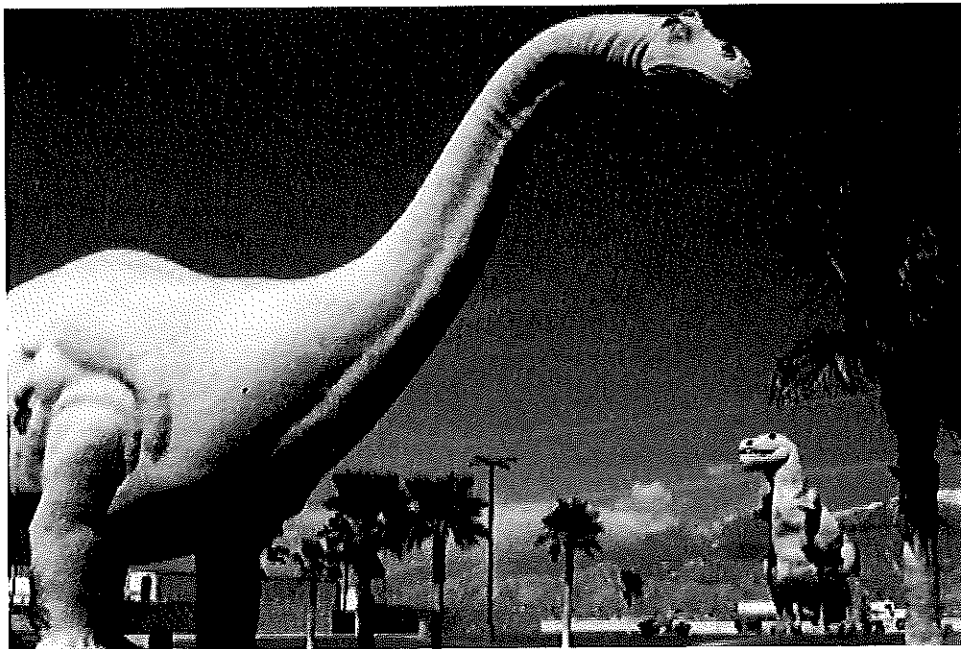




**Cabazon Water District
Annual Financial Report**

For the Fiscal Years Ended June 30, 2010 and 2009



**Cabazon Water District
Board of Directors as of June 30, 2010**

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
R.D. Cash	President	Elected	12/09-12/13
Robert Lynk	Vice-President	Elected	12/07-12/11
Paul Howser	Director	Appointed	12/09-12/11
Todd Sloan	Director	Elected	12/09-12/13
Carl Thornton	Director	Elected	12/09-12/13

**Cabazon Water District
Calvin Louie, General Manager
50-256 Main Street
Cabazon, California 92230
(951) 849-4442**

Introductory Section

Cabazon Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2010 and 2009

**Cabazon Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2010 and 2009**

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October 18, 2010

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, 2010 and 2009, 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 Auditors' 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) requires 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 Auditors' 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 four (4) 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 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 2 groundwater wells with a maximum production capacity of 2,500 gallons per minute.

Economic Condition and Outlook

The District offices are located in the town of Cabazon in Riverside County. Regional growth has been constrained due to the continuing economic downturn. Future economic development within the region is anticipated to benefit from the proposed construction of a wastewater system and treatment facility by the District in conjunction with Riverside County agencies. The project is currently in the planning stages with initial funding to be provided from loans by the Economic Development Agency.

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 requires 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 Charles Z. Fedak & Company, CPAs has conducted the audit of the District's financial statements. Their unqualified Independent Auditors' 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

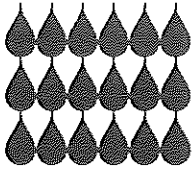
Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the District. We would also like to thank the members of the Board of Directors for their continued support in planning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

Respectfully submitted,

Calvin Louie
General Manager

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Financial Section



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA

Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

6081 Orange Avenue
Cypress, California 90630
(714) 527-1818
(562) 598-6565
FAX (714) 527-9154
EMAIL czfco@czfcpa.com

Independent Auditor's Report

Board of Directors
Cabazon Water District
Cabazon, California

We have audited the accompanying financial statements of the Cabazon Water District (District) as of and for the fiscal years ended June 30, 2010 and 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Cabazon Water District as of June 30, 2010 and 2009, and the respective changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 28, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits. This report can be found on page 27.

