

INDIO WATER AUTHORITY
A COMPONENT UNIT OF
THE CITY OF INDIO, CALIFORNIA
BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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THE CITY OF INDIO, CALIFORNIA

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

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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 Indio Water Authority (the "Authority"), a joint powers authority and blended component unit of the City of Indio, California, as of and for the year ended June 30, 2017, 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.

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 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 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.

Opinions

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, 2017, and the 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.





To the Board of Directors
Indio Water Authority
Indio, California

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis, the schedule of changes in net pension liability and related ratios, and the schedule of contributions 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 prior-year comparative information. Such information does not include all of the information 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 Authority's financial statements for the year ended June 30, 2016, 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 January 30, 2018, 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.

A handwritten signature in cursive script that reads "Lance, Soll & Lughard, LLP".

Brea, California
January 30, 2018

**INDIO WATER AUTHORITY
A COMPONENT UNIT OF THE CITY OF INDIO, CALIFORNIA**

**STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>
Assets:		
Current Assets:		
Cash and investments	\$ 19,555,901	\$ 15,489,494
Accounts receivable	4,121,175	5,987,521
Prepaid costs	648,540	667,249
Inventories	70,968	140,175
Restricted cash with fiscal agents	605,685	602,719
Total Current Assets	<u>25,002,269</u>	<u>22,887,158</u>
Noncurrent Assets:		
Capital assets, not being depreciated	8,656,288	9,114,143
Capital assets, being depreciated	300,145,937	299,050,770
Less accumulated depreciation	<u>(129,863,058)</u>	<u>(122,374,096)</u>
Total Noncurrent Assets	<u>178,939,167</u>	<u>185,790,817</u>
Total Assets	<u>203,941,436</u>	<u>208,677,975</u>
Deferred Outflows of Resources:		
Deferred charge on refunding	1,238,911	1,304,117
Deferred outflows related to pensions	<u>1,423,314</u>	<u>743,499</u>
Total Deferred Outflows of Resources	<u>2,662,225</u>	<u>2,047,616</u>
Liabilities:		
Current Liabilities:		
Accounts payable	1,350,790	4,758,209
Accrued liabilities	705,137	708,629
Accrued interest	561,897	569,109
Retentions payable	15,055	30,309
Deposits payable	516,882	442,970
Due to the City of Indio	40,418	4,975
Compensated absences, due within one year	212,789	231,578
Bonds and capital leases, due within one year	<u>1,890,000</u>	<u>1,860,000</u>
Total Current Liabilities	<u>5,292,968</u>	<u>8,605,779</u>
Noncurrent Liabilities:		
Compensated absences, due more than one year	-	18,359
Net pension liability	6,891,743	6,618,707
Bonds and capital leases, due more than one year	<u>56,263,265</u>	<u>58,209,277</u>
Total Noncurrent Liabilities	<u>63,155,008</u>	<u>64,846,343</u>
Total Liabilities	<u>68,447,976</u>	<u>73,452,122</u>
Deferred Inflows of Resources:		
Deferred inflows related to pensions	<u>238,133</u>	<u>468,077</u>
Total Deferred Inflows of Resources	<u>238,133</u>	<u>468,077</u>
Net Position:		
Net investment in capital assets	122,024,813	127,628,376
Restricted for debt service	605,685	-
Unrestricted	<u>15,287,054</u>	<u>9,177,016</u>
Total Net Position	<u>\$ 137,917,552</u>	<u>\$ 136,805,392</u>

