



Cabazon Water District
14618 Broadway Street • P.O. Box 207
Cabazon, California 92230

FINANCE & AUDIT COMMITTEE MEETING

AGENDA

Meeting Location:
Cabazon Water District Office
14618 Broadway Street
Cabazon, California 92230

Meeting Date:
Tuesday, December 17, 2019 -- 5:00 PM

CALL TO ORDER,
PLEDGE OF ALLEGIANCE,
ROLL CALL
FINANCE & AUDIT COMMITTEE

1. Discussion: Finance & Audit Committee Report
 - Balance Sheet
 - Profit and Loss Budget Comparison

2. Finance & Audit Committee District Payables Review and Approval/Signing

PUBLIC COMMENT

Any person may address the Board of Directors at this time on any matter within the subject matter jurisdiction of the Cabazon Water District; however, any matter that requires action will be referred to staff for investigation and reported at a subsequent Board of Directors meeting. The Board of Directors is prohibited by law from discussing or taking immediate action on items during this public comment period. To comment on specific agenda items, please advise the Board secretary prior to the meeting. Each public comment will be limited to three (3) minutes. Individuals may not give their time away to another spokesperson. After two (2) minutes, the speaker will be notified that he/she has one (1) minute remaining. AB 1234 ORAL REPORTS (Gov. Code Sec. 53232.3(d))

ADJOURNMENT

ADA Compliance Issues

In compliance with the Americans with Disabilities Act & Government Code Section 54954.2, if special assistance is needed to participate in a Board meeting, please contact the Clerk of the Board at (951) 849-4442. Notification of at least 48 hours prior to meeting time will assist staff in assuring that reasonable arrangements can be made to provide accessibility at the meeting.

1. Discussion/Action: Reorganization of the CWD Board of Directors (Board Chair, Vice Chair, Ad Hoc Committees, etc.)

OLD BUSINESS

1. Discussion/Action: User Fee Study (District incident fees and charges, etc.): Presentation and adoption of suggested fee adjustments. (by NBS)
2. Discussion/Action: Review and approval of the Fiscal Year (FY) 2018-2019 Audited Financial Statements (by Fedak and Brown)
3. Discussion/Action: Fire Suppression System Installation and Meter Charges (by Director Lynk)
4. Discussion: Sustainable Groundwater Management Act (SGMA) Update (by EM Louie)

PUBLIC COMMENTS

Any person may address the Board of Directors at this time on any matter within the subject matter jurisdiction of the Cahazon Water District that is not listed on the agenda; however, any matter that requires action will be referred to staff for investigation and reported at a subsequent Board of Directors meeting. The Board of Directors is prohibited by law from discussing or taking immediate action on items during this public comment period. To comment on specific agenda items, please advise the Board secretary prior to the meeting. Each public comment will be limited to three (3) minutes. Individuals may not give their time away to another spokesperson. After two (2) minutes, the speaker will be notified that he/she has one (1) minute remaining. AB 1234 ORAL REPORTS (Gov. Code Sec. 63232.3(d))

GENERAL MANAGER/BOARD COMMENTS

1. Future Agenda Items

The Board Chair or the majority of the Board may direct staff to investigate and report back to an individual(s) and the Board on matters suggested or direct the General Manager/Board Secretary to place the matter on a future Board meeting.

- Suggested agenda items from the Public.
- Suggested agenda items from Management.
- Suggested agenda items from Board Members.

2. Management Comments

Staff members may speak on items of information not requiring comment or discussion to the Board and public. Topics which may be included on a future meeting agenda may be presented but cannot be discussed. (3 minutes)

3. Board Member Comments

Board members may speak on items of information not requiring comment or discussion to the Board and public. (3 minutes)

MISCELLANEOUS

1. Future Board Items/Next Board Meeting Date(s)

- a. Finance & Audit Workshop – Tuesday – January 21, 2020, 5:00 pm
- b. Regular Board Meeting – Tuesday – January 21, 2020, 6:00 pm
- c. Personnel Committee – None
- d. San Geronimo Pass Regional Water Alliance – Alliance Meeting – Wednesday –

ADJOURNMENT

AJA Compliance Issues

In compliance with the Americans with Disabilities Act & Government Code Section 54954.2, if special assistance is needed to participate in a Board meeting, please contact the Clerk of the Board at (951) 849-4442. Notification of at least 48 hours prior to meeting time will assist staff in security and reasonable accommodations can be made to provide access.



Cabazon Water District
14618 Broadway Street • P.O. Box 297
Cabazon, California 92230

FINANCE & AUDIT COMMITTEE MEETING

MINUTES

Meeting Location:
Cabazon Water District Office
14618 Broadway Street
Cabazon, California 92230

Meeting Date:
Tuesday, November 19, 2019 -- 5:00 PM

CALL TO ORDER
PLEDGE OF ALLEGIANCE
ROLL CALL

Director Wargo - Present
Director Israel - Present

Calvin Louie (General Manager) - Present
Elizabeth Lemus, Board Secretary - Present
Cindy Byerrum, Financial Consultant - Present

***Note: This meeting was recorded by the District -**

FINANCE & AUDIT COMMITTEE

1. Discussion: Finance & Audit Committee Report
 - Balance Sheet
 - Profit and Loss Budget Comparison

Balance Sheet

The District's combined Cash with Chaso and LA F balance was \$880,570 at month end. The District's total liabilities were approximately \$1.028 million at month end.

Profit and Loss:

19. Total Revenues, includes the combined total of Operating and Non-Operating Revenues.

30. Workers Compensation: YTD is at 59% due to timing of workers comp payments.

- 43. Well Maintenance: Includes costs for well maintenance as well as chemical purchases for wells. YTD is over budget due to invoices from Applied Diving for Tank 1 diving inspection & cleaning (\$57.8K) & Invoice from Legend Pump & Well Services relating to Well 1 Rehab (\$29.1K).
- 66. Office Expenses – Other: Includes miscellaneous office expenses. YTD is trending below target at 22%.
- 67. Total Office Expenses: Summarizes total District office expenses. YTD is trending below target at 27%.
- 78. Other Fees/SWRCB: YTD is at 50% due to timing of Riverside County Fees & payment of a blanket encroachment permit (\$2K; not anticipated in budget)
- 90. Grant & Loan Processing Fee: Loan fee from BNY. YTD is at 90% due to timing of loan fee payment.
- 91. DWR Interest Expense: YTD is at 52% due to timing of interest payments.
- 92. DHPO Interest Expense: YTD is at 63% due to timing of interest payments.

As of October 31st, the fiscal year-to-date net loss is \$(29,325)

2. Finance & Audit Committee District Payables Review and Approval/Signing

PUBLIC COMMENT

Any person may address the Board of Directors at this time on any matter within the subject matter jurisdiction of the Cabazon Water District however any matter that requires action will be referred to staff for investigation and reported at a subsequent Board of Directors meeting. The Board of Directors is prohibited by law from discussing or taking immediate action on items during this public comment period. To comment on specific agenda items, please advise the Board secretary prior to the meeting. Each public comment will be limited to three (3) minutes. Individuals may not give their time away to another spokesperson. After two (2) minutes, the speaker will be notified that he/she has one (1) minute remaining. AB 1234 ORAL REPORTS (Gov. Code Sec. 53232.3(d))

ADJOURNMENT

Motion to adjourn at 17:18 hr. made by Director Wargo and 2nd by Director Israel.

Meeting adjourned at 17:18 hr. on Tuesday, September 17, 2019

Robert Lynk, Board Chair
Board of Directors
Cabazon Water District

Elizabeth Lemus, Secretary
Board of Directors
Cabazon Water District

ADA Compliance Issues

In compliance with the Americans with Disabilities Act & Government Code Section 54954.2, if special assistance is needed to participate in a Board meeting, please contact the Clerk of the Board at (951) 849-4442. Notification of at least 48 hours prior to meeting time will assist staff in assuring that reasonable arrangements can be made to provide accessibility at the meeting.



Cabazon Water District
14618 Broadway Street • P.O. Box 297
Cabazon, California 92230

REGULAR BOARD MEETING

MINUTES

Meeting Location:
Cabazon Water District Office
14618 Broadway Street
Cabazon, California 92230

Meeting Date:
Tuesday, November 19, 2019 6:00 PM

CALL TO ORDER

PLEDGE OF ALLEGIANCE

REMEMBRANCE OF OUR SERVICE MEN AND WOMEN

ROLL CALL

Director Martin Sanderson - Present
Director Maxine Israel - Present
Director Sarah Wargo - Present
Director Alan Davis - Present
Director Robert Lynk - Present

Calvin Louie, General Manager - Present
Elizabeth Lemus, Board Secretary - Present
Cindy Byernum, Financial Consultant - Present
Steve Anderson, Best Best & Krieger Law Firm - Present
Joseph Ortiz, Best Best & Krieger Law Firm - Absent

Note: This meeting was recorded by the District -

CONSENT CALENDAR

All matters in this category are considered to be consistent with the Board/District goals, District Policies and Regulations adopted and/or approved by the Board of Directors, and will be enacted in one motion. There will be no separate discussion of these items. If discussion is required, items may be removed from the consent calendar and will be considered separately.

1. Approval of:

- a. Finance and Audit Committee Meeting Minutes and Warrants approved by the committee on October 14, 2019
 - b. Regular Board Meeting Minutes and Warrants of October 14, 2019
2. Warrants – None
 3. Awards of Contracts – None

Motion to approve following consent calendar item(s) (a.) Finance and Audit Committee Meeting Minutes of (a) October 14, 2019, and (b.) Regular Board Meeting Minutes of October 14, 2019, made by Director Wargo and 2nd by Director Israel

Director Sanderson - Aye
Director Israel - Aye
Director Wargo - Aye
Director Davis - Aye
Director Lynk - Abstain

UPDATES

1. Update: **San Geronimo Pass Regional Water Alliance Update**
(by Director Davis)

No meeting in October, Director Israel will be attending the next meeting, which will be November 20, 2019.
2. Update: **Manager's Operations Report**
(by GM Louie)

Bonta Vault. leaking, repairs greatly needed. Failure may be cause of water system pressure spikes.

Leak discovered on Esperanza/Broadway. Looks to be the main line.

Edison PSPS events concerning. Reviewing options for events, such as additional backup generators.

1 vacancy in the Field Operations dept. for CWD Application closing date Nov. 21, 2019.

NEW BUSINESS

1. Discussion/Action: **Customer Concern: Water Usage on Marino St. – Salvador Flores**

Customer did not appear.

Motion to table Mr. Salvador Flores' customer concern item made by Director Wargo and 2nd by Director

***Note: no second or roll call vote was made, but it was the consensus of the Board to table this item.**

2. Discussion/Action: User Fee Study (District Incident fees and charges, etc.): Presentation and adoption of suggested fee adjustments. (by NBS)

Nicole Kissam gave a presentation and answered any questions the Board had. They clarified with her the correct way to read the report, and wished to spend additional time reviewing it, therefore requesting that this item be tabled until the December 2019 Board Meeting.

Motion to table any decision regarding the User Fee Study presented by NBS made by Director Wargo and 2nd by Director _____.

*Note: no second or roll call vote was made, but it was the consensus of the Board to table this item until the December 2019 Board Meeting, in order to provide Directors additional time to review the report.

3. Discussion/Action: Review and approval of the Fiscal Year (FY) 2018-2019 Audited Financial Statements (by Fedak and Brown)

Motion to receive the report regarding the FY 2018-2019 Audited Financial Statements presented by Fedak and Brown made by Director Davis and 2nd by Director _____.

*Note: no second or roll call vote was made, but it was the consensus of the Board to table this item until the December 2019 Board Meeting, in order to provide Directors additional time to review the report.

*Note: a short break from 18:54 hr to 19:03 hr, was taken.

4. Discussion/Action: Automatic Rate Adjustment/District Meter and Water Usage Charges (Director Wargo and Israel)

The Board wanted to review the possibility of whether the District could lower the scheduled annual rate adjustment while being financially responsible to the District. The District's accountant explained the different scenarios and potential outcomes.

Motion to approve continue with the current annual rate adjustment as previously scheduled and to review performing a new rate study in 2020 (instead of 2021) made by Director Wargo and 2nd by Director Israel.