Management's discussion and analysis on pages 5 through 8 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

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 accompanying introductory section on pages 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

October 18, 2010
Cypress, California

Charles Z. Fedak
An Accountancy Corporation

Cabazon Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2010 and 2009

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Cabazon Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2010 and 2009. 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

- The District's net assets decreased 0.47% or \$25,494 to \$5,347,684 in fiscal year 2010. In 2009, net assets decreased 2.70% or \$149,265 to \$5,373,178.
- The District's operating revenues increased 3.53% or \$34,906 in fiscal year 2010, primarily due a \$13,314 increase in water sales and a \$21,592 increase in other operating revenues. In 2009, operating revenues decreased 4.76% or \$49,386 primarily due to a \$49,719 decrease in standby fees.
- The District's operating expenses decreased 12.93% or \$123,703 in 2010 primarily due to a decrease in repairs and maintenance costs on the District's transmission mains. In 2009, the District's operating expenses increased 7.56% or \$67,255, primarily due to the net effect of a \$105,777 increase in repairs and maintenance costs on transmissions mains and \$46,888 decrease in pumping and water treatment costs.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement 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 Statement of Net Assets includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). 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 current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides 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 Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the District in a way that helps answer this question. These statements include all assets and liabilities 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
For the Fiscal Years Ended June 30, 2010 and 2009

These two statements report the District's *net assets* and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are 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 13 through 26.

Statement of Net Assets

Condensed Statements of Net Assets			
	2010	2009	Change
Assets:			
Current assets	\$ 1,260,334	1,370,919	(110,585)
Non-current assets	1,047	13,324	(12,277)
Capital assets, net	5,708,244	5,845,668	(137,424)
Total assets	6,969,625	7,229,911	(260,286)
Liabilities:			
Current liabilities	213,659	311,318	(97,659)
Non-current liabilities	1,408,282	1,545,415	(137,133)
Total liabilities	1,621,941	1,856,733	(234,792)
Net assets:			
Net investment in capital assets	4,162,793	4,149,677	13,116
Restricted for debt service	222,291	231,378	(9,087)
Unrestricted	962,600	992,123	(29,523)
Total net assets	5,347,684	5,373,178	(25,494)
Total liabilities and net assets	\$ 6,969,625	7,229,911	(260,286)

As noted earlier, net assets 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 \$5,347,684 as of June 30, 2010 and \$5,373,178 as of June 30, 2009.

By far the largest portion of the District's net assets (77% as of June 30, 2010 and 2009) 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 2010 and 2009, the District showed a positive balance in its unrestricted net assets of \$962,600 and \$992,123. See Note 7 for the amount of spendable net assets that may be utilized in future years.

Cabazon Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2010 and 2009

Statement of Revenues, Expenses and Changes in Net Assets

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Revenues:			
Operating revenues	\$ 1,022,694	987,788	34,906
Non-operating revenues	111,944	149,258	(37,314)
Total revenues	<u>1,134,638</u>	<u>1,137,046</u>	<u>(2,408)</u>
Expenses:			
Operating expenses	832,993	956,696	(123,703)
Depreciation	266,263	269,601	(3,338)
Non-operating expenses	60,876	60,014	862
Total expenses	<u>1,160,132</u>	<u>1,286,311</u>	<u>(126,179)</u>
Change in net assets	(25,494)	(149,265)	123,771
Net assets, beginning of year	<u>5,373,178</u>	<u>5,522,443</u>	<u>(149,265)</u>
Net assets, end of year	<u>\$ 5,347,684</u>	<u>5,373,178</u>	<u>(25,494)</u>

The statement of revenues, expenses and changes in net assets shows how the District's net assets changed during the fiscal years. In the case of the District, net assets decreased by \$25,494 and \$149,265 for the fiscal years ended June 30, 2010 and 2009, respectively.

