

**INDIO WATER AUTHORITY**  
**BASIC FINANCIAL STATEMENTS**  
**June 30, 2012**

**INDIO WATER AUTHORITY  
JUNE 30, 2012**

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## **Independent Auditor's Report**

The Board of Directors  
of the Indio Water Authority  
Indio, California

We have audited the accompanying basic financial statements of the Indio Water Authority (Authority), a component unit of the City of Indio, as of and for the fiscal year ended June 30, 2012, as 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Indio Water Authority as of June 30, 2012, and the respective changes in financial position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 of the notes to the basic financial statements, effective July 1, 2011, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2012 on our consideration of the Authority's internal control over financial reporting and 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.

Management has not presented the management's discussion and analysis (MD&A) that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*Moss, Levy & Hartzheim*

Moss, Levy & Hartzheim, LLP  
Culver City, California  
December 26, 2012

INDIO WATER AUTHORITY  
Statement of Net Assets  
June 30, 2012  
(With Comparative Totals as of June 30, 2011)

	2012	2011
<b>Assets:</b>		
<b>Current Assets:</b>		
Cash and investments	\$ 8,312,810	\$ 9,706,423
Cash and investments with fiscal agents	1,027,349	2,102,852
Accounts receivable, net	2,563,746	2,834,309
Interest receivable	5,398	5,574
Prepaid items	225,096	245,123
Inventory	172,229	172,816
<b>Total current assets</b>	<b>12,306,628</b>	<b>15,067,097</b>
<b>Noncurrent assets:</b>		
Deferred charges	783,811	816,105
<b>Capital assets:</b>		
Land	1,703,010	1,703,010
Structures and improvements	14,831,295	14,831,295
Machinery and equipment	2,184,775	2,128,414
Vehicles	1,425,368	1,273,511
Utility distribution system	273,778,197	273,643,654
Construction in progress	2,219,683	2,135,435
Less accumulated depreciation	(91,811,813)	(84,304,752)
<b>Total capital assets, net</b>	<b>204,330,515</b>	<b>211,410,567</b>
<b>Total noncurrent assets</b>	<b>205,114,326</b>	<b>212,226,672</b>
<b>Total assets</b>	<b>217,420,954</b>	<b>227,293,769</b>
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Accounts payable	546,762	1,584,206
Accrued payroll	193,413	173,734
Deposits	297,212	244,962
Interest payable	685,239	699,034
Retentions payable	5,902	37,214
Long-term liabilities, current portion	1,609,448	1,372,831
<b>Total current liabilities</b>	<b>3,337,976</b>	<b>4,111,981</b>
<b>Noncurrent liabilities:</b>		
Long-term liabilities	57,916,905	59,470,842
<b>Total liabilities</b>	<b>61,254,881</b>	<b>63,582,823</b>
<b>Net Assets:</b>		
Investment in capital assets, net of related debt	145,846,915	154,223,415
Unrestricted	10,319,158	9,487,531
<b>Total net assets</b>	<b>\$ 156,166,073</b>	<b>\$ 163,710,946</b>

See accompanying notes to basic financial statements

INDIO WATER AUTHORITY  
Statement of Activities  
Fiscal Year Ended June 30, 2012  
(With Comparative Totals for Fiscal Year Ended June 30, 2011)

	2012	2011
Operating revenues:		
Water sales	\$ 15,081,470	\$ 14,630,805
Meter and service fees	208,464	206,443
Other	917,024	740,496
Total operating revenues	16,206,958	15,577,744
Operating expenses:		
Personnel Services	4,376,545	3,879,396
Contractual services	1,923,971	1,761,495
Utility	1,518,184	1,743,895
Rentals and leases	3,310,353	1,274,021
Repairs and maintenance	1,995,213	1,320,666
Materials and supplies	678,611	1,075,680
Depreciation	7,507,061	7,011,262
Bad debt		425,000
Total operating expenses	21,309,938	18,491,415
Operating income (loss)	(5,102,980)	(2,913,671)
Nonoperating revenues and expenses:		
Investment income	61,503	136,117
Interest expense	(2,815,525)	(3,218,500)
Other	399,379	302,607
Total nonoperating revenues (expenses)	(2,354,643)	(2,779,776)
Income (loss) before capital contributions	(7,457,623)	(5,693,447)
Capital contributions:		
Contributed assets		1,905,763
Net income (loss) before transfers	(7,457,623)	(3,787,684)
Transfers to the City of Indio, net	(87,250)	(46,000)
Change in net assets	(7,544,873)	(3,833,684)
Net assets at beginning of fiscal year	163,710,946	167,672,713
Prior period adjustments		(128,083)
Net assets at beginning of fiscal year, restated	163,710,946	167,544,630
Net assets at end of fiscal year	\$ 156,166,073	\$ 163,710,946

