

**INDIO WATER AUTHORITY**  
**A COMPONENT UNIT OF**  
**THE CITY OF INDIO, CALIFORNIA**  
**BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

	<u>Page(s)</u>
FINANCIAL SECTION	
Independent Auditors' Report .....	1
Basic Financial Statements	
Enterprise Funds:	
Statement of Net Position .....	3
Statement of Revenues, Expenses, and Changes in Net Position .....	4
Statement of Cash Flows .....	5
Fiduciary Fund:	
Statement of Fiduciary Assets and Liabilities – Agency Fund .....	6
Notes to Financial Statements.....	7
STATISTICAL SECTION	
Water Sold by Type of Customer – Last Ten Fiscal Years .....	21
Water Rates – Last Ten Fiscal Years.....	22
Ten Largest Water Customers – Last Ten Fiscal Years .....	23
Capital Asset Statistics and Operating Indicators – Last Ten Fiscal Years .....	24



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Indio Water Authority  
Indio, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Indio Water Authority, (the "Authority"), a Joint Powers Authority, and a component unit of the City of Indio, California, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special District. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



To the Board of Directors  
Indio Water Authority  
Indio, California

### **Opinions**

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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require 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.

#### *Prior Year Comparative Information*

The financial statements include (partial or summarized) prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2015, from which such partial information was derived.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The statistical section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2016 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, 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 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 Authority's internal control over financial reporting and compliance.

Brea, California  
December 28, 2016

INDIO WATER AUTHORITY

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
<b>Assets:</b>		
Current:		
Cash and investments	\$ 15,489,494	\$ 11,433,386
Receivables:		
Accounts receivable, net	5,987,521	2,198,244
Accrued interest	-	37
Prepaid costs	667,249	688,512
Inventories	140,175	156,111
Restricted:		
Cash with fiscal agent	602,719	1,937,640
<b>Total Current Assets</b>	<b><u>22,887,158</u></b>	<b><u>16,413,930</u></b>
Noncurrent:		
Capital assets - net of accumulated depreciation	185,790,817	191,191,439
<b>Total Noncurrent Assets</b>	<b><u>185,790,817</u></b>	<b><u>191,191,439</u></b>
<b>Total Assets</b>	<b><u>208,677,975</u></b>	<b><u>207,605,369</u></b>
<b>Deferred Outflows of Resources:</b>		
Deferred charge on refunding	1,304,117	1,369,323
Deferred outflows related to pensions	743,499	667,503
<b>Total Deferred Outflows of Resources</b>	<b><u>2,047,616</u></b>	<b><u>2,036,826</u></b>
<b>Liabilities:</b>		
Current:		
Accounts payable	4,758,209	974,227
Accrued liabilities	708,629	673,807
Accrued interest	569,109	189,394
Retentions payable	30,309	89,974
Deposits payable	442,970	398,098
Due to the City of Indio	4,975	-
Accrued compensated absences	231,578	199,288
Bonds, notes, and capital leases	1,860,000	1,490,000
<b>Total Current Liabilities</b>	<b><u>8,605,779</u></b>	<b><u>4,014,788</u></b>
Noncurrent:		
Accrued compensated absences	18,359	39,505
Net pension liability	6,618,707	6,287,685
Bonds, notes, and capital leases	58,209,277	60,125,289
<b>Total Noncurrent Liabilities</b>	<b><u>64,846,343</u></b>	<b><u>66,452,479</u></b>
<b>Total Liabilities</b>	<b><u>73,452,122</u></b>	<b><u>70,467,267</u></b>
<b>Deferred Inflows of Resources:</b>		
Deferred inflows related to pensions	468,077	979,620
<b>Total Deferred Inflows of Resources</b>	<b><u>468,077</u></b>	<b><u>979,620</u></b>
<b>Net Position:</b>		
Net investment in capital assets	127,628,376	132,883,113
Unrestricted	9,177,016	5,312,195
<b>Total Net Position</b>	<b><u>\$ 136,805,392</u></b>	<b><u>\$ 138,195,308</u></b>

