

INDIO WATER AUTHORITY
BASIC FINANCIAL STATEMENTS
June 30, 2013

INDIO WATER AUTHORITY
JUNE 30, 2013

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying 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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Indio Water Authority, a component unit of the City of Indio, California, as of June 30, 2013, and the changes in financial position and cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

As discussed in Note 1 of the notes to the financial statements, effective July 1, 2012, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, Statement No. 61, *The Financial Report Entity: Omnibus*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Other Matters

Required Supplementary Information

Management has omitted 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2013 on our consideration of the Indio Water Authority, a component unit of the City of Indio, California'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 do not provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Indio Water Authority, a component unit of the City of Indio, California's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Indio Water Authority's June 30, 2012 financial statements, and our audit report dated December 26, 2012 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Moss, Levy & Hartzheim, LLP
Culver City, California
December 27, 2013

INDIO WATER AUTHORITY
STATEMENT OF NET POSITION
Fiscal Year Ended June 30, 2013
(With Comparative Totals for the Fiscal Year Ended June 30, 2012)

	2013	2012
Assets:		
Current Assets:		
Cash and investments	\$ 8,961,749	\$ 8,312,810
Cash and investments with fiscal agents	566,806	1,027,349
Accounts receivable, net	2,007,866	2,563,746
Interest receivable	3,423	5,398
Prepaid items	251,514	225,096
Inventory	130,234	172,229
Total current assets	11,921,592	12,306,628
Noncurrent assets:		
Deferred charges	751,518	783,811
Capital assets:		
Non-depreciable:		
Land	1,703,010	1,703,010
Construction in progress	484,989	2,219,683
Depreciable, net:		
Structures and improvements	13,961,703	14,275,121
Machinery and equipment	1,492,950	1,255,517
Vehicles	332,677	454,629
Utility distribution system	181,104,673	184,422,555
Total capital assets	199,080,002	204,330,515
Total noncurrent assets	199,831,520	205,114,326
Total assets	211,753,112	217,420,954
Liabilities:		
Current liabilities:		
Accounts payable	554,204	546,762
Accrued payroll	216,606	193,413
Deposits	339,814	297,212
Interest payable	671,813	685,239
Retentions payable	3,990	5,902
Long-term liabilities, current portion	1,652,340	1,609,448
Total current liabilities	3,438,767	3,337,976
Noncurrent liabilities:		
Long-term liabilities	56,466,847	57,916,905
Total liabilities	59,905,614	61,254,881
Net Position:		
Net investment in capital assets	142,548,746	154,223,415
Unrestricted	9,298,752	1,942,658
Total net position	\$ 151,847,498	\$ 156,166,073

See accompanying notes to basic financial statements

INDIO WATER AUTHORITY
STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2013
(With Comparative Totals for the Fiscal Year Ended June 30, 2012)

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Water sales	\$ 14,687,742	\$ 15,081,470
Meter and service fees	192,226	208,464
Other	<u>1,090,869</u>	<u>917,024</u>
Total operating revenues	<u>15,970,837</u>	<u>16,206,958</u>
Operating expenses:		
Personnel Services	4,770,032	4,376,545
Contractual services	1,537,958	1,923,971
Utility	1,496,702	1,518,184
Rentals and leases	1,358,056	3,310,353
Repairs and maintenance	1,702,971	1,995,213
Materials and supplies	923,127	678,611
Depreciation	7,613,894	7,507,061
Bad debt	<u>399,341</u>	<u> </u>
Total operating expenses	<u>19,802,081</u>	<u>21,309,938</u>
Operating income (loss)	<u>(3,831,244)</u>	<u>(5,102,980)</u>
Nonoperating revenues and expenses:		
Investment income	87,322	61,503
Interest expense	(2,759,753)	(2,815,525)
Other	<u>402,565</u>	<u>399,379</u>
Total nonoperating revenues (expenses)	<u>(2,269,866)</u>	<u>(2,354,643)</u>
Income (loss) before capital contributions	(6,101,110)	(7,457,623)
Capital contributions:		
Contributed assets	<u>1,767,535</u>	<u> </u>
Net income (loss) before transfers	(4,333,575)	(7,457,623)
Transfers from (to) the City of Indio	<u>15,000</u>	<u>(87,250)</u>
Change in net position	(4,318,575)	(7,544,873)
Net position at beginning of fiscal year	<u>156,166,073</u>	<u>163,710,946</u>
Net position at end of fiscal year	<u>\$ 151,847,498</u>	<u>\$ 156,166,073</u>

See accompanying notes to basic financial statements

INDIO WATER AUTHORITY
STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2013
(With Comparative Totals for the Fiscal Year Ended June 30, 2012)

