Cabazon Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2026 and 2025



Cabazon Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2026 and 2025

Cabazon Water District

Board of Directors as of June 30, 2026

Name	Title	Elected/ Appointed	Current Term
Terry Tincher	Chair	Elected	12/2023 - 12/2027
Taffy Brock	Vice Chair	Elected	12/2025 - 12/2029
Melissa Carlin	Director	Elected	12/2023 - 12/2027
Guillermo "Gill" Perez	Director	Elected	12/2025 - 12/2029
Knala Keith	Director	Elected	2/2026 - 12/2027

Cabazon Water District
James Clark, 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, 2026 and 2025

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Introductory Section

October 20, 2026

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, 2026 and 2025, following guidelines set forth by the Governmental Accounting Standards Board. District staff prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance your understanding of the District's financial position and activities.

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

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

District Structure and Leadership

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

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

District Services

Residential customers are approximately 95% of the District's customer base and consume approximately 45% of the water produced annually by the District. Commercial customers are approximately 5% of the District's customer base and consume approximately 30% 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 C.J. Brown & Company, CPAs – An Accountancy Corporation, has conducted the audit of the District's financial statements. Their unmodified Independent Auditor's Report appears in the Financial Section.

Other References

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

Acknowledgements

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

Respectfully submitted,

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James Clark, General Manager

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Financial Section

C.J. Brown & Company CPAs
An Accountancy Corporation

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Independent Auditor's Report

Board of Directors
Cabazon Water District
Cabazon, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of the Cabazon Water District (District), as of and for the years ended June 30, 2026 and 2025, and the related notes to the financial statements, which collectively comprise District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of the Cabazon Water District, as of June 30, 2026 and 2025, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement issuance date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Emphasis of matter

As discussed in Note 1.C, the District also implemented *GASB Statement No. 103, Financial Reporting Model Improvements*, and *GASB Statement No. 104, Disclosure of Certain Capital Assets*, for the fiscal year ended June 30, 2026. As a result, the implementation of both standards affected the organization of the Management's Discussion and Analysis, the presentation of noncapital subsidies in the proprietary fund operating statement, and expanded capital-asset note disclosures. Comparative amounts for 2025 have been presented on a consistent basis where required.

As discussed in Note 12 to the financial statements, the District has adopted the provisions of *GASB Statement No. 101 – Compensated Absences*. As a result, the District has restated its net position to reflect the effects of the change in accounting policy as of July 1, 2024.

Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 12 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 audit 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

Management is responsible for the other information included in the annual report. The other information comprises the letter of transmittal but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2026 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 solely 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 effectiveness of 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.

C.J. Brown & Company, CPAs

C.J. Brown & Company, CPAs
Cypress, California
October 20, 2026

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, 2026 and 2025, and are designed to assist readers in understanding the financial statements. We encourage readers to consider this information together with the letter of transmittal and the basic financial statements and related notes that follow. Information that does not relate to the five required MD&A topics is presented in the letter of transmittal rather than repeated here.

Overview of the Financial Statements

This annual report consists of a series of financial statements. Because the District reports a single enterprise (business-type) activity, there are no government-wide statements separate from the proprietary fund statements. The Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows provide information about District activities using 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 (none at year-end), 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.

The Statement of Revenues, Expenses, and Changes in Net Position reports the change in net position for the year. 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. Under GASB 103, the statement distinguishes operating revenues and expenses from nonoperating items, presents noncapital subsidies separately, and requires a subtotal for operating income (loss) and noncapital subsidies before other nonoperating items. Operating revenues arise from exchange transactions that constitute the District's principal ongoing operations, primarily water sales, standby and facility charges, connection fees, and other customer charges. Depreciation of capital assets used in operations is an operating expense. Nonoperating items are limited to the categories defined by GASB 103: subsidies, financing-related amounts, disposal of capital assets and inventory, and investment income and expenses.

The Statement of Cash Flows reports cash from operating, noncapital financing, capital and related financing, and investing 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.

These two statements report the District's *net position* and changes in it. One can think of the District's net position (assets and deferred outflows less 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.

Overview of the Financial Statements, continued

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 18 through 32.

The notes are an integral part of the basic financial statements and provide essential detail, including cash and investments, leases (lessor), grants, capital assets (expanded under GASB 104), compensated absences (GASB 101), long-term debt, net position, risk management, and subsequent events.

Financial Summary

Statements of Net Position

Condensed Statements of Net Position

	2026	2025	Change	As Restated 2024	Change
Assets:					
Current assets	$ 3,570,414	3,330,440	239,974	2,753,789	576,651
Noncurrent assets	9,839,225	10,384,536	(545,311)	9,641,402	743,134
Total assets	13,409,639	13,714,976	(305,337)	12,395,191	1,319,785
Liabilities:					
Current liabilities	135,945	568,829	(432,884)	312,249	256,580
Noncurrent liabilities	118,803	163,387	(44,584)	240,885	(77,498)
Total liabilities	254,748	732,216	(477,468)	553,134	179,082
Deferred inflows of resources					
Deferred lease inflows	763,658	798,370	(34,712)	833,081	(34,711)
Total deferred inflows of resources	763,658	798,370	(34,712)	833,081	(34,711)
Net position:					
Net investment in capital assets	8,846,540	9,278,878	(432,338)	8,439,761	839,117
Restricted for debt service	17,560	55,889	(38,329)	62,414	(6,525)
Unrestricted	3,527,133	2,849,623	677,510	2,506,801	342,822
Total net position	$ 12,391,233	12,184,390	206,843	11,008,976	1,175,414

As of June 30, 2026, District assets exceeded liabilities and deferred inflows by $12,391,233, compared with $12,184,390 as of June 30, 2025. Net position increased $206,843 (1.70%) in fiscal year 2026, following an increase of $1,175,414 (10.68%) in fiscal year 2025.