Director Sanderson - Aye
Director Israel - Aye
Director Wargo - Aye
Director Davis - Aye
Director Lynk - Aye

5. Discussion/Action: LAIF Transfer Request (transfer from the District's LAIF account to the District's General account in order to pay for the Tank/Well #1 repairs and maintenance) (by AGM Lemus)

Due to the unexpected Well #1 / Tank #1 maintenance, Lemus requested that \$30,000 be transferred from the District's LAIF account to the District's General account as a buffer for future expenses/bills.

Motion to approve a \$30,000 transfer from the District's LAIF account to the District's General account made by Director Israel and 2nd by Director Davis.

Director Sanderson - Aye
Director Israel - Aye
Director Wargo - Aye
Director Davis - Aye
Director Lynk - Aye

6. Discussion/Action: Approval of RESOLUTION 2019-03: Authorizing the GM to Accept Interest in Real Property on Behalf of CWD. (by AGM Lemus)

This resolution is simply to authorize the GM to sign for Real Property on behalf of the District in the future (instead of requiring the Board Chair to come in and sign every time something is needed). Acquiring real property would still first need to be approved by the Board before an acquisition can be obtained.

Motion to approve RESOLUTION 2019-03: Authorizing the GM to Accept Interest in Real Property on Behalf of CWD made by Director Sanderson and 2nd by Director Davis.

Director Sanderson - Aye
Director Israel - Aye
Director Wargo - Abstain
Director Davis - Aye
Director Lynk - Aye

CLOSED SESSION @ 19:32 hour.

{1} CONFERENCE WITH LEGAL COUNSEL - Potential Litigation vs. Cabaszon Water District (1 case)

OPEN SESSION @ 19:47 hour.

No action taken, and nothing to report.

OLD BUSINESS

1. Discussion/Action: Fire Suppression System Installation and Meter Charges (by Director Lynk)

Motion to table this item for the December board meeting made by Director Davis and 2nd by Director _____.

*Note: no second or roll call vote was made, but it was the consensus of the Board to table this item until the December 2019 Board Meeting, in order to provide Directors additional time to review the report.

2. **Discussion:** Sustainable Groundwater Management Act (SGMA) Update
(by GM Louie)
- Prop 1 IRWM Implementation Grant Program Pre-application Workshop updates.
- SGP GSP Kickoff meeting updates.

PUBLIC COMMENTS

Any person may address the Board of Directors at this time on any matter within the subject matter jurisdiction of the Cabazon Water District that is not listed on the agenda; however, any matter that requires action will be referred to staff for investigation and reported at a subsequent Board of Directors meeting. The Board of Directors is prohibited by law from discussing or taking immediate action on items during this public comment period. To comment on specific agenda items, please advise the Board secretary prior to the meeting. Each public comment will be limited to three (3) minutes. Individuals may not give their time away to another spokesperson. After two (2) minutes, the speaker will be notified that he/she has one (1) minute remaining. AB 1734 ORAL REPORTS (Gov. Code Sec. 53232.5(d))

GENERAL MANAGER/BOARD COMMENTS

1. **Future Agenda Items**

The Board Chair or the majority of the Board may direct staff to investigate and report back to an individual(s) and the Board on matters suggested or direct the General Manager/Board Secretary to place the matter on a future Board meeting.

- Suggested agenda items from the Public.
- Suggested agenda items from Management.
- Suggested agenda items from Board Members.

2. **Management Comments**

Staff members may speak on items of information not requiring comment or discussion to the Board and public. Topics which may be included on a future meeting agenda may be presented but cannot be discussed. (3 minutes)

3. **Board Member Comments**

Board members may speak on items of information not requiring comment or discussion to the Board and public. (3 minutes)

MISCELLANEOUS

1. **Future Board Items/Next Board Meeting Date(s)**
- a. Finance & Audit Workshop – Tuesday – December 17, 2019, 5:00 pm
 - b. Regular Board Meeting – Tuesday – December 17, 2019, 6:00 pm

- c. Personnel Committee – None
- d. San Geronio Pass Regional Water Alliance – Alliance Meeting – Wednesday – Nov. 20, 2019.
5:00 pm.

ADJOURNMENT

Motion to adjourn at 20:03 hr. made by Director Davls and 2nd by Director Israel.

Director Sanderson - Aye
Director Israel - Aye
Director Wargo - Aye
Director Davls - Aye
Director Lynk - Aye

Meeting adjourned at 20:03 hr. on Tuesday, November 19, 2019.

Robert Lynk, Board Chair
Board of Directors
Cabazon Water District

Elizabeth Lamus, Secretary
Board of Directors
Cabazon Water District

ADA Compliance Issue

In compliance with the Americans with Disabilities Act & Government Code Section 54804.2, if special assistance is needed to participate in a Board meeting, please contact the Clerk of the Board at (951) 849-4442. Notification of at least 48 hours prior to meeting time will assist staff in assuring that reasonable arrangements can be made to provide access.

Cabazon Water District
Profit & Loss
November 2019

	Nov. 2019	Current YTD	FY 19/20 Budget	YTD (42%)
1 REVENUES				
2 OPERATING INCOME				
3 Base Rate - Water Bills	\$ 12,826	\$ 363,254	\$ 889,300	41%
4 Commodity Sales	38,763	168,944	320,600	53%
5 DHPO Contract	11,827	81,554	211,700	39%
6 Fire Sales - Water Bills	439	2,95	3,900	56%
7 Penalty Fees - Water Bills	4,716	23,520	44,900	52%
8 New Account Fees - Water Bills	85	565	1,800	31%
9 Returned Check Fees	-	180	400	45%
10 Basic Facilities Fee	13,384	22,690	18,900	120%
11 Stand By Fees - Tax Revenue	-	-	113,600	0%
12 TOTAL OPERATING INCOME	112,040	663,306	1,605,100	41%
13 NON-OPERATING INCOME				
14 Property Taxes	11,889	12,481	60,900	20%
15 Cell Tower Lease Income	4,174	12,523	25,100	50%
16 Misc. Non Operating Income	-	6,323	-	0%
17 Interest Income	526	7,243	19,300	35%
18 TOTAL NON-OPERATING INCOME	16,590	38,570	105,300	37%
19 TOTAL REVENUES	148,630	701,877	1,710,400	41%
20 EXPENSES				
21 PAYROLL				
22 Director's Fees	1,300	5,900	20,000	30%
23 Management & Customer Service				
24 Customer Accounts	4,101	22,956	52,100	44%
25 Business Admin. Manager	5,669	31,368	74,700	42%
26 General Manager	6,862	37,792	95,600	40%
27 Total Management & Customer Service	16,632	92,116	222,400	41%
28 Field Workers	13,181	74,468	168,300	44%
29 Employee Benefits Expense				
30 Workers Comp.	913	4,363	6,200	74%
31 Employee Health Care	7,433	37,164	67,000	55%
32 Pension	6,092	33,962	78,300	43%
33 Total Employee Benefits Expense	14,438	75,690	151,500	50%
34 Payroll Taxes	2,353	13,816	33,200	42%
35 TOTAL PAYROLL	47,004	261,990	595,400	41%

Cabazon Water District

Profit & Loss

November 2019

		FY 19/20			
		Nov. 2019	Current YTD	Budget	YTD (42%)
36	OPERATIONAL EXPENSES				
37	Facilities, Wells, T&D				
38	Lab Fees	136	1,617	8,700	19%
39	Meters	100	150	4,700	3%
40	Utilities - Wells	2,750	37,734	124,000	30%
41	Line R&M Contractor	-	-	12,500	0%
42	Line R&M Materials	312	6,878	60,000	11%
43	Well Maintenance	-	86,645	37,000	234%
44	Security	1,955	7,975	24,800	32%
45	Grant Writing Services	-	-	10,000	0%
46	Engineering Services	8,629	32,483	46,500	70%
47	Facilities, Wells, T&D - Other	45	1,005	12,400	8%
48	Total Facilities, Wells, T&D	5,017	77,697	340,600	52%
49	Utilities - Office				
50	Electricity	872	7,645	19,000	40%
51	Gas	31	146	1,000	15%
52	Telephone	839	4,192	9,800	43%
53	Trash Pickup & Office Cleaning	389	1,844	4,500	41%
54	Total Utilities - Office	2,112	13,827	34,300	40%
55	Office Expenses				
56	Water Billing System	177	886	2,100	42%
57	Supplies & Equipment	214	1,393	9,900	14%
58	Copier Lease & Printing Supplies	237	1,525	6,000	25%
59	Dues & Subscriptions	-	208	4,900	4%
60	Postage	606	1,303	7,900	42%
61	Printing & Publications	-	179	6,200	1%
62	Computer Services	2,797	15,371	36,800	42%
63	Office Storage	-	2,000	6,100	33%
64	Air Conditioning Servicing	418	2,090	4,900	43%
65	CA Water Systems Alliance	208	1,042	2,500	42%
66	Office Expenses - Other	-	641	2,900	22%
67	Total Office Expenses	4,649	28,811	90,200	32%
68	Support Services				
69	Financial Audit	1,778	9,130	22,500	41%
70	Accounting	1,097	11,468	35,000	33%
71	Legal Services	1,484	11,729	52,000	61%
72	Bank Service Charges	72	304	700	43%

Cabazon Water District
Profit & Loss
November 2019

		FY 19/20			
		Nov. 2019	Current YTD	Budget	YTD (42%)
73	Payroll Service	323	1,930	4,700	41%
74	Website Support	75	450	900	50%
75	General Liability Insurance	1,962	9,810	23,400	42%
76	Total Support Services	10,991	59,894	139,300	50%
77	Training/Travel	6,068	11,843	26,400	45%
78	Other Fees/SWRCB	-	5,017	7,100	65%
79	Service Tools & Equipment				
80	Shop Supplies and Small Tools	-	2,919	8,700	34%
81	Vehicle Fuel	1,711	6,325	6,600	38%
82	Employee Uniforms	415	656	1,800	37%
83	Safety	-	-	500	0%
84	Tractor Expenses	-	77	7,500	2%
85	Equipment Rental	-	-	2,000	0%
86	Service Trucks - R&M	-	2,308	14,200	16%
87	Water Ops Phone & Internet	195	977	2,400	41%
88	Total Service Tools & Equipment	2,376	13,365	55,700	24%
89	NON-OPERATING EXPENSES				
90	Grant & Loan Processing Fee	-	1,325	1,400	95%
91	DWR Interest Expense	-	4,719	9,100	52%
92	DHPO Interest Expense	-	4,774	7,900	53%
93	Bad Debt Expense	-	-	1,200	0%
94	Miscellaneous	111	226	1,100	21%
95	TOTAL NON-OPERATING EXPENSES	111	10,444	20,700	50%
96	TOTAL EXPENSES	89,772	503,887	1,309,600	45%
97	TOTAL INCOME BEFORE CAPITAL & GSA	59,458	107,989	400,800	27%
98	DHPO Capacity Credit	(1,750)	(8,750)	(21,000)	42%
99	CAPITAL PROJECTS				
100	Main Street Improvements (Inhouse Imp)	-	-	(30,000)	0%
101	Meter Replacements & Other Capital	(1,213)	(3,345)	(22,000)	15%
102	New Vehicle Purchase	-	-	(37,000)	0%
103	TOTAL CAPITAL PROJECTS	(1,213)	(3,345)	(89,000)	0%
104	DEBT - PRINCIPAL				
105	Debt Service Principal - DWR	-	(19,627)	(39,500)	50%
106	Debt Service Principal - DHPO (Zion)	-	(40,423)	(80,800)	50%
107	TOTAL DEBT - PRINCIPAL	-	(60,050)	(120,400)	50%
108	SGMA / GSA	(1,213)	(10,112)	(60,000)	17%
109	NET INCOME / (LOSS)	\$ 55,282	\$ 25,731	\$ 110,400	23%

No assurance is provided on these financial statements.

The financial statements do not include a statement of cash flows.

Substantially all disclosures required by accounting principles generally accepted in the United States are not included.

