



**Cabazon Water District
Annual Financial Report**

For the Fiscal Years Ended June 30, 2021 and 2020



Cabazon Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2021 and 2020

Cabazon Water District
Board of Directors as of June 30, 2021

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Robert Lynk	Chair	Elected	12/2017 - 12/2021
Sarah Wargo	Vice Chair	Elected	12/2017 - 12/2021
Diana Morris	Director	Elected	12/2019 - 12/2023
Terry Tincher	Director	Appointed	05/2021 - 12/2021
Martin Sanderson	Director	Elected	12/2017 - 12/2021

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

Cabazon Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2021 and 2020

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Introductory Section



November 16, 2021

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, 2021 and 2020, 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 five (5) full-time employees organized into two departments. The District's Board of Directors meets each month. Meetings are publicly noticed and citizens are encouraged to attend.

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

District Services

Residential customers are approximately 97% of the District's customer base and consume approximately 90% of the water produced annually by the District. The District currently has a total of four groundwater wells with a maximum production capacity of 3,160 gallons per minute.

Economic Condition and Outlook

The District office is located in the unincorporated town of Cabazon in Riverside County. Regional growth has been slow to recover from the continuing effects of the 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

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Financial Section



Charles Z. Fedak, CPA, MBA
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Fedak & Brown LLP

Certified Public Accountants

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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, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Cabazon Water District, as of June 30, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2021, 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 33 and 34.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
November 16, 2021

Cabazon Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2021 and 2020

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, 2021 and 2020. 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 2021, the District's net position increased 4.87% or \$376,771 to \$8,120,716. In fiscal year 2020, the District's net position increased 1.12% or \$86,036 to \$7,743,945.
- In fiscal year 2021, the District's operating revenues increased 7.45% or \$119,111, to \$1,718,557. In fiscal year 2020, the District's operating revenues increased 6.39% or \$96,066, to \$1,599,446.
- In fiscal year 2021, the District's operating expenses decreased 13.75% or \$177,771 to \$1,115,086. In fiscal year 2020, the District's operating expenses decreased 0.83% or \$10,771 to \$1,292,857.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, 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 Position includes all of the District's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources. The statement 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 year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. 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 change 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 Statement of Net Position and the Statement 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, 2021 and 2020

Financial Analysis of the District, continued

These two statements report the District's *net position* and changes in it. 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 32.

Statement 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 exceeded liabilities by \$8,120,716 and \$7,743,945 as of June 30, 2021 and 2020, respectively.

By far the largest portion of the District's net position (84.53% and 81.41% as of June 30, 2021 and 2020, 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 2021 and 2020, the District showed a positive balance in its unrestricted net position of \$1,195,612 and \$1,378,943, respectively. See note 7 for further discussion.

Condensed Statements of Net Position

	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>2019</u>	<u>Change</u>
Assets:					
Current assets	\$ 1,430,261	1,532,088	(101,827)	1,325,053	207,035
Capital assets, net	<u>7,574,391</u>	<u>7,137,922</u>	<u>436,469</u>	<u>7,380,775</u>	<u>(242,853)</u>
Total assets	<u>9,004,652</u>	<u>8,670,010</u>	<u>334,642</u>	<u>8,705,828</u>	<u>(35,818)</u>
Liabilities:					
Current liabilities	300,630	215,852	84,778	214,071	1,781
Non-current liabilities	<u>583,306</u>	<u>710,213</u>	<u>(126,907)</u>	<u>833,848</u>	<u>(123,635)</u>
Total liabilities	<u>883,936</u>	<u>926,065</u>	<u>(42,129)</u>	<u>1,047,919</u>	<u>(121,854)</u>
Net position:					
Net investment in capital assets	6,864,178	6,304,074	560,104	6,426,530	(122,456)
Restricted for debt service	60,926	60,928	(2)	61,826	(898)
Unrestricted	<u>1,195,612</u>	<u>1,378,943</u>	<u>(183,331)</u>	<u>1,169,553</u>	<u>209,390</u>
Total net position	<u>\$ 8,120,716</u>	<u>7,743,945</u>	<u>376,771</u>	<u>7,657,909</u>	<u>86,036</u>

