



Cabazon Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2017 and 2016



Cabazon Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2017 and 2016

Cabazon Water District
Board of Directors as of June 30, 2017

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Robert Lynk	Chair	Elected	12/15-12/17
Alan Davis	Vice Chair	Elected	12/15-12/19
Maxine Israel	Director	Elected	12/15-12/19
Sarah Wargo	Director	Appointed	04/16-12/17
Teresa Bui	Director	Elected	12/13-12/17

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, 2017 and 2016

**Cabazon Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2017 and 2016**

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 Basic Financial Statements	15-31
Report on Compliance and Internal Controls	
Independent Auditor's Report on Compliance 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



February 20, 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, 2017 and 2016, 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 one (1) regular employee and five (5) part-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,

Calvin Louie
General Manager

< Page Intentionally Left Blank >

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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 opinions.

Opinions

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, 2017 and 2016, 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.

Prior Period Restatement

As part of our audit of the June 30, 2017, financial statements, we audited the adjustments described in note 7. An adjustment for capital assets and depreciation expense was applied to restate the June 30, 2016 and 2015, financial statements.

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 February 20, 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 32 and 33.

Fedak & Brown LLP

Fedak & Brown LLP

Cypress, California

February 20, 2018

Cabazon Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2017 and 2016

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, 2017 and 2016. 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 2017, the District's net position decreased 1.86% or \$141,047 to \$7,443,523. In fiscal year 2016, the District's net position decreased 1.93% or \$149,311 to \$7,584,570. See note 8 for further discussion.
- 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 2016, the District's operating revenues decreased 6.13% or \$73,958 due primarily to a decrease of \$79,949 in water consumption sales.
- In fiscal year 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. In 2016, the District's operating expenses decreased 12.46% or \$144,658, due primarily to a decrease of \$195,403 in transmission and distribution; which was offset by an increase of \$47,169 in general and administrative expenses.

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. It also provides 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, 2017 and 2016

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 \$7,443,523 and \$7,584,570 as of June 30, 2017 and 2016, respectively.

By far the largest portion of the District's net assets (88.7% and 88.4% as of June 30, 2017 and 2016, 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 2017 and 2016, the District showed a positive balance in its unrestricted net position of \$781,505 and \$819,748. See note 8 for further discussion.

Condensed Statements of Net Position

	2017	As Restated 2016	Change
Assets:			
Current assets	\$ 960,600	1,001,425	(40,825)
Capital assets, net	7,788,246	7,999,364	(211,118)
Total assets	8,748,846	9,000,789	(251,943)
Liabilities:			
Current liabilities	233,783	230,423	3,360
Non-current liabilities	1,071,540	1,185,796	(114,256)
Total liabilities	1,305,323	1,416,219	(110,896)
Net position:			
Net investment in capital assets	6,602,450	6,702,245	(99,795)
Restricted for debt service	59,568	62,577	(3,009)
Unrestricted	781,505	819,748	(38,243)
Total net position	\$ 7,443,523	7,584,570	(141,047)

Cabazon Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2017 and 2016

Statements of Revenues, Expenses and Changes in Net Position

	<u>2017</u>	<u>As Restated 2016</u>	<u>Change</u>
Revenues:			
Operating revenues	\$ 1,199,699	1,133,218	66,481
Non-operating revenues	101,251	89,421	11,830
Total revenues	<u>1,300,950</u>	<u>1,222,639</u>	<u>78,311</u>
Expenses:			
Operating expenses	1,087,732	1,016,514	71,218
Depreciation	328,920	327,617	1,303
Non-operating expenses	25,345	27,819	(2,474)
Total expenses	<u>1,441,997</u>	<u>1,371,950</u>	<u>70,047</u>
Change in net position	(141,047)	(149,311)	8,264
Net position, beginning of year (note 7)	<u>7,584,570</u>	<u>7,733,881</u>	<u>(149,311)</u>
Net position, end of year	<u>\$ 7,443,523</u>	<u>7,584,570</u>	<u>(141,047)</u>

The statements of revenues, expenses, and changes in net position show how the District's net position changed during the fiscal years. In the case of the District, net position decreased by \$141,047 and \$149,311 for the fiscal years ended June 30, 2017 and 2016, respectively.