	2013	2012
Cash flows from operating activities:		
Receipts from customers and others	\$ 16,169,978	\$ 16,529,772
Cash paid to employees for services	(4,736,174)	(4,301,355)
Cash paid to suppliers for goods and services	(6,997,707)	(10,474,474)
Miscellaneous receipts	402,565	399,379
Net cash provided (used) by operating activities	4,838,662	2,153,322
Cash flows from noncapital and related financing activities:		
Transfers from (to) to the City of Indio	15,000	(87,250)
Net cash provided (used) in noncapital financing activities	15,000	(87,250)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(595,845)	(427,009)
Principal payments on long-term debt	(1,365,000)	(1,320,000)
Interest paid on long-term debt	(2,793,718)	(2,849,858)
Net cash provided (used) in capital and related financing activities	(4,754,563)	(4,596,867)
Cash flows from investing activities:		
Interest and investment revenue	89,297	61,679
Net cash provided by investing activities	89,297	61,679
Net increase (decrease) in cash and cash equivalents	188,396	(2,469,116)
Cash and cash equivalents, beginning of fiscal year	9,340,159	11,809,275
Cash and cash equivalents, end of fiscal year	\$ 9,528,555	\$ 9,340,159
Reconciliation of cash and cash equivalents to amounts reported on the statement of net position:		
Reported on the Statement of Net Position:		
Cash and investments	\$ 8,961,749	\$ 8,312,810
Cash and investments with fiscal agents	566,806	1,027,349
Cash and cash equivalents - June 30,	\$ 9,528,555	\$ 9,340,159
Reconciliation of operating income (loss) to net cash provided by operations:		
Operating income (loss)	\$ (3,831,244)	\$ (5,102,980)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	7,613,894	7,507,061
Miscellaneous income (expense)	402,565	399,379
Decrease (increase) in accounts receivable	555,880	270,563
Decrease (increase) in prepaid expenses	(26,418)	20,027
Decrease (increase) in inventory	41,995	587
Increase (decrease) in accounts payable	7,442	(1,037,444)
Increase (decrease) in accrued payroll	23,193	19,679
Increase (decrease) in deposits payable	42,602	52,251
Increase (decrease) in retentions payable	(1,912)	(31,312)
Increase (decrease) in compensated absences	10,665	55,511
Total adjustments	8,669,906	7,256,302
Net Cash Provided by Operating Activities	\$ 4,838,662	\$ 2,153,322

The noncash capital and related financing activity for the fiscal year ended June 30, 2013 was contributed assets in the amount of \$1,767,535.

See accompanying notes to basic financial statements

NOTES TO BASIC FINANCIAL STATEMENTS

INDIO WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

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 position. The statement of revenues, expenses, and changes in net position 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) Accounting and Financial Reporting Requirements

The Authority follows the pronouncements of the GASB in its accounting and financial reporting. In accordance with GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB No. 62), the Authority follows all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions (APB), and Accounting Research Bulletins (ARB) issued on or before November 30, 1989. As allowed under GASB No. 62, the Authority has elected not to apply pronouncements issued by the FASB after November 30, 1989.

(d) 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, 2013, and revenues and expenses for the fiscal year then ended. Actual results may significantly differ from those estimates.

INDIO WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1 Summary of Significant Accounting Policies (Continued)

(e) 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
Improvements	40 years
Infrastructure	40 years
Water wells and pumps	70 years

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

(f) Inventories

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

(g) 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 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.

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, 2013

Note 1 Summary of Significant Accounting Policies (Continued)

(h) 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 position.

(i) 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.

(j) Interest

The Authority incurs interest charges on bonds, notes payable, and capital lease obligations. Interest incurred during the fiscal year ended June 30, 2013 totaled \$2,759,753.

(k) 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.

(l) 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.

(m) 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.

(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.

INDIO WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1 Summary of Significant Accounting Policies (Continued)

(o) 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.

(p) Net Position

GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

(q) New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 60

For the fiscal year ended June 30, 2013, the Authority implemented GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to Service Concession Arrangements. This Statement improves consistency in reporting and enhances the comparability of the accounting and financial reporting of Service Concession Arrangements among state and local governments. Implementation of the GASB Statement No. 60 did not have an impact on the Authority's financial statements for the fiscal year ended June 30, 2013.

INDIO WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1 Summary of Significant Accounting Policies (Continued)

(q) New Accounting Pronouncements (Continued)

Governmental Accounting Standards Board Statement No. 61

For the fiscal year ended June 30, 2013, the Authority implemented GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. This statement is effective for periods beginning after June 15, 2012. The objective of this Statement is to improve financial reporting for component units. The Statement modifies certain requirements for inclusion of component units in the financial reporting entity and clarifies the reporting of equity interests in legally separate organizations. Implementation of the GASB Statement No. 61 did not have an impact on the Authority's financial statements for the fiscal year ended June 30, 2013.

Governmental Accounting Standards Board Statement No. 62

For the fiscal year ended June 30, 2013, the Authority implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements issued on or before November, 30 1989. This Statement specifically identifies and consolidates the accounting and financial reporting provisions that apply to state and local governments. Implementation of the GASB Statement No. 62 and the impact of the Authority's financial statement are explained in Note 1 (c).

Governmental Accounting Standards Board Statement No. 63

For the fiscal year ended June 30, 2013, the Authority implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to establish guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. This Statement sets forth framework that specifies where deferred outflows of resources and deferred inflows of resources, as well as assets and liabilities, should be displayed. This Statement also specifies how net position, no longer referred to as net assets, should be displayed. Implementation of the Statement and the impact on the Authority's financial statements is explained in Note 1 (p) Net Position.