Assets exceeded liabilities and deferred inflows by $12,391,233 and $12,184,390 at June 30, 2026 and 2025, respectively.

The largest component of net position remains the investment in capital assets, net of related debt of $8,846,540 or 71.39% of net position at June 30, 2026 and $9,278,878 or 76.15% at June 30, 2025. These assets provide water service and are not available for future spending. Unrestricted net position was $3,527,133 at June 30, 2026, up $677,510 from $2,849,623 a year earlier, reflecting stronger cash and the completion of major grant-funded construction. Restricted net position for debt service was $17,560 ($55,889 in 2025).

Financial Summary, continued

Statements of Revenues, Expenses and Changes in Net Position

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

	2026	2025	Change	As Restated 2024	Change
Operating revenues	$ 1,797,210	1,926,583	(129,373)	1,712,952	213,631
Operating expenses	1,927,310	1,953,645	(26,335)	1,839,825	113,820
Operating loss	(130,100)	(27,062)	(103,038)	(126,873)	99,811
Noncapital subsidies					
Property taxes	154,890	131,481	23,409	120,401	11,080
Operating income(loss) after noncapital subsidies	24,790	104,419	(79,629)	(6,472)	110,891
Other non-operating revenues, net	182,053	1,070,995	(888,942)	479,798	591,197
Increase in fund net position	206,843	1,175,414	(968,571)	473,326	702,088
Total fund net position, beginning of year as restated (Note 12)	12,184,390	11,008,976	1,175,414	10,535,650	473,326
Total fund net position, end of year	$ 12,391,233	12,184,390	206,843	11,008,976	1,175,414

Detailed Analyses

Why net position changed?

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 $12,391,233 and $12,184,390 as of June 30, 2026 and 2025, respectively.

Fiscal year 2026 net position rose $206,843 because ongoing operations after property-tax subsidies produced $24,790 and other nonoperating items produced $182,053. The other-nonoperating total is far smaller than in 2025 because capital contributions fell from $920,074 to $137,160 after completion of the Heli-Hydrant project, and because the District recognized a $95,398 loss on sale of the Elm Street land parcel. Investment earnings remained stable near $101,000. In fiscal year 2025, the $1.18 million increase was driven primarily by Heli-Hydrant capital contributions and operating results after subsidies of $104,419.

Why operating revenues changed?

Operating revenues decreased 6.72% ($129,373) to $1,797,210 in 2026, caused mainly by lower water consumption sales ($1,481,766 versus $1,575,365). Standby fees and facility fees also declined. Connection fees increased modestly. The 2025 increase of 12.47% had been driven by higher consumption sales. Weather, customer usage patterns, and the timing of commercial activity in the Cabazon corridor explain most of the year-to-year swing; the 2025 rate study did not implement a first-year revenue increase (0% adjustment for FY 2026 test-year rates).

Why operating expenses changed?

Operating expenses decreased 1.35% ($26,335) to $1,927,310. Transmission and distribution expense fell $26,900, and customer-account expense fell $23,863, more than offsetting a $37,395 increase in depreciation as newly placed assets (Heli-Hydrants, transmission mains, source-of-supply improvements, and the Well 2 facility) entered service. General and administrative expenses declined slightly. In 2025, expenses had risen 6.19% on pumping/treatment, transmission, and administration.

Detailed Analyses, continued

Why noncapital subsidies changed?

Property tax allocations increased 17.80% ($23,409) to $154,890 because of higher assessed valuations and County apportionment under the Teeter Plan, not because of a District tax-rate change. The same driver that produced a 9.20% increase in noncapital subsidies in 2025.

Why other nonoperating items changed?

The $888,942 decline in other nonoperating revenues, net is almost entirely explained by (a) completion of the two Heli-Hydrant installations funded by the American Rescue Plan Act ("ARPA") through the County of Riverside with the help of San Gorgonio Pass Water Agency, so capital contributions dropped $782,914, and (b) the Elm Street land sale, which produced a $95,398 loss (proceeds below carrying value). Cellular-antenna rental income and lease interest were stable. Interest expense declined as principal was paid down and the Ford Credit vehicle lease was retired.

Liquidity?

Current assets rose $239,974, led by unrestricted cash and cash equivalents of $3,014,615. Current liabilities fell $432,884, principally because the $292,664 amount due to SGPWA at June 30, 2025 was settled and because current portions of debt declined after the capital lease payoff. The current ratio improved substantially. Grants receivable declined from $310,614 to $86,478 as Heli-Hydrant and related billings were collected.

