

INDIO WATER AUTHORITY

Financial Statements

Year Ended June 30, 2007

(With Independent Auditors' Report Thereon)

INDIO WATER AUTHORITY

Financial Statements

Year Ended June 30, 2007

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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, 2007 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 partial comparative information has been derived from the financial statements of the Indio Water Authority for the year ended June 30, 2006 and, in our report dated October 13, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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, 2007, 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 December 14, 2007 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
December 14, 2007

INDIO WATER AUTHORITY

Statement of Net Assets

June 30, 2007

	2007	2006
Assets:		
Current assets:		
Cash and investments (note 2)	\$ 11,882,932	9,362,344
Cash with fiscal agent (note 2)	52,838,097	5,920,825
Accounts receivable, net	1,685,263	1,269,814
Interest receivable	65,462	16,291
Prepaid items	-	196
Inventory	322,205	221,120
Total current assets	66,793,959	16,790,590
Noncurrent assets:		
Deferred charges	945,277	394,136
Capital assets (note 3):		
Land	255,617	98,528
Machinery and equipment	657,845	593,653
Vehicles	1,122,541	626,481
Utility distribution system	221,955,872	200,272,906
Construction in progress	3,982,375	-
Less accumulated depreciation	(59,538,769)	(55,849,030)
Total capital assets, net	168,435,481	145,742,538
Total noncurrent assets	169,380,758	146,136,674
Total assets	236,174,717	162,927,264
Liabilities:		
Current liabilities:		
Accounts payable	2,776,592	303,017
Accrued payroll	86,980	63,909
Deposits	256,390	296,128
Interest payable	735,734	139,011
Retentions payable	211,716	15,053
Long-term liabilities, current portion (notes 4 and 5)	141,677	355,000
Total current liabilities	4,209,089	1,172,118
Noncurrent liabilities		
Long-term liabilities, current portion (notes 4 and 5)	63,392,197	11,303,068
Total liabilities	67,601,286	12,475,186
Net Assets:		
Invested in capital assets, net of related debt	158,126,554	140,388,488
Unrestricted	10,446,877	10,063,590
Total net assets	\$ 168,573,431	150,452,078

See accompanying notes to the financial statements.

INDIO WATER AUTHORITY
Statement of Activities
Year Ended June 30, 2007

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Water sales	\$ 9,847,202	7,028,594
Meter and service fees	321,075	838,958
Other	<u>274,191</u>	<u>314,350</u>
Total operating revenues	<u>10,442,468</u>	<u>8,181,902</u>
Operating expenses:		
General and administrative	2,909,663	2,111,631
Contractual services	940,280	767,165
Utility	1,888,162	1,387,309
Rentals and leases	1,235,647	1,099,219
Repairs and maintenance	3,020,028	1,258,685
Materials and supplies	454,726	861,768
Depreciation	3,689,739	3,263,096
Other	<u>-</u>	<u>5,148</u>
Total operating expenses	<u>14,138,245</u>	<u>10,754,021</u>
Operating income (loss)	<u>(3,695,777)</u>	<u>(2,572,119)</u>
Nonoperating revenues and expenses:		
Investment income	2,174,123	479,583
Interest expense	(2,314,469)	(592,140)
Other	<u>268,409</u>	<u>253,260</u>
Total nonoperating revenues (expenses)	<u>128,063</u>	<u>140,703</u>
Income (loss) before capital contributions	(3,567,714)	(2,431,416)
Capital contributions:		
Contributed assets	<u>21,689,067</u>	<u>8,481,613</u>
Change in net assets	18,121,353	6,050,197
Net assets at beginning of year	<u>150,452,078</u>	<u>144,401,881</u>
Net assets at end of year	<u>\$ 168,573,431</u>	<u>150,452,078</u>

See accompanying notes to the financial statements.

