



**Cabazon Water District**  
**Annual Financial Report**  
**For the Fiscal Years Ended June 30, 2018 and 2017**



**Cabazon Water District**  
**Annual Financial Report**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**Cabazon Water District**  
**Board of Directors as of June 30, 2018**

<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 - 12/2019
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, 2018 and 2017**

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# **Introductory Section**





September 18, 2018

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, 2018 and 2017, 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 90% 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 Cabazon in Riverside County. Regional growth has been slow to recover from the continuing effects of the economic downturn and 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,

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Calvin Louie  
General Manager

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# **Financial Section**





Charles Z. Fedak, CPA, MBA  
Christopher J. Brown, CPA, CGMA  
Jonathan P. Abadesco, CPA  
Andy Beck, CPA

# Fedak & Brown LLP

Certified Public Accountants

Cypress Office:  
6081 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

## Independent Auditor's Report

Board of Directors  
Cabazon Water District  
Cabazon, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Cabazon Water District (District) as of and for the years ended June 30, 2018 and 2017, 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 and 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 Cabazon Water District, as of June 30, 2018 and 2017, 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 September 18, 2018, 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 30 and 31.

*Fedak & Brown LLP*

**Fedak & Brown LLP**  
Cypress, California  
September 18, 2018

**Cabazon Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

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, 2018 and 2017. 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 2018, the District's net position increased 3.31% or \$246,698 to \$7,690,221. In fiscal year 2017, the District's net position decreased 1.86% or \$141,047 to \$7,443,523. See note 7 for further discussion.
- 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 \$26,416 in facility fees. In fiscal year 2017, the District's operating revenues increased 5.87% or \$66,481, due primarily to increases of \$44,048 in water consumption sales and \$25,870 in facility fees.
- In fiscal year 2018, the District's operating expenses increased 0.51% or \$5,512. In 2017, the District's operating expenses increased 7.01% or \$71,218, due primarily to an increase of \$125,270 in general and administrative expenses; which was offset by a decrease of \$66,972 in transmission and distribution.

**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, 2018 and 2017**

**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 29.

**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 \$7,690,221 and \$7,443,523 as of June 30, 2018 and 2017, respectively.

By far the largest portion of the District's net position (85.6% and 88.7% as of June 30, 2018 and 2017, 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 2018 and 2017, the District showed a positive balance in its unrestricted net position of \$1,050,077 and \$781,505. See note 7 for further discussion.

**Condensed Statements of Net Position**

	<u>2018</u>	<u>2017</u>	<u>Change</u>
<b>Assets:</b>			
Current assets	\$ 1,211,877	960,600	251,277
Capital assets, net	<u>7,650,546</u>	<u>7,788,246</u>	<u>(137,700)</u>
<b>Total assets</b>	<u>8,862,423</u>	<u>8,748,846</u>	<u>113,577</u>
<b>Liabilities:</b>			
Current liabilities	217,957	233,783	(15,826)
Non-current liabilities	<u>954,245</u>	<u>1,071,540</u>	<u>(117,295)</u>
<b>Total liabilities</b>	<u>1,172,202</u>	<u>1,305,323</u>	<u>(133,121)</u>
<b>Net position:</b>			
Net investment in capital assets	6,579,006	6,602,450	(23,444)
Restricted for debt service	61,138	59,568	1,570
Unrestricted	<u>1,050,077</u>	<u>781,505</u>	<u>268,572</u>
<b>Total net position</b>	<u>\$ 7,690,221</u>	<u>7,443,523</u>	<u>246,698</u>

**Cabazon Water District**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**Statements of Revenues, Expenses, and Changes in Net Position**