Significant Capital Asset and Long-Term Financing Activity

The change in capital assets for 2026 was as follows:

		Balance 2025	Increases	Decreases	Balance 2026
Capital assets:					
Capital assets not being depreciated	$	1,134,259	275,330	(719,231)	690,358
Depreciable capital assets		16,357,686	492,880	(95,198)	16,755,368
Accumulated depreciation		(7,973,510)	(545,406)	68,718	(8,450,198)
Total capital assets, net	$	9,518,435	222,804	(745,711)	8,995,528

The changes in capital assets for 2025 was as follows:

		Balance 2024	Increases	Decreases	Balance 2025
Capital assets:					
Capital assets not being depreciated	$	802,983	1,433,266	(1,101,990)	1,134,259
Depreciable capital assets		15,426,385	1,101,990	(170,689)	16,357,686
Accumulated depreciation		(7,475,455)	(508,011)	9,956	(7,973,510)
Total capital assets, net	$	8,753,913	2,027,245	(1,262,723)	9,518,435

At the end of fiscal years 2026 and 2025, the District's investment in capital assets (net of accumulated depreciation) amounted to $8,995,528 and $9,518,435, respectively.

Capital assets, net of accumulated depreciation, were $8,995,528 at June 30, 2026, down from $9,518,435 at June 30, 2025. The decrease reflects depreciation of $545,406, the sale of Elm Street land (historical cost removed $200,187), and retirement of vehicles and office equipment, partially offset by additions of $768,210 (source-of-supply improvements $305,361, construction placed in service from CIP, office equipment, and vehicles) before transfers.

Significant Capital Asset and Long-Term Financing Activity, continued

Major 2026 activity included source-of-supply system improvements, completion and transfer of construction-in-process (Heli-Hydrant and related work that had been in CIP at June 30, 2025), and routine vehicle/equipment replacement. Major 2025 activity included transmission and distribution mains ($943,709 placed in service) and the Heli-Hydrant construction program.

The District is the lessor on a cell-tower ground lease (GASB 87); that arrangement is reported as a lease receivable and deferred inflow, not as a lessee right-to-use asset. The District had no lessee lease assets, no Statement 94 PPP/APA operator assets, and no Statement 96 SBITA assets at either year-end. Other intangible assets ("intangible plant") total $11,032 at historical cost and are fully amortized. No capital assets were classified as held for sale at June 30, 2026 or 2025. During 2026, the District completed the sale of the Elm Street land parcel that the Board had previously authorized for listing; the parcel was not reported as held for sale at the prior year-end because sale within one year was not yet probable under Statement 104's criteria at that date.

See Note 6 to the basic financial statements for further detailed information on the District's capital assets.

The change in long-term debt in 2026 was as follows:

	Balance 2025	Additions	Reductions	Balance 2026
Long-term debt:				
Capital lease payable	$ 29,439	-	(29,439)	-
Loans payable	210,118	-	(61,130)	148,988
Total long-term debt	$ 239,557	-	(90,569)	148,988

The change in long-term debt in 2025 was as follows:

	Balance 2024	Additions	Reductions	Balance 2025
Long-term debt:				
Capital lease payable	$ 44,941	-	(15,502)	29,439
Loans payable	269,211	-	(59,093)	210,118
Total long-term debt	$ 314,152	-	(74,595)	239,557

Long-term debt declined $90,569 to $148,988. The Ford Credit vehicle capital lease ($29,439 at June 30, 2025) was paid in full. The 1993 California Department of Water Resources Safe Drinking Water loan declined to $15,524 (final payment due fiscal 2027). The Rural Community Assistance Corporation loan for Well 4 rehabilitation declined to $133,464 (matures 2034, 5%). No new debt was issued in either year. Restricted cash held by the bond trustee for the DWR loan was $17,560 at June 30, 2026.

Currently Known Facts, Decisions, or Conditions

The following facts, decisions, and conditions were known to management as of the date the financial statements were available to be issued (October 20, 2026) and may affect future financial position or results.

Leadership

James Clark became General Manager in February 2026 following a Board closed-session appointment process. Knala Keith was appointed in February 2026 to fill a vacant Board seat through December 2027. Continuity of Board leadership (Chair Tincher, Vice Chair Brock) was reaffirmed at the March 2026 reorganization.

Currently Known Facts, Decisions, or Conditions, continued

Rates

The Board completed a 2025 water rate study with a final report dated October 22, 2025. The study recommended a two-tier residential commodity structure and a multi-year financial plan. FY 2026 test-year rates were designed to be revenue-neutral (0% system-wide revenue adjustment in the first year), with planned subsequent adjustments to fund operations, debt service, and rate-funded CIP while meeting reserve targets. Implementation timing and Proposition 218 noticing are governed by Board action.

Capital program

Well 2 shaft repairs and SCADA at Well 4 were authorized using amounts originally budgeted for the Bonita pipeline (not expected to proceed in FY 2026), with a combined estimate under $160,000. Well 2 full rehabilitation is planned for 2027 with anticipated grant assistance. A new 40-by-60-foot facility building at Well 2 was completed. Well 4 electrical panel work continued into 2026. The District continues to pursue DWSRF construction funding for main replacements. A customer-care and billing system (CUSI) was purchased and was in implementation during 2026.

Grants and regional partnerships

Heli-Hydrant construction (two sites, approximately $600,000, SGPWA agreement dated November 13, 2024) was substantially completed in FY 2025, which is why capital contributions fell in FY 2026. Remaining grants receivable of $86,478 relate to wrap-up billings. The Isolation Valve / IRWM project with the City of Banning and SGPWA GAP funding was the source of the prior-year due-to-SGPWA balance, which was cleared by June 30, 2026.

Leases

The STC One LLC cell-tower ground lease was amended June 19, 2024, extending a final renewal through June 30, 2048, with a 10% rent step-up on July 1, 2028, and 2% annual adjustments thereafter. That lease is the source of the $866,100 lease receivable and $763,658 deferred inflow as of June 30, 2026.