Cabazon Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2021 and 2020

Statement of Revenues, Expenses, and Changes in Net Position

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

	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>2019</u>	<u>Change</u>
Revenues:					
Operating revenues	\$ 1,718,557	1,599,446	119,111	1,503,380	96,066
Non-operating revenues	109,246	118,108	(8,862)	106,540	11,568
Total revenues	<u>1,827,803</u>	<u>1,717,554</u>	<u>110,249</u>	<u>1,609,920</u>	<u>107,634</u>
Expenses:					
Operating expenses	1,115,086	1,292,857	(177,771)	1,303,628	(10,771)
Depreciation	323,011	322,478	533	318,432	4,046
Non-operating expenses	12,935	16,183	(3,248)	20,172	(3,989)
Total expenses	<u>1,451,032</u>	<u>1,631,518</u>	<u>(180,486)</u>	<u>1,642,232</u>	<u>(10,714)</u>
Changes in net position	376,771	86,036	290,735	(32,312)	118,348
Net position, beginning of year	<u>7,743,945</u>	<u>7,657,909</u>	<u>86,036</u>	<u>7,690,221</u>	<u>(32,312)</u>
Net position, end of year	<u>\$ 8,120,716</u>	<u>7,743,945</u>	<u>376,771</u>	<u>7,657,909</u>	<u>86,036</u>

The statement of revenues, expenses, and changes in net position shows how the District's net position changes during the fiscal year.

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

In fiscal year 2021, the District's net position increased 4.87% or \$376,771 to \$8,120,716. In fiscal year 2020, the District's net position increased 1.12% or \$86,036 to \$7,743,945. See note 7 for further discussion.

In fiscal year 2021, the District's operating revenues increased 7.45% or \$119,111, due primarily to an increase of \$153,383 in water consumption sales; which was offset by decreases of \$22,440 in other charges and \$20,496 in standby fees. In fiscal year 2020, the District's operating revenues increased 6.39% or \$96,066, due primarily to increases of \$40,037 in water consumption sales, \$32,100 in facility fees, and \$24,107 in standby fees.

In fiscal year 2021, the District's operating expenses decreased 13.75% or \$177,771, due primarily to decreases of \$133,815 in general and administrative and \$68,207 in transmission and distributions; which were offset by an increase of \$22,418 in pumping and water treatment. In 2020, the District's operating expenses decreased 0.83% or \$10,771, due primarily to decreases of \$31,270 in pumping and water treatment and \$29,701 in transmission and distribution; which were offset by an increase of \$49,458 in general and administrative.

Capital Asset Administration

At the end of fiscal years 2021 and 2020, the District's investment in capital assets (net of accumulated depreciation) amounted to \$7,574,391 and \$7,137,922, respectively. This investment in capital assets includes land, transmission and distribution systems, wells, tanks, reservoirs, pumps, buildings and structures, equipment, vehicles, and construction-in-process, etc. Major capital assets additions during the years include improvements to the transmission and distribution system, source of supply, and purchase of vehicles.

Cabazon Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2021 and 2020

Capital Asset Administration, continued

The change in capital assets for 2021 was as follows:

	<u>Balance 2020</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2021</u>
Capital assets:				
Non-depreciable assets	\$ 859,694	759,480	(33,601)	1,585,573
Depreciable assets	12,271,275	33,601	-	12,304,876
Accumulated depreciation	<u>(5,993,047)</u>	<u>(323,011)</u>	<u>-</u>	<u>(6,316,058)</u>
Total capital assets, net	<u>\$ 7,137,922</u>	<u>470,070</u>	<u>(33,601)</u>	<u>7,574,391</u>

The changes in capital assets for 2020 was as follows:

	<u>Balance 2019</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2020</u>
Capital assets:				
Non-depreciable assets	\$ 840,755	89,317	(70,378)	859,694
Depreciable assets	12,210,589	60,686	-	12,271,275
Accumulated depreciation	<u>(5,670,569)</u>	<u>(322,478)</u>	<u>-</u>	<u>(5,993,047)</u>
Total capital assets, net	<u>\$ 7,380,775</u>	<u>(172,475)</u>	<u>(70,378)</u>	<u>7,137,922</u>

Debt Administration

The change in long-term debt in 2021 was as follows:

	<u>Balance 2020</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2021</u>
Long-term debt:				
Loans payable	\$ 833,848	-	(123,635)	710,213
Total loans payable	<u>\$ 833,848</u>	<u>-</u>	<u>(123,635)</u>	<u>710,213</u>

The change in long-term debt in 2020 was as follows:

	<u>Balance 2019</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2020</u>
Long-term debt:				
Loans payable	\$ 954,245	-	(120,397)	833,848
Total loans payable	<u>\$ 954,245</u>	<u>-</u>	<u>(120,397)</u>	<u>833,848</u>

Cabazon Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2021 and 2020

Conditions Affecting Current Financial Position

The COVID-19 outbreak in the United States has caused business disruption through labor shortages and mandated and voluntary closings of businesses. The disruption is currently expected to be temporary; however, the related financial impact on the District and the duration cannot be estimated at this time.