	<u>2018</u>	<u>2017</u>	<u>Change</u>
<b>Revenues:</b>			
Operating revenues	\$ 1,463,144	1,199,699	263,445
Non-operating revenues	99,468	101,251	(1,783)
<b>Total revenues</b>	<u>1,562,612</u>	<u>1,300,950</u>	<u>261,662</u>
<b>Expenses:</b>			
Operating expenses	1,093,244	1,087,732	5,512
Depreciation	322,482	328,920	(6,438)
Non-operating expenses	22,383	25,345	(2,962)
<b>Total expenses</b>	<u>1,438,109</u>	<u>1,441,997</u>	<u>(3,888)</u>
<b>Net income (loss) before capital contributions</b>	124,503	(141,047)	265,550
<b>Capital contributions</b>	<u>122,195</u>	<u>-</u>	<u>122,195</u>
<b>Changes in net position</b>	246,698	(141,047)	387,745
<b>Net position, beginning of year</b>	<u>7,443,523</u>	<u>7,584,570</u>	<u>(141,047)</u>
<b>Net position, end of year</b>	<u>\$ 7,690,221</u>	<u>7,443,523</u>	<u>246,698</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 2018, the District's net position increased 3.31% or \$246,698 to \$7,690,221. In fiscal year 2017, the District's net position decreased 1.86% or \$141,047 to \$7,443,523. See note 7 for further discussion.

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 \$26,416 in facility fees. In fiscal year 2017, the District's operating revenues increased 5.87% or \$66,481, due primarily to increases of \$44,048 in water consumption sales and \$25,870 in facility fees.

In fiscal year 2018, the District's operating expenses increased 0.51% or \$5,512. In 2017, the District's operating expenses increased 7.01% or \$71,218, due primarily to an increase of \$125,270 in general and administrative expenses; which was offset by a decrease of \$66,972 in transmission and distribution.

**Capital Asset Administration**

At the end of fiscal years 2018 and 2017, the District's investment in capital assets amounted to \$7,650,546 and \$7,788,246 (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 and source of supply, and purchase of vehicles.

**Cabazon Water District**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**Capital Asset Administration, continued**

Changes in capital assets for 2018 were as follows:

	<u>Balance 2017</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2018</u>
Capital assets:				
Non-depreciable assets	\$ 778,397	184,782	(159,465)	803,714
Depreciable assets	12,039,505	159,465	-	12,198,970
Accumulated depreciation	<u>(5,029,656)</u>	<u>(322,482)</u>	<u>-</u>	<u>(5,352,138)</u>
Total capital assets, net	<u>\$ 7,788,246</u>	<u>21,765</u>	<u>(159,465)</u>	<u>7,650,546</u>

Changes in capital assets for 2017 were as follows:

	<u>Balance 2016</u>	<u>Additions/ Transfers</u>	<u>Transfers/ Deletions</u>	<u>Balance 2017</u>
Capital assets:				
Non-depreciable assets	\$ 712,335	66,062	-	778,397
Depreciable assets	11,987,765	51,740	-	12,039,505
Accumulated depreciation	<u>(4,700,736)</u>	<u>(328,920)</u>	<u>-</u>	<u>(5,029,656)</u>
Total capital assets, net	<u>\$ 7,999,364</u>	<u>(211,118)</u>	<u>-</u>	<u>7,788,246</u>

**Debt Administration**

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

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

Changes in long-term debt in 2017 were as follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2017</u>
Long-term debt:				
Loans payable	\$ 1,297,119	-	(111,323)	1,185,796
Total loans payable	<u>\$ 1,297,119</u>	<u>-</u>	<u>(111,323)</u>	<u>1,185,796</u>

**Cabazon Water District**  
*Management's Discussion and Analysis, continued*  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**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, Cabazon, California 92230.

