

INDIO WATER AUTHORITY
Financial Statements
Year ended June 30, 2006
(With Independent Auditors' Report Thereon)

INDIO WATER AUTHORITY

Financial Statements

Year ended June 30, 2006

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City Council
Indio Water Authority
Indio, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of net assets of the Indio Water Authority (the "Authority") (a component unit of the City of Indio) as of June 30, 2006 and the related statement of activities and cash flows for the year then ended. 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. The prior year summarized comparative financial information has been derived from the Authority's 2005 financial statements which were audited by Conrad and Associates, L.L.P., who merged with Mayer Hoffman McCann P.C. as of January 1, 2006, and whose report dated October 6, 2005 expressed an unqualified opinion on the respective financial statements.

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 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 respective financial position of the Indio Water Authority as of June 30, 2006, and the results of its operations and its cash flows 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 our report dated October 13, 2006 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 *management's discussion and analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

Mayer Hoffman McCann P.C.

Irvine, California
October 13, 2006

INDIO WATER AUTHORITY

Statement of Net Assets

June 30, 2006

	2006	2005
Assets:		
Current assets:		
Cash and investments (note 2)	\$ 9,362,344	8,418,361
Cash with fiscal agent (note 2)	5,920,825	6,853,742
Accounts receivable, net	1,269,814	898,047
Interest receivable	16,291	51,062
Prepaid items	196	168
Inventory	221,120	121,292
Total current assets	16,790,590	16,342,672
Noncurrent assets:		
Deferred charges	394,136	411,272
Capital assets (note 3):		
Land	98,528	98,528
Machinery, equipment and vehicles	1,220,134	1,166,605
Utility distribution system	200,272,906	191,791,293
Less accumulated depreciation	(55,849,030)	(52,585,934)
Total capital assets, net	145,742,538	140,470,492
Total noncurrent assets	146,136,674	140,881,764
Total assets	162,927,264	157,224,436
Liabilities:		
Current liabilities:		
Accounts payable	303,017	351,273
Accrued payroll	63,909	34,365
Deposits	296,128	304,024
Interest payable	139,011	139,011
Retentions payable	15,053	2,750
Compensated absences payable - current (note 4)	75,000	75,000
Capital lease obligations - current (notes 4 and 5)	-	86,573
Bonds payable - current (notes 4 and 5)	280,000	270,000
Total current liabilities	1,172,118	1,262,996
Long-term liabilities (notes 4 and 5):		
Compensated absences payable	53,068	29,559
Bonds payable	11,250,000	11,530,000
Total long-term liabilities	11,303,068	11,559,559
Total liabilities	12,475,186	12,822,555
Net Assets:		
Invested in capital assets, net of related debt	140,388,488	135,796,495
Unrestricted	10,063,590	8,605,386
Total net assets	\$ 150,452,078	144,401,881

See accompanying notes to the financial statements.

INDIO WATER AUTHORITY
Statement of Activities
Year ended June 30, 2006

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Water sales	\$ 7,028,594	5,531,076
Meter and service fees	838,958	368,434
Other	<u>314,350</u>	<u>333,255</u>
Total operating revenues	<u>8,181,902</u>	<u>6,232,765</u>
Operating expenses:		
General and administrative	2,111,631	1,515,314
Contractual services	767,165	401,405
Utility	1,387,309	1,103,604
Rentals and leases	1,099,219	1,062,049
Repairs and maintenance	1,258,685	968,011
Materials and supplies	861,768	322,463
Depreciation	3,263,096	3,313,822
Other	<u>5,148</u>	<u>12,166</u>
Total operating expenses	<u>10,754,021</u>	<u>8,698,834</u>
Operating income (loss)	<u>(2,572,119)</u>	<u>(2,466,069)</u>
Nonoperating revenues and expenses:		
Investment income	479,583	295,843
Interest expense	(592,140)	(679,819)
Other	<u>253,260</u>	<u>457,258</u>
Total nonoperating revenues (expenses)	<u>140,703</u>	<u>73,282</u>
Income (loss) before capital contributions	(2,431,416)	(2,392,787)
Capital contributions:		
Contributed assets	<u>8,481,613</u>	<u>2,756,233</u>
Change in net assets	6,050,197	363,446
Net assets at beginning of year	<u>144,401,881</u>	<u>144,038,435</u>
Net assets at end of year	<u>\$ 150,452,078</u>	<u>144,401,881</u>

See accompanying notes to the financial statements.