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

The District's operating revenues increased 3.53% or \$34,906 in fiscal year 2010, primarily due a \$13,314 increase in water sales and a \$21,592 increase in other operating revenues.

In 2009, operating revenues decreased 4.76% or \$49,386 primarily due to a \$49,719 decrease in standby fees.

The District's operating expenses decreased 12.93% or \$123,703 in 2010 primarily due to a decrease in repairs and maintenance costs on the District's transmission mains.

In 2009, the District's operating expenses increased 7.56% or \$67,255, primarily due to the net effect of a \$105,777 increase in repairs and maintenance costs on transmissions mains and \$46,888 decrease of pumping and water treatment costs.

Capital Asset Administration

At the end of fiscal year 2010 and 2009, the District's investment in capital assets amounted to \$5,708,244 and \$5,845,668 (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 year include one vehicle purchased.

Cabazon Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2010 and 2009

Capital Asset Administration, continued

Changes in capital asset amounts for 2010 were as follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2010</u>
Capital assets:				
Non-depreciable assets	\$ 409,548	35,770	-	445,318
Depreciable assets	8,401,095	93,069	(31,663)	8,462,501
Accumulated depreciation	<u>(2,964,975)</u>	<u>(266,263)</u>	<u>31,663</u>	<u>(3,199,575)</u>
Total capital assets, net	<u>\$ 5,845,668</u>	<u>(137,424)</u>	<u>-</u>	<u>5,708,244</u>

Changes in capital asset amounts for 2009 were as follows:

	<u>Balance 2008</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2009</u>
Capital assets:				
Non-depreciable assets	\$ 409,548	-	-	409,548
Depreciable assets	8,388,980	30,115	(18,000)	8,401,095
Accumulated depreciation	<u>(2,713,374)</u>	<u>(269,601)</u>	<u>18,000</u>	<u>(2,964,975)</u>
Total capital assets, net	<u>\$ 6,085,154</u>	<u>(239,486)</u>	<u>-</u>	<u>5,845,668</u>

Debt Administration

Changes in long-term debt amounts for 2010 were as follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2010</u>
Long-term debt:				
Loans payable	\$ 1,679,105	-	(133,654)	1,545,451
Notes payable	2,278	-	(2,278)	-
Capital lease payable	<u>14,608</u>	<u>-</u>	<u>(14,608)</u>	<u>-</u>
	<u>\$ 1,695,991</u>	<u>-</u>	<u>(150,540)</u>	<u>1,545,451</u>

Changes in long-term debt amounts for 2009 were as follows:

	<u>Balance 2008</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2009</u>
Long-term debt:				
Loans payable	\$ 1,809,339	-	(130,234)	1,679,105
Notes payable	9,014	-	(6,736)	2,278
Capital lease payable	<u>28,366</u>	<u>-</u>	<u>(13,758)</u>	<u>14,608</u>
	<u>\$ 1,846,719</u>	<u>-</u>	<u>(150,728)</u>	<u>1,695,991</u>

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 assets 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 50-256 Main Street, P.O. Box 297, Cabazon, California 92230.