Cabazon Water District

Balance Sheet

November 30, 2019

		Nov, 30, 19
1	ASSETS	
2	Current Assets	
3	Checking/Savings	
4	General Bank Account-Chase	5 112,751
5	Payroll Bank Account-Chase	70,420
6	Trust Account-Chase (Const. Deposits)	10,404
7	Local Petty Cash	100
8	Total Checking/Savings	197,675
9	Accounts Receivable	208,393
10	LAP	730,778
11	Bank of NY Trustee Accounts	58,198
12	Prepaid Expenses	13,419.00
13	Inventory Total	104,142
14	Total Other Current Assets	1,117,550
15	Total Current Assets	1,323,199
16	Fixed Assets	
17	Construction in Process	
18	CIP Cabazon Outlets Expansion	9,597
19	CIP Super Map	26,163
20	CIP 50100 Main St. Property	118,053
21	Total Construction in Process	152,421
22	Tools and Equipment	123,319
23	Source of Supply	1,552,226
24	Transmission & Distribution	1,031,395
25	Buildings & Structures	12,281
26	Water Treatment	8,800
27	Office Furniture and Equipment	71,808
28	Intangible Plant	11,932
29	Vehicles	114,778
30	Land	639,348
31	Accumulated Depreciation	(5,677,996)
32	Total Fixed Assets	7,379,562
33	TOTAL ASSETS	\$ 8,702,761
34	LIABILITIES & EQUITY	
35	Liabilities	
36	Current Liabilities	
37	Accounts Payable	\$ 16,914
38	Other Current Liabilities	
39	Customer Deposits - Co 1	4,750
40	Customer Deposits - Co 2	5,134
41	Total Customer Deposits	9,884
42	Accrued Vacation Pay	13,352
43	DWR-HS Payable - Current	39,559
44	Current Portion Zion's Bank Ln	80,847
45	Accrued Payroll	7,450

Cabazon Water District

Balance Sheet

November 30, 2019

	Nov. 30, 19	
46	Accrued Payroll Taxes	554
47	Accrued Interest	4,149
48	Accrued Expenses	8,129
49	Total Other Current Liabilities	164,216
50	Total Current Liabilities	181,171
51	Long Term Liabilities	
52	JWR-11 Loan Payable (Payoff '26)	278,950
53	Zion's Bank Long Term (2033)	254,898
54	RCDDA Loan Payable	300,000
55	Total Long Term Liabilities	833,848
56	Total Liabilities	1,015,019
57	Total Equity	7,687,742
58	TOTAL LIABILITIES & EQUITY	\$ 8,702,761



CABAZON

CABAZON WATER DISTRICT

Final Report

User Fee Study

October 16, 2019

Prepared by:



helping communities
fund tomorrow

nbsgov.com

Corporate Headquarters
52601 Temecula Parkway, Suite 100
Temecula, CA 92592
toll free 800.676.7510

TABLE OF CONTENTS

1. Executive Summary	2
1.1 Findings	2
1.2 Report Format	3
2. Introduction and Fundamentals	4
2.1 Scope of Study	4
2.2 Methods of Analysis	4
3. Water District	9
3.1 Cost of Service Analysis	9
3.2 Fee Establishment	9
3.3 Cost Recovery Evaluation	10
4. Conclusion	12
Appendices	
Fully Burdened Hourly Rate Calculation	Appendix A
Cost of Services (Fee Analysis)	Appendix B
Comparative Fee Survey	Appendix C

1. EXECUTIVE SUMMARY

NBS performed a User Fee Study (Study) for the Cabazon Water District (District). The purpose of this report is to describe the Study's findings and recommendations, which intend to defensibly update and establish user and regulatory fees for service for the Cabazon Water District.

Special districts in California can impose user fees and regulatory fees for services and activities they provide through provisions of the State Constitution. Under Article XIIIIC, Section 1, a fee may not exceed the estimated reasonable cost of providing the service or performing the activity. For a fee to qualify as such, it must relate to a service or activity under the control of the individual/entity on which the fee is imposed. For example, a request to install a meter, set up a new water account, perform a plan review, or test a meter for accuracy would require the District to perform specific activities related to each individual request. In this manner, the service or the underlying action causing the District to perform the requested service is either discretionary and/or is subject to regulation. As a discretionary service or regulatory activity, the user fees and regulatory fees considered in this Study fall outside requirements for imposition of taxes, special taxes, or fees imposed as incidences of property ownership.

The District's chief purposes in conducting this Study were to ensure that its existing fees do not exceed the costs of providing services, and to provide an opportunity for the District's Board of Directors to align fee amounts with local cost recovery policies.

1.1 Findings

This Study compares the current fee charged for each service charged by the District to the total estimated cost of providing each service. NBS concludes that, on average, the District's current fees under-recover the costs of services provided. As shown in the following table, the Study identified approximately \$21,000 currently collected per year from fees for service, versus \$37,000 of eligible costs for recovery from fees for service.

TABLE 1. REPORT SUMMARY

Department / Division	Estimated Annual Current Fee Revenue	Annual Estimated Revenue at Full Cost Recovery Fee	Annual Cost Recovery Surplus / (Deficit)	Current Cost Recovery %	Estimated Annual Recommended Fee Revenue	Recommended Cost Recovery %
Water District	\$ 21,000	\$ 37,000	\$ (16,000)	57%	\$ 32,996	92%

The District is currently recovering approximately 57% of the total costs associated with providing fee related services. Should the Board adopt fee levels at 100% of the calculated full cost recovery fee amounts determined by this Study, an additional \$16,000 in costs could be recovered.

However, as discussed in Section 1 of this report, there may be reasons why policy makers chose to adopt fees at less than the calculated full cost recovery amount. As such, District staff provided initial recommended fee amounts for the Board's consideration. At District staff's initial recommended fee amounts, an additional \$13,000 in costs could be recovered, for a cost recovery rate of 92%.

1.2 Report Format

This report documents analytical methods and data sources used throughout the Study, presents findings regarding current levels of cost recovery achieved from user and regulatory fees, and discusses recommended fee amounts.

- Section 2 of the report outlines the foundation of the Study and general approach
- Section 3 discusses the results of the cost of service analysis
- Section 4 provides the grand scope conclusions of the analysis
- Appendices to this report include additional details supporting the fully burdened hourly rate calculation, the cost of providing each fee for service, and a comparison of similar fees charged by neighboring or comparable agencies.

2. INTRODUCTION AND FUNDAMENTALS

2.1 Scope of Study

The following is a summarized list of fees studied for the District.

- Meter Account Set-up Fee
- Meter Accuracy Testing
- Backflow Testing and Protection Device Installation
- Plan Check, Inspection, and Processing Fees
- Reconnection Charge
- Door Hangar Fees
- Lien Fee
- Lab Water Test Fee

The fees examined in this Study specifically excluded development impact fees, utility rates, and any special tax assessments, all of which fall under distinct analytical and procedural requirements different from the body of user/regulatory fees analyzed in this effort. Additionally, this Study excluded facility and equipment rental rates, as well as most of fines and penalties imposed by the District for violations to its requirements or codes.

2.2 Methods of Analysis

There are three phases of analysis completed for the District fees studied:

1. Cost of service analysis
2. Fee establishment
3. Cost recovery evaluation

2.2.1 COST OF SERVICE ANALYSIS

This cost of service analysis is a quantitative effort that compiles the full cost of providing governmental services and activities. There are two primary types of costs considered: direct and indirect costs. Direct costs are those that specifically relate to an activity or service, including the real-time provision of the service. Indirect costs are those that support provision of services in general, but cannot be directly or easily assigned to a singular activity or service.

Components of the full cost of service include direct labor costs, indirect labor costs, specific direct non-labor costs where applicable, allocated non-labor costs, and allocated overhead. Definitions of these cost components are as follows:

- **Labor costs** – Salary, wages and benefits expenses for District personnel specifically involved in the provision of services and activities to the public.
- **Indirect labor costs** – Personnel expenses supporting the provision of services and activities. This can include line supervision and district management, administrative support, and staff involved in technical activities related to the direct services provided to the public.
- **Specific direct non-labor costs** – When applicable, discrete expenses incurred due to a specific service or activity performed, such as contractor costs, third-party charges, and very specific materials used in the service or activity.
- **Allocated indirect non-labor costs** – Expenses other than labor for provision of services. In most cases, these costs are allocated across all services provided, rather than directly assigned to fee categories.
- **Allocated indirect organization-wide overhead** – These are expenses, both labor and non-labor, related to agency-wide support services. Support services include general administrative services such as finance, human resources, information technology, etc. An agency's support services assist the direct providers of public services. The amount of costs attributable to the District exist within the budgeted expenditures and have been included in the Study.

All cost components in this Study use annual (or annualized) figures, representing a twelve-month cycle of expenses incurred by the District in the provision of all services and activities agency-wide.

Nearly all of the fees under review in this Study require specific actions on the part of District staff to provide the service or conduct the activity. Because labor is the primary underlying factor in these activities, the Study expresses the full cost of service as a fully burdened cost per labor hour. NBS calculates a composite, fully burdened, hourly rate for the District as applicable to the specific organization and its needs. The rate serves as the basis for further quantifying the average full cost of providing individual services and activities.

Deriving the fully burdened hourly rate requires two figures: the full costs of service and the number of hours available to perform those services. The full costs of service are quantified through the earlier steps described in this analysis. NBS derives the hours available from a complete listing of all District employees and, when applicable, hours of service available from contracted professionals.

The District has supplied NBS with the total number of paid labor hours for each function/service. These available hours represent the amount of productive time available for providing both fee-recoverable and non-fee recoverable services and activities. The productive labor hours divided into the annual full costs of service equals the composite fully burdened hourly rate. Some agencies also use the resulting rates for other purposes than setting fees, such as when the need arises to calculate the full cost of general services or structure a cost recovery agreement with another agency or third party.

The fully burdened hourly rate applied at the individual fee level estimates an average full cost of providing each service or activity. This step required the development of staff time estimates for the services and activities listed in the District's fee schedule. For all fee programs studied, time tracking records (if available) were useful in identifying time spent providing general categories of service (e.g. processing, plan review, inspection, etc.). However, the District does not systematically track activity

service time for all individual fee-level services provided. Consequently, interviews and questionnaires were used to develop the necessary data sets describing estimated labor time. In many cases, the District estimated the average amount of time (in minutes and hours) it would take to complete a typical occurrence of each service or activity considered.

It should be noted that the development of these time estimates was not a one-step process: estimates received were carefully reviewed by both NBS and District management to assess the reasonableness of such estimates. Based on this review, the District reconsidered its time estimates until both parties were comfortable that the fee models reasonably reflected the average service level provided by the District. Then, time estimates were applied to the appropriate fully burdened labor rate to yield an average total cost of the service or activity.

2.2.2 FEE ESTABLISHMENT

Establishing fee names and categories includes a range of considerations. The Study's process provided the District the opportunity to propose additions and deletions to their fee schedules, as well as rename, reorganize, and clarify fee names and categories. Fee categories and fee names were simplified or re-structured to increase the likelihood of full cost recovery, or to enhance the fairness of how the fee applies to various types of fee payers.

Many such revisions better conform fees to current practices, as well as improve the calculation of fees owed by an individual, the application of fees, and the collection of revenues. Beyond this, some additions to the fee schedule were simply identification of existing services or activities performed by District staff for which no fee is currently charged.

The District's fee schedule should also list the fully burdened hourly rate(s) developed by the Study. Documenting these rates in the fee schedule provides an opportunity for the Board to approve rates for cost recovery under a "time and materials" approach, where applicable. It also provides clear publication of those rates, so fee payers of any uniquely determined fee can reference the amounts. The fee schedule should provide language that supports special forms of cost recovery for activities and services not contemplated by the adopted master fee schedule. These rare instances use the published rates to estimate a flat fee, or bill on an hourly basis, at the discretion of the District.

2.2.3 COST RECOVERY EVALUATION

The NDS fee model compares the existing fee for each service or activity to the average total cost of service quantified through this analysis. A cost recovery rate of 0% identifies no current recovery of costs from fee revenues (or insufficient information available for evaluation). A rate of 100% means that the fee currently recovers the full cost of service. A rate between 0% and 100% indicates partial recovery of the full cost of service through fees. A rate greater than 100% means that the fee exceeded the full cost of service.