Economic and operating environment

The service area remains a small, largely residential community with limited commercial accounts (including outlet and highway-oriented uses). Growth continues to be modest. Power reliability and well-mechanical risk (recent shaft issues at Wells 2 and 5) are known operating exposures.

Management is unaware of other conditions expected to have a significant adverse effect on current financial position beyond the items disclosed in the notes.

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 at 14618 Broadway Street, P.O. Box 297, Cabazon, California 92230, (951) 849-4442, or www.cabazonwater.org.

Basic Financial Statements

Cabazon Water District
Statements of Net Position
June 30, 2026 and 2025

		2026	2025
ASSETS			
Current assets:			
Cash and cash equivalents (note 2)	$	3,014,615	2,529,890
Cash and cash equivalents – restricted (note 2)		17,560	55,889
Accrued interest receivable		-	60
Accounts receivable – water sales, net (note 3)		261,456	265,674
Grants receivable (note 5)		86,478	310,614
Property taxes and assessments receivable		4,113	10,067
Materials and supplies inventory		94,778	86,796
Prepaid and other assets		69,011	50,062
Long-term assets:			
Amounts due within one year			
Lease receivable - current (note 4)		22,403	21,388
Total current assets		3,570,414	3,330,440
Noncurrent assets:			
Long-term assets:			
Amounts due in more than one year:			
Lease receivable - non-current (note 4)		843,697	866,101
Capital assets:			
Capital assets not being depreciated (note 6)		690,358	1,134,259
Depreciable capital assets, net (note 6)		8,305,170	8,384,176
Total noncurrent assets		9,839,225	10,384,536
Total assets	$	13,409,639	13,714,976

Continued on next page

See accompanying notes to the basic financial statements

Cabazon Water District
Statements of Net Position, continued
June 30, 2026 and 2025

		2026	2025
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	$	56,328	121,445
Accrued wages and related payables		6,397	21,939
Customer advances and deposits		10,350	16,352
Accrued interest payable on long-term debt		115	457
Due to SGWPA (note 5)		-	292,664
Compensated absences (note 7)		32,570	39,802
Long-term liabilities			
Amounts due within one year			
Capital lease (note 8)		-	15,040
Loans payable (note 8)		30,185	61,130
Total current liabilities		135,945	568,829
Noncurrent liabilities:			
Long-term liabilities – due in more than one year:			
Amounts due in more than one year			
Capital lease (note 8)		-	14,399
Loans payable (note 8)		118,803	148,988
Total non-current liabilities		118,803	163,387
Total liabilities		254,748	732,216
DEFERRED INFLOWS OF RESOURCES			
Lease-related items (note 4)		763,658	798,370
Total deferred inflows of resources		763,658	798,370
NET POSITION: (note 11)			
Net investment in capital assets		8,846,540	9,278,878
Restricted for:			
Debt service		17,560	55,889
Unrestricted		3,527,133	2,849,623
Total net position	$	12,391,233	12,184,390

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, 2026 and 2025

		2026	2025
Operating revenues:			
Water consumption sales	$	1,481,766	1,575,365
Connection fees		7,031	3,478
Standby fees		109,594	131,080
Facility fees		134,195	149,332
Other charges		64,624	67,328
Total operating revenues		1,797,210	1,926,583
Operating expenses:			
Pumping and water treatment		252,709	249,428
Transmission and distribution		65,426	92,326
Customer accounts		50,522	74,385
General and administrative		1,013,247	1,029,495
Depreciation		545,406	508,011
Total operating expenses		1,927,310	1,953,645
Operating loss		(130,100)	(27,062)
Noncapital subsidies			
Property taxes		154,890	131,481
Total noncapital subsidies		154,890	131,481
Operating income and noncapital subsidies		24,790	104,419
Other nonoperating revenues(expenses)			
Rental income – cellular antennas		34,712	39,712
Interest income – leases		13,312	13,618
Investment return		100,586	101,706
Gain(loss) from the sale of capital asset		(95,398)	7,367
Interest expense – long-term debt		(8,220)	(12,480)
Capital contributions - grant		137,160	920,074
Other nonoperating (expenses)revenues, net		(99)	998
Total nonoperating revenues, net		182,053	1,070,995
Increase in fund net position		206,843	1,175,414
Fund net position, beginning of year as previously stated (Note 12)		12,184,390	11,008,976
Fund net position, end of year	$	12,391,233	12,184,390

See accompanying notes to the basic financial statements

Cabazon Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2026 and 2025

		2026	2025
Cash flows from operating activities:			
Receipts from customers	$	1,795,426	1,909,017
Payments to vendors and suppliers		(1,031,889)	(891,470)
Payments to employees		(464,936)	(498,420)
Net cash provided by operating activities		298,601	519,127
Cash flows from non-capital financing activities:			
Proceeds from property taxes		160,844	125,123
Net cash provided by non-capital financing activities		160,844	125,123
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(249,166)	(1,433,264)
Proceeds from disposition of capital assets		131,269	168,098
Proceeds from rental income – cellular antennas		34,701	39,021
Proceeds from capital contributions - grant		68,632	1,060,090
Principal paid on debt		(90,569)	(74,595)
Interest paid on debt		(8,562)	(12,852)
Net cash used by capital and related financing activities		(113,695)	(253,502)
Cash flows from investing activities:			
Investment return		100,646	101,705
Net cash provided by investing activities		100,646	101,705
Net increase in cash and cash equivalents		446,396	492,453
Cash and cash equivalents, beginning of year		2,585,779	2,093,326
Cash and cash equivalents, end of year	$	3,032,175	2,585,779
Reconciliation of cash and cash equivalents to statements of net position:			
Cash and cash equivalents	$	3,014,615	2,529,890
Cash and cash equivalents – restricted		17,560	55,889
Total cash and cash equivalents	$	3,032,175	2,585,779