INDIO WATER AUTHORITY

Statement of Cash Flows

Year Ended June 30, 2007

	2007	2006
Cash flows from operating activities:		
Cash received from customers	\$ 9,987,281	7,802,239
Cash paid to employees for services	(2,837,352)	(2,058,578)
Cash paid to suppliers of goods and services	(4,969,494)	(5,515,103)
Miscellaneous receipts	268,409	268,250
Net cash provided by (used for) operating activities	2,448,844	496,808
Cash flows from capital and related financing activities:		
Acquisition of property, plant and equipment	(4,693,615)	(53,529)
Principal payments on capital lease obligations	-	(86,573)
Issuance of debt	63,356,566	-
Bond issuance costs	(551,141)	17,136
Interest payments on debt	(1,717,746)	(607,130)
Principal payments on bonds	(11,530,000)	(270,000)
Net cash provided by (used for) capital and related financing activities	44,864,064	(1,000,096)
Cash flows from investing activities:		
Interest on investments	2,124,952	514,354
Net cash provided by (used for) investing activities	2,124,952	514,354
Net increase (decrease) in cash and cash equivalents	49,437,860	11,066
Cash and cash equivalents at beginning of year	15,283,169	15,272,103
Cash and cash equivalents at end of year	\$64,721,029	15,283,169
<u>Non-cash Capital and Investing Activities:</u>		
Contributed assets	\$21,689,067	8,481,613

See accompanying notes to the financial statements.

INDIO WATER AUTHORITY

Statement of Cash Flows

(Continued)

	2007	2006
Reconciliation to amounts reported on the Statement of Net Assets:		
Reported on the Statement of Net Assets:		
Cash and investments	\$11,882,932	9,362,344
Cash with fiscal agents	<u>52,838,097</u>	<u>5,920,825</u>
Cash and cash equivalents at end of year	<u>\$64,721,029</u>	<u>15,283,169</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (3,695,777)	(2,572,119)
Depreciation	3,689,739	3,263,096
Miscellaneous nonoperating income	268,409	268,250
Adjustments:		
(Increase) decrease in accounts receivable	(415,449)	(371,767)
(Increase) decrease in prepaid items	196	(28)
(Increase) decrease in inventory	(101,085)	(99,828)
Increase (decrease) in accounts payable	2,473,575	(48,256)
Increase (decrease) in accrued payroll	23,071	29,544
Increase (decrease) in deposits	(39,738)	(7,896)
Increase (decrease) in retentions payable	196,663	12,303
Increase (decrease) in compensated absences	<u>49,240</u>	<u>23,509</u>
Net cash provided by (used for) operating activities	<u>\$ 2,448,844</u>	<u>496,808</u>
Noncash capital, financing and investing activities:		
Capital assets contributed	<u>\$21,689,067</u>	<u>8,481,613</u>

See accompanying notes to the financial statements.

INDIO WATER AUTHORITY

Notes to Financial Statements

Year Ended June 30, 2007

(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 mostly of City Council members, as well as, other citizens of the City of Indio, it is reported as a blended 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 blended 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

Year Ended June 30, 2007

(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, 2007, 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 \$1,000 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 and sewer system. Non-water related inventories are recorded at historical cost.

INDIO WATER AUTHORITY

Notes to Financial Statements

Year Ended June 30, 2007

(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 \$21,689,067 for the year ended June 30, 2007.

(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, 2007 totaled \$2,314,469.

INDIO WATER AUTHORITY

Notes to Financial Statements

Year Ended June 30, 2007

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

(l) Deferred Charges

Bond premiums, discounts and issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which materially approximates the effective interest method. Bond premiums and discounts are presented as a reduction of the face amount of the bonds payable whereas issuance costs are recorded as an asset, unamortized debt issuance costs.

(m) Unamortized Loss on Refunding

Loss on refunding debt is deferred and amortized over the shorter of the term of the new debt or the refunded debt using the straight-line method, which materially approximates that effective interest method. Unamortized loss on refunding is presented as a reduction of the face amount of the bonds payable.

(n) 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.

(o) 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.