User fees and regulatory fees examined in this Study should not exceed the full cost of service. In other words, the cost recovery rate achieved by a fee should not be greater than 100%. In most cases, charging a fee above this threshold could require the consensus of the voters.

NBS also assists with modeling the "recommended" or "targeted" level of cost recovery for each fee, always established at 100%, or less, than the calculated full cost of service. Targets and recommendations always reflect agency-specific judgments linked to a variety of factors, such as existing

policies, agency-wide or district revenue objectives, economic goals, community values, market conditions, level of demand, and others.

A general means of selecting an appropriate cost recovery target is to consider the public and private benefits of the service or activity in question.

- To what degree does the public at large benefit from the service?
- To what degree does the individual or entity requesting, requiring, or causing the service benefit?

When a service or activity completely benefits the public at large, there is generally little to no recommended fee amount (i.e., 0% cost recovery), reflecting that a truly public benefit service is best funded by the general resources of the District, such as General Fund revenues (e.g., taxes). Conversely, when a service or activity completely benefits an individual or entity, there is generally closer to or equal to 100% of cost recovery from fees, collected from the individual or entity. An example of a completely private benefit service may be a request for exemption from a District regulation or process.

In some cases, a strict public-versus-private benefit judgment may not be sufficient to finalize a cost recovery target. Any of the following other factors and considerations may influence or supplement the public/private benefit perception of a service or activity:

- If optimizing revenue potential is an overriding goal, is it feasible to recover the full cost of service?
- Will increasing fees result in non-compliance or public safety problems?
- Are there desired behaviors or modifications to behaviors of the service population helped or hindered through the degree of pricing for the activities?
- Does current demand for services support a fee increase without adverse impact to the citizenry served or current revenue levels? (In other words, would fee increases have the unintended consequence of driving away the population served?)
- Is there a good policy basis for differentiating between type of users (e.g., residents and non-residents, residential and commercial, non-profit entities and business entities)?
- Are there broader District objectives that inform a less than full cost recovery target from fees, such as economic development goals and local social values?

Because this element of the Study is subjective, NBS provides each fee calculation at 100% full cost recovery as well as the framework for the District to adjust recommended fee amounts in accordance with the District's goals as pertains to code compliance, cost recovery, economic development, and social values.

2.2.4 DATA SOURCES

The following data sources were used to support the cost of service analysis and fee establishment phases of this Study:

- The Cabazon Water District's Adopted Budget for Fiscal Year 2018-2019
- A complete listing of all District personnel, salary/wage rates, regular hours, paid benefits, and paid leave amounts.
- Various correspondences with the District staff supporting the adopted budgets and current fees, including budget notes and expenditure detail not shown in the published document.
- The District's prevailing fee schedule.
- Annual workload data from the prior fiscal year provided by the District.

The District's adopted budget is the most significant source of information effecting cost of service results. NBS did not audit or validate the District's financial management and budget practices, nor was cost information adjusted to reflect different levels of service or any specific, targeted performance benchmarks. This Study has accepted the District's budget as a legislatively adopted directive describing the most appropriate and reasonable level of District spending. Consultants accept the Board's deliberative process and ultimate acceptance of the budget plan and further assert that through that legislative process, the District has yielded a reasonable expenditure plan, valid for use in setting cost based fees.

Original data sets also support the work of this Study: primarily, estimated or tracked time at various levels of detail. To develop these data sets, consultants prepared questionnaires and conducted interviews with the District. In the fee establishment phase of the analysis, the District supplied estimates of average time spent providing a service or activity corresponding with an existing or new fee. NBS and District management reviewed and questioned responses to ensure the best possible set of estimates.

3. WATER DISTRICT

The Cabazon Water District provides safe, reliable drinking water, and reclamation services to its customers in a prudent and sustainable manner. Aside from its primary focus on operation and maintenance of the water system and infrastructure, the District charges a number of fees for services pertaining to account management, installation and removal of meters, meter testing, development review, and other miscellaneous service requests.

3.1 Cost of Service Analysis

To evaluate the cost of providing individual fee related services, NBS first developed a composite fully-burdened hourly rate for the Water District, as shown in the table below:

TABLE 2. FULLY BURDENED HOURLY RATE CALCULATION

Cost Element	District Direct Services
Labour	\$ 334,274
Recurring Non-labor	117,531
Districtwide Overhead Costs	104,288
District Admin	395,188
Total Burdened Hourly Rate	\$122
<i>Reference: Direct Hours Only</i>	7,629

The total annual cost of the Water District per year is approximately \$927,000. All subsequent cost of service calculations at the individual fee level assume a fully burdened hourly rate of \$122 for Water District support.

Section 2.2.1, *Cost of Service Analysis*, provides descriptions of each "Cost Element" noted in the table above, as well as further explanation of the approach and methodology used in the fully burdened hourly rate calculation. Approach to development of this rate involved an analysis of both direct and indirect costs of providing services. Careful attention was paid to the types of costs included in development of the fully burdened hourly rate. Costs clearly designated for system maintenance or improvements were excluded, while costs that generally support staff's role in provision of service delivery and daily operations were included. The hourly rate of \$122 per hour was subsequently applied toward establishment of the full cost of providing the user and regulatory fee services studied.

Appendix A provides the detailed analysis supporting this fully burdened hourly rate calculation.

3.2 Fee Establishment

The following is a summary of overall changes made to the District's fee schedule:

- Deletion of the Special Equipment fee as this is no longer used.

Reorganization of fee categories or clarification of fee names to create a more user friendly fee structure, such as:

- o Meter Accuracy Testing – Split fees by meter size and renamed various fee categories
- o District Administration Processing – Restructured this fee from being charged as 15% on top of contractor costs to being charged as a flat / fixed admin fee.
- o Backflow Testing Charge – Renamed various fee categories
- o Backflow Protection Device Installation – Relocated the position of this fee closer to Backflow Testing Charge in the fee list
- o Meter - Request for Removal, Replacement, Relocation, or Change in Meter Size – Consolidated multiple fees into a single category
- o Door Hangar Fee – Split fee between yellow and red tags

• Addition of a new fee category, Lab Water Test, notated as "New" in Appendix B.

Section 2.2.3, *Fee Establishment*, provides additional discussion on the Study's approach to adding, deleting, and revising fee categories.

3.3 Cost Recovery Evaluation

Appendix B presents the results of the detailed cost recovery analysis for the Water District fees. In the Appendix, the "Cost of Service per Activity" column establishes the maximum adoptable fee amount for the corresponding service identified in the "Fee Name" list. The Cost of Service Per Activity for each fee item is compared to the District's current fee for each service, and the "Existing Cost Recovery %" shows whether each fee is under, over, or approximately equal to the cost of providing the service.

The District fees currently recover approximately 57% of the total annual cost of providing services. As shown in the following table, the District collects approximately \$21,000 per year in revenues at current fee amounts. At full cost recovery, the same demand for these services would recover approximately \$37,000. Should the Board of Directors adopt all fees at 100% of the Cost of Service per Activity amounts shown, an additional \$16,000 could be recovered.

TABLE 3. COST RECOVERY OUTCOMES

Department / Division	Estimated Annual Current Fee Revenue	Annual Estimated Revenues at Full Cost Recovery Fee	Annual Cost Recovery Surplus / (Deficit)	Current Cost Recovery %	Estimated Annual Recommended Fee Revenue	Recommended Cost Recovery %
Water District	\$ 20,960	\$ 37,152	\$ 16,192	57%	\$ 35,996	92%

NBS provided the full cost of service information and the framework for considering fees, while those closest to the fee paying population, District staff, considered appropriate cost recovery levels at or below that full cost. The "Recommended Fee Level / Deposit" column in Appendix B displays staff's initial recommended fee amounts. With staff's recommended adjustments, Water District fees are projected to recover 92% of the costs of providing services.

For more discussion on NBS' overall approach to the Cost Recovery Evaluation, consult section 2.2.3 of the Report.

4. CONCLUSION

Based on the Cost of Service Analysis, Fee Establishment, and Cost Recovery Evaluation outcomes presented in this Study, the proposed Schedule of Fees has been formatted for Implementation and included in the District's accompanying Staff Report.

As discussed throughout this report, the proposed fee schedule intends to improve the District's recovery of costs incurred to provide individual services, as well as to adjust fees downward where fees charged exceed the average costs incurred. Predicting the amount to which any adopted fee increases will affect District revenues is difficult to quantify. For the near-term, the District should not count on increased revenues to meet any specific expenditure plan. Experience with the revised fee amounts should be gained first before revenue projections are revised. However, unless there is some significant, long-term change in activity levels at the District, proposed fee amendments should enhance the District's cost recovery performance, over time, providing it the ability to stretch other resources further for the benefit of the public at large.

The District's Fee Schedule should become a living document but handled with care:

- A fundamental purpose of the fee schedule is to provide clarity and transparency to the public and to staff regarding fees imposed by the District. Once adopted by the Board, the fee schedule is the final word on the amount and manner in which fees should be charged. Old fee schedules should be superseded by the new master document. If the master document is found to be missing fees, those fees need eventually to be added to the master schedule and should not continue to exist outside the consolidated, master framework.
- The District should consider adjusting these user fees and regulatory fees on an annual basis to keep pace at least with cost inflation. For all fees and charges, the District could use either a Consumer Price Index adjustment or a percentage of Labor Cost increase, and that practice would be well applied to the new fee schedule. Conducting a comprehensive user fee Study is not an annual requirement; it becomes worthwhile only over time as significant shifts in organization, local practices, legislative values, or legal requirements change.

As a final note in this Study, it is worth acknowledging the path that fees in general have taken in California. The public demands ever more precise and equitable accounting of the basis for governmental fees and a greater say in when and how they are charged. It is inevitable in the not too distant future, that user fees and regulatory fees will demand an even greater level of analysis and supporting data to meet the public's evolving expectations. Technology systems will play an increased and significant role in an agency's ability to accomplish this. Continuous improvement and refinement of time tracking abilities will greatly enhance the District's ability to set fees for service and identify unfunded activities in years to come.

Disclaimer: In preparing this report and the opinions and recommendations included herein, NBS has relied on a number of assumptions and considerations with regard to financial matters, conditions and events that may occur in the future. This information and assumptions, including the District's budget, flow estimate data, and workload information from District staff, were provided by sources we believe to be credible. However, NBS has not independently verified such information and assumptions. While we believe NBS' use of such information and assumptions is reasonable for the purpose of this report, such assumptions will inevitably not materialize as stated herein and may vary significantly due to unanticipated events and circumstances. Therefore, the actual results can be expected to vary from those projected to the extent that actual future conditions differ from those assumed by us or provided to us by others.