Basic Financial Statements

Cabazon Water District
Statements of Net Assets
June 30, 2010 and 2009

<i>Assets</i>	2010	2009
Current assets:		
Cash and cash equivalents (note 2)	\$ 870,126	981,349
Restricted – cash and cash equivalents (note 2)	222,291	231,378
Accrued interest receivable	1,079	2,898
Accounts receivable – water sales and services, net (note 3)	92,438	104,304
Property taxes and assessments receivable	23,040	21,816
Materials and supplies inventory	49,504	27,271
Prepaid and other assets	1,856	1,903
Total current assets	<u>1,260,334</u>	<u>1,370,919</u>
Non-current assets:		
Accounts receivable – long-term	1,047	13,324
Capital assets, net (note 4)	5,708,244	5,845,668
Total non-current assets	<u>5,709,291</u>	<u>5,858,992</u>
Total assets	<u>\$ 6,969,625</u>	<u>7,229,911</u>
<i>Liabilities and Net Assets</i>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 43,931	122,990
Accrued wages and related payables	6,875	5,790
Customer advances and deposits	12,193	17,819
Accrued interest payable on long-term debt	8,499	9,199
Long-term liabilities – due within one year:		
Compensated absences (note 5)	4,992	4,944
Loans payable (note 6)	137,169	133,690
Notes payable (note 6)	-	2,278
Capital lease payable (note 6)	-	14,608
Total current liabilities	<u>213,659</u>	<u>311,318</u>
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Loans payable (note 6)	1,408,282	1,545,415
Total non-current liabilities	<u>1,408,282</u>	<u>1,545,415</u>
Total liabilities	<u>1,621,941</u>	<u>1,856,733</u>
Net assets: (note 7)		
Net investment in capital assets	4,162,793	4,149,677
Restricted for debt service	222,291	231,378
Unrestricted	962,600	992,123
Total net assets	<u>5,347,684</u>	<u>5,373,178</u>
Total liabilities and net assets	<u>\$ 6,969,625</u>	<u>7,229,911</u>

See accompanying notes to the basic financial statements

Cabazon Water District
Statements of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Water consumption sales	\$ 823,245	809,931
Connection fees	2,940	4,051
Standby fees	85,522	85,298
Facility fees	39,000	39,290
Other charges	<u>71,987</u>	<u>49,218</u>
Total operating revenues	<u>1,022,694</u>	<u>987,788</u>
Operating expenses:		
Pumping and water treatment	82,648	72,903
Transmission and distribution	74,961	238,810
Customer accounts	25,659	26,296
General and administrative	<u>649,725</u>	<u>618,687</u>
Total operating expenses	<u>832,993</u>	<u>956,696</u>
Operating income before depreciation and amortization	189,701	31,092
Depreciation	<u>(266,263)</u>	<u>(269,601)</u>
Operating loss	<u>(76,562)</u>	<u>(238,509)</u>
Non-operating revenue(expense)		
Property taxes	76,214	103,613
Rental income – cellular antennas	26,895	26,525
Investment earnings	8,835	19,120
Interest expense – long-term debt	(36,835)	(41,106)
Other non-operating revenue(expense), net	<u>(24,041)</u>	<u>(18,908)</u>
Total non-operating revenues, net	<u>51,068</u>	<u>89,244</u>
Change in net assets	<u>(25,494)</u>	<u>(149,265)</u>
Net assets, beginning of year	<u>5,373,178</u>	<u>5,522,443</u>
Net assets, end of year	<u>\$ 5,347,684</u>	<u>5,373,178</u>

See accompanying notes to the basic financial statements

Cabazon Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 949,038	907,409
Proceeds from standby fees	85,522	85,298
Cash paid to employees for salaries and wages	(213,027)	(196,982)
Cash paid to vendors and suppliers for materials and services	(713,427)	(770,982)
Net cash provided by operating activities	<u>108,106</u>	<u>24,743</u>
Cash flows from non-capital financing activities:		
Proceeds from rental income – cellular antennas	26,895	26,526
Proceeds from property taxes	74,990	102,799
Other non-operating revenues(expense), net	(24,041)	(18,908)
Net cash provided by non-capital financing activities	<u>77,844</u>	<u>110,417</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(128,839)	(30,116)
Principal paid on long-term debt	(150,540)	(150,728)
Interest paid on long-term debt	(37,535)	(42,379)
Net cash used in capital and related financing activities	<u>(316,914)</u>	<u>(223,223)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	-	560,275
Interest earnings	10,654	18,192
Net cash provided by investing activities	<u>10,654</u>	<u>578,467</u>
Net increase (decrease) in cash and cash equivalents	(120,310)	490,404
Cash and cash equivalents, beginning of year	<u>1,212,727</u>	<u>722,323</u>
Cash and cash equivalents, end of year	<u>\$ 1,092,417</u>	<u>1,212,727</u>
Reconciliation of cash and cash equivalents to statements of financial position:		
Cash and cash equivalents	\$ 870,126	981,349
Restricted assets – cash and cash equivalents	222,291	231,378
Total cash and cash equivalents	<u>\$ 1,092,417</u>	<u>1,212,727</u>