INDIO WATER AUTHORITY

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
<b>Operating Revenues:</b>		
Sales and service charges	\$ 17,831,960	\$ 18,239,107
Drought rate penalties	1,288,617	-
Other income	74,781	439,589
<b>Total Operating Revenues</b>	<b><u>19,195,358</u></b>	<b><u>18,678,696</u></b>
<b>Operating Expenses:</b>		
Personnel services	4,033,274	4,133,884
Contractual services	8,310,452	3,357,277
Repairs and maintenance	1,670,899	1,684,619
Claims expense	-	307
Depreciation expense	7,534,999	7,715,979
Materials and supplies	1,178,872	1,373,038
Bad debt expense	49,645	53,840
Rentals and leases	10,661	7,368,533
Utilities	1,251,231	1,392,963
<b>Total Operating Expenses</b>	<b><u>24,040,033</u></b>	<b><u>27,080,440</u></b>
Operating Income (Loss)	<u>(4,844,675)</u>	<u>(8,401,744)</u>
<b>Nonoperating Revenues (Expenses):</b>		
Intergovernmental	4,264,134	88,729
Interest revenue	71,750	139,376
Interest expense	<u>(2,383,878)</u>	<u>(3,064,137)</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<b><u>1,952,006</u></b>	<b><u>(2,836,032)</u></b>
Income (Loss) Before Capital Contributions	(2,892,669)	(11,237,776)
Capital Contributions	<u>1,502,753</u>	<u>1,265,367</u>
Changes in Net Position	<u>(1,389,916)</u>	<u>(9,972,409)</u>
<b>Net Position:</b>		
Beginning of Fiscal Year, as previously reported	138,195,308	154,827,866
Restatements	<u>-</u>	<u>(6,660,149)</u>
Beginning of Fiscal Year, as restated	<u>138,195,308</u>	<u>148,167,717</u>
<b>End of Fiscal Year</b>	<b><u>\$ 136,805,392</u></b>	<b><u>\$ 138,195,308</u></b>

INDIO WATER AUTHORITY

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities:</b>		
Cash received from customers and users	\$ 15,401,308	\$ 19,058,786
Cash paid to suppliers for goods and services	(8,660,599)	(15,563,699)
Cash paid to employees for services	(4,243,825)	(4,384,896)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b><u>2,496,884</u></b>	<b><u>(889,809)</u></b>
<b>Cash Flows from Non-Capital Financing Activities:</b>		
Due to the City of Indio	4,975	-
<b>Net Cash Provided by Non-Capital Financing Activities</b>	<b><u>4,975</u></b>	<b><u>-</u></b>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from capital debt	-	61,619,957
Capital contributions	1,502,753	1,265,367
Acquisition and construction of capital assets	(2,134,377)	(6,928,669)
Intergovernmental grant revenue	4,264,134	88,729
Principal paid on capital debt	(1,490,000)	(55,205,000)
Interest paid on capital debt	(1,994,969)	(4,274,853)
Proceeds from the disposition of capital assets	-	(446)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b><u>147,541</u></b>	<b><u>(3,434,915)</u></b>
<b>Cash Flows from Investing Activities:</b>		
Interest received	71,787	144,318
<b>Net Cash Provided by Investing Activities</b>	<b><u>71,787</u></b>	<b><u>144,318</u></b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b><u>2,721,187</u></b>	<b><u>(4,180,406)</u></b>
Cash and Cash Equivalents at Beginning of Year	13,371,026	17,551,432
<b>Cash and Cash Equivalents at End of Year</b>	<b><u>\$ 16,092,213</u></b>	<b><u>\$ 13,371,026</u></b>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>		
Operating loss	\$ (4,844,675)	\$ (8,401,744)
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:		
Depreciation	7,534,999	7,715,979
(Increase) decrease in accounts receivable	(3,789,277)	436,661
(Increase) decrease in prepaid expense	21,263	(482,170)
Decrease in inventories	15,936	31,875
Increase in deferred outflows due to pensions	(75,996)	(667,503)
Increase (decrease) in accounts payable	3,783,982	(15,391)
Increase in accrued liabilities	34,822	425,995
Increase (decrease) in retentions payable	(59,665)	78,724
Increase (decrease) in deposits payable	44,872	(2,731)
Increase in compensated absences	11,144	6,623
Increase (decrease) in net pension liability	331,022	(995,747)
Increase (decrease) in deferred inflows due to pensions	(511,543)	979,620
Total Adjustments	<u>7,341,559</u>	<u>7,511,935</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,496,884</u>	<u>\$ (889,809)</u>
<b>Non-Cash Investing, Capital, and Financing Activities:</b>		
Capital contributions	\$ 1,502,753	\$ 1,265,367
Loss on disposal of capital assets	-	(446)