INDIO WATER AUTHORITY
A COMPONENT UNIT OF THE CITY OF INDIO, CALIFORNIA

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2017

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
Sales and service charges	\$ 19,807,739	\$ 17,831,960
Drought rate penalties	2,505,724	1,288,617
Other income	50,281	74,781
Total Operating Revenues	<u>22,363,744</u>	<u>19,195,358</u>
Operating Expenses:		
Personnel services	3,638,689	4,033,274
Contractual services	5,343,234	8,310,452
Repairs and maintenance	2,826,450	1,670,899
Depreciation expense	7,693,946	7,534,999
Materials and supplies	724,950	1,178,872
Bad debt expense	136,434	49,645
Rentals and leases	12,666	10,661
Utilities	1,307,365	1,251,231
Total Operating Expenses	<u>21,683,734</u>	<u>24,040,033</u>
Operating Income (Loss)	<u>680,010</u>	<u>(4,844,675)</u>
Nonoperating Revenues (Expenses):		
Intergovernmental	1,536,689	4,264,134
Capital impact fees	1,106,687	1,502,753
Interest revenue	123,205	71,750
Interest expense	(2,334,431)	(2,383,878)
Total Nonoperating Revenues (Expenses)	<u>432,150</u>	<u>3,454,759</u>
Changes in Net Position	1,112,160	(1,389,916)
Net Position at the Beginning of the Year	<u>136,805,392</u>	<u>138,195,308</u>
Net Position at the End of the Year	<u>\$ 137,917,552</u>	<u>\$ 136,805,392</u>

INDIO WATER AUTHORITY
A COMPONENT UNIT OF THE CITY OF INDIO, CALIFORNIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2017

	2017	2016
Cash Flows from Operating Activities:		
Receipts from customers and users	\$ 24,167,568	\$ 15,401,308
Payments to suppliers and service providers	(13,549,422)	(8,660,599)
Payments to employees for salaries and benefits	(4,316,052)	(4,243,825)
Net Cash Provided by Operating Activities	6,302,094	2,496,884
Cash Flows from Non-Capital Financing Activities:		
Short-term borrowing from the City of Indio	35,443	4,975
Net Cash Provided by Non-Capital Financing Activities	35,443	4,975
Cash Flows from Capital and Related Financing Activities:		
Capital impact fees	1,106,687	1,502,753
Acquisition and construction of capital assets	(842,296)	(2,134,377)
Capital grants	1,536,689	4,264,134
Principal paid on capital debt	(1,860,000)	(1,490,000)
Interest paid on capital debt	(2,332,449)	(1,994,969)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(2,391,369)	147,541
Cash Flows from Investing Activities:		
Interest on investments	123,205	71,787
Net Cash Provided by Investing Activities	123,205	71,787
Net Increase in Cash and Cash Equivalents	4,069,373	2,721,187
Cash and Cash Equivalents July 1	16,092,213	13,371,026
Cash and Cash Equivalents June 30	\$ 20,161,586	\$ 16,092,213
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:		
Operating loss	\$ 680,010	\$ (4,844,675)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation expense	7,693,946	7,534,999
(Increase) decrease in accounts receivable	1,866,346	(3,789,277)
Decrease in prepaid costs	18,709	21,263
Decrease in inventories	69,207	15,936
(Increase) in deferred outflows related to pensions	(679,815)	(75,996)
Increase (decrease) in accounts payable	(3,407,419)	3,783,982
Increase (decrease) in accrued liabilities	(3,492)	34,822
Decrease in retentions payable	(15,254)	(59,665)
Increase in deposits payable	73,912	44,872
Increase (decrease) in compensated absences	(37,148)	11,144
Increase in net pension liability	273,036	331,022
Decrease in deferred inflows related to pensions	(229,944)	(511,543)
Total Adjustments	5,622,084	7,341,559
Net Cash Provided by Operating Activities	\$ 6,302,094	\$ 2,496,884

INDIO WATER AUTHORITY
A COMPONENT UNIT OF THE CITY OF INDIO, CALIFORNIA

STATEMENT OF NET POSITION
FIDUCIARY FUND
JUNE 30, 2017

	<u>Agency Fund</u>
Assets:	
Pooled cash and investments	\$ 127,553
Total Assets	<u><u>\$ 127,553</u></u>
Liabilities:	
Accounts payable	\$ 13,685
Deposits payable	113,868
Total Liabilities	<u><u>\$ 127,553</u></u>

**INDIO WATER AUTHORITY
A COMPONENT UNIT OF THE CITY OF INDIO, CALIFORNIA**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

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
A COMPONENT UNIT OF THE CITY OF INDIO, CALIFORNIA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

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, 2017, and revenues and expenses for the fiscal year then ended. Actual results may significantly differ from those estimates.

**INDIO WATER AUTHORITY
A COMPONENT UNIT OF THE CITY OF INDIO, CALIFORNIA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

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.