See accompanying notes to basic financial statements

INDIO WATER AUTHORITY  
STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2012  
(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Receipts from customers and others	\$ 16,529,772	\$ 14,399,726
Cash paid to employees for services	(4,301,355)	(3,811,014)
Cash paid to suppliers for goods and services	(10,474,474)	(8,274,580)
Miscellaneous receipts	399,379	302,607
Net cash provided (used) by operating activities	<u>2,153,322</u>	<u>2,314,132</u>
Cash flows from noncapital and related financing activities:		
Transfers to the City of Indio	(87,250)	(46,000)
Net cash provided (used) in noncapital financing activities	<u>(87,250)</u>	<u>256,607</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(427,009)	(4,649,351)
Principal payments on long-term debt	(1,320,000)	(1,280,000)
Interest paid on long-term debt	(2,849,858)	(2,901,746)
Net cash provided (used) in capital and related financing activities	<u>(4,596,867)</u>	<u>(8,831,097)</u>
Cash flows from investing activities:		
Interest and investment revenue	61,679	134,342
Net cash provided by investing activities	<u>61,679</u>	<u>134,342</u>
Net increase (decrease) in cash and cash equivalents	(2,469,116)	(6,126,016)
Cash and cash equivalents, beginning of fiscal year	<u>11,809,275</u>	<u>17,935,291</u>
Cash and cash equivalents, end of fiscal year	<u>\$ 9,340,159</u>	<u>\$ 11,809,275</u>
Reconciliation of cash and cash equivalents to amounts reported on the statement of net assets:		
Reported on the Statement of Net Assets:		
Cash and investments	\$ 8,312,810	\$ 9,706,423
Cash and investments with fiscal agents	1,027,349	2,102,852
Cash and cash equivalents - June 30, 2012	<u>\$ 9,340,159</u>	<u>\$ 11,809,275</u>
Reconciliation of operating income (loss) to net cash provided by operations:		
Operating income (loss)	\$ (5,102,980)	\$ (2,913,671)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	7,507,061	7,011,262
Miscellaneous income (expense)	399,379	302,607
Decrease (increase) in accounts receivable	270,563	(712,935)
Decrease (increase) in prepaid expenses	20,027	(245,123)
Decrease (increase) in inventory	587	(80,010)
Increase (decrease) in accounts payable	(1,037,444)	(596,474)
Increase (decrease) in accrued payroll	19,679	30,726
Increase (decrease) in deposits payable	52,251	(40,083)
Increase (decrease) in retentions payable	(31,312)	(177,216)
Increase (decrease) in compensated absences	55,511	37,656
Total adjustments	<u>7,256,302</u>	<u>5,227,803</u>
Net Cash Provided by Operating Activities	<u>\$ 2,153,322</u>	<u>\$ 2,314,132</u>

See accompanying notes to basic financial statements

**NOTES TO BASIC FINANCIAL STATEMENTS**

INDIO WATER AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012

**Note 1    Summary of Significant Accounting Policies**

The financial statements of the Indio Water Authority, California (Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America (USGAAP) 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 is 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 expenses are recognized in the period incurred. 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 is 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.

(d) Accounting and Financial Reporting Requirements

The Authority follows the pronouncements of the Governmental Accounting Standards Board (GASB) in its accounting and financial reporting. In addition, the Authority 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 Authority has elected not to apply pronouncements issued by the FASB after November 30, 1989.

INDIO WATER AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012

**Note 1 Summary of Significant Accounting Policies (Continued)**

(e) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of June 30, 2012, and revenues and expenses for the fiscal year then ended. Actual results may significantly differ from those estimates.