INDIO WATER AUTHORITY

STATEMENT OF NET POSITION  
FIDUCIARY FUND  
JUNE 30, 2016

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	<u>Agency Fund</u>
<b>Assets:</b>	
Pooled cash and investments	\$ 100,798
<b>Total Assets</b>	<b><u>\$ 100,798</u></b>
<b>Liabilities:</b>	
Accounts payable	\$ 615
Deposits payable	100,183
<b>Total Liabilities</b>	<b><u>\$ 100,798</u></b>

# INDIO WATER AUTHORITY

## NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

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### Note 1: Summary of Significant Accounting Policies

The financial statements of the Indio Water Authority, a Joint Powers Authority, and component unit of the City of Indio, 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

##### Creation of Authority

The City of Indio (City) and the Redevelopment Agency of the City of Indio (Agency) entered into a joint exercise of powers agreement (JPA) on April 19, 2000 to form the Indio Water Authority (Authority). Due to the dissolution of the Agency, the City of Indio Housing Authority (Housing Authority) was added as a member to the JPA on June 19, 2012.

##### Purpose

The Authority was formed to provide an entity which can lease, operate, and maintain the water enterprise of the City (Enterprise) which benefits the residents in and around the City. Upon the formation of the Authority, the Authority entered into a lease agreement with the City including, but not limited to, all facilities, properties, and improvements at any time owned, leased, or operated by the Authority for the collection, treatment, and supply of water to residents served thereby, whether within or without the City, and any necessary lands, rights, entitlements, and other property used or useful in connection therewith, together with all extensions thereof and improvements thereto hereafter acquired, constructed, or installed by the Authority.

##### Powers of the Authority

The Authority has all of the powers provided in the Joint Powers Law, including but not limited to Article 4 of the Joint Powers Law (commencing with Section 6584). Some of the highlights of the Authority's specific powers for the purpose of acquiring, owning, operating, and improving the Enterprise, include, but are not limited to, any of the following:

- 1) to plan, develop, acquire, construct, manage, maintain, repair, replace, or operate any public capital improvement;
- 2) to acquire, hold lease, sell, or otherwise dispose of any real or personal property, tangible or intangible, and any interest therein, wherever located;
- 3) to issue or incur indebtedness and otherwise to incur debts, liabilities, or obligations for the purpose of acquiring, owning, operating, or improving the Authority, provided that no such indebtedness, debt liability or obligation shall constitute a debt, liability, or obligation of the City or the Housing Authority; and
- 4) to enter into agreements for the creation of separate public entities and agencies pursuant to the Joint Powers Law.

INDIO WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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

Relationship with City of Indio Water System

On May 21, 2001, the City resolved to lease the City's Water System to the Authority, which provides that the Authority would lease the Water System, operate the Water System, make annual rental payments to the City, and provide water service to customers with the City's service area. On June 1, 2015, the lease was amended. According to the lease, the Authority agrees that any such improvements, fixtures, structures or signs, or real property acquisitions, made to or for the Water System during the term of this Sublease shall remain a part of the Water System of the City and, if acquired in the name of the Authority, shall be subject to surrender and conveyance to the City, free and clear of any interest of the Authority, either upon termination of this lease or at such time, and from time to time as directed by the City.

Reporting

Since the Authority's governing body is the same as the governing body of the primary government and there is a financial relationship between the primary government and the Authority it is reported as a blended component unit of the City of Indio.

**b. Basis of Accounting**

Enterprise Funds

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 service fees. 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.

Fiduciary Fund

The Authority uses an agency fund to account for assets administered by the Authority in a pass through capacity for the East Valley Reclamation Authority (EVRA). The EVRA agency fund only has a Statement of Assets and Liabilities. The agency fund uses the accrual basis of accounting.

**c. 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, 2016, and revenues and expenses for the fiscal year then ended. Actual results may significantly differ from those estimates.

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

**d. 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.

**e. Inventories**

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

**f. Compensated Absences**

Employees hired by the City of Indio prior to 1991 that now work for the Authority carry forward, for use in subsequent years, earned but unused vacation and sick leave benefits. Upon termination, the Authority 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.