Management is unaware of any other 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, 2021 and 2020

	2021	2020
Current assets:		
Cash and cash equivalents (note 2)	\$ 984,527	1,100,289
Cash and cash equivalents – restricted (note 2)	60,926	60,928
Accrued interest receivable	672	2,594
Accounts receivable – water sales, net (note 3)	240,216	223,949
Property taxes and assessments receivable	4,997	14,579
Materials and supplies inventory	110,471	94,015
Prepaid and other assets	28,452	35,734
Total current assets	1,430,261	1,532,088
Non-current assets:		
Capital assets – non-depreciable assets (note 4)	1,585,573	859,694
Capital assets – depreciable assets, net (note 4)	5,988,818	6,278,228
Total non-current assets	7,574,391	7,137,922
Total assets	9,004,652	8,670,010
Current liabilities:		
Accounts payable and accrued expenses	121,384	47,348
Accrued wages and related payables	11,521	12,149
Customer advances and deposits	26,962	19,636
Accrued interest payable on long-term debt	2,835	3,647
Long-term liabilities – due within one year:		
Compensated absences (note 5)	11,021	9,437
Loans payable (note 6)	126,907	123,635
Total current liabilities	300,630	215,852
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Loans payable (note 6)	583,306	710,213
Total non-current liabilities	583,306	710,213
Total liabilities	883,936	926,065
Net position: (note 7)		
Net investment in capital assets	6,864,178	6,304,074
Restricted	60,926	60,928
Unrestricted	1,195,612	1,378,943
Total net position	\$ 8,120,716	7,743,945

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, 2021 and 2020

	2021	2020
Operating revenues:		
Water consumption sales	\$ 1,519,346	1,365,963
Connection fees	4,757	5,399
Standby fees	113,608	134,104
Facility fees	58,764	49,458
Other charges	22,082	44,522
Total operating revenues	1,718,557	1,599,446
Operating expenses:		
Pumping and water treatment	119,195	96,777
Transmission and distribution	52,517	120,724
Customer accounts	56,559	54,726
General and administrative	886,815	1,020,630
Total operating expenses	1,115,086	1,292,857
Operating income before depreciation and amortization	603,471	306,589
Depreciation	(323,011)	(322,478)
Operating income(loss)	280,460	(15,889)
Non-operating revenue(expense)		
Property taxes	81,698	65,350
Rental income – cellular antennas	25,547	25,046
Investment earnings	1,079	22,001
Interest expense – long-term debt	(12,935)	(16,183)
Other non-operating revenue, net	922	5,711
Total non-operating revenues, net	96,311	101,925
Changes in net position	376,771	86,036
Net position, beginning of year	7,743,945	7,657,909
Net position, end of year	\$ 8,120,716	7,743,945

See accompanying notes to the basic financial statements

Cabazon Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash receipts from customers for water sales	\$ 1,596,008	1,455,802
Proceeds from standby fees	113,608	134,104
Cash paid to employees for salaries and wages	(347,154)	(271,329)
Cash paid to vendors and suppliers for materials and services	(701,192)	(1,015,995)
Net cash provided by operating activities	661,270	302,582
Cash flows from non-capital financing activities:		
Proceeds from rental income – cellular antennas	25,547	25,046
Proceeds from property taxes	91,280	54,493
Net cash provided by non-capital financing activities	116,827	79,539
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(759,480)	(79,625)
Principal paid on long-term debt	(123,635)	(120,397)
Interest paid on long-term debt	(13,747)	(16,985)
Net cash used in capital and related financing activities	(896,862)	(217,007)
Cash flows from investing activities:		
Interest earnings	3,001	23,364
Net cash provided by investing activities	3,001	23,364
Net increase(decrease) in cash and cash equivalents	(115,764)	188,478
Cash and cash equivalents, beginning of year	1,161,217	972,739
Cash and cash equivalents, end of year	\$ 1,045,453	1,161,217
Reconciliation of cash and cash equivalents to statements of net position:		
Cash and cash equivalents	\$ 984,527	1,100,289
Cash and cash equivalents – restricted	60,926	60,928
Total cash and cash equivalents	\$ 1,045,453	1,161,217