LABOR EXPENDITURES AND STATISTICS

Expenditure or Statistic	2018-19 Budget	Adjustments	Net Expenditures to be Allocated	Cost Allocation to Each Function/Activity		
				District Admin	District Street Services	
Labor Cost Allocation Distribution			\$0.00			
Salaries	\$6,100			\$3,034	\$6,072	
Director's Fee Adjustment		1,000				
Hourly Technician Salary Adjustment		12,500				
Subtotal	\$6,100	\$13,500	\$35,058	\$18,611	\$34,043	
Benefits						
Water Treatment & Supply Adjustment		3,500				
Subtotal	\$3,500	\$3,500	\$4,022	\$2,885	\$5,185	
Functional Productive Labor Hours						
	\$40,000	\$18,772	\$48,772	\$38,097	\$392,214	
	10,528		10,528	2,857	7,529	

RECURRING NON-LABOR EXPENDITURES

Operating Expenditures By Budget Unit	2018-19 Budget	Adjustments	Net Expenditures to be Allocated	Cost Allocation to Each Function / Activity	
				District Admin	District Direct Services
Cobleskill Water District					
Facilities, Wells, T&D					
Lab Fees	\$ 7,275	\$ 7,275	\$ -	\$ -	\$ -
Site Inspecting & Alerts	75	175	-	-	-
Contracts	4,546	7,275	-	-	-
Sanitation Service Contracts	2,540	1,825	-	-	-
Profits - Wells	175,110	1,275,000	-	-	-
Scrubbers	200	1,000	-	-	-
Service Contracts	42,250	112,250	-	-	-
Service Contracts	80,000	500,000	-	-	-
Water Pumping	8,425	17,875	-	-	-
Software	25,425	118,425	-	-	-
Engineering Services	15,000	1,450,000	-	-	-
Computers	15	1,000	-	-	-
Facilities, Wells, T&D - Other	20,000	115,000	-	-	-
Utilities - Office					
Electricity	22,975	-	22,975	5,252	10,549
Gas	750	-	750	75	475
Telephone	6,500	-	6,500	3,238	6,562
Travel - District & Office Group	4,000	-	4,000	1,451	2,546
Office Expenses					
Water Billing System	2,125	-	2,125	824	1,406
Supplies & Equipment	5,750	-	5,750	3,204	6,496
Contractor Supplies	6,000	-	6,000	1,282	4,018
Books & Reference Materials	2,750	-	2,750	562	1,136
Postage	2,750	-	2,750	2,544	5,136
Printing & Publications	6,100	-	6,100	2,015	4,085
Travel & Lodging	300	-	300	89	201
Computer Services	44,875	-	46,000	17,157	24,843
Office Supplies	6,275	-	6,275	2,018	4,314
Advertising Services	4,500	-	4,500	1,320	3,050
Printing & Copying	500	-	500	131	469
Office Expenses - Other	2,000	-	2,000	429	971

Johnson Water District
 User Fee Study Fiscal Year 2019
 Fully Burdened Hourly Rate Calculation

Appendix A

Operating Expenditures by Budget Unit	2018-19 Budget	Adjustments	Net Expenditures to be Allocated	Cost Allocation to Each Function / Activity	
				District Admin	District Direct Services
Support Services					
Emergency Call	14,000	14,000	-	-	-
Electrical Aid	44,000	14,000	-	-	-
Accounting	50,000	50,000	-	-	-
Legal Services	77,000	77,000	-	-	-
Back Service Charge	700	700	-	-	-
Control System	4,000	4,000	-	-	-
Website Support	3,000	3,000	-	-	-
Contract Liability Insurance	33,000	33,000	-	-	-
Utility Costs	110	100	-	-	-
Transportation	6,000	-	6,000	2,543	3,457
Other Fees, 30% ACS	5,410	3,600	-	-	-
Service Trees & Equipment					
Other Services and Special Tools	24,000	-	24,000	6,937	17,063
Vehicle Fuel	14,000	-	14,000	4,206	9,794
Inventory of Materials	1,000	-	1,000	596	404
Safety	800	-	800	185	615
Tractor Expenses	1,000	-	1,000	830	170
Equipment Repairs	1,100	-	1,100	984	116
Service Trucks - 30% ACS	21,000	-	21,000	4,832	16,168
Other OPEX Expenses & Interest	900	-	900	700	200
NON-OPERATING EXPENSES					
Grant & Loan Reporting Fee	1,000	14,000	-	-	-
2015 Interest Expense	20,000	10,000	-	-	-
2015 Interest Expense	9,000	10,000	-	-	-
Use of Cell Phones	1,000	1,000	-	-	-
Cellular Expense	1,000	1,000	-	-	-
Depreciation Expense	100,000	100,000	-	-	-

ALLOCATION OF COMMON ACTIVITIES COSTS

Cost Element	Established Cost		Cost Allocation to Each Function / Activity
	M	S	
System Admin	5	\$ 306,288	\$ 306,288

FULLY-BURDENED HOURLY BILLING RATE FOR RECOVERY IN FEES

Cost Element	District Direct Services	
	M	S
REG		\$ 314,274
Resurving Non LBLG		127,551
Charlotteville Overhead Costs		166,282
District Admin		306,288
Reference: Direct Hours City		7,622

[1] Budget information sourced from Cabarrus Budget FY 18-19 Approved Budget. See provided by Cabarrus Water District staff.
 [2] Contents not used as District-wide overhead

Calabon Winter District
 User Fee Study Fiscal Year 2019
 Comparison of Charges for Treated Activities and Services

Appendix C

Activity	Calabon			Comparative Agencies			
	Available From	Available To	Rate	Statewide Utility Valley Water District	Mountain City Water Department	North Shore Utility	North Shore Agency
1. Non-Credit, Recreational, and Processing Fees Single Family							
Kommunitäre Wasserverbrauch	1st	\$ 220	\$ 220		No Comparison		
Contractor Costs	Deposit	\$ 5,000	\$ 5,000				\$240 plus 20% performance fee if public main in 1st year of 5-year term; 10% thereafter
all Other	1st	\$ 275	\$ 275				
ad-Insulative Processing Fee	1st	\$ 275	\$ 275				
Contractor Costs	Deposit	\$ 5,000	\$ 5,000				
2. Recreation Charge							
Recreation During Normal Business Hours	1st	\$ 0	\$ 0				
Recreation During Non-Business Hours/Week Hours Between 4:30PM - 10:30PM Recreation During Late Afternoon Hours: 10:30PM - 3:30AM / Weekends, Holy Times / Holidays Only	1st	\$ 2.5	\$ 2.5				
Toll	1st	\$ 10	\$ 10				
3. Other Activity Fee							
allow tag	per tag	\$ 20	\$ 20				
Kauf Tag	per tag	\$ 20	\$ 20				
4. Customer Value Indication Fee							
1st	1st	\$ 2	\$ 2				

**Caltrans Water District
 2017 Fee Study Final Year 2023
 Comparison of Charges for Fee Related Activities and Services**

Item No.	Description of Fee Related Activity and Service	Caltrans			Comparative Agencies													
		San Joaquin Hills	San Gabriel	Los Angeles	High Valley Water District	Missis Services Water District	Fontana City Water District	East Valley Water Region	San Diego Regional Water	San Diego Water	San Diego Water	San Diego Water						
11	Construction Water / Hydrant Meter Charge:																	
	Reliable Deposit for Construction Hydrant Meter		\$ 1,000	\$ 1,000	No Comparison	No Comparison	\$ 2,200	Construction Impediment, \$200 per hydrant, \$1,000 per hydrant	\$ 500	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost
	One-Time Annual Meter Fee		\$ 50	\$ 50	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison
	Meter Recalibration Fee		\$ 200	\$ 200	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison
	Disinfectant Administration / Field Services Fee		\$ 100	\$ 100	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison
	Trucking (100 Gallons)		\$ 100	\$ 100	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison
15	Load Count Charge																	
	Reliable Deposit for Construction Hydrant Meter		\$ 1,000	\$ 1,000	No Comparison	No Comparison	\$ 2,200	Construction Impediment, \$200 per hydrant, \$1,000 per hydrant	\$ 500	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost
	One-Time Annual Meter Fee		\$ 50	\$ 50	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison
	Meter Recalibration Fee		\$ 200	\$ 200	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison
	Disinfectant Administration / Field Services Fee		\$ 100	\$ 100	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison
	Trucking (100 Gallons)		\$ 100	\$ 100	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison
	Required District Employee Supervisors (minimum 1 hour)		\$ 35	\$ 35	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison
	Required District Employee Supervisors (minimum 3 hours)		\$ 105	\$ 105	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison	No Comparison



Cabazon Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2019 and 2018



Cabazon Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2019 and 2018

Cabazon Water District
Board of Directors as of June 30, 2019

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Robert Lynk	Chair	Elected	12/2017 - 12/2021
Alan Davis	Vice Chair	Elected	12/2015 - 12/2019
Maxine Israel	Director	Elected	12/2015 - 12/2019
Sarah Wargo	Director	Appointed	12/2017 - 12/2021
Martin Sanderson	Director	Elected	12/2017 - 12/2021

Cabazon Water District
Calvin Louie, General Manager
14618 Broadway Street
P.O. Box 297
Cabazon, California 92230
(951) 849-4442

Cabazon Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2019 and 2018

Cabazon Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2019 and 2018

Table of Contents

	<u>Page No.</u>
Table of Contents	i
Introductory Section	
Letter of Transmittal	1-3
Financial Section	
Independent Auditor's Report	4-5
Management's Discussion and Analysis	6-10
Basic Financial Statements:	
Statements of Net Position	11
Statements of Revenues, Expenses, and Changes in Net Position	12
Statements of Cash Flows	13-14
Notes to the Financial Statements	15-31
Report on Internal Controls and Compliance	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on The Audits of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	32-33

Introductory Section



November 19, 2019

Board of Directors
Cabazon Water District

Introduction

It is our pleasure to submit the Annual Financial Report for the Cabazon Water District for the fiscal years ended June 30, 2019 and 2018, following guidelines set forth by the Governmental Accounting Standards Board. District staff prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance your understanding of the District's financial position and activities.

This report is organized into two sections: (1) Introductory and (2) Financial. The Introductory section offers general information about the District's organization and current District activities, and reports on a summary of significant financial results. The Financial section includes the Independent Auditor's Report, Management's Discussion and Analysis of the District's basic financial statements, and the District's audited basic financial statements with accompanying notes.

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative Introduction, overview, and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately after the Independent Auditor's Report.

District Structure and Leadership

The Cabazon Water District is an independent special district, which operates under the authority of Division 12 of the California Water Code. The District was formed in 1954 and is governed by a five-member Board of Directors, elected at-large from within the District's service area. The General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The District employs six (6) full-time employees organized into two departments. The District's Board of Directors meets each month. Meetings are publicly noticed and citizens are encouraged to attend.

The District provides water service to approximately 1,000 customers within its 7,040 acre service area, located in the eastern portion of Riverside County. The District encompasses the unincorporated town of Cabazon and some of the unincorporated areas of Riverside County, California.

District Services

Residential customers are approximately 97% of the District's customer base and consume approximately 99% of the water produced annually by the District. The District currently has a total of four groundwater wells with a maximum production capacity of 3,160 gallons per minute.

Economic Condition and Outlook

The District office is located in the unincorporated town of Capazán in Riverside County. Regional growth has been slow to recover from the continuing effects of the dissolution of Redevelopment Agencies throughout the State.

Internal Control Structure

District management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft, or misuse. The internal control structure also ensures adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits require estimates and judgments by management.

Budgetary Control

The District Board of Directors annually adopts an operating and capital budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and the financial statement basis.

Investment Policy

The Board of Directors has adopted an investment policy that conforms to state law, District ordinance and resolutions, prudent money management, and the "prudent person" standards. The objective of the Investment Policy is safety, liquidity, and yield. District funds are invested in the State Treasurer's Local Agency Investment Fund, and institutional savings and checking accounts.

Water Rates and District Revenues

District policy direction ensures that all revenues from user charges and surcharges generated from District customers must support all District operations including capital project funding. Accordingly, water rates are reviewed on an annual basis. Water rates are user charges imposed on customers for services and are the primary component of the District's revenue. Water rates are composed of a commodity (usage) charge and a fixed meter standby charge.

Audit and Financial Reporting

State Law and debt covenants require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Fedak & Brown LLP has conducted the audit of the District's financial statements. Their unmodified Independent Auditor's Report appears in the Financial Section.

Other References

More information is contained in the Management's Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

Acknowledgements

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the District. We would also like to thank the members of the Board of Directors for their continued support in planning and implementation of the Cabazon Water District's fiscal policies.

Respectfully submitted,

Calvin Louie
General Manager

< Page Intentionally Left Blank >

Financial Section



Charles P. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
Amy Rees, CPA

Fedak & Brown LLP

Certified Public Accountants

Cypress Office:
6161 Orange Avenue
Cypress, California 90630
(657) 214-2307
FAX (714) 527-9124

Riverside Office:
1945 Chicago Avenue, Suite C-1
Riverside, California 92507
(951) 703-9148

Independent Auditor's Report

Board of Directors
Cahazion Water District
Cahazion, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Cahazion Water District (District) as of and for the years ended June 30, 2019 and 2018, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 Districts. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Cahazion Water District, as of June 30, 2019 and 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 6 through 10 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section on pages 1 through 3, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2019, on our consideration of the District'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 District's internal control over financial reporting and compliance. This report can be found on pages 32 and 33.