**INDIO WATER AUTHORITY
A COMPONENT UNIT OF THE CITY OF INDIO, CALIFORNIA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

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, 2017 totaled \$2,334,431.

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
A COMPONENT UNIT OF THE CITY OF INDIO, CALIFORNIA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

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, 2017 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and investments	\$ 5,683,773
Cash and investments held by bond trustee	605,685
Cash and investments pooled with the City of Indio	13,872,128
Fiduciary Funds:	
Cash and investments	127,553
	<hr/>
Total cash and investments	<u>\$ 20,289,139</u>

Cash and investments as of June 30, 2017 consist of the following:

Cash on hand	\$ 1,750
Deposits with financial institutions	5,809,576
Cash and investments pooled with the City of Indio	13,872,128
Investments	605,685
	<hr/>
Total cash and investments	<u>\$ 20,289,139</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
A COMPONENT UNIT OF THE CITY OF INDIO, CALIFORNIA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

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	\$ 10,327,162	\$ 10,327,162	\$ -	\$ -	\$ -
Statement investment pool	3,544,966	3,544,966	-	-	-
Held by Bond Trustee: Money Market Funds	605,685	605,685	-	-	-
Total	\$ 14,477,813	\$ 14,477,813	\$ -	\$ -	\$ -

**INDIO WATER AUTHORITY
A COMPONENT UNIT OF THE CITY OF INDIO, CALIFORNIA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

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	\$ 10,327,162	N/A	\$ -	\$ -	\$ 10,327,162
State investment pool	3,544,966	N/A	-	-	3,544,966
Held by Bond Trustee: Money Market Funds	605,685	AAA	-	605,685	-
Total	\$ 14,477,813		\$ -	\$ 605,685	\$ 13,872,128

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, 2017, 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
A COMPONENT UNIT OF THE CITY OF INDIO, CALIFORNIA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

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, 2017:

Investments	Fair Value	Level		
		1	2	3
Cash and investments pooled				
with the City of Indio	\$ 10,327,162	\$ -	\$ 10,327,162	\$ -
State Investment Pool	3,544,966	-	3,544,966	-
Held by Bond Trustee:				
Money Market Funds	605,685	-	605,685	-
	<u>\$ 14,477,813</u>	<u>\$ -</u>	<u>\$ 14,477,813</u>	<u>\$ -</u>

Note 3: Capital Assets

Capital asset activity for the fiscal year ended June 30, 2017 is as follows:

	Balance July 1, 2016	Additions	Deletions	Transfers	Balance June 30, 2017
Structures and improvements	\$ 14,939,434	\$ -	\$ -	\$ -	\$ 14,939,434
Machinery and equipment	2,940,038	-	-	-	2,940,038
Vehicles	1,722,512	239,724	204,984	-	1,757,252
Utility distribution system	279,448,786	-	-	1,060,427	280,509,213
Total cost of depreciable assets	<u>299,050,770</u>	<u>239,724</u>	<u>204,984</u>	<u>1,060,427</u>	<u>300,145,937</u>
Less accumulated depreciation:					
Structures and improvements	2,047,077	373,467	-	-	2,420,544
Machinery and equipment	1,874,799	237,742	-	-	2,112,541
Vehicles	1,326,463	94,308	204,984	-	1,215,787
Utility distribution system	117,125,757	6,988,429	-	-	124,114,186
Total accumulated depreciation	<u>122,374,096</u>	<u>7,693,946</u>	<u>204,984</u>	<u>-</u>	<u>129,863,058</u>
Net depreciable assets	<u>176,676,674</u>	<u>(7,454,222)</u>	<u>-</u>	<u>1,060,427</u>	<u>170,282,879</u>
Capital assets not depreciated:					
Construction in process	7,411,133	602,572	-	(1,060,427)	6,953,278
Land	1,703,010	-	-	-	1,703,010
Total capital assets not depreciated	<u>9,114,143</u>	<u>602,572</u>	<u>-</u>	<u>(1,060,427)</u>	<u>8,656,288</u>
Capital assets, net	<u>\$ 185,790,817</u>	<u>\$ (6,851,650)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 178,939,167</u>

