

**CITY OF COACHELLA
COACHELLA, CALIFORNIA**

**COACHELLA WATER AUTHORITY
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 Water Authority Component Unit Financial Report Year Ended June 30, 2014

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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 Coachella Water Authority (the "Authority"), 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 Water Authority, 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.

Sonnenberg & Company, CPAs

December 3, 2014

Coachella Water Authority
Statement of Net Position
June 30, 2014

ASSETS

Current Assets:

Cash and Investments	\$ 2,481,532
Restricted Cash and Investments	5,086,953
Accounts Receivable (Net of Allowance for Uncollectible of \$109,979)	826,544
Prepaid Bond Insurance	123,223
	8,518,252
Total Current Assets	8,518,252

Noncurrent Assets:

Capital Assets Not Being Depreciated	442,437
Capital Assets Being Depreciated	59,744,596
Less: Accumulated Depreciation	(26,252,862)
	33,934,171
Total Noncurrent Assets	33,934,171
Total Assets	42,452,423

Deferred Outflows Of Resources

Deferred Amounts From Refunding Of Debt	198,740
	198,740

LIABILITIES

Current Liabilities:

Accounts Payable	174,000
Accrued Wages Payable	86,881
Deposits Payable	421,970
Accrued Interest Payable	242,991
Compensated Absences - Current Portion	83,046
Bonds Payable - Current Portion	464,627
	1,473,515
Total Current Liabilities	1,473,515

Noncurrent Liabilities:

Compensated Absences - Less Current Portion	83,045
Net OPEB Obligation	158,141
Bonds Payable - Less Current Portion	14,962,780
	15,203,966
Total Noncurrent Liabilities	15,203,966
Total Liabilities	16,677,481

Deferred Inflows Of Resources

Total Deferred Inflows Of Resources	-
	-

NET POSITION

Net Investment in Capital Assets	18,506,764
Restricted	5,086,953
Unrestricted	2,379,965
	25,973,682
Total Net Position	\$ 25,973,682

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

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

OPERATING REVENUES

Charges for Services	\$ 5,955,555
Connection Charges	97,361
Other	340,958
	340,958

Total Operating Revenues	6,393,874
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OPERATING EXPENSES

Salaries and Benefits	1,107,959
Administrative and General	758,120
Professional Services	393,379
Materials and Supplies	503,619
Repairs and Maintenance	72,750
Utilities	697,825
Depreciation and Amortization	1,352,167
	1,352,167

Total Operating Expenses	4,885,819
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Operating Income	1,508,055
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NON-OPERATING REVENUES (EXPENSES)

Investment Income	28,886
Interest Expense and Fiscal Charges	(529,463)
	(529,463)

Total Non-Operating Revenues (Expenses)	(500,577)
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Income Before Contributions	1,007,478
-----------------------------	-----------

Contributions from the City of Coachella	337
Contributions to the City of Coachella	(616,461)
	(616,461)

Total Contributions	(616,124)
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Change in Net Position	391,354
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Net Position, Beginning of Year	25,582,328
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Net Position, End of Year	\$ 25,973,682
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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, 2014

Cash Flows from Operating Activities	
Receipts from Customers	\$ 6,468,366
Payments to Suppliers	(2,451,965)
Payments to Employees	(1,030,595)
	<u>2,985,806</u>
Cash Flows from Capital and Related Financing Activities	
Principal Payments	(487,268)
Interest Paid	(534,229)
Contribution to/from the City	(616,124)
Acquisition and Construction of Capital Assets	(27,119)
	<u>(1,664,740)</u>
Cash Flows from Investing Activities	
Investment Income	28,886
	<u>28,886</u>
Net Cash Provided by Investing Activities	<u>28,886</u>
Net Change in Cash and Cash Equivalents	1,350,289
Cash and Cash Equivalents - Beginning of the Year	<u>6,218,196</u>
Cash and Cash Equivalents - End of the Year	<u>\$ 7,568,485</u>
Reconciliation of Operating Income (Loss) to Net Cash	
Provided (Used) by Operating Activities:	
Operating Income	\$ 1,508,055
Adjustments to Reconcile Operating Income to	
Net Cash Provided (Used) by Operating Activities:	
Depreciation and Amortization	1,352,167
Change in Assets and Liabilities:	
Decrease (Increase) in Accounts Receivable	83,175
Increase (Decrease) in Accounts Payable	(26,272)
Increase (Decrease) in Deposits Payable	(8,683)
Increase (Decrease) in Compensated Absences	28,621
Increase (Decrease) in Accrued Wages	18,528
Increase (Decrease) in Net OPEB Obligation	30,215
	<u>30,215</u>
Net Cash Provided By Operating Activities	<u>\$ 2,985,806</u>
Noncash Investing, Capital and Financing Activities	
Amortization of (Premium)/Discount on Bonds	<u>\$ (35,140)</u>