(p) 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

Year Ended June 30, 2007

(2) Cash and Investments

Cash and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 11,882,932
Cash and investments held by bond trustee	<u>52,838,097</u>
Total cash and investments	<u>\$ 64,741,029</u>

Cash and investments as of June 30, 2007 consist of the following:

Investments	<u>\$ 64,741,029</u>
Total cash and investments	<u>\$ 64,741,029</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

Year Ended June 30, 2007

(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	\$ 7,879,524	7,879,524	-	-	-
State Investment Pool	4,003,408	-	4,003,408	-	-
Held by bond trustee:					
Money market funds	<u>52,838,097</u>	<u>52,838,097</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 64,741,029</u>	<u>60,737,621</u>	<u>4,003,408</u>	<u>-</u>	<u>-</u>

INDIO WATER AUTHORITY

Notes to Financial Statements

Year Ended June 30, 2007

(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	\$ 7,879,524	N/A	-	-	7,879,524
State Investment Pool	4,003,408	N/A	-	-	4,003,408
Held by bond trustee:					
Money market funds	<u>52,838,097</u>	AAA	<u>-</u>	<u>52,838,097</u>	<u>-</u>
Total	<u>\$64,741,029</u>		<u>-</u>	<u>52,838,097</u>	<u>11,882,932</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.

Investment in State Investment Pool

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

INDIO WATER AUTHORITY

Notes to Financial Statements

Year Ended June 30, 2007

(3) Capital Assets

Capital asset activity for the year ended June 30, 2007 is as follows:

	Balance at June 30, 2006	Additions	Deletions	Balance at June 30, 2007
Machinery and equipment	\$ 593,653	64,192	-	657,845
Vehicles	626,481	496,060	-	1,122,541
Utility distribution system	<u>200,272,906</u>	<u>21,682,966</u>	<u>-</u>	<u>221,955,872</u>
Total cost of depreciable assets	<u>201,493,040</u>	<u>22,243,218</u>	<u>-</u>	<u>223,736,258</u>
Less accumulated depreciation:				
Machinery and equipment	198,760	55,912	-	254,672
Vehicles	442,938	83,514	-	526,452
Utility distribution system	<u>55,207,332</u>	<u>3,550,313</u>	<u>-</u>	<u>58,757,645</u>
Total accumulated depreciation	<u>55,849,030</u>	<u>3,689,739</u>	<u>-</u>	<u>59,538,769</u>
Net depreciable assets	145,644,010	18,553,479	-	164,197,489
Capital assets not depreciated:				
Land	98,528	157,089	-	255,617
Construction in progress	<u>-</u>	<u>3,982,375</u>	<u>-</u>	<u>3,982,375</u>
Capital assets, net	<u>\$ 145,742,538</u>	<u>22,692,943</u>	<u>-</u>	<u>168,435,481</u>

Depreciation expense was charged in the following function in the Statement of Activities:

Water	<u>\$3,689,739</u>
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INDIO WATER AUTHORITY

Notes to Financial Statements

Year Ended June 30, 2007

(4) Changes in Long-Term Liabilities

Changes in long-term liabilities during the year ended June 30, 2007 were as follows:

	Balance at June 30, 2006	Additions	Retirements	Balance at June 30, 2007	Amount Due Within One Year	Amount Due Beyond One Year
Bonds payable:						
2004 Water Enterprise Revenue Bond	\$11,530,000	-	(11,530,000)	-	-	-
2006 Water Revenue Bonds	<u>-</u>	<u>61,795,000</u>	<u>-</u>	<u>61,795,000</u>	<u>-</u>	<u>61,795,000</u>
Subtotal	<u>11,530,000</u>	<u>61,795,000</u>	<u>(11,530,000)</u>	<u>61,795,000</u>	<u>-</u>	<u>61,795,000</u>
Unamortized loss on refunding	-	(923,084)	18,462	(904,622)	(36,923)	(867,699)
Premium on bonds	<u>-</u>	<u>2,507,988</u>	<u>(41,800)</u>	<u>2,466,188</u>	<u>83,600</u>	<u>2,382,588</u>
Subtotal	<u>-</u>	<u>1,584,904</u>	<u>(23,338)</u>	<u>1,561,566</u>	<u>46,677</u>	<u>1,514,889</u>
Subtotal	<u>11,530,000</u>	<u>63,379,904</u>	<u>(11,553,338)</u>	<u>63,356,566</u>	<u>46,677</u>	<u>63,309,889</u>
Compensated absences	<u>128,068</u>	<u>144,917</u>	<u>(95,677)</u>	<u>177,308</u>	<u>95,000</u>	<u>82,308</u>
Total	<u>\$11,658,068</u>	<u>63,524,821</u>	<u>(11,649,015)</u>	<u>63,533,874</u>	<u>141,677</u>	<u>63,392,197</u>