**g. Contributed Facilities**

In accordance with Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (GASB Statement No. 33) and GASB Statement 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.

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

**h. Contributed Facilities**

Operating revenues and expenses represent revenue earned and the related costs incurred to provide water services to the Authority's customers. Nonoperating revenues and expenditures represent revenue earned and the related costs incurred for activities that do not directly provide water services to the Authority's customers such as revenues and expenditures related to issuance of bonds.

**i. Interest**

The Authority incurs interest charges on bonds, notes payable, and capital lease obligations. Interest incurred during the fiscal year ended June 30, 2016 totaled \$2,383,878.

**j. Deferred Charges**

Bond premiums and discounts 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.

**k. 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. Under GASB 65, deferred losses on refunding are shown as deferred outflows of resources on the statement of net position.

**l. 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.

**m. Cash and Cash Equivalents**

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

**n. 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 amounts.

INDIO WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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

**o. 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.

**Note 2: Cash and Investments**

Cash and investments as of June 30, 2016 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and investments	\$ 9,680,250
Cash and investments held by bond trustee	602,719
Cash and investments pooled with the City of Indio	5,809,244
Fiduciary Funds:	
Cash and investments	<u>100,798</u>
Total cash and investments	<u><u>\$ 16,193,011</u></u>

Cash and investments as of June 30, 2016 consist of the following:

Cash on hand	\$ 1,750
Deposits with financial institutions	9,779,298
Cash and investments pooled with the City of Indio	5,809,244
Investments	<u>602,719</u>
Total cash and investments	<u><u>\$ 16,193,011</u></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 fiscal agents is governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City'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 BASIC FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

Note 2: Cash and Investments (Continued)

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 investments 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:

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months Or Less	13 to 36 Months	37 to 60 Months	More Than 60 Months
Cash and investments pooled with the City of Indio	\$ 2,299,837	\$ 2,299,837	\$ -	\$ -	\$ -
Statement investment pool	3,509,407	3,509,407	-	-	-
Held by Bond Trustee:					
Money Market Funds	602,719	602,719	-	-	-
<b>Total</b>	<b>\$ 6,411,963</b>	<b>\$ 6,411,963</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

INDIO WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

**Note 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 / Authority's investment policy, or debt agreements, and the actual rating as of fiscal year-end for each investment type.

Investment Type	Total	Minimum Legal Rating	Exempt From Disclosure	Moody's Rating as of Fiscal Year End	
				AAA	Not Rated
Cash and investments pooled with the City of Indio	\$ 2,299,837	N/A	\$ -	\$ -	\$ 2,299,837
State investment pool	3,509,407	N/A	-	-	3,509,407
Held by Bond Trustee: Money Market Funds	602,719	AAA	-	602,719	-
<b>Total</b>	<b>\$ 6,411,963</b>		<b>\$ -</b>	<b>\$ 602,719</b>	<b>\$ 5,809,244</b>

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, 2016, 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 through an account held by the City 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.

Investment in City Treasury

See the City of Indio's Comprehensive Annual Financial Report for details on the Authority's investments in the City's Treasury.



INDIO WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

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

Fair Value Measurement

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.”

The Authority has the following recurring fair value measurements as of June 30, 2016:

Investments	Fair Value	Level		
		1	2	3
Cash and investments pooled				
with the City of Indio	\$ 2,299,837	\$ -	\$ 2,299,837	\$ -
State Investment Pool	3,509,407	-	3,509,407	-
Held by Bond Trustee:				
Money Market Funds	602,719	-	602,719	-
	<b>\$ 6,411,963</b>	<b>\$ -</b>	<b>\$ 6,411,963</b>	<b>\$ -</b>

**Note 3: Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2016 is as follows:

	Balance at July 1, 2015	Additions	Deletions	Transfers	Balance at June 30, 2016
Structures and improvements	\$ 14,939,434	\$ -	\$ -	\$ -	\$ 14,939,434
Machinery and equipment	2,919,467	20,571	-	-	2,940,038
Vehicles	1,425,368	297,144	-	-	1,722,512
Utility distributions system	279,131,036	-	-	317,750	279,448,786
Total cost of depreciable asset	298,415,305	317,715	-	317,750	299,050,770
Less accumulated depreciation:					
Structures and improvements	1,673,610	373,467	-	-	2,047,077
Machinery and equipment	1,741,009	133,790	-	-	1,874,799
Vehicles	1,282,709	43,754	-	-	1,326,463
Utility distribution system	110,141,769	6,983,988	-	-	117,125,757
Total accumulated depreciation	114,839,097	7,534,999	-	-	122,374,096
Net depreciable assets	183,576,208	(7,217,284)	-	317,750	176,676,674
Capital assets not depreciated:					
Construction in progress	5,912,221	1,816,662	-	(317,750)	7,411,133
Land	1,703,010	-	-	-	1,703,010
Capital assets, net	<b>\$ 191,191,439</b>	<b>\$ (5,400,622)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 185,790,817</b>