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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ <u>(76,562)</u>	<u>(238,509)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Deprecation	266,263	269,601
Changes in assets and liabilities:		
(Increase)decrease in assets:		
Accounts receivable – water sales and services, net	11,866	4,919
Accounts receivable – long-term	12,277	11,977
Materials and supplies inventory	(22,233)	(2,535)
Prepaid and other assets	47	2,243
Increase(decrease) in liabilities:		
Accounts payable and accrued expenses	(79,059)	(22,278)
Accrued wages and related payables	1,085	1,030
Compensated absences	48	(3,198)
Customer advances and deposits	<u>(5,626)</u>	<u>1,493</u>
Total adjustments	<u>184,668</u>	<u>263,252</u>
Net cash provided by operating activities	\$ <u><u>108,106</u></u>	<u><u>24,743</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, 2010 and 2009

(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 serve four year terms.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of No. 14). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

B. Basis of Accounting and Measurement Focus

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

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

C. Financial Reporting

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

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

D. Assets, Liabilities and Net Assets

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 and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets 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 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. The County of Riverside Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. 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

6. Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, pipe and pipefittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at cost using a weighted average 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 reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

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

D. Assets, Liabilities and Net Assets, continued

8. 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 forfeit any unused sick time.

9. Water Sales

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

10. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment.

11. 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

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.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

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

D. Assets, Liabilities and Net Assets, continued

13. Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- **Net Investment in Capital Assets** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets.
- **Restricted Net Assets** – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – This component of net assets consists of net assets that do not meet the definition of *restricted* or *net investment in capital assets*.

(2) Cash and Investments

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

	2010	2009
Cash and cash equivalents	\$ 870,126	981,349
Restricted – cash and cash equivalents	222,291	231,378
Total	\$ 1,092,417	1,212,727

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

	2010	2009
Cash on hand	\$ 500	500
Deposits with bank	90,870	209,259
Deposits with financial institutions	1,001,047	1,002,968
Total	\$ 1,092,417	1,212,727

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

	2010	2009
Deposits held with California Local Agency Investment Fund (LAIF)	203 days	235 days

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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 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, 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, 2010 and 2009 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.

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. The Code and the District's investment policy contains legal and policy requirements that would limit the exposure to custodial credit risk for investments. 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).

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(2) Cash and Investments, continued

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

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.

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 manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio 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, 2010 consisted of the following:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining maturity 12 months or less</u>
Local Agency Investment Fund (LAIF)	\$ 778,756	778,756
Held by bond trustee:		
Money market funds	222,291	222,291
	<u>\$ 1,001,047</u>	<u>1,001,047</u>

Maturities of investments at June 30, 2009 consisted of the following:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining maturity 12 months or less</u>
Local Agency Investment Fund (LAIF)	\$ 771,590	771,590
Held by bond trustee:		
Money market funds	231,378	231,378
	<u>\$ 1,002,968</u>	<u>1,002,968</u>

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(2) Cash and Investments, continued

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

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 2010, 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)	\$ 778,756	N/A	-	778,756
Held by bond trustee:				
Money market funds	<u>222,290</u>	<u>AAA</u>	<u>222,290</u>	<u>-</u>
	<u>\$ 1,001,046</u>		<u>222,290</u>	<u>778,756</u>

Credit ratings of investments as of June 30 2009, 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)	\$ 771,590	N/A	-	771,590
Held by bond trustee:				
Money market funds	<u>231,378</u>	<u>AAA</u>	<u>231,378</u>	<u>-</u>
	<u>\$ 1,002,968</u>		<u>231,378</u>	<u>771,590</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, 2010.