(5) Revenue Bonds

Water Revenue Bonds, Series 2006

In October 2006, the Indio Water Authority issued \$61,795,000 Water Revenue Bonds Series 2006. The proceeds will be used to acquire and construct certain facilities for and improvements to the Water Enterprise and to advance refund the Enterprise Revenue Bonds, Series 2004.

The 2006 bonds consist of \$29,650,000 of serial bonds and \$32,145,000 of term bonds. The serial bonds accrue interest at rates between 4.00% and 5.00% and the principal amounts mature between April 1, 2010 and April 1, 2026 in amounts ranging from \$1,225,000 to \$2,450,000. Term bonds of \$14,125,000 accrue interest at 5.00% and mature on April 1, 2031, and bonds of \$18,020,000 accrue interest at 5.00% and mature on April 1, 2036.

The 2006 term bonds maturing in the years 2031 and 2036 are subject to mandatory sinking account redemption on each April 1, commencing on April 1, 2027 and April 1, 2032, respectively, at a redemption price equal to the principal amount thereof together with accrued interest, without premium.

INDIO WATER AUTHORITY

Notes to Financial Statements

Year Ended June 30, 2007

(5) Water Enterprise Revenue Bond

Enterprise Revenue Bonds, Series 2006. (Continued)

Per the terms of the bond indenture, the Series 2006 bonds are required to maintain a reserve in the amount of 10% of the original proceeds, 125% of the average annual debt service for then current or every subsequent bond year, or 100% of the maximum annual debt service for the current or every subsequent bond year. At June 30, 2007, the reserve was fully funded and the outstanding balance of the Series 2006 bonds was \$61,795,000.

The Authority and the City shall fix, prescribe, revise and collect rates, fees and charges for the services and improvements furnished by the Water Enterprise during each year which are sufficient to yield net revenues for the Water Enterprise, which are at least equal to 120% of the total debt service payments coming due and payable in the next fiscal year.

A portion of the net proceeds of the Enterprise Revenue Bonds, Series 2006 bonds totaling \$11,040,192, plus an additional \$1,018,755 of the Enterprise Revenue Bonds, Series 2004 sinking fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Enterprise Revenue Bonds, Series 2004 bonds. As a result, the Enterprise Revenue Bonds, Series 2004 bonds are considered defeased and the liability for those bonds has been removed from the statement of net assets of the Water enterprise fund.

The advanced refunding resulted in an economic loss (difference between the present value of the debt service payments on the old and new debt) of \$28,820 and a reduction of total debt service payments of \$1,069,484.

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

Year Ending June 30	Principal	Interest	Total
2008	\$ -	2,942,938	2,942,938
2009	-	2,942,938	2,942,938
2010	1,225,000	2,942,938	4,167,938
2011	1,280,000	2,893,937	4,173,937
2012	1,320,000	2,842,738	4,162,738
2013-2017	7,415,000	13,365,587	20,780,587
2018-2022	9,245,000	11,575,713	20,820,713
2023-2027	11,720,000	9,094,624	20,814,624
2028-2032	14,830,000	5,986,250	20,816,250
2033-2036	<u>14,760,000</u>	<u>1,890,000</u>	<u>16,650,000</u>
Total	<u>\$61,795,000</u>	<u>56,477,663</u>	<u>118,272,663</u>

INDIO WATER AUTHORITY

Notes to Financial Statements

Year Ended June 30, 2007

(6) 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.