INDIO WATER AUTHORITY

Statement of Cash Flows

Year ended June 30, 2006

	2006	2005
Cash flows from operating activities:		
Cash received from customers	\$ 7,802,239	6,330,226
Cash paid to employees for services	(2,058,578)	(1,532,085)
Cash paid to suppliers of goods and services	(5,515,103)	(3,702,583)
Net cash provided by (used for) operating activities	228,558	1,095,558
Cash flows from noncapital financing activities:		
Cash received from other governmental agencies	253,260	457,258
Net cash provided by (used for) noncapital financing activities	253,260	457,258
Cash flows from capital and related financing activities:		
Acquisition of property, plant and equipment	(53,529)	(28,186)
Principal payments on capital lease obligations	(86,573)	(83,323)
Issuance of debt	-	12,000,000
Bond issuance costs	-	(411,272)
Interest payments on debt	(575,004)	(540,808)
Principal payments on advances	-	(4,758,719)
Principal payments on bonds	(270,000)	(200,000)
Net cash provided by (used for) capital and related financing activities	(985,106)	5,977,692
Cash flows from investing activities:		
Interest on investments	514,354	269,218
Net cash provided by (used for) investing activities	514,354	269,218
Net increase (decrease) in cash and cash equivalents	11,066	7,799,726
Cash and cash equivalents at beginning of year	15,272,103	7,472,377
Cash and cash equivalents at end of year	\$ 15,283,169	15,272,103

See accompanying notes to the financial statements.

INDIO WATER AUTHORITY

Statement of Cash Flows

(Continued)

	2006	2005
Reconciliation to amounts reported on the Statement of Net Assets:		
Reported on the Statement of Net Assets:		
Cash and investments	\$ 9,362,344	8,418,361
Cash with fiscal agents	5,920,825	6,853,742
Cash and cash equivalents at end of year	\$ 15,283,169	15,272,103
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (2,572,119)	(2,466,069)
Depreciation	3,263,096	3,313,822
Adjustments:		
(Increase) decrease in accounts receivable	(371,767)	94,479
(Increase) decrease in prepaid items	(28)	(168)
(Increase) decrease in inventory	(99,828)	(9,648)
Increase (decrease) in accounts payable	(48,256)	167,283
Increase (decrease) in accrued payroll	29,544	4,766
Increase (decrease) in deposits	(7,896)	12,630
Increase (decrease) in retentions payable	12,303	-
Increase (decrease) in compensated absences	23,509	(21,537)
Net cash provided by (used for) operating activities	\$ 228,558	1,095,558
Noncash capital, financing and investing activities:		
Capital assets contributed	\$ 8,481,613	2,756,233

See accompanying notes to the financial statements.

INDIO WATER AUTHORITY

Notes to Financial Statements

Year ended June 30, 2006

(1) Summary of Significant Accounting Policies

The financial statements of the Indio Water Authority, California (Authority) have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

(a) Reporting Entity

The Indio Water Authority was established on November 1, 2001 to provide water service on behalf of the City of Indio. Since the governing board is comprised of City Council members, as well as, other citizens of the City of Indio, it is reported as a discretely presented component unit of the City of Indio.

(b) Basis of Accounting

The Authority reports its activities as an enterprise fund, which is used to account for operations that are financed and conducted in a manner similar to a private business enterprise, wherein the intent of the Authority is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges and property taxes. An enterprise fund accounted for using the economic resources measurement focus and the accrual basis of accounting. This means that all assets and liabilities (whether current or noncurrent) associated with the activity are included on the statement of net assets. The statement of revenues, expenses and changes in net assets reflects revenues in the accounting period in which they are earned and measurable and expenses are recognized in the period incurred and measurable. For financial reporting purposes, all of the funds of the Authority have been consolidated and all significant interfund accounts and transactions have been eliminated.