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, 2021 and 2020

	2021	2020
Reconciliation of operating income(loss) to net cash provided by operating activities:		
Operating income(loss)	\$ <u>280,460</u>	<u>(15,889)</u>
Adjustments to reconcile operating income(loss) to net cash provided operating activities:		
Depreciation	323,011	322,478
Other non-operating	922	5,711
Change in assets and liabilities:		
(Increase)decrease in assets:		
Accounts receivable – water sales and services, net	(16,267)	(17,428)
Materials and supplies inventory	(16,456)	10,127
Prepaid and other assets	7,282	(1,762)
Increase(decrease) in liabilities:		
Accounts payable and accrued expenses	74,036	(8,628)
Accrued wages and related payables	(628)	4,000
Compensated absences	1,584	(3,915)
Customer advances and deposits	<u>7,326</u>	<u>7,888</u>
Total adjustments	<u>380,810</u>	<u>318,471</u>
Net cash provided by operating activities	<u>\$ 661,270</u>	<u>302,582</u>
Non-cash investing, capital, and financing transactions:		
Changes in fair-market value of funds deposited with LAIF	<u>\$ (3,425)</u>	<u>2,406</u>
	<u>\$ (3,425)</u>	<u>2,406</u>

See accompanying notes to the basic financial statements

Cabazon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2021 and 2020

(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 value. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

C. Financial Reporting

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

The District has adopted the following GASB pronouncements in the current year:

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.

Cabazon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2021 and 2020

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

C. Financial Reporting

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

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

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

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. Uncertainty

The COVID-19 outbreak in the United States has caused business disruption through labor shortages and mandated and voluntary closings of businesses. The disruption is currently expected to be temporary; however, the related financial impact on the District and the duration cannot be estimated at this time.

3. 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.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2021 and 2020

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

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

4. 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.

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. By such financing, the 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

7. Materials and Supplies Inventory

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

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.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2021 and 2020

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

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

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* – this component of net position consists of capital assets, net of accumulated depreciation, 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* – this component of net position consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.
- *Unrestricted* – 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* components of net position.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2021 and 2020

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

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

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 as follows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 984,527	1,100,289
Cash and cash equivalents – restricted	<u>60,926</u>	<u>60,928</u>
Total	<u>\$ 1,045,453</u>	<u>1,161,217</u>

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

	<u>2021</u>	<u>2020</u>
Cash on hand	\$ 100	100
Deposits with bank	161,900	385,659
Investments	<u>883,453</u>	<u>775,458</u>
Total	<u>\$ 1,045,453</u>	<u>1,161,217</u>

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

	<u>2021</u>	<u>2020</u>
Deposits in California Local Agency Investment Fund (LAIF)	291 days	191 days

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2021 and 2020

(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

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

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

Of the bank balance, up to \$250,000 as of June 30, 2021 and 2020, 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, 2021 and 2020

(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 transaction processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of \$5,000, in increments of \$1,000.
- Withdrawals of \$10 million 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 the change 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 the change 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 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, 2021, consisted of the following:

Investment Type	Total	Remaining maturity 12 months or less
Local Agency Investment Fund (LAIF)	\$ 822,527	822,527
Held by bond trustee:		
Money market funds	60,926	60,926
	\$ 883,453	883,453

Maturities of investments at June 30, 2020, consisted of the following:

Investment Type	Total	Remaining maturity 12 months or less
Local Agency Investment Fund (LAIF)	\$ 714,530	714,530
Held by bond trustee:		
Money market funds	60,928	60,928
	\$ 775,458	775,458

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2021 and 2020

(2) Cash and Investments, continued

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code (where applicable), the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

Credit ratings of investments as of June 30, 2021, 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)	\$ 822,527	N/A	-	822,527
Held by bond trustee:				
Money market funds	<u>60,926</u>	<u>AAA</u>	<u>60,926</u>	<u>-</u>
	<u>\$ 883,453</u>		<u>60,926</u>	<u>822,527</u>

Credit ratings of investments as of June 30, 2020, 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)	\$ 714,530	N/A	-	714,530
Held by bond trustee:				
Money market funds	<u>60,928</u>	<u>AAA</u>	<u>60,928</u>	<u>-</u>
	<u>\$ 775,458</u>		<u>60,928</u>	<u>714,530</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 the District's total investments as of June 30, 2021 and 2020.