Fedak & Brown LLP

Fedak & Brown LLP

Cypress, California

November 19, 2019

Cabazon Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2019 and 2018

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Cabazon Water District (District) provide an introduction to the financial statements of the District for the fiscal years ended June 30, 2019 and 2018. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the introductory section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- in fiscal year 2019, the District's net position decreased 0.42% or \$32,312 to \$7,657,909. In fiscal year 2018, the District's net position increased 1.31% or \$246,698 to \$7,690,211.
- in fiscal year 2019, the District's operating revenues increased 2.75% or \$40,235 to \$1,503,380. In fiscal year 2018, the District's operating revenues increased 21.96% or \$263,445 to \$1,463,144.
- in fiscal year 2019, the District's operating expenses increased 19.24% or \$210,384 to \$1,393,628. In 2018, the District's operating expenses increased 0.51% or \$5,512 to \$1,093,244.

Required Financial Statements

This annual report consists of a series of financial statements. The Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statements of Net Position include all of the District's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources. They also provide the basis for computing a rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District. All of the years' revenue and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Position. These statements measure the success of the District's operations over the past years and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. These statements can also be used to evaluate profitability and credit worthiness. The final required financial statements are the Statements of Cash Flows, which provide information about the District's cash receipts and cash payments during the reporting period. The Statements of Cash Flows report cash receipts, cash payments, and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities, as well as providing answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows, liabilities, and deferred inflows using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

Cabazon Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2019 and 2018

Financial Analysis of the District, continued

These two statements report the District's *net position* and changes in them. One can think of the District's net position (the difference between assets and deferred outflows, and liabilities and deferred inflows), as one way to measure the District's financial health, or *financial position*. Over time, *increases* or *decreases* in the District's net position is one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 15 through 31.

Statements of Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$7,657,909 and \$7,696,221 as of June 30, 2019 and 2018, respectively.

By far the largest portion of the District's net position (83.9% and 85.6% as of June 30, 2019 and 2018, respectively) reflects the District's investment in capital assets (net of accumulated depreciation; less any related debt used to acquire those assets that is still outstanding). The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

At the end of fiscal years 2019 and 2018, the District showed a positive balance in its unrestricted net position of \$1,169,553 and \$1,050,077. See note 7 for further discussion.

Condensed Statements of Net Position

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Assets:			
Current assets	\$ 1,325,053	1,211,877	113,176
Capital assets, net:	<u>7,380,775</u>	<u>7,650,546</u>	<u>(269,771)</u>
Total assets	<u>8,705,828</u>	<u>8,862,423</u>	<u>(156,595)</u>
Liabilities:			
Current liabilities	214,000	217,957	(3,957)
Non-current liabilities	833,849	954,245	(120,396)
Total liabilities	<u>1,047,949</u>	<u>1,172,202</u>	<u>(124,253)</u>
Net position:			
Net investment in capital assets	5,426,530	6,579,006	(1,152,476)
Restricted for debt service	61,826	61,138	688
Unrestricted	<u>1,169,553</u>	<u>1,050,077</u>	<u>119,476</u>
Total net position	<u>\$ 7,657,909</u>	<u>7,696,221</u>	<u>(38,312)</u>

Cabazon Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2019 and 2018

Statements of Revenues, Expenses, and Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Revenues:			
Operating revenues	\$ 1,503,380	1,463,144	40,236
Non-operating revenues	106,183	99,468	6,715
Total revenues	<u>1,609,563</u>	<u>1,562,612</u>	<u>46,951</u>
Expenses:			
Operating expenses	1,300,628	1,090,244	210,384
Depreciation	3,8432	322,482	(4,050)
Non-operating expenses	9,815	22,783	(2,568)
Total expenses	<u>1,641,875</u>	<u>1,418,109</u>	<u>203,766</u>
Net income(loss) before capital contributions	<u>(32,312)</u>	<u>124,505</u>	<u>(156,815)</u>
Capital contributions	<u>-</u>	<u>122,195</u>	<u>(122,195)</u>
Changes in net position	<u>(32,312)</u>	<u>246,598</u>	<u>(279,010)</u>
Net position, beginning of year	<u>7,690,221</u>	<u>7,443,523</u>	<u>246,698</u>
Net position, end of year	<u>\$ 7,657,909</u>	<u>7,690,221</u>	<u>(32,312)</u>

The statements of revenues, expenses, and changes in net position show how the District's net position changed during the fiscal years.

A closer examination of the sources of changes in net position reveals that:

In fiscal year 2019, the District's net position decreased 0.42% or \$32,312 to \$7,657,909. In fiscal year 2018, the District's net position increased 3.31% or \$246,698 to \$7,690,221. See note 7 for further discussion.

In fiscal year 2019, the District's operating revenues increased 2.75% or \$40,236, due primarily to an increase of \$79,594 in water consumption sales, which was offset by a decrease of \$36,738 in facility fees. In fiscal year 2018, the District's operating revenues increased 21.96% or \$263,445, due primarily to increases of \$224,221 in water consumption sales and \$76,416 in facility fees.

In fiscal year 2019, the District's operating expenses increased 19.24% or \$210,384, due primarily to increases of \$127,941 in transmission and distribution and \$94,829 in general and administrative. In 2018, the District's operating expenses increased 0.51% or \$5,512, due primarily to increases of \$27,743 in general and administrative expenses and \$15,902 in pumping and water treatment, which were offset by a decrease of \$41,952 in transmission and distribution.

Cahoon Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2019 and 2018

Capital Asset Administration

At the end of fiscal years 2019 and 2018, the District's investment in capital assets amounted to \$7,380,775 and \$7,650,546 (net of accumulated depreciation), respectively. This investment in capital assets includes land, transmission and distribution systems, wells, tanks, reservoirs, pumps, buildings and structures, equipment, vehicles, and construction in-process, etc. Major capital assets additions during the years include improvements to the transmission and distribution system, source of supply, and purchase of vehicles.

Changes in capital assets for 2019 were as follows:

	<u>Balance</u> <u>2018</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance</u> <u>2019</u>
Capital assets:				
Non-depreciable assets	\$ 803,714	49,070	(12,029)	840,755
Depreciable assets	12,198,969	11,620	-	12,210,589
Accumulated depreciation	<u>(5,332,137)</u>	<u>(318,432)</u>	<u>-</u>	<u>(5,670,569)</u>
Total capital assets, net	<u>\$ 7,650,546</u>	<u>(257,742)</u>	<u>(12,029)</u>	<u>7,380,775</u>

Changes in capital assets for 2018 were as follows:

	<u>Balance</u> <u>2017</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance</u> <u>2018</u>
Capital assets:				
Non-depreciable assets	\$ 778,397	181,782	(159,465)	803,714
Depreciable assets	12,039,505	159,465	-	12,198,970
Accumulated depreciation	<u>(5,029,656)</u>	<u>(322,182)</u>	<u>-</u>	<u>(5,352,138)</u>
Total capital assets, net	<u>\$ 7,788,246</u>	<u>21,365</u>	<u>(159,465)</u>	<u>7,650,546</u>

Debt Administration

Changes in long-term debt in 2019 were as follows:

	<u>Balance</u> <u>2018</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>2019</u>
Long-term debt:				
Loans payable	\$ 1,071,540	-	(117,295)	954,245
Total loans payable	<u>\$ 1,071,540</u>	<u>-</u>	<u>(117,295)</u>	<u>954,245</u>

Cahazan Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2019 and 2018

Debt Administration, continued

Changes in long-term debt in 2018 were as follows:

	<u>Balance</u> <u>2017</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>2018</u>
Long-term debt:				
Loans payable	\$ 1,185,796	-	(114,256)	1,071,540
Total loans payable	\$ 1,185,796	-	(114,256)	1,071,540

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the District's current financial position, net position, or operating results in terms of past, present, and future.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders, and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager at 14618 Broadway Street, P.O. Box 297, Cahazan, California 92230.

Basic Financial Statements

Cabazon Water District
Statements of Net Position
June 30, 2019 and 2018

	2019	2018
Current assets:		
Cash and cash equivalents (note 2)	\$ 910,913	811,600
Cash and cash equivalents – restricted (note 2)	61,826	61,138
Accrued interest receivable	1,957	2,457
Accounts receivable – water sales, net (note 3)	206,521	206,903
Property taxes and assessments receivable	3,722	16,098
Materials and supplies inventory	104,142	93,672
Prepaid and other assets	33,972	20,009
Total current assets	1,325,053	1,211,877
Non-current assets:		
Capital assets – non-depreciable assets (note 4)	840,755	805,714
Capital assets – depreciable assets, net (note 4)	6,540,020	6,846,832
Total non-current assets	7,380,775	7,652,546
Total assets	8,705,828	8,864,423
Current liabilities:		
Accounts payable and accrued expenses	55,976	61,558
Accrued wages and related payables	8,149	8,118
Customer advances and deposits	11,748	15,710
Accrued interest payable on long-term debt	4,449	5,225
Long-term liabilities – due within one year:		
Compensated absences (note 5)	13,352	10,051
Loans payable (note 6)	120,396	117,295
Total current liabilities	214,066	217,957
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Loans payable (note 6)	833,849	954,245
Total non-current liabilities	833,849	954,245
Total liabilities	1,047,915	1,172,202
Net position (note 7)		
Net investment in capital assets	6,426,540	6,579,006
Restricted	61,826	61,138
Unrestricted	1,169,553	1,050,077
Total net position	\$ 7,657,919	7,690,221

See accompanying notes to the basic financial statements.

Cabazon Water District
Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2019 and 2018

	2019	2018
Operating revenues:		
Water consumption sales	\$ 1,325,926	1,246,332
Collection fees	1,320	2,477
Standby fees	109,997	110,530
Facility fees	17,358	51,096
Other charges	16,579	49,700
Total operating revenues	1,593,380	1,463,444
Operating expenses:		
Pumping and water treatment	128,047	144,355
Transmission and distribution	150,425	22,454
Customer accounts	53,984	50,052
General and administrative	971,172	876,343
Total operating expenses	1,303,628	1,093,244
Operating income before depreciation and amortization	299,752	369,900
Depreciation	(318,432)	(322,482)
Operating income (loss)	(118,680)	47,418
Non-operating revenue (expense)		
Property taxes	60,146	66,449
Rental income - cellular antennas	24,555	22,068
Investment earnings	21,849	7,275
Interest expense - long-term debt	(19,815)	(22,382)
Other non-operating revenue, net	(357)	576
Total non-operating revenues, net	86,368	77,085
Net income (loss) before capital contributions	(32,312)	124,503
Capital contributions		
Contributed capital assets	-	122,195
Changes in net position	(32,312)	246,698
Net position, beginning of year	7,690,221	7,443,523
Net position, end of year	\$ 7,657,909	7,690,221

See accompanying notes to the basic financial statements

Cahoon Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash receipts from customers for water sales	\$ 1,389,803	1,333,229
Proceeds from standby fees	109,997	10,549
Cash paid to employees for salaries and wages	(322,258)	(273,485)
Cash paid to vendors and suppliers for materials and services	(1,008,410)	(836,075)
Net cash provided by operating activities	169,132	334,208
Cash flows from non-capital financing activities:		
Proceeds from rental income – cellular antennas	24,555	22,068
Proceeds from property taxes	72,522	68,221
Net cash provided by non-capital financing activities	97,077	90,289
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(48,551)	(87,730)
Proceeds from capital contributions	-	25,143
Principal paid on long-term debt	(117,295)	(114,256)
Interest paid on long-term debt	(20,591)	(23,138)
Net cash used in capital and related financing activities	(186,547)	(199,981)
Cash flows from investing activities:		
Interest earnings	20,339	5,630
Net cash provided by investing activities	20,339	5,630
Net increase in cash and cash equivalents	106,001	230,146
Cash and cash equivalents, beginning of year	872,738	642,592
Cash and cash equivalents, end of year	\$ 972,739	872,738
Reconciliation of cash and cash equivalents to statements of net position:		
Cash and cash equivalents	\$ 916,915	811,600
Cash and cash equivalents - restricted	61,826	61,138
Total cash and cash equivalents	\$ 972,739	872,738

Continued on next page

See accompanying notes to the basic financial statements

Cabazon Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2019 and 2018

	2019	2018
Reconciliation of operating income(loss) to net cash provided by operating activities:		
Operating income(loss)	\$ <u>(118,680)</u>	<u>47,418</u>
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:		
Depreciation	318,652	322,187
Other non-operating	(357)	676
Change in assets and liabilities:		
(Increase)decrease in assets:		
Accounts receivable - water sales and services, net	382	(4,977)
Materials and supplies inventory	(10,470)	(13,234)
Prepaid and other assets	(13,963)	(107)
Increase(decrease) in liabilities:		
Accounts payable and accrued expenses	(5,582)	(4,827)
Accrued wages and related payables	51	1,395
Compensated absences	2,301	(219)
Customer advances and deposits	<u>(3,962)</u>	<u>(11,159)</u>
Total adjustments	<u>287,812</u>	<u>285,790</u>
Net cash provided by operating activities	<u>\$ 169,132</u>	<u>332,208</u>
Non-cash investing, capital, and financing transactions:		
Changes in fair-market value of funds deposited with LAIF	\$ 2,131	(4,568)
Capital contributions	<u>-</u>	<u>97,052</u>
	<u>\$ 2,131</u>	<u>92,484</u>

See accompanying notes to the basic financial statements.