(c) Relationship to the City of Indio

The Authority is an integral part of the reporting entity of the City of Indio. The fund of the Authority has been included within the scope of the comprehensive annual report of the City as a discretely presented component unit. The fund of the Authority are included herein and these financial statements, therefore, do not purport to represent the financial position or results of operation of the City of Indio, California

INDIO WATER AUTHORITY

Notes to Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(d) Accounting and Financial Reporting Requirements

The District follows the pronouncements of the Governmental Accounting Standards Board ("GASB") in its accounting and financial reporting. In addition, the District follows the pronouncements of all applicable Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. As allowed under GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting*, the District has elected not to apply pronouncements issued by the FASB after November 30, 1989.

(e) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of June 30, 2006, and revenues and expenses for the year then ended. Actual results may significantly differ from those estimates in the near term.

(f) Capital Assets

Capital assets are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. Generally, capital asset purchases in excess of \$5,000 are capitalized if they have an expected useful life of three years or more.

The following schedule summarizes capital asset useful lives:

Machinery, equipment and vehicles	3-25 years
Utilities distribution system	70 years

Depreciation has been provided using the straight-line method over the estimated useful life of the asset in the financial statements.

(g) Inventories

Inventories consist of water held in reservoirs, water meters, pipe, meter boxes and other materials required to maintain the District's water system. Non-water related inventories are recorded at historical cost.

INDIO WATER AUTHORITY

Notes to Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(h) Compensated Absences

Employees can carry forward, for use in subsequent years, earned but unused vacation and sick leave benefits. Upon termination, the Authority is obligated to compensate employees for all earned but unused vacation days. Upon termination, employees that have provided at least 15 years of service to the Authority are reimbursed for 50% to 75% of earned but unused sick leave benefits.

In accordance with GASB Statement No. 16, a liability is recorded for unused vacation and similar compensatory 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 payments upon termination or retirement.

Under GASB Statement No. 16 a liability is recorded for unused sick leave balances only to the extent that it is probable that the unused balances will result in termination payments. This is estimated by including in the liability the unused balances of employees currently entitled to receive termination payment, as well as those who are expected to become eligible to receive termination benefits as a result of continuing their employment with the Authority. Other amounts of unused sick leave are excluded from the liability since their payment is contingent solely upon the occurrence of a future event (illness), which is outside the control of the Authority and the employee.

(i) Contributed Facilities

In accordance with Governmental Accounting Standards Board Statement No. 33, *Accounting and financial Reporting for Nonexchange Transactions* ("GASB No. 33") and GASB No. 34, the Authority reports facilities contributed by developers at their estimated fair value as a separate component of the statement of revenues, expenses and changes in net assets. The Authority has recognized contributed facilities of \$8,481,613 for the year ended June 30, 2006.

(j) Operating Revenues and Expenses

Operating revenues and expenses represent revenue earned and the related costs incurred to provide water services to Authority customers.

(k) Interest

The Authority incurs interest charges on bonds, notes payable and capital lease obligations. Interest incurred during the year ended June 30, 2006 totaled \$592,140.

INDIO WATER AUTHORITY

Notes to Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(l) Bond Issuance Costs

Bond issuance costs are included as deferred charges on the accompanying statements of net assets and are being amortized over the term of each bond issue by the bonds outstanding method.

(m) Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents also represent the funds share in the City cash and investment pool. Cash equivalents have an original maturity date of three months or less from the date of purchase.

(n) Income Taxes

As a governmental entity, the Agency is exempt from income taxation under provisions of the Internal Revenue Code and related state statutes; accordingly, no provision for income taxes has been provided.

(o) Comparative Data

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations. The prior year data does not represent a complete presentation in accordance with generally accepted accounting principles. Certain minor reclassifications of prior year data have been made in order to enhance their comparability with current year figures.