(3) Accounts Receivable

The balance at June 30 consists of the following:

	<u>2021</u>	<u>2020</u>
Accounts receivable - water sales and services	\$ 301,111	263,772
Allowance for uncollectible accounts	<u>(60,895)</u>	<u>(39,823)</u>
	<u>\$ 240,216</u>	<u>223,949</u>

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2021 and 2020

(4) Capital Assets

The change in capital assets for 2021 was as follows:

	<u>Balance 2020</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2021</u>
Non-depreciable assets:				
Land	\$ 689,548	-	-	689,548
Construction-in-process	<u>170,146</u>	<u>759,480</u>	<u>(33,601)</u>	<u>896,025</u>
Total non-depreciable assets	<u>859,694</u>	<u>759,480</u>	<u>(33,601)</u>	<u>1,585,573</u>
Depreciable assets:				
Transmission and distribution mains	10,375,657	4,746	-	10,380,403
Source of supply	1,553,650	2,781	-	1,556,431
Water treatment	8,800	-	-	8,800
Tools and equipment	123,319	-	-	123,319
Buildings and structures	12,281	-	-	12,281
Office furniture and equipment	71,808	26,074	-	97,882
Vehicles	114,728	-	-	114,728
Intangible plant	<u>11,032</u>	<u>-</u>	<u>-</u>	<u>11,032</u>
Total depreciable assets	<u>12,271,275</u>	<u>33,601</u>	<u>-</u>	<u>12,304,876</u>
Accumulated depreciation:				
Transmission and distribution mains	(5,046,644)	(253,891)	-	(5,300,535)
Source of supply	(625,882)	(58,716)	-	(684,598)
Water treatment	(8,800)	-	-	(8,800)
Tools and equipment	(121,298)	(875)	-	(122,173)
Buildings and structures	(6,858)	(744)	-	(7,602)
Office furniture and equipment	(67,381)	(3,930)	-	(71,311)
Vehicles	(105,152)	(4,855)	-	(110,007)
Intangible plant	<u>(11,032)</u>	<u>-</u>	<u>-</u>	<u>(11,032)</u>
Total accumulated depreciation	<u>(5,993,047)</u>	<u>(323,011)</u>	<u>-</u>	<u>(6,316,058)</u>
Total depreciable assets, net	<u>6,278,228</u>	<u>(289,410)</u>	<u>-</u>	<u>5,988,818</u>
Total capital assets, net	<u>\$ 7,137,922</u>			<u>7,574,391</u>

Major capital assets additions during the year include improvements to the District's transmission and distribution mains and furniture and equipment.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2021 and 2020

(4) Capital Assets, continued

The change in capital assets for 2020 was as follows:

	<u>Balance 2019</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2020</u>
Non-depreciable assets:				
Land	\$ 689,548	-	-	689,548
Construction-in-process	151,207	89,317	(70,378)	170,146
Total non-depreciable assets	<u>840,755</u>	<u>89,317</u>	<u>(70,378)</u>	<u>859,694</u>
Depreciable assets:				
Transmission and distribution mains	10,316,396	59,261	-	10,375,657
Source of supply	1,552,225	1,425	-	1,553,650
Water treatment	8,800	-	-	8,800
Tools and equipment	123,319	-	-	123,319
Buildings and structures	12,281	-	-	12,281
Office furniture and equipment	71,808	-	-	71,808
Vehicles	114,728	-	-	114,728
Intangible plant	11,032	-	-	11,032
Total depreciable assets	<u>12,210,589</u>	<u>60,686</u>	<u>-</u>	<u>12,271,275</u>
Accumulated depreciation:				
Transmission and distribution mains	(4,795,490)	(251,154)	-	(5,046,644)
Source of supply	(567,276)	(58,606)	-	(625,882)
Water treatment	(7,333)	(1,467)	-	(8,800)
Tools and equipment	(120,423)	(875)	-	(121,298)
Buildings and structures	(6,114)	(744)	-	(6,858)
Office furniture and equipment	(62,603)	(4,778)	-	(67,381)
Vehicles	(100,298)	(4,854)	-	(105,152)
Intangible plant	(11,032)	-	-	(11,032)
Total accumulated depreciation	<u>(5,670,569)</u>	<u>(322,478)</u>	<u>-</u>	<u>(5,993,047)</u>
Total depreciable assets, net	<u>6,540,020</u>	<u>(261,792)</u>	<u>-</u>	<u>6,278,228</u>
Total capital assets, net	<u>\$ 7,380,775</u>			<u>7,137,922</u>