(3) Accounts Receivable

Water Sales and Services, Net

The balance at June 30, consists of the following:

	<u>2010</u>	<u>2009</u>
Accounts receivable - water sales and services	\$ 99,438	111,304
Allowance for uncollectable accounts	<u>(7,000)</u>	<u>(7,000)</u>
	<u>\$ 92,438</u>	<u>104,304</u>

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(3) Accounts Receivable, continued

Long-Term Receivable

In 1996, the Beaumont Concrete Company entered into an agreement with the District regarding contributions to a Water System Improvement Project and for the acquisition of a parcel of land. The agreement provides that the District will receive annual payments of principal and interest at the rate of 2.5% per annum, for 20 years. These funds are obtained through standby fees collected by the County of Riverside as a portion of Current Secured Taxes and Assessments. Standby fees applied to principal and interest were \$12,610 and \$11,977 at June 30, 2010 and 2009, respectively.

(4) Capital Assets

Changes in capital assets for 2010 were as follows:

	<u>Balance 2009</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2010</u>
Non-depreciable assets:				
Land	\$ 409,548	-	-	409,548
Construction-in-process	-	35,770	-	35,770
Total non-depreciable assets	<u>409,548</u>	<u>35,770</u>	<u>-</u>	<u>445,318</u>
Depreciable assets:				
Transmission and distribution mains	7,520,151	48,499	-	7,568,650
Source of supply	431,833	-	-	431,833
Tools and equipment	118,016	-	-	118,016
Buildings and structures	135,535	-	-	135,535
Office furniture and equipment	79,198	15,166	-	94,364
Vehicles	105,330	29,404	(31,663)	103,071
Intangible plant	11,032	-	-	11,032
Total depreciable assets	<u>8,401,095</u>	<u>93,069</u>	<u>(31,663)</u>	<u>8,462,501</u>
Accumulated depreciation:				
Transmission and distribution mains	(2,505,175)	(201,967)	186	(2,706,956)
Source of supply	(164,292)	(23,896)	(1)	(188,189)
Tools and equipment	(73,238)	(13,883)	8,561	(78,560)
Buildings and structures	(80,927)	(3,859)	(128)	(84,914)
Office furniture and equipment	(58,459)	(13,174)	(8,618)	(80,251)
Vehicles	(75,412)	(8,748)	31,663	(52,497)
Intangible plant	(7,472)	(736)	-	(8,208)
Total accumulated depreciation	<u>(2,964,975)</u>	<u>(266,263)</u>	<u>31,663</u>	<u>(3,199,575)</u>
Total depreciable assets, net	<u>5,436,120</u>	<u>(173,194)</u>	<u>-</u>	<u>5,262,926</u>
Total capital assets, net	<u>\$ 5,845,668</u>			<u>5,708,244</u>

Major capital assets additions during the year include improvements to the transmission and distribution system and a vehicle purchase.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(4) Capital Assets, continued

Changes in capital assets for 2009 were as follows:

	<u>Balance 2008</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2009</u>
Non-depreciable assets:				
Land	\$ 409,548	-	-	409,548
Construction-in-process	-	-	-	-
Total non-depreciable assets	<u>409,548</u>	<u>-</u>	<u>-</u>	<u>409,548</u>
Depreciable assets:				
Transmission and distribution mains	7,520,151	-	-	7,520,151
Source of supply	431,833	-	-	431,833
Tools and equipment	118,016	-	-	118,016
Buildings and structures	135,535	-	-	135,535
Office furniture and equipment	79,198	-	-	79,198
Vehicles	93,215	30,115	(18,000)	105,330
Intangible plant	11,032	-	-	11,032
Total depreciable assets	<u>8,388,980</u>	<u>30,115</u>	<u>(18,000)</u>	<u>8,401,095</u>
Accumulated depreciation:				
Transmission and distribution mains	(2,295,692)	(209,483)	-	(2,505,175)
Source of supply	(139,434)	(24,858)	-	(164,292)
Tools and equipment	(59,160)	(14,078)	-	(73,238)
Buildings and structures	(77,068)	(3,859)	-	(80,927)
Office furniture and equipment	(44,148)	(14,311)	-	(58,459)
Vehicles	(91,135)	(2,277)	18,000	(75,412)
Intangible plant	(6,737)	(735)	-	(7,472)
Total accumulated depreciation	<u>(2,713,374)</u>	<u>(269,601)</u>	<u>18,000</u>	<u>(2,964,975)</u>
Total depreciable assets, net	<u>5,675,606</u>	<u>(239,486)</u>	<u>-</u>	<u>5,436,120</u>
Total capital assets, net	<u>\$ 6,085,154</u>			<u>5,845,668</u>