INDIO WATER AUTHORITY

Notes to Financial Statements

(Continued)

(2) Cash and Investments

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 9,362,344
Cash and investments held by bond trustee	<u>5,920,825</u>
Total cash and investments	<u>\$ 15,283,169</u>

Cash and investments as of June 30, 2006 consist of the following:

Deposits with City's pooled cash	\$ 1,531
Investments	<u>15,281,638</u>
Total cash and investments	<u>\$ 15,283,169</u>

Investments Authorized by the California Government

The Authority has funds that are included as part of the City of Indio's investment portfolio. The funds deposited within the City's investment portfolio are subject to the City of Indio's investment policy. Disclosures regarding the City of Indio's investment portfolio are included in the City's Comprehensive Annual Financial Report.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

INDIO WATER AUTHORITY

Notes to Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Repurchase Agreements	270 days	None	None
Investment Contracts	30 years	None	None

Disclosures Relating to 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 Authority 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.

Information about the sensitivity of the fair values of the Authority's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturing (in Months)</u>			
		<u>1 to 3 Months</u>	<u>4 to 6 Months</u>	<u>7 to 9 Months</u>	<u>10 to 12 Months</u>
City investment pool	\$ 9,360,813	9,360,813	-	-	-
Held by bond trustee:					
Money market funds	<u>5,920,825</u>	<u>5,920,825</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 15,281,638</u>	<u>15,281,638</u>	<u>-</u>	<u>-</u>	<u>-</u>

INDIO WATER AUTHORITY

Notes to Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>	
				<u>AAA</u>	<u>Not Rated</u>
City investment pool	\$ 9,360,813	N/A	-	-	9,360,813
Held by bond trustee:					
Money market funds	<u>5,920,825</u>	AAA	<u>-</u>	<u>5,920,825</u>	<u>-</u>
Total	<u>\$15,281,638</u>		<u>-</u>	<u>5,920,825</u>	<u>9,360,813</u>

Custodial Credit Risk

For investments held by a bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

INDIO WATER AUTHORITY

Notes to Financial Statements

(Continued)

(3) Capital Assets

Capital asset activity for the year ended June 30, 2006 is as follows:

	<u>Balance at June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2006</u>
Machinery, equipment and vehicles	\$ 1,166,605	53,529	-	1,220,134
Utility distribution system	<u>191,791,293</u>	<u>8,481,613</u>	<u>-</u>	<u>200,272,906</u>
Total cost of Depreciable assets	<u>192,957,898</u>	<u>8,535,142</u>	<u>-</u>	<u>201,493,040</u>
Less accumulated depreciation:				
Machinery, equipment and vehicles	(604,205)	(37,493)	-	(641,698)
Utility distribution system	<u>(51,981,729)</u>	<u>(3,225,603)</u>	<u>-</u>	<u>(55,207,332)</u>
Total accumulated depreciation	<u>(52,585,934)</u>	<u>(3,263,096)</u>	<u>-</u>	<u>(55,849,030)</u>
Net depreciable assets	140,371,964	5,272,046	-	145,644,010
Capital assets not depreciated:				
Land	<u>98,528</u>	<u>-</u>	<u>-</u>	<u>98,528</u>
Capital assets, net	<u>\$140,470,492</u>	<u>5,272,046</u>	<u>-</u>	<u>145,742,538</u>

Depreciation expense for the year ended June 30, 2006 is \$3,263,096.

INDIO WATER AUTHORITY

Notes to Financial Statements

(Continued)

(4) Changes in Long-Term Liabilities

Changes in long-term liabilities during the year ended June 30, 2006 were as follows:

	Balance at June 30, 2005	Additions	Retirements	Balance at June 30, 2006	Amount Due Within One Year	Amount Due Beyond One Year
Bonds payable:						
2004 Water Enterprise Revenue Bond	\$11,800,000	-	(270,000)	11,530,000	280,000	11,250,000
Capital lease obligations	86,573	-	(86,573)	-	-	-
Compensated absences	<u>104,559</u>	<u>98,530</u>	<u>(75,021)</u>	<u>128,068</u>	<u>75,000</u>	<u>53,068</u>
Total	<u>\$11,991,132</u>	<u>98,530</u>	<u>(431,594)</u>	<u>11,658,068</u>	<u>355,000</u>	<u>11,303,068</u>

(5) Obligations under Capital Leases

SCADA System – A five-year contract was entered into May 9, 2002 for the purchase of a SCADA System. Annual payments consisting of principal and interest are \$89,949. The remaining principal balance of \$86,573 was paid off in the fiscal year ended June 30, 2006.