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, 2026 and 2025

		2026	2025
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(130,100)	(27,062)
Adjustments to reconcile operating income to operating activities:			
Depreciation		545,406	508,011
Other nonoperating (expense)revenue, net		(99)	998
Change in assets and liabilities:			
Accounts receivable – water sales and services, net		4,218	(18,372)
Materials and supplies inventory		(7,982)	5,373
Prepaid and other assets		(18,949)	(6,952)
Accounts payable and accrued expenses		(65,117)	44,257
Accrued wages and related payables		(15,542)	(479)
Compensated absences		(7,232)	12,547
Customer advances and deposits		(6,002)	1,192
Developer deposits		-	(386)
Net cash provided by operating activities	$	298,601	519,127
Noncash transactions:			
(Depreciation)appreciation of fair value of investments	$	(133)	104

See accompanying notes to the basic financial statements

(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 April 2024, the GASB issued *Statement No. 103 – Financial Reporting Model Improvements*. The primary objective of this Statement is to improve key components of the financial reporting model to enhance effectiveness in providing information that is essential for decision making and assessing a government's accountability. Also, this Statement: (1) continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI); (2) describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence; (3) requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses; (4) requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements; and (5) requires governments to present budgetary comparison information using a single method of communication—RSI.

In September 2024, the GASB issued *Statement No. 104 – Disclosure of Certain Capital Assets*. The primary objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement establishes requirements for certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. Also, this Statement establishes requirements for capital assets held for sale, including additional disclosures for those capital assets. The requirements of this Statement apply to the financial statements of all state and local governments.

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

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

1. Use of Estimates

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

2. Cash and Cash Equivalents

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

3. Investments

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

4. Accounts Receivable and Allowance for Uncollectible Accounts

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

5. 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.

6. 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.

7. 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 $5,000. 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

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

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

8. 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

9. Compensated Absences

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

10. Net Position

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

- *Net investment in capital assets* – 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* – 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.

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

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

11. Water Sales

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

12. Budgetary Policies

The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are effected 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.

13. Reclassification

The District has reclassified certain prior year information to conform with current year presentations.

(2) Cash and Investments

Cash and investments as of June 30, are classified as follows:

		2026	2025
Cash and cash equivalents	$	3,014,615	2,529,890
Cash and cash equivalents – restricted		17,560	55,889
Total	$	3,032,175	2,585,779

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

		2026	2025
Cash on hand	$	100	100
Deposits with bank		467,391	349,471
Investments		2,564,684	2,236,208
Total	$	3,032,175	2,585,779

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

	2026	2025
Deposits in California Local Agency Investment Fund (LAIF)	269 days	248 days
Deposits in California CLASS Investment Pool (CLASS)	74 days	75 days

(2) Cash and Investments, continued

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

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

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

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

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

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

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).

(2) Cash and Investments, continued

Custodial Credit Risk, continued

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, 2026 and 2025, 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.

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, 2026, consisted of the following:

Investment Type		Total	Remaining maturity 12 months or less
Local Agency Investment Fund (LAIF)	$	5,741	5,741
California CLASS		2,541,383	2,541,383
Held by bond trustee:			
Money market funds		17,560	17,560
	$	2,564,684	2,564,684

Maturities of investments at June 30, 2025, consisted of the following:

Investment Type		Total	Remaining maturity 12 months or less
Local Agency Investment Fund (LAIF)	$	5,518	5,518
California CLASS		2,174,801	2,174,801
Held by bond trustee:			
Money market funds		55,889	55,889
	$	2,236,208	2,236,208

(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, 2026, were as follows:

			Rating as of year end		
Investment Type	Total	Minimum legal rating	AAA	S&P Global Ratings AAAm	Not Rated
Local Agency Investment Fund (LAIF)	$ 5,741	N/A	-	-	5,741
California CLASS	2,541,383	AAAm	-	2,541,383	-
Held by bond trustee:					
Money market funds	17,560	AAA	17,560	-	-
	$ 2,564,684		17,560	2,541,383	5,741

Credit ratings of investments as of June 30, 2025, were as follows:

			Rating as of year-end		
Investment Type	Total	Minimum legal rating	AAA	S&P Global Ratings AAAm	Not Rated
Local Agency Investment Fund (LAIF)	$ 5,518	N/A	-	-	5,518
California CLASS	2,174,801	AAAm	-	2,174,801	-
Held by bond trustee:					
Money market funds	55,889	AAA	55,889	-	-
	$ 2,236,208		55,889	2,174,801	5,518

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, 2026 and 2025.

(3) Accounts Receivable

The balance at June 30 consists of the following:

	2026	2025
Accounts receivable - water sales and services	$ 297,942	302,160
Allowance for uncollectible accounts	(36,486)	(36,486)
Total	$ 261,456	265,674

Water sales and services receivable were $297,942 and $302,160 at June 30, 2026 and 2025, respectively, net of an allowance of $36,486 in both years, for net balances of $261,456 and $265,674.