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

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2021 and 2020

(5) Compensated Absences

The change in compensated absences at June 30, 2021 was as follows:

<u>Balance</u> <u>2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2021</u>
\$ 9,437	32,766	(31,182)	11,021

The change in compensated absences at June 30, 2020 was as follows:

<u>Balance</u> <u>2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2020</u>
\$ 13,352	25,513	(29,428)	9,437

(6) Long-Term Debt

The change in long-term debt in 2021 was as follows:

	<u>Balance</u> <u>2020</u>	<u>Additions</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>2021</u>
1993 Calif. Dept. of Water Resources Loan - E58416	\$ 278,949	-	(40,763)	238,186
Zions First National Bank	254,899	-	(82,872)	172,027
Riverside County Economic Development Agency	300,000	-	-	300,000
Total long-term debt	833,848	-	(123,635)	710,213
Less current portion	(123,635)			(126,907)
Total non-current	\$ 710,213			583,306

The change in long-term debt in 2020 was as follows:

	<u>Balance</u> <u>2019</u>	<u>Additions</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>2020</u>
1993 Calif. Dept. of Water Resources Loan - E58416	\$ 318,499	-	(39,550)	278,949
Zions First National Bank	335,746	-	(80,847)	254,899
Riverside County Economic Development Agency	300,000	-	-	300,000
Total long-term debt	954,245	-	(120,397)	833,848
Less current portion	(120,397)			(123,635)
Total non-current	\$ 833,848			710,213

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2021 and 2020

(6) Long-Term Debt, continued

1993 California Dept. of Water Resources Loan – E58416

In 1993, the Cabazon Water District contracted with the California Department of Water Resources for a \$979,860, 30-year loan under the 1984 California Safe Drinking Water Bond Law to fund capital improvements in order to comply with the California Safe Drinking Water Standards. Terms of the loan call for monthly debt service deposits by the District with a trustee. Principal and interest payments of \$24,346 are payable semi-annually on October 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>
2022	41,959	6,732	48,691
2023	43,208	5,483	48,691
2024	44,487	4,204	48,691
2025	45,825	2,866	48,691
2026	47,183	1,508	48,691
2027	15,524	230	15,754
Total	238,186	<u>21,023</u>	<u>259,209</u>
Current	<u>(41,959)</u>		
Non-current	\$ <u>196,227</u>		

Zions First National Bank

In 2013, the Cabazon Water District entered into a loan agreement with Zions First National Bank in the amount of \$787,309 to refinance the 1993 California Dept. of Water Resources Loan – E62039, and provide funding for the construction and upgrade of the District’s 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>
2022	\$ 84,948	3,755	88,703
2023	<u>87,079</u>	<u>1,623</u>	<u>88,702</u>
Total	172,027	<u>5,378</u>	<u>177,405</u>
Current	<u>(84,948)</u>		
Non-current	\$ <u>87,079</u>		

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2021 and 2020

(6) Long-Term Debt, continued

Riverside County Economic Development Agency

In 1997, the Cabazon Water District contracted with the Riverside County Economic Development Agency for a \$300,000 loan to construct water improvements, in conjunction with MKA Cabazon Partnership Construction Agreement. The agreement calls for a zero interest loan with funds to be repaid with connection fees as development occurs. The unpaid balance has been classified as long-term as no connections are anticipated in 2021.