INDIO WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

Note 4: Long-Term Liabilities

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Amount Due Within One Year	Beyond One Year
Bonds payable:						
2015A Water Revenue Refunding	\$ 51,065,000	\$ -	\$ -	\$ 51,065,000	\$ -	\$ 51,065,000
2015B Water Revenue Refunding	9,150,000	-	1,490,000	7,660,000	1,860,000	5,800,000
Issue premium on bonds	1,400,289	-	56,012	1,344,277	-	1,344,277
Subtotal	<u>61,615,289</u>	<u>-</u>	<u>1,546,012</u>	<u>60,069,277</u>	<u>1,860,000</u>	<u>58,209,277</u>
Net pension liability	6,287,685	1,614,166	1,283,144	6,618,707	-	6,618,707
Compensated absences	238,793	232,397	221,253	249,937	231,578	18,359
Subtotal	<u>6,526,478</u>	<u>1,846,563</u>	<u>1,504,397</u>	<u>6,868,644</u>	<u>231,578</u>	<u>6,637,066</u>
Total	<u>\$ 68,141,767</u>	<u>\$ 1,846,563</u>	<u>\$ 3,050,409</u>	<u>\$ 66,937,921</u>	<u>\$ 2,091,578</u>	<u>\$ 64,846,343</u>

Water Revenue Refunding Bonds Series 2015A and 2015B (Taxable)

In June 2015, the Indio Water Authority issued \$51,065,000 of Water Revenue Refunding Bonds Series 2015A, and \$9,150,000 of Water Revenue Refunding Bonds Series 2015B (Taxable). The proceeds were used to refund the Authority's 2006 Water Revenue Bonds, finance certain capital improvements to the Authority's water system (only proceeds of the Series 2015A bonds), and to pay costs of issuance of the bonds.

The 2015A bonds consist of \$32,910,000 of serial bonds and \$18,155,000 of term bonds. The serial bonds accrue interest at rates between 3.250% and 5.000% and the principal amounts mature between April 1, 2021 and April 1, 2040 in amounts ranging from \$1,025,000 to \$3,250,000. Term bonds of \$14,320,000 accrue interest at 4.000% and mature on April 1, 2036, and bonds of \$3,835,000 accrue interest at 4.125% and mature on April 1, 2040. The 2015B bonds consist of \$9,150,000 of serial bonds and accrue interest at rates between 1.033% and 2.820%.

The Series 2015A term bonds maturing in the years 2036 and 2040 are subject to mandatory sinking account redemption on each April 1, commencing on April 1, 2033 and April 1, 2037, 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 reserve requirement with respect to the 2015A bonds is \$0 and with respect to the 2015B bonds is \$0. Concurrent with the issuance of the bonds, Build America Mutual Assurance Company (BAM) issued a municipal bond insurance policy for the bonds with guarantees the scheduled payments of principal and interest on the bonds when due.

**INDIO WATER AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

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

The Authority and the City shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each fiscal year:

- a. which shall be at least sufficient to yield gross water revenues for the Water Authority which are sufficient to pay the following amounts in the following order of priority:
  - i. all operation and maintenance costs estimated by the City, in consultation with the Authority and based on information provided by the Authority, to become due and payable in such fiscal year.
  - ii. the base rental payments and the principal of and interest on any outstanding parity water obligations as they become due and payable during such fiscal year, without preference or priority.
  - iii. the amount, if any, required to restore the balance in the reserve subaccounts to the full amount of the respective reserve requirements and, with respect to any other outstanding parity water obligations, to restore the balance in the related debt service reserve fund to the full amount of the applicable reserve requirement; and
  - iv. All other additional rental and other payments required to meet any other obligations of the City which are charges, liens, encumbrances upon gross water revenues during such fiscal year.
- b. So that gross water revenues less operation and maintenance costs will be at least equal to 120% of the annual parity obligation payments for such fiscal year.