# **Basic Financial Statements**

**Cabazon Water District  
Statements of Net Position  
June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Current assets:</b>		
Cash and cash equivalents (note 2)	\$ 811,600	583,024
Cash and cash equivalents – restricted (note 2)	61,138	59,568
Accrued interest receivable	2,457	812
Accounts receivable – water sales, net (note 3)	206,903	201,986
Property taxes and assessments receivable	16,098	14,870
Materials and supplies inventory	93,672	80,438
Prepaid and other assets	20,009	19,902
<b>Total current assets</b>	1,211,877	960,600
<b>Non-current assets:</b>		
Capital assets – non-depreciable assets (note 4)	803,714	778,397
Capital assets – depreciable assets, net (note 4)	6,846,832	7,009,849
<b>Total non-current assets</b>	7,650,546	7,788,246
<b>Total assets</b>	8,862,423	8,748,846
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	61,558	66,385
Accrued wages and related payables	8,118	6,723
Customer advances and deposits	15,710	30,169
Accrued interest payable on long-term debt	5,225	5,980
Long-term liabilities – due within one year:		
Compensated absences (note 5)	10,051	10,270
Loans payable (note 6)	117,295	114,256
<b>Total current liabilities</b>	217,957	233,783
<b>Non-current liabilities:</b>		
Long-term liabilities – due in more than one year:		
Loans payable (note 6)	954,245	1,071,540
<b>Total non-current liabilities</b>	954,245	1,071,540
<b>Total liabilities</b>	1,172,202	1,305,323
<b>Net position: (note 7)</b>		
Net investment in capital assets	6,579,006	6,602,450
Restricted	61,138	59,568
Unrestricted	1,050,077	781,505
<b>Total net position</b>	\$ 7,690,221	7,443,523

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, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Operating revenues:</b>		
Water consumption sales	\$ 1,246,332	1,022,111
Connection fees	2,477	2,549
Standby fees	110,539	111,171
Facility fees	54,096	27,680
Other charges	49,700	36,188
<b>Total operating revenues</b>	<b>1,463,144</b>	<b>1,199,699</b>
<b>Operating expenses:</b>		
Pumping and water treatment	144,355	128,453
Transmission and distribution	22,494	64,446
Customer accounts	50,052	46,233
General and administrative	876,343	848,600
<b>Total operating expenses</b>	<b>1,093,244</b>	<b>1,087,732</b>
Operating income before depreciation and amortization	369,900	111,967
Depreciation	(322,482)	(328,920)
<b>Operating income (loss)</b>	<b>47,418</b>	<b>(216,953)</b>
<b>Non-operating revenue (expense)</b>		
Property taxes	69,449	64,633
Rental income – cellular antennas	22,068	25,608
Investment earnings	7,275	10,806
Interest expense – long-term debt	(22,383)	(25,345)
Other non-operating revenue, net	676	204
<b>Total non-operating revenues, net</b>	<b>77,085</b>	<b>75,906</b>
<b>Net income (loss) before capital         contributions</b>	<b>124,503</b>	<b>(141,047)</b>
<b>Capital contributions</b>		
Contributed capital assets	122,195	-
<b>Changes in net position</b>	<b>246,698</b>	<b>(141,047)</b>
<b>Net position, beginning of year</b>	<b>7,443,523</b>	<b>7,584,570</b>
<b>Net position, end of year</b>	<b>\$ 7,690,221</b>	<b>7,443,523</b>

See accompanying notes to the basic financial statements

**Cabazon Water District**  
**Statements of Cash Flows, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities:</b>		
Cash receipts from customers for water sales	\$ 1,333,229	1,079,601
Proceeds from standby fees	110,539	111,171
Cash paid to employees for salaries and wages	(324,414)	(281,199)
Cash paid to vendors and suppliers for materials and services	(785,146)	(826,002)
<b>Net cash provided by operating activities</b>	<b>334,208</b>	<b>83,571</b>
<b>Cash flows from non-capital financing activities:</b>		
Proceeds from rental income – cellular antennas	22,068	25,608
Proceeds from property taxes	68,221	62,968
<b>Net cash provided by non-capital financing activities</b>	<b>90,289</b>	<b>88,576</b>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(87,730)	(117,802)
Proceeds from capital contributions	25,143	-
Principal paid on long-term debt	(114,256)	(111,323)
Interest paid on long-term debt	(23,138)	(26,073)
<b>Net cash used in capital and related financing activities</b>	<b>(199,981)</b>	<b>(255,198)</b>
<b>Cash flows from investing activities:</b>		
Interest earnings	5,630	10,806
<b>Net cash provided by investing activities</b>	<b>5,630</b>	<b>10,806</b>
<b>Net increase(decrease) in cash and cash equivalents</b>	<b>230,146</b>	<b>(72,245)</b>
Cash and cash equivalents, beginning of year	642,592	714,837
Cash and cash equivalents, end of year	<b>\$ 872,738</b>	<b>642,592</b>
<b>Reconciliation of cash and cash equivalents to statements of net position:</b>		
Cash and cash equivalents	\$ 811,600	583,024
Cash and cash equivalents – restricted	61,138	59,568
<b>Total cash and cash equivalents</b>	<b>\$ 872,738</b>	<b>642,592</b>