(4) Lease Receivable

Changes in lease receivable for the year ended June 30, 2026 were as follows:

	Balance 2025	Additions	Principal Payment	Balance 2026	Current	Non-current	Deferred Inflows
Cell Tower Lease	$ 887,489	-	(21,389)	866,100	22,403	843,697	763,658

Changes in lease receivable for the year ended June 30, 2025 were as follows:

	Balance 2024	Additions	Principal Payment	Balance 2025	Current	Non-current	Deferred Inflows
Cell Tower Lease	$ 907,891	-	(20,402)	887,489	21,388	866,101	798,370

Future payments to be received as of June 30, 2026, are as follows:

Year	Principal	Interest	Total
2027	$ 22,403	12,992	35,395
2028	23,447	12,655	36,102
2029	27,409	12,304	39,713
2030	28,615	11,893	40,508
2031	29,854	11,463	41,317
2032-2036	169,109	50,209	219,318
2037-2041	205,686	36,459	242,145
2042-2046	247,537	19,810	267,347
2047-2048	112,040	2,536	114,576
Total	866,100	170,321	1,036,421
Current	(22,403)		
Non-current	$ 843,697		

STC One LLC

On October 1, 1997, the District entered into a communication site ground lease agreement with Cox Communications PCS, L.P., (Cox). The terms of the agreement require Cox to pay the District $7,800 annually, which shall increase by July 1 of each year by 2% for an initial term of 10 years.

On June 19, 2024, the District entered into an amended agreement with STC One LLC (STC), is currently the lessee as successor in interest to Cox. The lease had an initial term that commenced on July 1, 1998 and expired on June 30, 2008. The lease provides for four (4) extensions of five (5) years each (each a "Renewal Term"), all of which were exercised by Lessee through June 30, 2028. Terms of the amended agreement, includes a final Renewal Term expiring on June 30, 2048. On July 1, 2028, the annual rent shall increase by an amount equal to ten percent (10%). Following such an increase, the annual rent shall continue to adjust pursuant to the terms of the Lease, which is 2% each year.

Following the implementation of GASB Statement No. 87, the District recorded a lease receivable and a deferred inflow at present value using a discount rate of 1.5%. The deferred inflow is amortized on a straight-line basis over the term of the lease.

As of June 30, 2026 and 2025, the balance of lease receivable amounted to $866,100, and $887,489, respectively. As of June 30, 2026 and 2025, the balance of deferred inflows amounted to $763,658, and $798,370, respectively.

(5) Grants Receivable

On November 13, 2024, the District entered into an agreement with San Gorgonio Pass Water Agency for the installation of two heli-hydrants within the District's service area. Total Project Cost is estimated to be $600,000.

On May 23, 2022, the District entered into an agreement with City of Banning (City) for funds from a Proposition 1 Integrated Regional Water Management (IRWM) Grant to the San Gorgonio Region to complete the Isolation Valve Improvement Project (Project). Total Project Cost is estimated to be $1,243,035. On April 11, 2022, the District entered into a GAP funding agreement with San Gorgonio Pass Water Agency (SGPWA) related to the approved agreement between the City and the District for SGWPA to advance monies to fund the Project.

As of June 30, 2026 and 2025, total grants receivable amount of $86,478 and $310,614. As of June 30, 2026 and 2025, the District's balance due to SGWPA amounted to $0 and $292,664, respectively.

(6) Capital Assets

The change in capital assets for 2026 was as follows:

	Balance 2025	Increases	Decreases	Balance 2026
Capital assets not being depreciated:				
Land	$ 689,548	-	(200,187)	489,361
Construction-in-process	444,711	275,330	(519,044)	200,997
Total capital assets not being depreciated	1,134,259	275,330	(719,231)	690,358
Depreciable capital assets:				
Transmission and distribution mains	12,625,941	107,131	-	12,733,072
Source of supply	3,333,665	305,361	-	3,639,026
Water treatment	8,800	-	-	8,800
Tools and equipment	123,319	-	-	123,319
Buildings and structures	12,280	-	-	12,280
Office furniture and equipment	97,882	50,106	(18,491)	129,497
Vehicles	144,767	30,282	(76,707)	98,342
Intangible plant	11,032	-	-	11,032
Total depreciable capital assets	16,357,686	492,880	(95,198)	16,755,368
Less: Accumulated depreciation:				
Transmission and distribution mains	(6,500,513)	(377,862)	-	(6,878,375)
Source of supply	(1,117,778)	(153,355)	-	(1,271,133)
Water treatment	(8,800)	-	-	(8,800)
Tools and equipment	(123,319)	-	-	(123,319)
Buildings and structures	(10,043)	(565)	-	(10,608)
Office furniture and equipment	(88,988)	(6,777)	18,491	(77,274)
Vehicles	(113,037)	(6,847)	50,227	(69,657)
Intangible plant	(11,032)	-	-	(11,032)
Total accumulated depreciation	(7,973,510)	(545,406)	68,718	(8,450,198)
Depreciable capital assets, net	8,384,176	(52,526)	(26,480)	8,305,170
Total capital assets, net	$ 9,518,435			8,995,528

Major capital assets additions during the year include improvements to the District's transmission and distribution, source of supply, office furniture and equipment and vehicles. Land deletion of $200,187 is the Elm Street parcel sold during the year. Construction-in-process transfers of $519,044 represent assets placed in service, including Heli-Hydrant-related work.