INDIO WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

Note 2 Cash and Investments

Cash and investments as of June 30, 2013 are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments	\$ 8,961,749
Cash and investments held by fiscal agents	566,806
	\$ 9,528,555

Cash and investments as of June 30, 2013 consist of the following:

Petty Cash	\$ 1,500
Cash and investments	9,527,055
	\$ 9,528,555

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 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 Authorized by State Law	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

INDIO WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

Note 2 Cash and Investments (Continued)

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:

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	\$ 5,468,024	\$ 5,468,024	\$ -	\$ -	\$ -
State investment pool	3,492,225	3,492,225			
Held by fiscal agents:					
Money market funds	<u>566,806</u>	<u>566,806</u>			
Total	<u><u>\$ 9,527,055</u></u>	<u><u>\$ 9,527,055</u></u>	<u><u>\$ -</u></u>	<u><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	\$ 5,468,024	NA	\$ -	\$ -	\$ 5,468,024
State investment pool	3,492,225	NA			3,492,225
Held by bond trustee:					
Money market funds	<u>566,806</u>	<u>AAA</u>		<u>566,806</u>	
Total	<u><u>\$ 9,527,055</u></u>		<u><u>\$ -</u></u>	<u><u>\$ 566,806</u></u>	<u><u>\$ 8,960,249</u></u>

INDIO WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

Note 2 Cash and Investments (Continued)

Custodial Credit Risk

For investments held by fiscal agents, the fiscal agent selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government. As of June 30, 2013, none of the Authority's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

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.

Note 3 Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013 is as follows:

	Balance at July 1, 2012	Additions	Deletions	Transfers	Balance at June 30, 2013
Structures and improvements	\$ 14,831,295	\$ 58,090	\$ -	\$ -	\$ 14,889,385
Machinery and equipment	2,184,776	470,474			2,655,250
Vehicles	1,425,368				1,425,368
Utility distribution system	273,778,196	1,834,816		1,734,694	277,347,706
Total cost of depreciable assets	292,219,635	2,363,380		1,734,694	296,317,709
Less accumulated depreciation:					
Structures and improvements	556,174	371,508			927,682
Machinery and equipment	929,259	233,041			1,162,300
Vehicles	970,739	121,952			1,092,691
Utility distribution system	89,355,640	6,887,393			96,243,033
Total accumulated depreciation	91,811,812	7,613,894			99,425,706
Net depreciable assets	200,407,823	(5,250,514)		1,734,694	196,892,003
Capital assets not depreciated:					
Construction in progress	2,219,683			(1,734,694)	484,989
Land	1,703,010				1,703,010
Capital assets, net	\$ 204,330,516	\$ (5,250,514)	\$ -	\$ -	\$ 199,080,002

INDIO WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

Note 4 Long Term Liabilities

Changes in long-term liabilities during the fiscal year ended June 30, 2013 were as follows:

	Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013	Amount Due Within One Year	Amount Due Beyond One Year
Bonds payable:						
2006 Water Revenue						
Bonds	\$ 57,970,000	\$ -	\$ (1,365,000)	\$ 56,605,000	\$ 1,400,000	\$ 55,205,000
Unamortized loss on						
refunding	(750,777)	30,769		(720,008)	(30,769)	(689,239)
Premium on bonds	2,048,188		(83,600)	1,964,588	83,600	1,880,988
Subtotal	59,267,411	30,769	(1,448,600)	57,849,580	1,452,831	56,396,749
Compensated absences	258,942	202,282	(191,617)	269,607	199,509	70,098
Total	<u>\$ 59,526,353</u>	<u>\$ 233,051</u>	<u>\$ (1,640,217)</u>	<u>\$ 58,119,187</u>	<u>\$ 1,652,340</u>	<u>\$ 56,466,847</u>

Water Revenue Bonds, Series 2006

In October 2006, the Indio Water Authority issued \$61,795,000 of Water Revenue Bonds Series 2006. The proceeds were 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. These requirements are funded by the establishment of a Surety Bond that was obtained prior to the delivery of the aforementioned Series 2006 bonds. At June 30, 2013, the reserve was fully funded and the outstanding balance of the Series 2006 bonds was \$56,605,000.

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. The revenue requirement was met by the Authority for the fiscal year ended June 30, 2013.

INDIO WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

Note 4 Long Term Liabilities (Continued)

Water Revenue Bonds, Series 2006 (Continued)

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 position of the Water enterprise fund.

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

Fiscal Year Ending June 30,	Principal	Interest	Total
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	1,680,000	2,486,012	4,166,012
2019-2023	9,695,000	11,122,263	20,817,263
2024-2028	12,275,000	8,541,563	20,816,563
2029-2033	15,570,000	5,244,750	20,814,750
2034-2036	11,335,000	1,152,000	12,487,000
	<u>\$ 56,605,000</u>	<u>\$ 39,125,536</u>	<u>\$ 95,730,536</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 27, 2013.