



Cabazon Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2013 and 2012



Cabazon Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2013 and 2012

Cabazon Water District
Board of Directors as of June 30, 2013

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
R.D. Cash	President	Elected	12/09-12/13
Kerri Mariner	Vice-President	Elected	12/11-12/15
Frances Magness	Director	Elected	12/11-12/15
Maria Affsa	Director	Appointed	10/12-12/13
Curtis Bittner	Director	Appointed	06/13-12/13

Cabazon Water District
Calvin Louie, General Manager
14618 Broadway Street
P.O. Box 297
Cabazon, California 92230
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Cabazon Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2013 and 2012

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Introductory Section



November 17, 2014

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, 2013 and 2012, following guidelines set forth by the Governmental Accounting Standards Board. District staff prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance your understanding of the District's financial position and activities.

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

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

District Structure and Leadership

The Cabazon Water District is an independent special district, which operates under the authority of Division 12 of the California Water Code. The District was formed in 1954 and is governed by a five-member Board of Directors, elected at-large from within the District's service area. The General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The District employs one (1) regular employee and two (2) part-time employees organized into two departments. The District's Board of Directors meets each month. Meetings are publicly noticed and citizens are encouraged to attend.

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

District Services

Residential customers are approximately 97% of the District's customer base and consume approximately 90% of the water produced annually by the District. The District currently has a total of four groundwater wells with a maximum production capacity of 2,500 gallons per minute.

Economic Condition and Outlook

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

Internal Control Structure

District management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft or misuse. The internal control structure also ensures adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The District Board of Directors annually adopts an operating and capital budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and the financial statement basis.

Investment Policy

The Board of Directors has adopted an investment policy that conforms to state law, District ordinance and resolutions, prudent money management, and the "prudent person" standards. The objective of the Investment Policy is safety, liquidity and yield. District funds are invested in the State Treasurer's Local Agency Investment Fund, and institutional savings and checking accounts.

Water Rates and District Revenues

District policy direction ensures that all revenues from user charges and surcharges generated from District customers must support all District operations including capital project funding. Accordingly, water rates are reviewed on an annual basis. Water rates are user charges imposed on customers for services and are the primary component of the District's revenue. Water rates are composed of a commodity (usage) charge and a fixed meter standby charge.

Audit and Financial Reporting

State Law and debt covenants require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Charles Z. Fedak & Company, CPAs has conducted the audit of the District's financial statements. Their 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
Paul J. Kaymark, CPA
Christopher J. Brown, CPA

Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

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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, 2013 and 2012, 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the of the Cabazon Water District, as of June 30, 2013 and 2012, 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.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2013, the District adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

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 1 through 3 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 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

Our audit was conducted for the purpose of forming opinions 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 17, 2014 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.

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs - An Accountancy Corporation

Cypress, California

November 17, 2014

Cabazon Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

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, 2013 and 2012. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net position increased 2.28% or \$118,447 to \$5,308,460 in fiscal year 2013. In 2012, the District's net position decreased 0.74% or \$38,669 to \$5,190,013.
- The District's operating revenues increased 18.88% or \$194,331 in fiscal year 2013, primarily due to a \$226,840 increase in water consumption sales that was offset by a \$25,790 decrease in facility fees. In fiscal year 2012, the District's operating revenues increased 21.09% or \$179,244 primarily due to a \$50,516 increase in water consumption sales and a \$112,350 increase in facility fees.
- The District's operating expenses increased 7.54% or \$58,776 in 2013 primarily due to increases in pumping and water treatment expenses of \$35,858, and Transmission and distribution expense of \$91,019, which was offset by a decrease in general and administrative expenses of \$70,520. In 2012, the District's operating expenses decreased 1.52% or \$12,003 primarily due to a \$7,125 decrease in pumping and water treatment expense and a \$9,137 decrease in general and administrative costs.

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. It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net 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 changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities, as well as providing answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The 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 outflow, 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
For the Fiscal Years Ended June 30, 2013 and 2012

These two statements report the District's *net position* and changes in them. One can think of the District's net position (the difference between assets and deferred outflows, and liabilities and deferred inflows), as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position is one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 15 through 30.

Statements of Net Position

Condensed Statements of Net Position

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Assets:			
Current assets	\$ 1,320,744	974,856	345,888
Non-current assets	11,680	20,838	(9,158)
Capital assets, net	<u>5,689,137</u>	<u>5,591,822</u>	<u>97,315</u>
Total assets	<u>7,021,561</u>	<u>6,587,516</u>	<u>434,045</u>
Liabilities:			
Current liabilities	202,976	274,240	(71,264)
Non-current liabilities	<u>1,510,125</u>	<u>1,123,263</u>	<u>386,862</u>
Total liabilities	<u>1,713,101</u>	<u>1,397,503</u>	<u>315,598</u>
Net position:			
Net investment in capital assets	4,075,185	4,324,106	(248,921)
Restricted for debt service	252,222	239,596	12,626
Unrestricted	<u>981,053</u>	<u>626,311</u>	<u>354,742</u>
Total net position	<u>\$ 5,308,460</u>	<u>5,190,013</u>	<u>118,447</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$5,308,460 and \$5,190,013 as of June 30, 2013 and 2012, respectively.

By far the largest portion of the District's net assets (77% and 83% as of June 30, 2013 and 2012, 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 2013 and 2012, the District showed a positive balance in its unrestricted net assets of \$981,053 and \$626,311. See Note 8 for further discussion.