**INDIO WATER AUTHORITY
A COMPONENT UNIT OF THE CITY OF INDIO, CALIFORNIA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

Note 4: Long-Term Liabilities

	Beginning 7/1/2016	Addition	Deletion	Ending 6/30/2017	Due in One Year	Beyond One Year
Bonds payable:						
2015A Water Revenue Refunding	\$ 51,065,000	\$ -	\$ -	\$ 51,065,000	\$ -	\$ 51,065,000
2015B Water Revenue Refunding	7,660,000	-	1,860,000	5,800,000	1,890,000	3,910,000
Issue premium on bonds	1,344,277	-	56,012	1,288,265	-	1,288,265
Subtotal	60,069,277	-	1,916,012	58,153,265	1,890,000	56,263,265
Net Pension Liability	6,618,707	1,016,535	743,499	6,891,743	-	6,891,743
Compensated Absences *	249,937	262,678	299,826	212,789	212,789	-
Subtotal	6,868,644	1,279,213	1,043,325	7,104,532	212,789	6,891,743
Total	<u>\$ 66,937,921</u>	<u>\$ 1,279,213</u>	<u>\$ 2,959,337</u>	<u>\$ 65,257,797</u>	<u>\$ 2,102,789</u>	<u>\$ 63,155,008</u>

* Compensated absences are considered to be current as of June 30, 2017.

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
A COMPONENT UNIT OF THE CITY OF INDIO, CALIFORNIA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

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
A COMPONENT UNIT OF THE CITY OF INDIO, CALIFORNIA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

Note 4: Long-Term Liabilities (Continued)

Debt Service Requirements to Maturity

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

Fiscal Year Ending June 30,	Principal	Interest	Total
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	2,155,000	1,999,863	4,154,863
2023-2017	12,500,000	8,271,813	20,771,813
2028-2032	15,175,000	5,601,569	20,776,569
2023-2037	15,460,000	2,507,219	17,967,219
2038-2040	3,720,000	337,931	4,057,931
	<u>\$ 51,065,000</u>	<u>\$ 27,128,847</u>	<u>\$ 78,193,847</u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total
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>\$ 5,800,000</u>	<u>\$ 306,249</u>	<u>\$ 6,106,249</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 \$59,181. 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, 2017 of \$6,891,743 to record the net pension liability as of June 30, 2017.

**INDIO WATER AUTHORITY
A COMPONENT UNIT OF THE CITY OF INDIO, CALIFORNIA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

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
2018	\$ 5
2019	5
2020	5
2021	5
2022	5
2023-2027	25
2028-2032	25
2033-2037	25
	\$ 100

Note 7: Deferred Inflows and Outflows of Resources

The deferred outflows of resources in the amounts of \$1,423,314 and \$1,238,911 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 \$238,133 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, 2017, 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, 2017 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
A COMPONENT UNIT OF THE CITY OF INDIO, CALIFORNIA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

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.

STATISTICAL SECTION

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

Type of Customer:	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Single-Family Residential	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	4,459,372
Multi-Family Residential	1,252,174	1,211,311	1,159,934	1,149,631	1,165,519	1,066,970	978,114	838,995	639,273	661,020
Commercial/Institutional	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	1,097,366
Industrial	90,848	69,675	63,468	56,401	59,114	61,707	72,389	66,423	54,401	58,018
Landscaping/Irrigation	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	924,444
Total	9,717,837	9,264,547	8,801,278	8,875,132	9,063,055	8,727,884	8,877,825	8,070,202	6,765,020	7,200,220

Total commodity rate
per 100 cubic feet

\$ 0.88	\$ 1.06	\$ 1.16	\$ 1.16	\$ 1.16	\$ 1.16	\$ 1.16	Tiered Rates	Tiered Rates	Tiered Rates	Tiered Rates
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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
2017	19.59	Tier 1	0.97
		Tier 2	1.31
		Tier 3	1.95
		Tier 4	2.92
		Tier 5	3.89
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