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

In fiscal year 2017, the District's net position decreased 1.86% or \$141,047 to \$7,443,523. In fiscal year 2016, the District's net position decreased 1.93% or \$149,311 to \$7,584,570. See note 8 for further discussion.

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 2016, the District's operating revenues decreased 6.13% or \$73,958 due primarily to a decrease of \$79,949 in water consumption sales.

In fiscal year 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. In 2016, the District's operating expenses decreased 12.46% or \$144,658, due primarily to a decrease of \$195,403 in transmission and distribution; which was offset by an increase of \$47,169 in general and administrative expenses.

Cabazon Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2017 and 2016

Capital Asset Administration

At the end of fiscal years 2017 and 2016, the District's investment in capital assets amounted to \$7,788,246 and \$7,999,364 (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.

Changes in capital assets for 2017 were as follows:

	<u>Balance 2016</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</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>

Changes in capital assets for 2016 were as follows:

	<u>Balance 2015</u>	<u>Additions/ Transfers</u>	<u>Transfers/ Deletions</u>	<u>Balance 2016</u>
Capital assets:				
Non-depreciable assets	\$ 779,026	13,094	(79,785)	712,335
Depreciable assets	11,820,917	190,358	(23,510)	11,987,765
Accumulated depreciation	<u>(4,396,629)</u>	<u>(327,617)</u>	<u>23,510</u>	<u>(4,700,736)</u>
Total capital assets, net	<u>\$ 8,203,314</u>	<u>(124,165)</u>	<u>(79,785)</u>	<u>7,999,364</u>

Debt Administration

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>

Changes in long-term debt in 2016 were as follows:

	<u>Balance 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2016</u>
Long-term debt:				
Loans payable	\$ 1,405,507	-	(108,388)	1,297,119
Total loans payable	<u>\$ 1,405,507</u>	<u>-</u>	<u>(108,388)</u>	<u>1,297,119</u>

Cabazon Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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, 2017 and 2016

	<u>2017</u>	<u>As Restated 2016</u>
Current assets:		
Cash and cash equivalents (note 2)	\$ 583,024	652,260
Cash and cash equivalents – restricted (note 2)	59,568	62,577
Accrued interest receivable	812	812
Accounts receivable – water sales, net (note 3)	201,986	175,058
Property taxes and assessments receivable	14,870	13,205
Materials and supplies inventory	80,438	87,158
Prepaid and other assets	19,902	10,355
Total current assets	<u>960,600</u>	<u>1,001,425</u>
Non-current assets:		
Capital assets – non-depreciable assets (note 4)	778,397	712,335
Capital assets – depreciable assets, net (note 4)	<u>7,009,849</u>	<u>7,287,029</u>
Total non-current assets	<u>7,788,246</u>	<u>7,999,364</u>
Total assets	<u>8,748,846</u>	<u>9,000,789</u>
Current liabilities:		
Accounts payable and accrued expenses	66,385	76,693
Accrued wages and related payables	6,723	5,186
Customer advances and deposits	30,169	12,168
Accrued interest payable on long-term debt	5,980	6,708
Long-term liabilities – due within one year:		
Compensated absences (note 5)	10,270	18,345
Loans payable (note 6)	<u>114,256</u>	<u>111,323</u>
Total current liabilities	<u>233,783</u>	<u>230,423</u>
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Loans payable (note 6)	<u>1,071,540</u>	<u>1,185,796</u>
Total non-current liabilities	<u>1,071,540</u>	<u>1,185,796</u>
Total liabilities	<u>1,305,323</u>	<u>1,416,219</u>
Net position: (note 8)		
Net investment in capital assets	6,602,450	6,702,245
Restricted	59,568	62,577
Unrestricted	<u>781,505</u>	<u>819,748</u>
Total net position	<u>\$ 7,443,523</u>	<u>7,584,570</u>