Major capital assets additions during the year include a vehicle purchase.

(5) Compensated Absences

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

<u>Balance 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2010</u>	<u>Due Within One Year</u>
\$ 4,944	8,887	(8,839)	4,992	4,992
<u>8,142</u>	<u>9,854</u>	<u>(13,052)</u>	<u>4,944</u>	<u>4,944</u>

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(6) Long-Term Debt

Changes in long-term debt for the year were as follows:

	Balance 2009	Additions	Principal Payments	Balance 2010
Loans payable:				
1993 Calif. Dept. of Water Resources Loan - E58416	\$ 659,318	-	(30,357)	628,961
1993 Calif. Dept. of Water Resources Loan - E62039	719,787	-	(103,297)	616,490
Riverside County Economic Development Agency	300,000	-	-	300,000
Total loans payable	1,679,105	-	(133,654)	1,545,451
Notes payable:				
Washington Mutual	2,278	-	(2,278)	-
Total notes payable	2,278	-	(2,278)	-
Capital lease payable:				
John Deere Credit	14,608	-	(14,608)	-
Total capital lease payable	14,608	-	(14,608)	-
Total long-term debt	1,695,991	-	(150,540)	1,545,451
Less current portion	(151,179)			(137,169)
Total non-current	\$ 1,544,812			1,408,282

Loans Payable

1993 California Dept. of Water Resources Loan – E58416

In 1993 the Cabazon Water District contracted with the California Dept. of Water Resources for a \$979,860 30-year loan under the 1984 California Safe Drinking Water Bond Law to assist in financing the construction of capital improvements so that the District could comply with the California Safe Drinking Water Standards. The loan is scheduled to mature in 2026. Principal and interest payments of \$24,808 are payable semi-annually on October 1st and April 1st each year at a rate of 2.955%. Annual debt service requirements on the 1993 California Dept. of Water Resources Loan are as follows:

Fiscal Year	Principal	Interest	Total
2011	\$ 31,261	18,355	49,616
2012	32,192	17,424	49,616
2013	33,149	16,467	49,616
2014	34,136	15,480	49,616
2015	35,152	14,464	49,616
2016-2020	192,095	55,985	248,080
2021-2025	222,438	25,642	248,080
2026	48,538	1,078	49,616
Total	628,961	164,895	793,856
Less current portion	(31,261)		
Total non-current	\$ 597,700		

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(6) Long-Term Debt, continued

Loans Payable

1993 California Dept. of Water Resources Loan – E62039

In 1993 the Cabazon Water District contracted with the California Dept. of Water Resources for a \$1,890,000 20-year loan under the 1988 California Water Conservation Bond Law to assist in financing the construction and upgrade of District transmission mains. The loan is scheduled to mature in 2015. Principal and interest payments of \$60,331 are payable semi-annually on October 1st and April 1st each year at a rate of 2.50%. 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>
2011	\$ 105,908	14,754	120,662
2012	108,573	12,089	120,662
2013	111,304	9,358	120,662
2014	114,104	6,558	120,662
2015	116,975	3,687	120,662
2016	<u>59,626</u>	<u>745</u>	<u>60,371</u>
Total	616,490	<u>47,191</u>	<u>663,681</u>
Less current portion	<u>(105,908)</u>		
Total non-current	\$ <u>510,582</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 2011.