(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 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	3-20 years
Utility distribution system	70 years

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

(g) Inventories

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

(h) Compensated Absences

Employees hired prior to 1991 carry forward, for use in subsequent years, earned but unused vacation and sick leave benefits. Upon termination, the City is obligated to compensate those employees for all earned but unused vacation days and 50% to 100% of earned but unused sick leave benefits depending on their date of hire.

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 attributable to services being 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 the unused balances of employees currently entitled to receive termination payments, 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 payments are contingent solely upon the occurrence of a future event (illness), which is outside the control of the Authority and employees.

INDIO WATER AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012

**Note 1 Summary of Significant Accounting Policies (Continued)**

(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.

(j) Operating Revenues and Expenses

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

(K) Interest

The Authority incurs interest charges on bonds, notes payable, and capital lease obligations. Interest incurred during the fiscal year ended June 30, 2012 totaled \$2,815,525.

(l) Deferred Charges

Bond premiums, discounts and issuance costs are deferred and amortized over the term of the bonds by using the straight-line method, which 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, deferred charges.

(m) Unamortized Loss on Refunding

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

(n) Income Taxes

As a governmental entity, the Authority 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) 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.

INDIO WATER AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012

**Note 1 Summary of Significant Accounting Policies (Continued)**

(p) Comparative Data

Comparative total data from the prior fiscal year has 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 fiscal year data does not represent a complete presentation in accordance with accounting principles generally accepted in the United States of America. Certain minor reclassifications of prior fiscal year data have been made in order to enhance their comparability with current year figures.

(q) New Accounting Pronouncement

*Governmental Accounting Standards Board Statement No. 64*

For the fiscal year ended June 30, 2012, the Authority implemented GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment GASB Statement No. 53". The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement set forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this Statement did not have an effect on these financial statements.

**Note 2 Cash and Investments**

Cash and investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

Statement of net assets:

Cash and investments	\$ 8,312,810
Cash and investments held by fiscal agents	1,027,349
	<u>\$ 9,340,159</u>

Cash and investments as of June 30, 2012 consist of the following:

Petty Cash	\$ 1,500
Cash and investments	9,338,659
	<u>\$ 9,340,159</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.

INDIO WATER AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012

**Note 2 Cash and Investments (Continued)**

Investments Authorized by Debt Agreements

Investment of debt proceeds held by fiscal agents is governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority'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.

Investment Types <u>Authorized by State Law</u>	Authorized by Investment Policy	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds	No	5 years	None	None
U.S. Treasury Obligations	Yes	2 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	5%
Commercial Paper	Yes	270 days	25%	10%
Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	No	5 years	30%	5%
Mutual Funds	No	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	No	5 years	20%	None
County Pooled Investment Funds	No	N/A	None	None
Local Agency Investment Fund	Yes	N/A	None	None
JPA Pools (other investment pools)	No	N/A	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates and 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 fiscal agents) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

INDIO WATER AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012

**Note 2 Cash and Investments (Continued)**

Disclosures Relating to Interest Rate Risk (Continued)

<u>Investment Type</u>	<u>Total</u>	<u>12 Months or Less</u>	<u>13 to 36 Months</u>	<u>36 to 60 Months</u>	<u>More than 60 Months</u>
City investment pool	\$ 4,830,546	\$ 4,830,546	\$ -	\$ -	\$ -
State investment pool	3,480,764	3,480,764			
Held by fiscal agents:					
Money market funds	<u>1,027,349</u>	<u>1,027,349</u>			
<b>Total</b>	<u>\$ 9,338,659</u>	<u>\$ 9,338,659</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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 fiscal year-end for each investment type.

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal</u>	<u>Exempt</u>	<u>Rating as of Year End</u>	
				<u>AAA</u>	<u>Not Rated</u>
City investment pool	\$ 4,830,546	NA	\$ -	\$ -	\$ 4,830,546
State investment pool	3,480,764	NA			3,480,764
Held by bond trustee:					
Money market funds	<u>1,027,349</u>	<u>AAA</u>		<u>1,027,349</u>	
<b>Total</b>	<u>\$ 9,338,659</u>		<u>\$ -</u>	<u>\$ 1,027,349</u>	<u>\$ 8,311,310</u>

Custodial Credit Risk

For investments held by fiscal agents, the fiscal agents select 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 is recorded on an amortized cost basis.