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, 2017 and 2016

	2017	As Restated 2016
Operating revenues:		
Water consumption sales	\$ 1,022,111	978,063
Connection fees	2,549	2,975
Standby fees	111,171	113,639
Facility fees	27,680	1,810
Other charges	36,188	36,731
Total operating revenues	1,199,699	1,133,218
Operating expenses:		
Pumping and water treatment	128,453	115,630
Transmission and distribution	64,446	131,418
Customer accounts	46,233	46,136
General and administrative	848,600	723,330
Total operating expenses	1,087,732	1,016,514
Operating income before depreciation and amortization	111,967	116,704
Depreciation	(328,920)	(327,617)
Operating loss	(216,953)	(210,913)
Non-operating revenue (expense)		
Property taxes	64,633	59,157
Rental income – cellular antennas	25,608	23,139
Investment earnings	10,806	7,125
Interest expense – long-term debt	(25,345)	(28,300)
Other non-operating revenue (expense), net	204	481
Total non-operating revenues, net	75,906	61,602
Change in net position	(141,047)	(149,311)
Net position, beginning of year (note 7)	7,584,570	7,733,881
Net position, end of year	\$ 7,443,523	7,584,570

See accompanying notes to the basic financial statements

Cabazon Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2017 and 2016

	2017	As Restated 2016
Cash flows from operating activities:		
Cash receipts from customers for water sales	\$ 1,079,601	1,012,214
Proceeds from standby fees	111,171	113,639
Cash paid to employees for salaries and wages	(281,199)	(205,982)
Cash paid to vendors and suppliers for materials and services	(826,002)	(934,267)
Net cash (used in)provided by operating activities	83,571	(14,396)
Cash flows from non-capital financing activities:		
Proceeds from rental income – cellular antennas	25,608	23,139
Proceeds from property taxes	62,968	64,629
Net cash provided by non-capital financing activities	88,576	87,768
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(117,802)	(123,667)
Principal paid on long-term debt	(111,323)	(108,388)
Interest paid on long-term debt	(26,073)	(29,007)
Net cash used in capital and related financing activities	(255,198)	(261,062)
Cash flows from investing activities:		
Interest earnings	10,806	6,788
Net cash provided by investing activities	10,806	6,788
Net decrease in cash and cash equivalents	(72,245)	(180,902)
Cash and cash equivalents, beginning of year	714,837	895,739
Cash and cash equivalents, end of year	\$ 642,592	714,837
Reconciliation of cash and cash equivalents to statements of financial position:		
Cash and cash equivalents	\$ 583,024	652,260
Cash and cash equivalents – restricted	59,568	62,577
Total cash and cash equivalents	\$ 642,592	714,837

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, 2017 and 2016

	2017	As Restated 2016
Reconciliation of operating income(loss) to net cash provided by operating activities:		
Operating income(loss)	\$ <u>(216,953)</u>	<u>(210,913)</u>
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:		
Depreciation	328,920	327,617
Other non-operating	204	481
Changes in assets and liabilities:		
(Increase)decrease in assets:		
Accounts receivable – water sales and services, net	(26,928)	(7,791)
Materials and supplies inventory	6,720	15,895
Prepaid and other assets	(9,547)	617
Increase(decrease) in liabilities:		
Accounts payable and accrued expenses	(10,308)	(147,702)
Accrued wages and related payables	1,537	1,218
Compensated absences	(8,075)	5,756
Customer advances and deposits	<u>18,001</u>	<u>426</u>
Total adjustments	<u>300,524</u>	<u>196,517</u>
Net cash provided by operating activities	\$ <u><u>83,571</u></u>	<u><u>(14,396)</u></u>

See accompanying notes to the basic financial statements

Cabazon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2017 and 2016

(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. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57 – *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25 – *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50 – *Pension Disclosures*.

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government’s ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

C. Financial Reporting, continued

In December 2015, the GASB issued Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meet certain criteria.

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

In March 2016, the GASB issued Statement No. 82 – *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

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

4. Fair Value Measurement and Application

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

Level 1 – Valuations based on quoted prices in active markets for identical assets.

Level 2 – Valuation based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 – Valuation based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

5. 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.

6. 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.

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

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

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

7. Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, and pipes and pipefittings for construction and repair to 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.

8. 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.

9. 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

10. 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

11. 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.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

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

- *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.

12. Water Sales

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

13. 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>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 583,024	652,260
Cash and cash equivalents – restricted	<u>59,568</u>	<u>62,577</u>
Total	<u>\$ 642,592</u>	<u>714,837</u>

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

	<u>2017</u>	<u>2016</u>
Cash on hand	\$ 100	100
Deposits with bank	226,605	220,825
Investments	<u>415,887</u>	<u>493,912</u>
Total	<u>\$ 642,592</u>	<u>714,837</u>

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

	<u>2017</u>	<u>2016</u>
Deposits in California Local Agency Investment Fund (LAIF)	194 days	167 days

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(2) Cash and Investments, continued

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) 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 the public agencies.