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

Coachella Water Authority
Notes to Financial Statements
Year Ended June 30, 2014

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Coachella Water Authority
Notes to Financial Statements
Year Ended June 30, 2014

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 consist of the following:

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

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

The 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 Governmental 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 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, 2014

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 included 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. Management does not believe that any capital assets are impaired.

Coachella Water Authority
Notes to Financial Statements
Year Ended June 30, 2014

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
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 Authority 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 to 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) 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 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:

Coachella Water Authority
Notes to Financial Statements
Year Ended June 30, 2014

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

L) Net Position – Continued

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.

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 connection fees received and unspent from developers for construction and expansion of the water enterprise.

Unrestricted Net Position – This component of net position consists of items that do not meet the definition of “restricted” or “net investment in capital assets.”

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, 2014 are as follows:

Statement of Net Assets:		
Cash and Investments - LAIF	\$	2,481,007
Petty Cash		525
Restricted:		
Cash and Investments		5,086,953
Total Cash and Investments	\$	7,568,485

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, 2014

3) CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balance</u>
Capital Assets, Not Depreciated:					
Land	\$ 434,853	\$	\$	\$	\$ 434,853
Construction in Progress		7,584			7,584
Total Capital Assets, Not Depreciated	<u>434,853</u>	<u>7,584</u>	<u>-</u>	<u>-</u>	<u>442,437</u>
Capital Assets Being Depreciated:					
Buildings	461,221				461,221
Machinery and Equipment	7,010,656	19,535			7,030,191
Infrastructure	52,253,184				52,253,184
Total Capital Assets Being Depreciated	<u>59,725,061</u>	<u>19,535</u>	<u>-</u>	<u>-</u>	<u>59,744,596</u>
Less Accumulated Depreciation:					
Buildings	(200,124)		(11,531)		(211,655)
Machinery and Equipment	(5,323,550)		(290,644)		(5,614,194)
Infrastructure	(19,393,964)		(1,033,049)		(20,427,013)
Total Accumulated Depreciation	<u>(24,917,638)</u>	<u>-</u>	<u>(1,335,224)</u>	<u>-</u>	<u>(26,252,862)</u>
Total Capital Assets Being Depreciated, Net	<u>34,807,423</u>	<u>19,535</u>	<u>(1,335,224)</u>	<u>-</u>	<u>33,491,734</u>
Business-Type Activities Capital Assets, Net of Depreciation	<u>\$ 35,242,276</u>	<u>\$ 27,119</u>	<u>\$ (1,335,224)</u>	<u>\$ -</u>	<u>\$ 33,934,171</u>

Depreciation expense in the amount of \$1,335,224 is included in the operating expenses.