The calculation of the principal payment is as follows:

	<u>Scada System</u>
Annual Lease	\$ 89,949
Less amount representing interest	<u>(3,376)</u>
Principal payment	<u>\$ 86,573</u>

INDIO WATER AUTHORITY

Notes to Financial Statements

(Continued)

(6) Water Enterprise Revenue Bond

Enterprise Revenue Bonds, Series 2004

In January 2005, the Indio Water Authority issued \$12,000,000 Enterprise Revenue Bonds Series 2004. The proceeds were used to finance additional facilities of the Water Enterprise and to repay certain obligations of the Authority to the City of Indio.

The 2004 bonds consist of \$5,160,000 of serial bonds and \$6,840,000 of term bonds. The serial bonds accrue interest at rates between 2.00% and 5.00% and the principal amounts mature between April 1, 2005 and April 1, 2019 in amounts ranging from \$200,000 to \$460,000. Term bonds of \$1,515,000 accrue interest at 5.00% and mature on April 1, 2022, and bonds of \$5,325,000 accrue interest at 5.125% and mature on April 1, 2030.

The 2004 term bonds maturing in the years 2022 and 2030 are subject to mandatory sinking account redemption on each April 1, commencing on April 1, 2020 and April 1, 2023, respectively, at a redemption price equal to the principal amount thereof together with accrued interest, without premium.

Per the terms of the bond indenture, the Series 2004 bonds are required to maintain a reserve in the amount of 10% of the original proceeds, 125% of the average annual debt service for that every subsequent bond year, or 10% of the issue price of the bonds held in the Special Escrow Fund. At June 30, 2006, the reserve was fully funded and the outstanding balance of the Series 2004 bonds is \$11,530,000.

The Authority and the City shall fix, prescribe, revise and collect, or cause to be fixed, prescribed, revised and collected, rates, fees and charges for the services and improvements furnished by the Water Enterprise during each fiscal year which are sufficient to yield net revenues for the Water Enterprise, which are at least equal to 125% of the total debt service payments coming due and payable in such fiscal year.

INDIO WATER AUTHORITY

Notes to Financial Statements

(Continued)

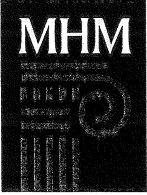
(6) Water Enterprise Revenue Bond, (Continued)

The annual debt service requirements to maturity for bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 280,000	547,944
2008	290,000	539,544
2009	300,000	527,944
2010	315,000	512,944
2011	330,000	497,194
2012	345,000	485,314
2013	355,000	472,204
2014	370,000	458,004
2015	385,000	442,834
2016	400,000	426,471
2017	420,000	409,071
2018	440,000	390,171
2019	460,000	369,931
2020	480,000	348,656
2021	505,000	324,656
2022	530,000	299,406
2023	555,000	272,906
2024	585,000	244,463
2025	615,000	214,481
2026	645,000	182,963
2027	680,000	149,906
2028	710,000	115,056
2029	750,000	78,669
2030	<u>785,000</u>	<u>40,231</u>
Total	<u>\$11,530,000</u>	<u>8,350,963</u>

(7) Defined Benefit Plan

Employees of the Authority are members of the Public Employees' Retirement System (PERS), the cost of which is paid by the Authority. The Authority's accounts with PERS are merged with those of the City of Indio and its employees, and it is not practical to attempt splitting the two for disclosure purposes within this report. For further details regarding actuarial assumptions etc., refer to the City of Indio's Comprehensive Annual Financial Report.



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To the City Council
City of Indio, California

**REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the financial statements of the Indio Water Authority (the "Authority") (a component unit of the City of Indio) as of and for the year ended June 30, 2006, and have issued our report thereon dated October 13, 2006. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving internal control over financial reporting that we have reported to management of the City of Indio in a separate letter dated October 13, 2006.

This report is intended solely for the information and use of the Authority's management and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
October 13, 2006