Of the bank balances, up to \$250,000 as of June 30, 2017 and 2016, 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.

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.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(2) Cash and Investments, continued

Investment in State Investment Pool, continued

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 transactions 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, 2017, consisted of the following:

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

Maturities of investments at June 30, 2016, consisted of the following:

Investment Type	Total	Remaining maturity 12 months or less
Local Agency Investment Fund (LAIF)	\$ 431,335	431,335
Held by bond trustee:		
Money market funds	62,577	62,577
	\$ 493,912	493,912

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(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 (where applicable) the California Government Code, 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, 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>

Credit ratings of investments as of June 30, 2016, 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)	\$ 431,335	N/A	-	431,335
Held by bond trustee:				
Money market funds	<u>62,577</u>	<u>AAA</u>	<u>62,577</u>	<u>-</u>
	<u>\$ 493,912</u>		<u>62,577</u>	<u>431,335</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, 2017 and 2016.

(3) Accounts Receivable

The balance at June 30 consists of the following:

	<u>2017</u>	<u>2016</u>
Accounts receivable - water sales and services	\$ 232,902	203,694
Allowance for uncollectible accounts	<u>(30,916)</u>	<u>(28,636)</u>
	<u>\$ 201,986</u>	<u>175,058</u>

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(4) Capital Assets

Changes in capital assets for 2017 were as follows:

	As Restated			
	Balance	Additions/	Deletions/	Balance
	2016	Transfers	Transfers	2017
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 source of supply and vehicles. See note 7 for further discussion.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(4) Capital Assets, continued

Changes in capital assets for 2016 were as follows:

	<u>As Restated Balance 2015</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>As Restated Balance 2016</u>
Non-depreciable assets:				
Land	\$ 689,548	-	-	689,548
Construction-in-process	89,478	13,094	(79,785)	22,787
Total non-depreciable assets	<u>779,026</u>	<u>13,094</u>	<u>(79,785)</u>	<u>712,335</u>
Depreciable assets:				
Transmission and distribution mains	10,087,650	109,129	(23,510)	10,173,269
Source of supply	1,448,564	70,959	-	1,519,523
Tools and equipment	118,016	-	-	118,016
Buildings and structures	10,623	1,658	-	12,281
Office furniture and equipment	54,576	8,612	-	63,188
Vehicles	90,456	-	-	90,456
Intangible plant	11,032	-	-	11,032
Total depreciable assets	<u>11,820,917</u>	<u>190,358</u>	<u>(23,510)</u>	<u>11,987,765</u>
Accumulated depreciation:				
Transmission and distribution mains	(3,829,327)	(247,039)	23,510	(4,052,856)
Source of supply	(313,650)	(67,888)	-	(381,538)
Tools and equipment	(113,460)	(2,378)	-	(115,838)
Buildings and structures	(3,381)	(500)	-	(3,881)
Office furniture and equipment	(41,761)	(4,786)	-	(46,547)
Vehicles	(84,380)	(4,776)	-	(89,156)
Intangible plant	(10,670)	(250)	-	(10,920)
Total accumulated depreciation	<u>(4,396,629)</u>	<u>(327,617)</u>	<u>23,510</u>	<u>(4,700,736)</u>
Total depreciable assets, net	<u>7,424,288</u>	<u>(137,259)</u>	<u>-</u>	<u>7,287,029</u>
Total capital assets, net	<u>\$ 8,203,314</u>			<u>7,999,364</u>

Major capital assets additions during the year include improvements to the transmission and distribution system and source of supply. See note 7 for further discussion.