4) DEFERRED OUTFLOWS OF RESOURCES

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Deferred Amounts From Refunding Of Debt	\$ 209,200	\$	\$ (10,460)	\$ 198,740	\$
Total	<u>\$ 209,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 198,740</u>	<u>\$ -</u>

Coachella Water Authority
Notes to Financial Statements
Year Ended June 30, 2014

5) LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	\$ 137,470	\$ 28,621	\$	\$ 166,091	\$ 83,046
OPEB Obligation	127,926	30,215		158,141	
Deferred Bond Premium	685,223		(35,140)	650,083	
2008 Water Revenue Bonds	4,794,452		(57,128)	4,737,324	59,627
2012 Water Revenue Bonds	10,435,000		(395,000)	10,040,000	405,000
Total	\$ 16,180,071	\$ 58,836	\$ (487,268)	\$ 15,751,639	\$ 547,673

6) COMPENSATED ABSENCES

For the Water Authority, accumulated vacation, sick and administrative leave benefits payable in future years amounted to \$166,091 at June 30, 2014. The City has estimated that \$83,046 will be paid in the next year, and is reflected as a current liability. The City has estimated that \$83,045 will not be paid in the next year and is reflected as a noncurrent liability.

7) BONDS PAYABLE

A) 2012 Water Revenue Bonds

On December 13, 2012, the Coachella Water Authority issued \$10,435,000 Water Revenue Bonds, Series 2012 to current refund the outstanding amount of the 2003 Water Revenue Bonds and to finance on-going capital improvements to the water system. Interest on the bonds is payable February 1 and August 1 of each year. Interest on the bonds accrues at rates varying from 2.00% to 5.00% per annum. Principal on serial and term bonds is payable in annual installments ranging from \$395,000 to \$3,350,000, commencing February 1, 2013 through August 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, 2014, the Authority met the rate covenant as required by the bond indenture.

Coachella Water Authority
Notes to Financial Statements
Year Ended June 30, 2014

A) 2012 Water Revenue Bonds - Continued

The annual requirements to amortize the debt are:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 405,000	\$ 352,525	\$ 757,525
2016	410,000	344,375	754,375
2017	420,000	336,075	756,075
2018	430,000	327,575	757,575
2019	435,000	318,925	753,925
2020-2024	2,370,000	1,409,425	3,779,425
2025-2029	2,825,000	957,463	3,782,463
2030-2033	<u>2,745,000</u>	<u>283,125</u>	<u>3,028,125</u>
Total	<u>\$ 10,040,000</u>	<u>\$ 4,329,488</u>	<u>\$ 14,369,488</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 to July 1, 2048.

The annual requirements to amortize the debt are:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 59,627	\$ 205,954	\$ 265,581
2016	62,236	203,288	265,524
2017	64,959	200,505	265,464
2018	67,801	197,601	265,402
2019	70,767	194,570	265,337
2020-2024	403,074	923,532	1,326,606
2025-2029	499,305	824,196	1,323,501
2030-2034	618,514	702,379	1,320,893
2035-2039	766,183	551,482	1,317,665
2040-2044	949,106	364,559	1,313,665
2045-2049	<u>1,175,752</u>	<u>132,005</u>	<u>1,307,757</u>
Total	<u>\$ 4,737,324</u>	<u>\$ 4,500,071</u>	<u>\$ 9,237,395</u>

Coachella Water Authority
Notes to Financial Statements
Year Ended June 30, 2014

8) 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 the 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 members' 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 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.

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, 2014, the City did not have a liability to the Authority for claims losses.

The Worker's Compensation Insurance Program is a claims servicing pool, a banking pool and an insurance purchasing pool. As an insurance purchasing pool, the program allows participating members to benefit from the economies of scale in securing excess worker's compensation coverage. Coverage is provided from \$250,000 to \$10,000,000 for each accident or employee. The program, as a claims servicing pool maintains separate accounts for each program member from which that member's losses are paid. The worker's compensation insurance program does not provide for a transfer of risk and advance funds to pay member losses in excess of member funds on deposit in the manner of a banking pool. Participant premium deposits are subject to retroactive rating adjustments. At June 30, 2014, the City did not have a liability to the Authority for worker's compensation losses.

C) Commitments and Contingencies

At June 30, 2014, 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.

Coachella Water Authority
Notes to Financial Statements
Year Ended June 30, 2014

9) **POST EMPLOYMENT BENEFITS**

The Authority, through the City, offers post-employment benefits to eligible employees. The Net OPEB Obligation of \$158,141 in the Statement of Net Position 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.