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, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Reconciliation of operating income(loss) to net cash provided by operating activities:</b>		
Operating income(loss)	\$ 47,418	(216,953)
<b>Adjustments to reconcile operating income(loss) to net cash provided by operating activities:</b>		
Depreciation	322,482	328,920
Other non-operating	676	204
<b>Change in assets and liabilities:</b>		
(Increase)decrease in assets:		
Accounts receivable – water sales and services, net	(4,917)	(26,928)
Materials and supplies inventory	(13,234)	6,720
Prepaid and other assets	(107)	(9,547)
Increase(decrease) in liabilities:		
Accounts payable and accrued expenses	(4,827)	(10,308)
Accrued wages and related payables	1,395	1,537
Compensated absences	(219)	(8,075)
Customer advances and deposits	(14,459)	18,001
<b>Total adjustments</b>	<b>286,790</b>	<b>300,524</b>
<b>Net cash provided by operating activities</b>	<b>\$ 334,208</b>	<b>83,571</b>
<b>Non-cash investing, capital, and financing transactions:</b>		
Changes in fair-market value of funds deposited with LAI	\$ (4,568)	3,256
Capital contributions	97,052	-
	<b>\$ 92,484</b>	<b>3,256</b>

See accompanying notes to the basic financial statements

**Cabazon Water District**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**(1) 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 7,040 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**

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB.

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

**Cabazon Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

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

**C. Financial Reporting, continued**

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

**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 “Teeter Plan”). This alternative method provides for funding each taxing entity included in the Teeter 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, Cabazon Water District receives the full amount of secured property taxes levied each year and, therefore, no longer experiences 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, 2018 and 2017**

**(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 – 15 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, 2018 and 2017**

**(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:

	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	\$ 811,600	583,024
Cash and cash equivalents – restricted	61,138	59,568
Total	\$ 872,738	642,592

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

	<b>2018</b>	<b>2017</b>
Cash on hand	\$ 100	100
Deposits with bank	255,152	226,605
Investments	617,486	415,887
Total	\$ 872,738	642,592

**Cabazon Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**(2) Cash and Investments, continued**

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

	<b>2018</b>	<b>2017</b>
Deposits in California Local Agency Investment Fund (LAIF)	193 days	194 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.

<b>Authorized Investment Type</b>	<b>Maximum Maturity</b>	<b>Maximum Percentage of Portfolio</b>	<b>Maximum Investment in One Issuer</b>
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) to 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, 2018 and 2017, 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.

**Cabazon Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**(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, 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	<u>61,138</u>	<u>61,138</u>
	<u>\$ 617,486</u>	<u>617,486</u>

Maturities of investments at June 30, 2017, consisted of the following:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining maturity 12 months or less</u>
Local Agency Investment Fund (LAIF)	\$ 356,319	356,319
Held by bond trustee:		
Money market funds	<u>59,568</u>	<u>59,568</u>
	<u>\$ 415,887</u>	<u>415,887</u>

**Cabazon Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**(2) Cash and Investments, continued**

***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, 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	<u>61,138</u>	<u>AAA</u>	<u>61,138</u>	<u>-</u>
	<u>\$ 617,486</u>		<u>61,138</u>	<u>556,348</u>

Credit ratings of investments as of June 30, 2017, 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)	\$ 356,319	N/A	-	356,319
Held by bond trustee:				
Money market funds	<u>59,568</u>	<u>AAA</u>	<u>59,568</u>	<u>-</u>
	<u>\$ 415,887</u>		<u>59,568</u>	<u>356,319</u>

***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, 2018 and 2017.

**(3) Accounts Receivable**

The balance at June 30 consists of the following:

	<u>2018</u>	<u>2017</u>
Accounts receivable - water sales and services	\$ 233,717	232,902
Allowance for uncollectible accounts	<u>(26,814)</u>	<u>(30,916)</u>
	<u>\$ 206,903</u>	<u>201,986</u>

**Cabazon Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**(4) Capital Assets**

Change in capital assets for 2018 were as follows:

	<u>Balance 2017</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2018</u>
Non-depreciable assets:				
Land	\$ 689,548	-	-	689,548
Construction-in-process	88,849	184,782	(159,465)	114,166
Total non-depreciable assets	<u>778,397</u>	<u>184,782</u>	<u>(159,465)</u>	<u>803,714</u>
Depreciable assets:				
Transmission and distribution mains	10,173,269	139,927	-	10,313,196
Source of supply	1,541,488	19,538	-	1,561,026
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	-	-	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	(4,301,094)	(247,467)	-	(4,548,561)
Source of supply	(449,466)	(64,778)	-	(514,244)
Tools and equipment	(118,673)	(875)	-	(119,548)
Buildings and structures	(4,625)	(744)	-	(5,369)
Office furniture and equipment	(52,155)	(5,224)	-	(57,379)
Vehicles	(92,611)	(3,394)	-	(96,005)
Intangible plant	(11,032)	-	-	(11,032)
Total accumulated depreciation	<u>(5,029,656)</u>	<u>(322,482)</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.

**Cabazon Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**(4) Capital Assets, continued**

Change in capital assets for 2017 were as follows:

	<b>As Restated</b>			
	<b>Balance</b>	<b>Additions/</b>	<b>Deletions/</b>	<b>Balance</b>
	<b>2016</b>	<b>Transfers</b>	<b>Transfers</b>	<b>2017</b>
Non-depreciable assets:				
Land	\$ 689,548	-	-	689,548
Construction-in-process	22,787	66,062	-	88,849
Total non-depreciable assets	<u>712,335</u>	<u>66,062</u>	<u>-</u>	<u>778,397</u>
Depreciable assets:				
Transmission and distribution mains	10,173,269	-	-	10,173,269
Source of supply	1,519,523	21,965	-	1,541,488
Tools and equipment	118,016	5,303	-	123,319
Buildings and structures	12,281	-	-	12,281
Office furniture and equipment	63,188	8,620	-	71,808
Vehicles	90,456	15,852	-	106,308
Intangible plant	11,032	-	-	11,032
Total depreciable assets	<u>11,987,765</u>	<u>51,740</u>	<u>-</u>	<u>12,039,505</u>
Accumulated depreciation:				
Transmission and distribution mains	(4,052,856)	(248,238)	-	(4,301,094)
Source of supply	(381,538)	(67,928)	-	(449,466)
Tools and equipment	(115,838)	(2,835)	-	(118,673)
Buildings and structures	(3,881)	(744)	-	(4,625)
Office furniture and equipment	(46,547)	(5,608)	-	(52,155)
Vehicles	(89,156)	(3,455)	-	(92,611)
Intangible plant	(10,920)	(112)	-	(11,032)
Total accumulated depreciation	<u>(4,700,736)</u>	<u>(328,920)</u>	<u>-</u>	<u>(5,029,656)</u>
Total depreciable assets, net	<u>7,287,029</u>	<u>(277,180)</u>	<u>-</u>	<u>7,009,849</u>
Total capital assets, net	<u>\$ 7,999,364</u>			<u>7,788,246</u>

Major capital assets additions during the year include improvements to the District's source of supply and purchase of vehicles.