A portion of the net proceeds of the Water Revenue Refunding Bonds Series 2015A and 2015B bonds estimated to be \$56,233,153 were deposited into an escrow fund with MUFG Union Bank, N.A., and used for the purposes of redeeming the 2006 bonds. The amounts so deposited were in an amount which was sufficient to pay the principal of and interest, and the redemption price equal to the principal amount of the 2006 bonds outstanding and accrued interest upon their optional redemption. The 2006 bonds were called for redemption on April 1, 2016. As a result, the Water Revenue Bonds Series 2006 are considered defeased and the liability for those bonds has been removed from the statement of net position of the Water enterprise fund.

INDIO WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

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

Debt Service Requirements to Maturity

The annual debt service requirements to maturity for the 2015A bonds are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ -	\$ 2,102,613	\$ 2,102,613
2018	-	2,102,613	2,102,613
2019	-	2,102,613	2,102,613
2020	-	2,102,613	2,102,613
2021	2,055,000	2,102,613	4,157,613
2022-2026	11,905,000	8,867,063	20,772,063
2027-2031	14,675,000	6,102,063	20,777,063
2032-2036	17,570,000	3,201,894	20,771,894
2037-2041	4,860,000	547,375	5,407,375
	<u>\$ 51,065,000</u>	<u>\$ 29,231,460</u>	<u>\$ 80,296,460</u>

The annual debt service requirements to maturity for the 2015B bonds are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 1,860,000	\$ 173,824	\$ 2,033,824
2018	1,890,000	144,976	2,034,976
2019	1,930,000	105,437	2,035,437
2020	1,980,000	55,836	2,035,836
	<u>\$ 7,660,000</u>	<u>\$ 480,073</u>	<u>\$ 8,140,073</u>

**Note 5: Defined Benefit Plan**

Employees of IWA are members of the Public Employees' Retirement System (PERS) the cost of which is paid by IWA. Pension expense allocated to IWA by the City for IWA employees totaled \$244,374. IWA'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.

The City implemented GASB Statement Nos. 68 and 71 as of July 1, 2014, which affects the way pension liabilities are reported. Due to these Statements, the City is required to report its entire liability for pension benefits. The IWA, based on allocation formula, has reported a total pension liability (obligation) including deferred inflows and outflows as of June 30, 2016 of \$6,618,707 to record the net pension liability as of June 30, 2015.

**INDIO WATER AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

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**Note 6: Operating Lease**

On May 21, 2001, the Authority entered into an operating lease agreement with the City for the City's Water System. The Authority agreed to operate the Water System, make annual rental payments to the City, and provide water service to customers within the City's service area. The original lease was amended and restated on June 1, 2015, and the IWA prepaid the lease in the amount of \$7,343,916 during the fiscal year ended June 30, 2015. The future minimum lease payments relating to this lease are as follows:

Fiscal Year Ending June 30	Amount
2017	\$ 5
2018	5
2019	5
2020	5
2021	5
2022-2026	25
2027-2031	25
2032-2036	25
2037	5
	\$ 105

**Note 7: Deferred Inflows and Outflows of Resources**

The deferred outflows of resources in the amounts of \$743,499 and \$1,304,117 represents employee benefit payments from the measurement date used for GASB 68 net pension liability actuarial calculation at the end of the current fiscal year, and the deferred loss on refunding of the 2006 Water Revenue bonds respectively.

The deferred inflow of resources in the amount of \$468,077 represents an actuarially determined difference between projected and actual earnings on plan investments for both the pension and OPEB plans.

**Note 8: Joint Powers Agency**

The East Valley Reclamation Authority (EVRA) was created on December 18, 2013 under a joint powers agreement between The City of Indio through the Indio Water Authority (IWA) and Valley Sanitary District (VSD) to plan, implement and operate a recycled water program including the tertiary or enhanced treatment of water, as well as the lease, ownership, operation and maintenance of Facilities and the financing costs relation to Public Capital Improvements. Primary funding for the EVRA is through contributions from IWA and VSD. The EVRA is governed by a Board appointed by IWA and VSD and administered by either IWA or VSD based on a rotation determined by the Board. For the fiscal year ended June 30, 2016, IWA was the administrator of the EVRA and therefore maintains the books and records of the EVRA. IWA's contribution to the EVRA for the fiscal year ended June 30, 2016 was \$25,000 for operations. Audited financial statements may be obtained from the Indio Water Authority at 83-101 Avenue 45, Indio, CA 92201.