INDIO WATER AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012

**Note 3 Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2012 is as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Structures and improvements	\$ 14,831,295	\$ -	\$ -	\$ 14,831,295
Machinery and Equipment	2,128,414	56,361		2,184,775
Vehicles	1,273,511	151,857		1,425,368
Utility distribution system	273,643,654	134,543		273,778,197
<b>Total cost of depreciable assets</b>	<b>291,876,874</b>	<b>342,761</b>		<b>292,219,635</b>
Less accumulated depreciation:				
Structures and improvements	185,391	370,783		556,174
Machinery and Equipment	748,771	180,488		929,259
Vehicles	857,721	113,018		970,739
Utility distribution system	82,512,869	6,842,772		89,355,641
<b>Total accumulated depreciation</b>	<b>84,304,752</b>	<b>7,507,061</b>		<b>91,811,813</b>
<b>Net depreciable assets</b>	<b>207,572,122</b>	<b>(7,164,300)</b>		<b>200,407,822</b>
Capital assets not depreciated:				
Construction in progress	2,135,435	84,248		2,219,683
Land	1,703,010			1,703,010
<b>Capital assets, net</b>	<b>\$ 211,410,567</b>	<b>\$ (7,080,052)</b>	<b>\$ -</b>	<b>\$ 204,330,515</b>

**Note 4 Long Term Liabilities**

Changes in long-term liabilities during the fiscal year ended June 30, 2012 were as follows:

	Balance at July 1, 2011	Additions	Deletions	Balance at June 30, 2012	Amount Due Within One Year	Amount Due Beyond One Year
Bonds payable:						
2006 Water Revenue						
Bonds	\$ 59,290,000	\$ -	\$ (1,320,000)	\$ 57,970,000	\$ 1,365,000	\$ 56,605,000
Unamortized loss on refunding	(781,546)	30,769		(750,777)	(30,769)	(720,008)
Premium on bonds	2,131,788		(83,600)	2,048,188	83,600	1,964,588
<b>Subtotal</b>	<b>60,640,242</b>	<b>30,769</b>	<b>(1,403,600)</b>	<b>59,267,411</b>	<b>1,417,831</b>	<b>57,849,580</b>
Compensated absences	203,431	213,281	(157,770)	258,942	191,617	67,325
<b>Total</b>	<b>\$ 60,843,673</b>	<b>\$ 244,050</b>	<b>\$ (1,561,370)</b>	<b>\$ 59,526,353</b>	<b>\$ 1,609,448</b>	<b>\$ 57,916,905</b>

INDIO WATER AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012

**Note 4 Long Term Liabilities (Continued)**

**Water Revenue Bonds, Series 2006**

In October 2006, the Indio Water Authority issued \$61,795,000 of 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.

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, 2012, the reserve was fully funded and the outstanding balance of the Series 2006 bonds was \$57,970,000.

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 Water 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. As a result, the Enterprise Revenue Bonds, Series 2004 are considered defeased and the liability for those bonds has been removed from the statement of net assets of the Water enterprise fund.

INDIO WATER AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
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**Note 4 Long Term Liabilities (Continued)**

The annual debt service requirements to maturity for the 2006 water bonds are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 1,365,000	\$ 2,786,637	\$ 4,151,637
2014	1,400,000	2,732,038	4,132,038
2015	1,490,000	2,676,037	4,166,037
2016	1,550,000	2,616,437	4,166,437
2017	1,610,000	2,554,437	4,164,437
2018-2022	9,245,000	11,575,715	20,820,715
2023-2027	11,720,000	9,094,628	20,814,628
2028-2032	14,830,000	5,986,250	20,816,250
2033-2036	14,760,000	1,890,000	16,650,000
	<u>\$ 57,970,000</u>	<u>\$ 41,912,179</u>	<u>\$ 99,882,179</u>

**Note 5 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.

**Note 6 Commitments and Contingencies**

In the normal course of operations, the City has been subjected to certain routine litigation matters which are relevant to the Authority. The ultimate outcome of these lawsuits is not presently determinable; however, in the opinion of management, the amount of losses that might be sustained, if any, would not materially affect the financial position of the Authority.

**Note 7 Management's Review**

Management has evaluated subsequent events through the date the financial statements were available for issuance which is December 26, 2012.