**Cabazon Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**(5) Compensated Absences**

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

<u>Balance</u> <u>2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2018</u>
\$ 10,270	20,096	(20,315)	10,051

The changes in compensated absences balance at June 30, 2017 were as follows:

<u>Balance</u> <u>2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2017</u>
\$ 18,345	18,116	(26,191)	10,270

**(6) Long-Term Debt**

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

	<u>Balance</u> <u>2017</u>	<u>Additions</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>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	(114,256)			(117,295)
Total non-current	\$ 1,071,540			954,245

Changes in long-term debt in 2017 were as follows:

	<u>Balance</u> <u>2016</u>	<u>Additions</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>2017</u>
1993 Calif. Dept. of Water Resources Loan - E58416	\$ 430,499	-	(36,261)	394,238
Zions First National Bank	566,620	-	(75,062)	491,558
Riverside County Economic Development Agency	300,000	-	-	300,000
Total long-term debt	1,297,119	-	(111,323)	1,185,796
Less current portion	(111,323)			(114,256)
Total non-current	\$ 1,185,796			1,071,540

**Cabazon Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**(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 \$979,860, 30-year loan under the 1984 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 1<sup>st</sup> and April 1<sup>st</sup> 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>
2019	\$	38,425	10,266	48,691
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
2024-2027		<u>153,019</u>	<u>8,808</u>	<u>161,827</u>
Total		356,924	<u>48,358</u>	<u>405,282</u>
Current		<u>(38,425)</u>		
Non-current	\$	<u>318,499</u>		

***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 – E62039, 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 1<sup>st</sup> and October 1<sup>st</sup> 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>
2019	\$	78,870	9,833	88,703
2020		80,846	7,857	88,703
2021		82,872	5,831	88,703
2022		84,948	3,755	88,703
2023		<u>87,080</u>	<u>1,623</u>	<u>88,703</u>
Total		414,616	<u>28,899</u>	<u>443,515</u>
Current		<u>(78,870)</u>		
Non-current	\$	<u>335,746</u>		

**Cabazon Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**(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 \$300,000 loan to construct water improvements, in conjunction with MKA 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 2018.

**(7) Net Position**

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

	<b>2018</b>	<b>2017</b>
<b>Net investment in capital assets:</b>		
Capital assets, net	\$ 7,650,546	7,788,246
Loans payable – current portion	(117,295)	(114,256)
Loans payable – non-current portion	(954,245)	(1,071,540)
<b>Total net investment in capital assets</b>	<b>6,579,006</b>	<b>6,602,450</b>
<b>Restricted:</b>		
Cash and cash equivalents – restricted	61,138	59,568
<b>Total restricted</b>	<b>61,138</b>	<b>59,568</b>
<b>Unrestricted:</b>		
Non-spendable unrestricted net position:		
Materials and supplies inventory	93,672	80,438
Prepaid and other assets	20,009	19,902
Total non-spendable unrestricted net position	113,681	100,340
Spendable unrestricted net position:		
Operating reserve	936,396	681,165
Total spendable unrestricted net position	936,396	681,165
<b>Total unrestricted</b>	<b>1,050,077</b>	<b>781,505</b>
<b>Total net position</b>	<b>\$ 7,690,221</b>	<b>7,443,523</b>

**(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 \$61,229 and \$52,127 at June 30, 2018 and 2017, respectively.

**Cabazon Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**(9) Deferred Compensation Savings Plan**

In 2003, 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, 2018 and 2017, the Plan included two participants. The market value of all assets held in trust by the District's 401(a) Plan at June 30, 2018 and 2017, amounted to \$169,951 and \$146,940, 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, 2018:

- 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 benefits 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 \$1,000 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. 83***

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.

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

**Cabazon Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

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

***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.

***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 inflow 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. 88***

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.

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.

**Cabazon Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

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

***Governmental Accounting Standards Board Statement No. 88, continued***

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.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. 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 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained 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.

**(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.

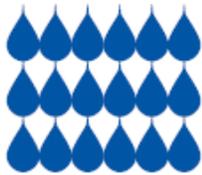
**(13) Subsequent Events**

Events occurring after June 30, 2018, have been evaluated for possible adjustment to the financial statements or disclosure as of September 18, 2018, which is the date the financial statements were available to be issued.

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# **Report on Internal Controls and Compliance**





Charles Z. Fedak, CPA, MBA  
Christopher J. Brown, CPA, CGMA  
Jonathan P. Abadesco, CPA  
Andy Beck, CPA

## Fedak & Brown LLP

Certified Public Accountants

Cypress Office:  
6081 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

### **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, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 18, 2018.

#### **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 Audits 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  
September 18, 2018