**INDIO WATER AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

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**Note 9: 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 10: Reclassification of Prior Year Comparative Information**

For the fiscal year ended June 30, 2016, the Authority reclassified certain general ledger accounts to more accurately present the balances of the accounts on the financial statements based on the underlying financial information of those accounts. To maintain comparability with the prior year, the corresponding prior year accounts were reclassified in the same manner as the current year accounts. Since this change effected only the classification of certain accounts, and was not a prior-period adjustment, there was zero effect on total assets, total deferred outflows of resources, total liabilities, total deferred inflows of resources, net position, and changes in net position for the year ended June 30, 2015.

**STATISTICAL SECTION**

INDIO WATER AUTHORITY  
Water Sold by Type of Customer  
Last Ten Fiscal Years  
(in hundred cubic feet)

Type of Customer:	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Single-Family Residential	\$ 5,978,060	\$ 5,837,410	\$ 5,498,690	\$ 5,300,683	\$ 5,308,272	\$ 5,413,435	\$ 5,392,718	\$ 5,392,822	\$ 4,982,247	\$ 4,236,748
Multi-Family Residential	1,190,415	1,252,174	1,211,311	1,159,934	1,149,631	1,165,519	1,066,970	978,114	838,995	639,273
Commercial/Institutional	2,018,372	1,581,580	1,383,664	1,192,074	1,164,122	1,195,118	1,138,652	1,228,943	1,158,582	1,091,004
Industrial	108,758	90,848	69,675	63,468	56,401	59,114	61,707	72,389	66,423	54,401
Landscape Irrigation	821,906	955,825	1,101,207	1,085,119	1,196,706	1,229,869	1,067,837	1,205,557	1,023,955	743,594
<b>Total</b>	<b>\$ 10,117,511</b>	<b>\$ 9,717,837</b>	<b>\$ 9,264,547</b>	<b>\$ 8,801,278</b>	<b>\$ 8,875,132</b>	<b>\$ 9,063,055</b>	<b>\$ 8,727,884</b>	<b>\$ 8,877,825</b>	<b>\$ 8,070,202</b>	<b>\$ 6,765,020</b>

Total commodity rate	\$ 0.71	\$ 0.88	\$ 1.06	\$ 1.16	\$ 1.16	\$ 1.16	\$ 1.16	\$ 1.16	Tiered Rates	Tiered Rates	Tiered Rates
per 100 cubic feet											

Note:  
During FY 2013-2014, IWA changed its rate structure to a customized water budget with a five tiered rate structure.

Source: Indio Water Authority



INDIO WATER AUTHORITY  
Water Rates  
Last Ten Fiscal Years

Fiscal Year Ended June 30	Monthly Base Rate (1)		Rate per 100 Cubic Feet
2016	18.14	Tier 1	0.90
		Tier 2	1.35
		Tier 3	1.81
		Tier 4	2.71
		Tier 5	3.60
2015	16.79	Tier 1	0.83
		Tier 2	1.25
		Tier 3	1.67
		Tier 4	2.51
		Tier 5	3.34
2014	15.55	Tier 1	0.77
		Tier 2	1.16
		Tier 3	1.55
		Tier 4	2.32
		Tier 5	3.09
2013	9.24		1.16
2012	9.24		1.16
2011	9.24		1.16
2010	9.24		1.16
2009	8.48		1.06
2008	7.01		0.88
2007	5.70		0.71

(1) Rates are based on a 3/4" x 1" meter size, which is the standard household meter size.

Note:

During FY 2013-2014, IWA changed its rate structure to a customized water budget with a five tiered water rate structure.