Cabazon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

(I) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Cabazon Water District (District) was formed on May 21, 1954, and provides potable water and water services within a 7,060 acre service area between the cities of Beaumont and Palm Springs within the County of Riverside. The District is governed by a five-member Board of Directors who serves four year terms.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants, and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

C. Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations*. This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

In April 2018, the GASB issued Statement No. 88 – *Certain Disclosures Related to Debt including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

Calhoun Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(I) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting, continued

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit, assets pledged as collateral for the debt and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and disclosures of contingent assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest-bearing accounts. The District considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

3. Investments

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. Accounts Receivable and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

5. Property Taxes and Assessments

The County of Riverside Assessor's Office assesses all real and personal property within the County each year. The County of Riverside Tax Collector's Office bills and collects the District's share of property taxes and assessments. In 1993, the County adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1 (commencing section 4701) of the Revenue and Taxation Code of the State (also known as the "Tetter Plan"). This alternative method provides for funding each taxing entity included in the Tetter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at fiscal year-end. Under this plan, the County assumes an obligation under a debenture or similar demand obligation to advance funds to cover expected delinquencies, and by such financing, the District receives the full amount of secured property taxes levied each year and, therefore, no longer expends delinquent taxes. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position, continued

5. Property Taxes and Assessments, continued

Property taxes receivable at year-end are related to property taxes collected by the County of Riverside, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

6. Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, and pipes and pipefittings for construction and repair of the District's water transmission and distribution system. Inventory is valued at cost using a first-in, first-out cost method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

7. Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

8. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$1,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances, and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Transmission and distribution mains -- 5 to 40 years
- Reservoirs and tanks -- 10 to 40 years
- Wells -- 10 to 30 years
- Buildings and structures -- 5 to 40 years
- Office furniture and equipment -- 5 to 10 years
- Tools and equipment -- 7 to 20 years
- Vehicles -- 5 years

9. Compensated Absences

The District's policy is to permit employees to accumulate earned vacation up to a total of 240 hours with amounts exceeding the limit being paid out as part of the employee's regular compensation. Upon termination of employment, employees are paid all unused vacation and 50% of any unused sick time for non-exempt employees.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position, continued

10. Net Position

The District follows the financial reporting requirements of the GASB and reports net position under the following classifications:

- *Net investment in capital assets component of net position* – this component of net position consists of capital assets, net of accumulated depreciation, and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.
- *Restricted component of net position* – this component of net position consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.
- *Unrestricted component of net position* – this component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted component of net position.

11. Water Sales

Water sales are billed on a monthly cyclical basis. Estimated unbilled water revenue through June 30 has been accrued at year-end.

12. Budgetary Policies

The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

(2) Cash and Investments

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

		<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$	910,913	817,600
Cash and cash equivalents – restricted		<u>61,826</u>	<u>61,138</u>
Total	\$	<u>972,739</u>	<u>878,738</u>

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

		<u>2019</u>	<u>2018</u>
Cash on hand	\$	100	100
Deposits with bank		274,881	255,152
Investments		<u>692,758</u>	<u>617,486</u>
Total	\$	<u>972,739</u>	<u>878,738</u>

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(2) Cash and Investments, continued

As of June 30, the District's authorized deposits had the following maturities:

	2019	2018
Deposits in California Local Agency Investment Fund (LAIF)	173 days	193 days

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5 years	None	None
Federal agency and bank obligations	5 years	None	None
Certificates-of-deposit (negotiable or placed)	5 years	30%	10%
Commercial paper (prime)	270 days	10%	10%
Money market mutual funds	N/A	20%	None
State and local bonds, notes, and warrants	N/A	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) in a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies.

Of the bank balances, up to \$250,000 as of June 30, 2019 and 2018, is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

Cahazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(2) Cash and Investments, continued

Investment in State Investment Pool

The District 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 District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The District's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transaction processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of \$5,000, in increments of \$1,000.
- Withdrawals of \$10,000,000 or more require 24 hours advance.
- Prior to funds transfer, an authorized person must call LAIF to do a verbal transaction.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District can manage 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 matures or comes close to maturity evenly over time as necessary to provide for cash flow requirements and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date.

Maturities of investments at June 30, 2019, consisted of the following:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining maturity</u> <u>12 months</u> <u>or less</u>
Local Agency Investment Fund (LAIF)	\$ 635,932	635,932
Held by bond trustee:		
Money market funds	61,826	61,826
	<u>\$ 697,758</u>	<u>697,758</u>

Cahazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(2) Cash and Investments, continued

Interest Rate Risk, continued

Maturities of investments at June 30, 2018, consisted of the following:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining maturity 12 months or less</u>
Local Agency Investment Fund (LAIF)	\$ 556,348	556,348
Held by bond trustee:		
Money market funds	61,138	61,138
	<u>\$ 617,486</u>	<u>617,486</u>

Credit Risk

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 the California Government Code (where applicable), the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

Credit ratings of investments as of June 30, 2019, were as follows:

<u>Investment Type</u>	<u>Total</u>	<u>Minimum legal rating</u>	<u>Rating as of year-end AAA</u>	<u>Not Rated</u>
Local Agency Investment Fund (LAIF)	\$ 635,942	N/A	-	635,942
Held by bond trustee:				
Money market funds	61,826	AAA	61,826	-
	<u>\$ 697,768</u>		<u>61,826</u>	<u>635,942</u>

Credit ratings of investments as of June 30, 2018, were as follows:

<u>Investment Type</u>	<u>Total</u>	<u>Minimum legal rating</u>	<u>Rating as of year-end AAA</u>	<u>Not Rated</u>
Local Agency Investment Fund (LAIF)	\$ 556,348	N/A	-	556,348
Held by bond trustee:				
Money market funds	61,138	AAA	61,138	-
	<u>\$ 617,486</u>		<u>61,138</u>	<u>556,348</u>

Cabrero Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(2) Cash and Investments, continued

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District's investments as of June 30, 2019 and 2018.

(3) Accounts Receivable

The balance at June 30 consists of the following:

	2019	2018
Accounts receivable - water sales and services	\$ 276,679	237,717
Allowance for uncollectible accounts	(30,158)	(26,814)
	\$ 246,521	210,903

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(4) Capital Assets

Change in capital assets for 2019 was as follows:

	<u>Balance 2018</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2019</u>
Non-depreciable assets:				
Land	\$ 689,548	-	-	689,548
Construction-in-process	114,366	49,970	(2,039)	161,297
Total non-depreciable assets	<u>803,914</u>	<u>49,970</u>	<u>(2,039)</u>	<u>840,755</u>
Depreciable assets:				
Transmission and distribution mains	10,313,196	3,200	-	10,316,396
Source of supply	1,552,225	-	-	1,552,225
Water treatment	8,800	-	-	8,800
Tools and equipment	123,319	-	-	123,319
Buildings and structures	12,281	-	-	12,281
Office furniture and equipment	71,808	-	-	71,808
Vehicles	106,308	8,420	-	114,728
Intangible plant	<u>11,032</u>	<u>-</u>	<u>-</u>	<u>11,032</u>
Total depreciable assets	<u>12,198,969</u>	<u>11,620</u>	<u>-</u>	<u>12,210,589</u>
Accumulated depreciation:				
Transmission and distribution mains	(4,548,561)	(246,929)	-	(4,795,490)
Source of supply	(508,676)	(58,606)	-	(567,276)
Water Treatment	(5,573)	(1,760)	-	(7,333)
Tools and equipment	(119,546)	(975)	-	(120,421)
Buildings and structures	(5,369)	(745)	-	(6,114)
Office furniture and equipment	(57,279)	(5,224)	-	(62,653)
Vehicles	(96,505)	(4,293)	-	(100,298)
Intangible plant	<u>(11,032)</u>	<u>-</u>	<u>-</u>	<u>(11,032)</u>
Total accumulated depreciation	<u>(5,352,137)</u>	<u>(318,432)</u>	<u>-</u>	<u>(5,670,569)</u>
Total depreciable assets, net	<u>6,846,832</u>	<u>(306,812)</u>	<u>-</u>	<u>6,540,020</u>
Total capital assets, net	<u>\$ 7,650,546</u>	<u>-</u>	<u>-</u>	<u>7,380,775</u>

Major capital assets additions during the year include improvements to the District's transmission and distribution mains and purchase of vehicle.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(4) Capital Assets, continued

Change in capital assets for 2018 was as follows:

	<u>Balance</u> 2017	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance</u> 2018
Non-depreciable assets:				
Land	\$ 689,548	-	-	689,548
Construction-in-progress	88,619	184,782	(159,465)	114,196
Total non-depreciable assets	<u>778,167</u>	184,782	(159,465)	<u>803,714</u>
Depreciable assets:				
Transmission and distribution mains	10,773,269	134,927	-	10,908,196
Source of supply	1,541,488	19,538	-	1,561,026
Tools and equipment	23,719	-	-	23,719
Buildings and structures	12,281	-	-	12,281
Office furniture and equipment	71,808	-	-	71,808
Vehicles	106,308	-	-	106,308
Intangible plant	11,032	-	-	11,032
Total depreciable assets	<u>12,039,505</u>	<u>159,465</u>	<u>-</u>	<u>12,198,970</u>
Accumulated depreciation:				
Transmission and distribution mains	(4,201,094)	(247,467)	-	(4,518,561)
Source of supply	(449,466)	(64,778)	-	(514,244)
Tools and equipment	(118,573)	(875)	-	(119,548)
Buildings and structures	(1,625)	(744)	-	(2,369)
Office furniture and equipment	(32,155)	(5,224)	-	(37,379)
Vehicles	(92,611)	(3,394)	-	(96,005)
Intangible plant	(11,032)	-	-	(11,032)
Total accumulated depreciation	<u>(5,029,656)</u>	<u>(322,182)</u>	<u>-</u>	<u>(5,352,138)</u>
Total depreciable assets, net	<u>7,009,849</u>	<u>(163,017)</u>	<u>-</u>	<u>6,846,832</u>
Total capital assets, net	<u>\$ 7,788,246</u>			<u>7,650,546</u>

Major capital assets additions during the year include improvements to the District's transmission and distribution mains and source of supply.

Calazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(5) Compensated Absences

The changes in compensated absences balance at June 30, 2019 were as follows:

	<u>Balance 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2019</u>
\$	10,091	21,845	(18,515)	13,352

The changes in compensated absences balance at June 30, 2018 were as follows:

	<u>Balance 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2018</u>
\$	10,270	20,095	(20,315)	10,051

(6) Long-Term Debt

Changes in long-term debt in 2019 were as follows:

	<u>Balance 2018</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2019</u>
1993 Calif. Dept. of Water Resources Loan - E58416	\$ 356,924	-	(38,425)	318,499
Zions First National Bank	414,616	-	(78,872)	335,746
Riverside County Economic Development Agency	300,000	-	-	300,000
Total long term debt	1,071,540	-	(117,297)	954,243
Less current portion	(117,295)			(117,295)
Total non-current	\$ 954,245			836,948

Changes in long-term debt in 2018 were as follows:

	<u>Balance 2017</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2018</u>
1993 Calif. Dept. of Water Resources Loan - E58416	\$ 394,238	-	(37,314)	356,924
Zions First National Bank	491,558	-	(76,942)	414,616
Riverside County Economic Development Agency	300,000	-	-	300,000
Total long term debt	1,185,796	-	(114,256)	1,071,540
Less current portion	(117,295)			(117,295)
Total non-current	\$ 1,068,501			954,245

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(6) Long-Term Debt, continued

1993 California Dept. of Water Resources Loan – E58416

In 1993, the Cabazon Water District contracted with the California Department of Water Resources for a \$579,860, 30-year loan under the 1981 California Safe Drinking Water Bond Law to fund capital improvements in order to comply with the California Safe Drinking Water Standards. Terms of the loan call for monthly debt service deposits by the District with a trustee. Principal and interest payments of \$24,346 are payable semi-annually on October 1st and April 1st each year at a rate of 2.955%, with the obligation maturing in 2027. Annual debt service requirements on the 1993 California Dept. of Water Resources Loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 39,550	9,141	48,691
2021	40,763	7,928	48,691
2022	41,959	6,732	48,691
2023	43,208	5,483	48,691
2024	44,487	4,204	48,691
2025-2027	108,532	4,664	113,196
Total	338,499	38,092	376,591
Current	(39,550)		
Non-current	\$ 278,949		

Zions First National Bank

In 2013, the Cabazon Water District entered into a loan agreement with Zions First National Bank in the amount of \$787,309 to refinance the 1993 California Dept. of Water Resources Loan – E52039, and provide funding for the construction and upgrade of District transmission mains. Terms of the loan call for semi-annual debt service payments of principal and interest payable on April 1st and October 1st of each year at a rate of 2.49%, maturing in 2023. Annual debt service requirements on the loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 80,846	7,857	88,703
2021	82,872	5,851	88,703
2022	84,948	3,755	88,703
2023	87,080	1,625	88,703
Total	335,746	19,066	354,812
Current	(80,846)		
Non-current	\$ 254,900		

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(6) Long-Term Debt, continued

Riverside County Economic Development Agency

In 1997, the Cabazon Water District contracted with the Riverside County Economic Development Agency for a \$100,000 loan to construct water improvements, in conjunction with MICA Cabazon Partnership Construction Agreement. The agreement calls for a zero interest loan with funds to be repaid with connection fees as development occurs. The unpaid balance has been classified as long-term as no connections are anticipated in 2019.

(7) Net Position

Calculation of net position as of June 30 was as follows:

	2019	2018
Net investment in capital assets:		
Capital assets, net	\$ 7,380,775	7,650,516
Loans payable – current portion	(170,596)	(117,295)
Loans payable – non-current portion	(833,849)	(954,215)
Total net investment in capital assets	6,426,530	6,579,006
Restricted:		
Cash and cash equivalents – restricted	61,826	61,138
Total restricted	61,826	61,138
Unrestricted:		
Non-spendable unrestricted net position:		
Materials and supplies inventory	134,142	93,672
Prepaid and other assets	33,972	20,009
Total non-spendable unrestricted net position	138,114	113,681
Spendable unrestricted net position:		
Operating reserve	1,031,439	936,396
Total spendable unrestricted net position	1,031,439	936,396
Total unrestricted	1,169,553	1,050,077
Total net position	\$ 7,657,909	7,690,221

(8) Defined Benefit Pension Plan

The District provides pension benefits to all covered employees under the Collective Bargaining Agreement to the Service Employees International Union National Industry Pension Fund. The District's contribution is based on 15% of gross wages. The District's contributions to the Plan were \$59,895 and \$61,229 at June 30, 2019 and 2018, respectively.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(9) Deferred Compensation Savings Plan

In 2005, as amended in 2008, the District offered a Profit Sharing 401(a) Plan (Plan), to qualified employees. Participation in the Plan is open to employees who do not meet the eligibility requirements for pension benefits under the terms of a separate collective bargaining agreement. At June 30, 2019 and 2018, the Plan included two participants. The market value of all assets held in trust by the District's 401(a) Plan at June 30, 2019 and 2018, amounted to \$251,163 and \$169,951, respectively.

(10) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is insured for a variety of potential exposures. The following is a summary of the insurance policies carried by the District as of June 30, 2019:

- Property: Blanket limit of \$6,058,000 with a \$1,000 deductible per incident.
- Property damage: \$1,000,000 per occurrence and \$10,000,000 in the aggregate.
- Personal and advertising injury: \$1,000,000 per person or organization and \$10,000,000 in the aggregate.
- Wrongful acts: \$1,000,000 per claim and \$10,000,000 in the aggregate with a \$1,000 deductible.
- Employment practices liability: \$1,000,000 per claim and \$10,000,000 in the aggregate with a \$1,000 deductible.
- Employee benefit liability: \$1,000,000 per person and \$10,000,000 in the aggregate with a \$1,000 deductible.
- Automobile: \$1,000,000 per occurrence with a \$500 deductible.
- Crime coverage: \$250,000 per occurrence with a \$1,500 deductible.
- Excess liability: \$4,000,000 employer's liability excluded.

(11) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the issue date, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(11) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred outflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 89

In June 2018, the GASB issued Statement No. 89 – *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–12 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Concluded in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

Governmental Accounting Standards Board Statement No. 90

In August 2018, the GASB issued Statement No. 90 – *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

Cahoon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(11) Governmental Accounting Standards Board Statements Issued, Not Yet Effective,
continued

Governmental Accounting Standards Board Statement No. 90, continued

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Governmental Accounting Standards Board Statement No. 91

In May 2019, the GASB issued Statement No. 91 – *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations, and improving required note disclosures.

This Statement also addresses arrangements – often characterized as leases – that are associated with conduit debt obligations. In these arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During these arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuer's conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(12) Commitments and Contingencies

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(13) Subsequent Events

Events occurring after June 30, 2019 have been evaluated for possible adjustment to the financial statements or disclosure as of November 19, 2019, which is the date the financial statements were available to be issued.

< Page Intentionally Left Blank >

Report on Internal Controls and Compliance



Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CFMA
Andy Park, CPA

Fedak & Brown LLP

Certified Public Accountants

Cypress Office
6091 Orange Avenue
Cypress, California 90630
(657) 714-7307
FAX (714) 627-9154

Riverside Office
1945 Chicago Avenue, Suite G-1
Riverside, California 92507
(951) 763-5140

Independent Auditor's Report on Internal Controls Over Financial Reporting And on Compliance and Other Matters Based on the Audits of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Cabazon Water District
Cabazon, California

We have audited, in accordance with the 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, the financial statements of the Cabazon Water District (District), as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 19, 2019.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Independent Auditor's Report on Internal Controls Over Financial Reporting
And on Compliance and Other Matters Based on the Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*, continued**

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
November 19, 2019

Cabazon Water District

Management Report

June 30, 2019



Fedak & Brown LLP

Certified Public Accountants

Calhoun Water District

Management Report

Table of Contents

Item	<u>Page No.</u>
General Introduction	1
Current Year Comment and Recommendation	1-2
Prior Year Comment and Recommendation	2
Appendix:	
Audit/Finance Committee Letter	1-3



Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
Andy Deak, CPA

Fedak & Brown LLP

Certified Public Accountants

Cypress Office:
1001 Orange Avenue
Cypress, California 90630
(657) 214-2307
FAX (714) 527-9154

Riverside Office:
1945 Chicago Avenue, Suite C-1
Riverside, California 92507
(951) 783-9149

Board of Directors
Cabazon Water District
Cabazon, California

Dear Members of the Board:

In planning and performing our audit of the financial statements of the business-type activities of the Cabazon Water District (District) as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Current Year Comment and Recommendation

Our comment and recommendation, all of which have been discussed with the appropriate members of management, are summarized as follows:

Disclosure of Audit Adjustments and Reclassifications

As your external auditor, we assume that the books and records of the District are properly adjusted before the audit begins. In many cases, however, audit adjustments and reclassifications are made in the normal course of the audit process to present the District's financial statements in conformity with accounting principles generally accepted in the United States of America or for comparison purposes with the prior year. For the Board of Directors to gain a full and complete understanding and appreciation of the scope and extent of the audit process we have presented these audit adjustments and reclassifications as an attachment to this letter. There can be very reasonable explanations for situations of having numerous adjustments as well as having no adjustments at all. However, the issue is simply disclosure of the adjustments and reclassifications that were made and to provide the Board of Directors with a better understanding of the scope of the audit.

Current Year Comment and Recommendation, continued

Disclosure of Audit Adjustments and Reclassifications, continued

Management's Response

We have reviewed and approved all of the audit adjustment and reclassification entries provided by the auditor and have entered these entries into the District's accounting system to close-out the District's year-end trial balance.

Prior Year Comment and Recommendation

Disclosure of Audit Adjustments and Reclassifications

As your external auditor, we assume that the books and records of the District are properly adjusted before the audit begins. In many cases, however, audit adjustments and reclassifications are made in the normal course of the audit process to present the District's financial statements in conformity with accounting principles generally accepted in the United States of America or for comparison purposes with the prior year. For the Board of Directors to gain a full and complete understanding and appreciation of the scope and extent of the audit process we have presented these audit adjustments and reclassifications as an attachment to this letter. There can be very reasonable explanations for situations of having numerous adjustments as well as having no adjustments at all. However, the issue is simply disclosure of the adjustments and reclassifications that were made and to provide the Board of Directors with a better understanding of the scope of the audit.

Management's Response

We have reviewed and approved all of the audit adjustment and reclassification entries provided by the auditor and have entered these entries into the District's accounting system to close-out the District's year-end trial balance.

* * * * *

This report is intended solely for the information and use of management and the Board of Directors of the District. This restriction is not intended to limit the distribution of this letter, which is a matter of public record.

We appreciate the courtesy and cooperation extended to us during our examination. We would be pleased to discuss the contents of this letter with you at your convenience. Please do not hesitate to contact us.

Fedak & Brown LLP

Fedak & Brown LLP

Cypress, California

November 19, 2019

APPENDIX

Calhoun Water District

Audit/Finance Committee Letter

June 30, 2019



Sheldon Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
Andy Feek, CPA

Fedak & Brown LLP

Certified Public Accountants

Cypress Office
6001 Orange Avenue
Cypress, California 90630
(657) 214-2307
FAX (714) 527-9151

Riverside Office
1945 Chicago Avenue, Suite C-3
Riverside, California 92507
(951) 783-9149

Board of Directors
Cabazon Water District
Cabazon, California

We have audited the financial statements of the business-type activities of the Cabazon Water District (District) for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated March 26, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2019. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were:

Management's estimate of the fair value of cash and investments is based on information provided by financial institutions. We evaluated the key factors and assumptions used to develop the fair value of cash and investments in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of capital assets depreciation is based on historical estimates of each capitalized item's useful life expectancy or cost recovery period. We evaluated the key factors and assumptions used to develop the capital asset depreciation calculations in determining that they are reasonable in relation to the financial statements taken as a whole.

Significant Audit Matters, continued

Qualitative Aspects of Accounting Practices, continued

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of fair value of cash and investments in Note 2 to the financial statements represents amounts susceptible to market fluctuations.

The disclosure of capital assets, net in Note 4 to the financial statements is based on historical information which could differ from actual useful lives of each capitalized item.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial, accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 19, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Management Discussion and Analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the transmittal letter, which accompany the financial statements but are not RSI. Such information 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.

Conclusion

We appreciate the cooperation extended us by Calvin Louie, General Manager, and Elizabeth Lemos, Business Administration Manager, in the performance of our audit work.

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the District.

This information is intended solely for the information and use of the Board of Directors and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this letter, which is a matter of public record.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
November 19, 2019

Cabazon Water District
Schedule of Audit Adjusting Journal Entries
For Fiscal Year Ended June 30, 2019

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 1			
To record prior year's contributed capital.			
1430	Transmission & Distribution	\$ 97,052.20	
3200	Retained Earnings		97,052.20
Total		\$ <u>97,052.20</u>	<u>97,052.20</u>