(7) Net Position

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

	2021	2020
Net investment in capital assets:		
Capital assets, net	\$ 7,574,391	7,137,922
Loans payable – current portion	(126,907)	(123,635)
Loans payable – non-current portion	(583,306)	(710,213)
Total net investment in capital assets	6,864,178	6,304,074
Restricted:		
Cash and cash equivalents – restricted	60,926	60,928
Total restricted	60,926	60,928
Unrestricted:		
Non-spendable unrestricted net position:		
Materials and supplies inventory	110,471	94,015
Prepaid and other assets	28,452	35,734
Total non-spendable unrestricted net position	138,923	129,749
Spendable unrestricted net position:		
Operating reserve	1,056,689	1,249,194
Total spendable unrestricted net position	1,056,689	1,249,194
Total unrestricted	1,195,612	1,378,943
Total net position	\$ 8,120,716	7,743,945

(8) Defined Benefit Pension Plan

The District provides pension benefits to all covered employees under the Collective Bargaining Agreement to the Service Employees International Union National Industry Pension Fund. The District's contribution is based on 15% of gross wages. The District's contributions to the Plan were \$63,946 and \$77,360 for the years ended June 30, 2021 and 2020, respectively.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2021 and 2020

(9) Deferred Compensation Savings Plan

In 2003, as amended in 2008, the District offered a Profit Sharing 401(a) Plan (Plan), to qualified employees. Participation in the Plan is open to employees who do not meet the eligibility requirements for pension benefits under the terms of a separate collective bargaining agreement. At June 30, 2021 and 2020, the Plan included one and two participant(s), respectively. The market value of all assets held in trust by the District's 401(a) Plan at June 30, 2021 and 2020, amounted to \$21,147 and \$237,390, 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, 2021:

- Property: Blanket limit of \$6,385,000 with a \$1,000 deductible per incident.
- Property damage: \$1,000,000 per occurrence and \$10,000,000 in the aggregate.
- Personal and advertising injury: \$1,000,000 per person or organization and \$10,000,000 in the aggregate.
- Wrongful acts: \$1,000,000 per claim and \$10,000,000 in the aggregate with a \$1,000 deductible.
- Employment practices liability: \$1,000,000 per claim and \$10,000,000 in the aggregate with a \$1,000 deductible.
- Employee benefits plan: \$1,000,000 per person and \$10,000,000 in the aggregate with a \$1,000 deductible.
- Automobile: \$1,000,000 per occurrence with a \$500 deductible.
- Crime coverage: \$250,000 per occurrence with a \$1,000 deductible.
- Excess liability: \$4,000,000 employer's liability excluded.

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

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

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 were effective for reporting periods beginning after December 15, 2019; however, in light of the COVID-19 pandemic, the effective date has been postponed by 18 months. Earlier application is encouraged.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2021 and 2020

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

Governmental Accounting Standards Board Statement No. 89

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

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

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

The requirements of this Statement were effective for reporting periods beginning after December 15, 2019; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

Governmental Accounting Standards Board Statement No. 91

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

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

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

The requirements of this Statement were effective for reporting periods beginning after December 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2021 and 2020

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

Governmental Accounting Standards Board Statement No. 92

In January 2020, the GASB issued Statement No. 92 – *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

The requirements of this Statement were as follows: (1) The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance; (2) The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020; (3) The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020; and (4) The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged and is permitted by topic.

Governmental Accounting Standards Board Statement No. 93

In March 2020, the GASB issued Statement No. 93 – *Replacement of Interbank Offered Rates*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by: (1) Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment; (2) Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate; (3) Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable; (4) Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap; (5) Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap; (6) Clarifying the definition of reference rate, as it is used in Statement 53, as amended; and (7) Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The requirements of this Statement were effective as follows: (1) The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021; and (2) All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020; however, in light of the COVID-19 pandemic, the effective dates have been postponed by one year. Earlier application is encouraged.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2021 and 2020

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

Governmental Accounting Standards Board Statement No. 94

In March 2020, the GASB issued Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 96

In May 2020, the GASB issued Statement No. 96 – *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2021 and 2020

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

Governmental Accounting Standards Board Statement No. 97

In June 2020, the GASB issued Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 41 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.

(12) Commitments and Contingencies

Grant Awards

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

Litigation

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

(13) Subsequent Events

Events occurring after June 30, 2021, have been evaluated for possible adjustment to the financial statements or disclosure as of November 16, 2021, which is the date the financial statements were available to be issued.

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 the Audits of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Cabazon Water District
Cabazon, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Cabazon Water District (District), as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 16, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Purpose of this Report

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

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
November 16, 2021