(5) Compensated Absences

The changes in compensated absences balances at June 30 were as follows:

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

	Balance 2016	Additions	Deletions	Balance 2017
\$	<u>18,345</u>	<u>18,116</u>	<u>(26,191)</u>	<u>10,270</u>
	Balance 2015	Additions	Deletions	Balance 2016
\$	<u>12,589</u>	<u>18,077</u>	<u>(12,321)</u>	<u>18,345</u>

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(6) Long-Term Debt

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

	<u>2016</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 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	\$ <u>1,185,796</u>			<u>1,071,540</u>

Changes in long-term debt in 2016 were as follows:

	<u>2015</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>2016</u>
1993 Calif. Dept. of Water Resources Loan - E58416	\$ 465,660	-	(35,161)	430,499
Zions First National Bank	639,847	-	(73,227)	566,620
Riverside County Economic Development Agency	300,000	-	-	300,000
Total long-term debt	1,405,507	-	(108,388)	1,297,119
Less current portion	(108,388)			(111,323)
Total non-current	\$ <u>1,297,119</u>			<u>1,185,796</u>

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 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>
2018	\$ 37,314	11,377	48,691
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
2023-2027	196,227	14,291	210,518
Total	394,238	<u>59,735</u>	<u>453,973</u>
Current	(37,314)		
Non-current	\$ <u>356,924</u>		

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(6) Long-Term Debt, continued

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 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>
2018	\$ 76,942	11,761	88,703
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	491,558	<u>40,660</u>	<u>532,218</u>
Current	<u>(76,942)</u>		
Non-current	\$ <u>414,616</u>		

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 2017.

(7) Restatement of Net Position

Capital Assets

In fiscal year 2012, the District did not recognize capital assets contributed to the District. As a result, the District recorded a prior period adjustment to net position in the amount of \$2,455,000.

The effects of the restatement are summarized as follows:

Net position as of June 30, 2015, as previously stated	\$ 5,278,881
Effect of adjustment to capital assets – non-depreciable	280,000
Effect of adjustment to capital assets, net	<u>2,175,000</u>
Net position as of June 30, 2015, as restated	<u>\$ 7,733,881</u>

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(8) Net Position

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

	2017	2016
Net investment in capital assets:		
Capital assets, net	\$ 7,788,246	7,999,364
Loans payable – current portion	(114,256)	(111,323)
Loans payable – non-current portion	(1,071,540)	(1,185,796)
Total net investment in capital assets	6,602,450	6,702,245
Restricted:		
Cash and cash equivalents – restricted	59,568	62,577
Total restricted	59,568	62,577
Unrestricted:		
Non-spendable unrestricted net position:		
Materials and supplies inventory	80,438	87,158
Prepaid and other assets	19,902	10,355
Total non-spendable unrestricted net position	100,340	97,513
Spendable unrestricted net position is designated as follows:		
Operating reserve	681,165	722,235
Total spendable unrestricted net position	681,165	722,235
Total unrestricted net position	781,505	819,748
Total net position	\$ 7,443,523	7,584,570

(9) 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 \$52,127 and \$40,565 at June 30, 2017 and 2016, respectively.

(10) 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, 2017 and 2016, the Plan included two participants, respectively. The market value of all assets held in trust by the District's 401(a) Plan at June 30, 2017 and 2016, amounted to \$146,940 and \$104,577, respectively.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(11) 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, 2017:

- Property: Blanket limit of \$6,058,000 with a \$1,000 deductible per incident.
- Bodily injury and property damage: \$1,000,000 per occurrence and \$3,000,000 in the aggregate.
- Personal and advertising injury: \$1,000,000 per person or organization and \$3,000,000 in the aggregate.
- Professional liability: \$1,000,000 per claim and \$3,000,000 in the aggregate.
- Wrongful acts: \$1,000,000 per claim and \$3,000,000 in the aggregate with a \$1,000 deductible.
- Employment practices liability: \$1,000,000 per claim and \$3,000,000 in the aggregate.
- Employee benefits liability: \$1,000,000 per person and \$3,000,000 in the aggregate.
- Automobile: \$1,000,000 per occurrence with a \$1,000,000 combined single limit.
- Crime coverage: \$5,000 to \$250,000 limits per occurrence varying by type of infraction.
- Excess liability: \$4,000,000 employer's liability excluded.

(12) 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. 75

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. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 81

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.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

Governmental Accounting Standards Board Statement No. 81, continued

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.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

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.

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, 2017 and 2016

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

Governmental Accounting Standards Board Statement No. 85

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]).

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 86

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.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. 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.

(13) 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.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(14) Subsequent Events

Events occurring after June 30, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of February 20, 2018, which is the date the financial statements were available to be issued.

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 June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 20, 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.

A handwritten signature in black ink that reads "Fedak & Brown LLP". The signature is written in a cursive, slightly slanted style.

Fedak & Brown LLP
Cypress, California
February 20, 2018