(6) Capital Assets, continued

The change in capital assets for 2025 was as follows:

	Balance 2024	Increases	Decreases	Balance 2025
Capital assets not being depreciated:				
Land	$ 689,548	-	-	689,548
Construction-in-process	113,435	1,433,266	(1,101,990)	444,711
Total capital assets not being depreciated	802,983	1,433,266	(1,101,990)	1,134,259
Depreciable capital assets:				
Transmission and distribution mains	11,682,232	943,709	-	12,625,941
Source of supply	3,175,384	158,281	-	3,333,665
Water treatment	8,800	-	-	8,800
Tools and equipment	123,319	-	-	123,319
Buildings and structures	182,969	-	(170,689)	12,280
Office furniture and equipment	97,882	-	-	97,882
Vehicles	144,767	-	-	144,767
Intangible plant	11,032	-	-	11,032
Total depreciable capital assets	15,426,385	1,101,990	(170,689)	16,357,686
Less: Accumulated depreciation:				
Transmission and distribution mains	(6,151,832)	(348,681)	-	(6,500,513)
Source of supply	(980,590)	(137,188)	-	(1,117,778)
Water treatment	(8,800)	-	-	(8,800)
Tools and equipment	(123,319)	-	-	(123,319)
Buildings and structures	(18,723)	(1,276)	9,956	(10,043)
Office furniture and equipment	(85,263)	(3,725)	-	(88,988)
Vehicles	(95,896)	(17,141)	-	(113,037)
Intangible plant	(11,032)	-	-	(11,032)
Total accumulated depreciation	(7,475,455)	(508,011)	9,956	(7,973,510)
Depreciable capital assets, net	7,950,930	593,979	(160,733)	8,384,176
Total capital assets, net	$ 8,753,913			9,518,435

Major capital assets additions during the year include improvements to the District's transmission and distribution mains, and source of supply. Construction in process includes additions $1,433,266 and transfers $1,101,990 into transmission mains and source of supply; buildings decreased $170,689 (net of $9,956 accumulated depreciation removed). Ending net capital assets at June 30, 2025, were $9,518,435.

As of June 30, 2026, and 2025, the District had no lease assets. The retired Ford Credit vehicle financing was accounted for as an installment purchase that transferred ownership, and is included as part of Vehicles, and not as a right-to-use lease asset. The District's cell-tower arrangement is a lessor contract (For more details, please refer to Note 4 of the financial statements.

As of June 30, 2026, and 2025, the District have intangible plant with historical cost of $11,032 and accumulated amortization of $11,032. As of June 30, 2026, and 2025, the District held no other intangible assets (including internally generated software, purchased software above the capitalization threshold, easements, or water rights).

A capital asset is held for sale when the government has decided to pursue the sale and it is probable the sale will be finalized within one year of the financial statement date. No capital assets met that definition at June 30, 2026 or 2025. During fiscal year 2026, the District sold the Elm Street land parcel previously authorized for listing via Board action in 2024. No debt was pledged against that parcel.

(7) Compensated Absences

The District recognizes liability for compensated absences in accordance with GASB Statement No. 101, "Compensated Absences". Compensated absences include unpaid vacation leave, sick leave and compensating time off which is accrued as earned, which are expected to be settled through paid time off or cash payments upon termination or retirement.

As of June 30, 2026 and 2025, the liability for compensated absences was calculated based on employees' pay rates at the fiscal year-end and historical usage data, considering employment policies. The liability represents amounts that are more likely than not be used or paid out. The total liability for compensated absences amounted to $32,570 and $39,802, respectively. The net change in the compensated absences liability for the fiscal year ended June 30, 2026 and 2025 was $(7,232) and $12,547, respectively, reflecting a (decrease) increase due to changes in employee leave balances, pay rates, and usage patterns. The liability is reported in government-wide financial statements and business type fund financial statements

(8) Long-Term Debt

The change in long-term debt in 2026 was as follows:

	Balance 2025	Additions	Reductions	Balance 2026	Amounts Due within One Year	Amounts Due in More Than One Year
Capital lease:						
Ford Credit	$ 29,439	-	(29,439)	-	-	-
Total capital lease	29,439	-	(29,439)	-	-	-
Loans payable:						
1993 Calif. Dept. of Water Resources Loan - E58416	62,707	-	(47,183)	15,524	15,524	-
Rural Community Assistance Corporation	147,411	-	(13,947)	133,464	14,661	118,803
Total loans payable	210,118	-	(61,130)	148,988	30,185	118,803
Total long-term liabilities	$ 239,557	-	(90,569)	148,988	30,185	118,803

The change in long-term debt in 2025 was as follows:

	Balance 2024	Additions	Reductions	Balance 2025	Amounts Due within One Year	Amounts Due in More Than One Year
Capital lease:						
Ford Credit	$ 44,941	-	(15,502)	29,439	15,040	14,399
Total capital lease	44,941	-	(15,502)	29,439	15,040	14,399
Loans payable:						
1993 Calif. Dept. of Water Resources Loan - E58416	108,532	-	(45,825)	62,707	47,183	15,524
Rural Community Assistance Corporation	160,679	-	(13,268)	147,411	13,947	133,464
Total loans payable	269,211	-	(59,093)	210,118	61,130	148,988
Total long-term liabilities	$ 314,152	-	(74,595)	239,557	76,170	163,387

Ford Credit

On March 23, 2022, District financed the purchased a vehicle with Ford Credit in the amount of $76,457. The financing term call for payments of principal and interest of $1,479 payable each month at a rate of 5.94%, maturing in 2027. The capital lease was fully paid as of June 30, 2026.