Notes Payable

Washington Mutual

In 2006, the District contracted with Washington Mutual for a \$30,000 loan to purchase radio equipment and to upgrade the District's office in Cabazon. Terms of the note calls for monthly payments of \$605 with interest at the rate of 7.775%. The note matured in 2010.

Capital Lease Payable

John Deere Credit

In 2006, the District contracted with John Deere Credit to lease equipment totaling \$80,536. Terms of the capital lease call for annual payment of \$15,508 with interest payable at the rate of 6.0%. The lease matured in 2010.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(7) Net Investment in Capital Assets

Calculation of net assets as of June 30, were as follows:

	2010	2009
Net investment in capital assets:		
Capital assets, net	\$ 5,708,244	5,845,668
Loans payable – current portion	(137,169)	(135,469)
Notes payable – current portion	-	(2,278)
Capital lease payable - current portion	-	(14,608)
Loans payable – non-current portion	(1,408,282)	(1,543,636)
Total net investment in capital assets	4,162,793	4,149,677
Restricted for debt service	222,291	231,378
Unrestricted:		
Non-spendable net assets:		
Materials and supplies inventory	49,504	27,271
Prepaid and other assets	1,856	1,903
Total non-spendable net assets	51,360	29,174
Spendable net assets are designated as follows:		
Operating reserve	911,240	962,949
Total spendable net assets	911,240	962,949
Total unrestricted net assets	962,600	992,123
Total net assets	\$ 5,347,684	5,373,178

(8) Property Taxes – State of California

Under the provisions of the State of California Proposition 1A and as part of the 2010 fiscal year State of California budget package passed by the California State Legislature on July 28, 2009, the State of California borrowed 8.0% of the amount of property tax revenue apportioned to cities, counties and special districts. The State of California is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California State Legislature may consider only one additional borrowing within a ten-year period. The amount of the borrowing pertaining to the District was \$1,370.

Authorized with the 2010 fiscal year State of California budget package, the State of California Proposition 1A Securitization Program (Securitization Program) was instituted by the California Statewide Communities Development Authority (California Communities), a joint-powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their State of California Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the State of California Proposition 1A receivables and issued bonds (Prop 1A Bonds) to provide California local governmental agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

(8) Property Taxes – State of California, continued

The purchase price paid to the California local governmental agencies equaled 100% of the amount of the property tax reduction. All transaction costs of the issuance and interest were paid by the State of California. Participating California local governmental agencies have no obligation on the bonds and no credit exposure to the State of California. The District participated in the Securitization Program and accordingly property tax revenue has been recorded in the same manner as if the State of California had not exercised its rights under State of California Proposition 1A. The receivable sale proceeds were equal to the book value of the property tax reduction for each agency and, as a result, no gain or loss was recorded to recognize these proceeds.

(9) Defined Benefit Pension Plan

Plan Description

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 \$30,855 and \$19,663 at June 30, 2010 and 2009, 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, 2010:

- Property: \$1,000,000 with liability limits varying by property type with no deductible.
- 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.
- Fire damage limit: \$1,000,000 on any one premises.
- Automobile: \$5,000 to \$1,000,000 per occurrence varying by vehicle and ownership status with a \$1,000,000 combined single limit.
- Crime coverage: \$100,000 to \$250,000 limits per occurrence varying by type of infraction.
- Excess liability: \$4,000,000 employer's liability excluded.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2010 and 2009

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2008, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 59

In June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus*. This statement improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. This statement is not effective for this District until the fiscal year ended June 30, 2011. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

(12) Commitments and Contingencies

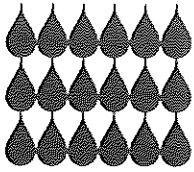
Grant Awards

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.

Report on Internal Controls and Compliance



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

Board of Directors
Cabazon Water District
Cabazon, California

We have audited the basic financial statements of the Cabazon Water District (District) as of and for the fiscal years ended June 30, 2010 and 2009, and have issued our report thereon dated October 18, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

October 18, 2010
Cypress, California

Charles Z. Fedak: General CPA
An Accountancy Corporation