Management Authority (PERMA) formerly Coachella Valley Joint Powers Insurance Authority (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 Authority 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, 2010, 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 retention (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 Water Authority
Notes to Financial Statements
Year Ended June 30, 2010

7) 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 separate 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, 2010, 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 in insurance purchasing pool. As an insurance purchasing pool, the program allows participating members to benefits of 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, 2010, the City did not have a liability to the Authority for worker's compensation losses

C) Commitments and Contingencies

At June 30, 2010, in the opinion of the Authority's management, there are no outstanding matters which could have a material adverse effect on the financial position of the Authority.

8) POST EMPLOYMENT BENEFITS

The Authority, through the City, offers post-employment benefits to eligible employees. The Net OPEB Obligation of \$62,220 in the Statement of Net Assets is the amount of the City's total Net OPEB Obligation that is allocated to the Water Authority. See the City's financial statements for more information, including the required note disclosures.