(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	Fiscal Year																											
		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017																		
ACDW Properties Inc.	Apartments	\$ 63,683	\$ 75,515	\$ 79,083	\$ 80,656	\$ 82,672	\$ 81,947	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.54%	0.54%	0.55%	0.55%	0.56%	0.54%	0.51%	0.00%	0.00%	0.00%	0.00%	0.00%		
Arabian Gardens MHP	Mobile Home Park			68,073	81,198	82,550	78,368	72,740	63,095	142,458	65,566	142,458	65,566	65,566	65,566	65,566	0.47%	0.47%	0.55%	0.51%	0.47%	0.39%	0.91%	0.91%	0.91%	0.91%	0.91%	0.91%	
Arctic Glacier USA	Commercial																												
Cabazon Indian Reservation	Casino	72,854	86,367																										
Capital Foresight Comm., LP	Apartments																												
Casa Monroe Apartments	Apartments																												
CV Housing	Apartments																												
Desert Air Homeowner's Assoc	RV Park	67,248	79,743	89,362	85,169	93,581	94,242	86,822	86,822	86,822	86,822	86,822	86,822	86,822	86,822	86,822	0.57%	0.57%	0.62%	0.58%	0.63%	0.62%	0.56%	0.56%	0.56%	0.56%	0.56%	0.56%	
DSUSD - Indio High School	School	53,909	63,925	78,292	82,661	83,952	83,952	76,611	69,683	81,233	81,233	81,233	81,233	81,233	81,233	81,233	0.45%	0.46%	0.56%	0.56%	0.49%	0.44%	0.52%	0.52%	0.52%	0.52%	0.52%	0.52%	
DSUSD - Amistad HS	School																												
DSUSD - Middle School	School	37,432	44,387																										
Empire Polo Club	Commercial																												
Fantasy Springs Casino	Commercial																												
Indio Housing Authority	Apartments	69,175	82,028																										
Indio Housing Corporation	Apartments																												
John F. Kennedy Memorial Hospital	Hospital																												
Philip S Moreau	RV Park																												
Polo Estates Ventures	Commercial																												
Pueblo Del Sol	Mobile Home Park	56,671	67,200	67,307	71,210	74,098	74,098	75,437	74,098	75,437	75,437	75,437	75,437	75,437	75,437	75,437	0.48%	0.48%	0.46%	0.49%	0.48%	0.48%	0.48%	0.48%	0.48%	0.48%	0.48%	0.48%	
Rancho Casa Blanca	Mobile Home Park	84,352	100,025	102,057	106,551	113,278	107,277	85,164	85,164	85,164	85,164	85,164	85,164	85,164	85,164	85,164	0.71%	0.71%	0.73%	0.73%	0.76%	0.70%	0.54%	0.54%	0.54%	0.54%	0.54%	0.54%	
Riverside County	Government																												
Riverside County - Juvenile Hall	Government	36,990	43,863																										
Smoketree Apartments	Apartments																												
Summerbreeze Homeowner's Assoc	Apartments																												
Summerfield Apartments	Apartments																												
Sunrise Point Apartments	Apartments																												
Terra Lago	Commercial	70,721	83,861	95,139	88,089	136,612	135,586	137,253	135,586	136,612	136,612	136,612	136,612	136,612	136,612	136,612	0.59%	0.60%	0.66%	0.60%	0.92%	0.89%	0.88%	0.88%	0.88%	0.88%	0.88%	0.88%	
The Club Worldmark	Time Share																												
Waller Tract Water - HAML	Residential																												
		\$613,015	\$726,914	\$796,704	\$889,421	\$970,772	\$903,905	\$898,552	\$785,187	\$854,664	\$854,664	\$854,664	\$854,664	\$854,664	\$854,664	\$854,664	5.15%	5.19%	5.50%	6.07%	6.52%	5.91%	5.75%	4.92%	8.10%	8.10%	4.90%	4.90%	

Source: Indio Water Authority

INDIO WATER AUTHORITY
 Capital Asset Statistics and Operating Indicators
 Last Ten Fiscal Years

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<u>Capital Assets</u>										
Water mains (miles)	313	315	321	327	327	327	329	332	342	343
Maximum daily capacity (millions of gallons)	59	72	63	66	66	66	66	66	66	66
<u>Operating Indicators</u>										
New connections	964	489	261	330	0	258	488	397	223	320
Average daily consumption (millions of gallons)	20	19	18	18	18	18	20	18	15	15

Source: City of Indio