(8) Long-Term Debt, continued

1993 California Dept. of Water Resources Loan – E58416

On September 27, 1993, the District entered into a loan agreement with the California Department of Water Resources under the 1984 California Safe Drinking Water Bond Law. The loan, in the principal amount of $979,860, financed a capital improvement project undertaken to comply with California Safe Drinking Water Standards. The loan bears interest at 2.955%, has a term of 26 years, and matures on September 30, 2026. The first installment of principal and interest, in the amount of $205,016, was due on March 31, 2000. Thereafter, principal and interest are payable semi-annually on October 1st and April 1st of each year.

Annual debt service requirements are as follows:

Fiscal Year	Principal	Interest	Total
2027	$ 15,524	230	15,754
Total	15,524	230	15,754
Current	(15,524)		
Non-current	$ -		

Rural Community Assistance Corporation

On August 4, 2023, the District entered into a loan agreement with Rural Community Assistance Corporation in the amount of $165,000 to fund its Well 4 rehabilitation project. Terms of the loan call for monthly debt service payments of principal and interest payable every 1st of each month beginning April 1, 2024 at a rate of 5%, maturing on April 1, 2034.

Annual debt service requirements are as follows:

Fiscal Year	Principal	Interest	Total
2027	$ 14,661	6,340	21,001
2028	15,411	5,590	21,001
2029	16,199	4,802	21,001
2030	17,028	3,973	21,001
2031	17,899	3,102	21,001
2032-3034	52,266	3,666	55,932
Total	133,464	27,473	160,937
Current	(14,661)		
Non-current	$ 118,803		

(9) Defined Benefit Pension Plan

The District provides pension benefits to all covered employees under the Collective Bargaining Agreement to the Service Employees International Union National Industry Pension Fund. The District's contribution is based on 15% of gross wages. The District's contributions to the Plan were $5,079 and $5,337 for the years ended June 30, 2026 and 2025, respectively.

(10) Deferred Compensation Savings Plan

In 2003, as amended in 2008, the District offered a Profit Sharing 457(b) 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. The market value of all assets held in trust by the District's 401(a) Plan at June 30, 2026 and 2025 amounted to $53,254, and $98,326, respectively.

(11) Net Position

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

	2026	2025
Net investment in capital assets:		
Capital assets, net	$ 8,995,528	9,518,435
Loans payable – current portion	(30,185)	(76,170)
Loans payable – non-current portion	(118,803)	(163,387)
Total net investment in capital assets	8,846,540	9,278,878
Restricted:		
Cash and cash equivalents – restricted	17,560	55,889
Total restricted	17,560	55,889
Unrestricted:		
Non-spendable unrestricted net position:		
Materials and supplies inventory	94,778	86,796
Prepaid and other assets	69,011	50,062
Total non-spendable unrestricted net position	163,789	136,858
Spendable unrestricted net position:		
Operating reserve	3,363,344	2,712,765
Total spendable unrestricted net position	3,363,344	2,712,765
Total unrestricted	3,527,133	2,849,623
Total fund net position	$ 12,391,233	12,184,390

(12) Prior Period Adjustment

Compensated absences

In 2025, the District implemented GASB Statement No. 101, Compensated absences. As a result of the implementation, the District recorded prior period adjustment of $10,642, to restate beginning balances as of July 1, 2024.

The adjustment to net position is as follows:

Net position as of June 30, 2023		$ 10,535,650
Changes in net position, June 30, 2024, as previously stated	483,968	
Effect of adjustment to restate compensated absences	(10,642)	
Changes in net position, June 30, 2024, as restated		473,326
Net position as of June 30, 2024, as restated		$ 11,008,976

(13) 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, 2026:

- Property: Blanket limit of $7,288,255 with a $5,000 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 $1,000 deductible.
- Crime coverage: $250,000 per occurrence with a $1,000 deductible.
- Excess liability: $4,000,000 employer's liability excluded.

(14) 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. 105

In December 2025, the GASB issued Statement No. 105 – *Subsequent Events*. The primary objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. This Statement defines subsequent events as transactions or other events that occur after the date of the financial statements but before the date the financial statements are available to be issued. This Statement describes the date the financial statements are available to be issued as the date at which (1) the financial statements are complete in a form and format that complies with generally accepted accounting principles and (2) approvals necessary for issuance have been obtained. That definition modifies the subsequent events time frame throughout the GASB literature. This Statement also requires the date through which subsequent events have been evaluated to be disclosed. This Statement clarifies the subsequent events that constitute recognized and nonrecognized events and establishes specific note disclosure requirements for nonrecognized events.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2026, and all reporting periods thereafter. Earlier application is encouraged.

(15) 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.

(16) Subsequent Events

Events occurring after June 30, 2026, have been evaluated for possible adjustment to the financial statements or disclosure as of October 20, 2026, 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 an Audit 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 business-type activities of Cabazon Water District (District), as of and for the years ended June 30, 2026 and 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 20, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on 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 audit 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 an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards,* continued

Purpose of this Report

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

C.J. Brown & Company, CPAs

C.J. Brown & Company, CPAs
Cypress, California
October 20, 2026