Source: Indio Water Authority

INDIO WATER AUTHORITY  
Ten Largest Water Customers  
Last Ten Fiscal Years

Water Customer	Account Class	2007		2008		2009		2010		2011		2012		2013		2014		2015		2016		
		Water Charges	Percent of Total Water Revenues	Water Charges	Percent of Total Water Revenues	Water Charges	Percent of Total Water Revenues	Water Charges	Percent of Total Water Revenues	Water Charges	Percent of Total Water Revenues	Water Charges	Percent of Total Water Revenues	Water Charges	Percent of Total Water Revenues	Water Charges	Percent of Total Water Revenues	Water Charges	Percent of Total Water Revenues	Water Charges	Percent of Total Water Revenues	
ACDW Properties Inc.	Apartments	\$ 58,385	0.59%	\$ 63,683	0.54%	\$ 75,515	0.54%	\$ 79,053	0.55%	\$ 80,656	0.55%	\$ 82,672	0.55%	\$ 81,947	0.54%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	
Arabian Gardens MHP	Mobile Home Park							68,073	0.47%	81,198	0.55%	82,550	0.55%	78,368	0.51%	72,740	0.47%	63,095	0.39%	65,586	0.42%	
Arctic Glacier USA	Commercial	139,773	1.41%	72,834	0.61%	86,367	0.62%															
Cabazon Indian Reservation	Casino							71,193	0.49%					70,577	0.46%	70,860	0.45%	63,989	0.40%			
Capital Foresight Comm., LP	Apartments	42,415	0.43%					82,001	0.57%	79,682	0.54%	84,531	0.57%	71,419	0.47%			64,759	0.41%			
CV Housing	Apartments							89,362	0.62%	85,169	0.58%	93,581	0.63%	94,242	0.62%	86,822	0.55%					
Desert Air Homeowner's Assoc	RV Park	57,539	0.58%	67,248	0.57%	79,743	0.57%															
DSUSD - Indio High School	School	41,301	0.42%	53,909	0.45%	63,925	0.46%	78,292	0.54%	82,661	0.56%	83,952	0.56%			76,611	0.48%	69,683	0.44%	81,233	0.52%	
DSUSD - Middle School	School			37,432	0.31%	44,387	0.32%															
Empire Polo Club	Commercial																					
Indio Housing Authority	Apartments	59,928	0.60%	69,175	0.58%	82,028	0.58%															
Indio Housing Corporation	Apartments	33,919	0.34%																			
John F. Kennedy Memorial Hospital	Hospital							64,227	0.44%	61,261	0.42%											
Polo Estates Ventures	Commercial																					
Pueblo Del Sol	Mobile Home Park	46,807	0.47%	56,671	0.48%	67,200	0.48%	67,307	0.48%	71,210	0.49%			74,098	0.48%	75,437	0.48%			256,252	1.63%	
Rancho Casa Blanca	Mobile Home Park	51,905	0.52%	84,352	0.71%	100,025	0.71%	102,057	0.70%	106,551	0.73%	113,278	0.76%	107,277	0.70%	85,164	0.54%	63,500	0.40%	71,210	0.45%	
Riverside County	Government																				188,326	1.20%
Riverside County-Juvenile Hall	Government																					
Smoketree Apartments	Apartments			36,990	0.31%	43,863	0.31%															
Summerbreeze Homeowner's Assoc	Apartments																					
Summerfield Apartments	Apartments																					
Sunrise Point Apartments	Apartments	51,324	0.52%	70,721	0.59%	83,861	0.60%	95,139	0.66%	88,089	0.60%	124,103	0.83%	118,006	0.77%	136,069	0.87%	106,754	0.67%	140,456	0.90%	
Terra Lago	Commercial																					
The Club Worldmark	Time Share	\$ 583,196	5.88%	\$ 613,015	5.15%	\$ 726,914	5.19%	\$ 796,704	5.50%	\$ 889,421	6.07%	\$ 970,772	6.52%	\$ 903,905	5.91%	\$ 898,552	5.75%	\$ 785,187	4.92%	\$ 1,269,429	8.10%	

Source: Indio Water Authority

CITY OF INDIO  
Capital Asset Statistics and Operating Indicators  
Last Ten Fiscal Years

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b><u>Water Capital Assets</u></b>										
Water:										
Water mains (miles)	301	313	315	321	327	327	327	329	332	342
Maximum daily capacity (millions of gallons)	67	59	72	63	66	66	66	66	66	66
<b><u>Operating Indicators</u></b>										
New connections	823	964	489	261	330	0	258	488	397	223
Average daily consumption (millions of gallons)	21	20	19	18	18	18	18	20	18	15

Source: Indio Water Authority