Cabazon Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Revenues:			
Operating revenues	\$ 1,223,395	1,029,064	194,331
Non-operating revenues	93,088	90,875	2,213
Total revenues	<u>1,316,483</u>	<u>1,119,939</u>	<u>196,544</u>
Expenses:			
Operating expenses	838,795	780,019	58,776
Depreciation	265,503	273,297	(7,794)
Non-operating expenses	93,738	105,292	(11,554)
Total expenses	<u>1,198,036</u>	<u>1,158,608</u>	<u>39,428</u>
Change in net position	118,447	(38,669)	157,116
Net position, beginning of year	<u>5,190,013</u>	<u>5,228,682</u>	<u>(38,669)</u>
Net position, end of year	<u>\$ 5,308,460</u>	<u>5,190,013</u>	<u>118,447</u>

The statement of revenues, expenses and changes in net assets shows how the District's net position changed during the fiscal years. In the case of the District, net position increased by \$118,447 and decreased by \$38,669 for the fiscal years ended June 30, 2013 and 2012, respectively.

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

The District's net position increased 2.28% or \$118,447 to \$5,308,460 in fiscal year 2013. In 2012, the District's net position decreased 0.74% or \$38,669 to \$5,190,013.

The District's operating revenues increased 18.88% or \$194,331 in fiscal year 2013, primarily due to a \$226,840 increase in water consumption sales that was offset by a \$25,790 decrease in facility fees. In fiscal year 2012, the District's operating revenues increased 21.09% or \$179,244 primarily due to a \$50,516 increase in water consumption sales and a \$112,350 increase in facility fees.

The District's operating expenses increased 7.54% or \$58,776 in 2013 primarily due to increases in pumping and water treatment expenses of \$35,858, and Transmission and distribution expense of \$91,019, which was offset by a decrease in general and administrative expenses of \$70,520. In 2012, the District's operating expenses decreased 1.52% or \$12,003 primarily due to a \$7,125 decrease in pumping and water treatment expense and a \$9,137 decrease in general and administrative costs.

Capital Asset Administration

At the end of fiscal year 2013 and 2012, the District's investment in capital assets amounted to \$5,689,137 and \$5,591,822 (net of accumulated depreciation), respectively. This investment in capital assets includes land, transmission and distribution systems, wells, tanks, reservoirs, pumps, buildings and structures, equipment, vehicles and construction-in-process, etc. Major capital assets additions during the year include improvements to the transmission and distribution system and source of supply.

Cabazon Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

Capital Asset Administration, continued

Changes in capital asset amounts for 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2013</u>
Capital assets:				
Non-depreciable assets	\$ 409,548	345,716	(300,969)	454,295
Depreciable assets	8,901,012	318,071	-	9,219,083
Accumulated depreciation	<u>(3,718,738)</u>	<u>(265,503)</u>	<u>-</u>	<u>(3,984,241)</u>
Total capital assets, net	<u>\$ 5,591,822</u>	<u>398,284</u>	<u>(300,969)</u>	<u>5,689,137</u>

Changes in capital asset amounts for 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2012</u>
Capital assets:				
Non-depreciable assets	\$ 459,836	222,821	(273,109)	409,548
Depreciable assets	8,582,793	318,219	-	8,901,012
Accumulated depreciation	<u>(3,445,441)</u>	<u>(273,297)</u>	<u>-</u>	<u>(3,718,738)</u>
Total capital assets, net	<u>\$ 5,597,188</u>	<u>267,743</u>	<u>(273,109)</u>	<u>5,591,822</u>

Debt Administration

Changes in long-term debt amounts for 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2013</u>
Long-term debt:				
Loans payable	\$ 1,267,716	787,309	(441,073)	1,613,952
Total loans payable	<u>\$ 1,267,716</u>	<u>787,309</u>	<u>(441,073)</u>	<u>1,613,952</u>

Changes in long-term debt amounts for 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2012</u>
Long-term debt:				
Loans payable	\$ 1,408,431	-	(140,715)	1,267,716
Total loans payable	<u>\$ 1,408,431</u>	<u>-</u>	<u>(140,715)</u>	<u>1,267,716</u>

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the District's current financial position, net assets or operating results in terms of past, present and future.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager at 14618 Broadway Street, P.O. Box 297, Cabazon, California 92230.

Basic Financial Statements

**Cabazon Water District
Statements of Net Position
June 30, 2013 and 2012**

	2013	2012
Current assets:		
Cash and cash equivalents (note 2)	\$ 821,211	512,373
Cash and cash equivalents – restricted (note 2)	252,222	239,596
Accrued interest receivable	304	399
Accounts receivable – water sales, net (note 3)	141,335	118,720
Property taxes and assessments receivable	16,081	14,916
Note receivable (note 4)	9,159	8,936
Materials and supplies inventory	70,888	73,884
Prepaid and other assets	9,544	6,032
Total current assets	1,320,744	974,856
Non-current assets:		
Note receivable – long-term (note 4)	11,680	20,838
Capital assets – non-depreciable (note 5)	454,295	409,548
Capital assets, net (note 5)	5,234,842	5,182,274
Total non-current assets	5,700,817	5,612,660
Total assets	7,021,561	6,587,516
Current liabilities:		
Accounts payable and accrued expenses	59,609	99,196
Accrued wages and related payables	5,000	5,271
Customer advances and deposits	17,974	16,296
Accrued interest payable on long-term debt	8,807	6,692
Long-term liabilities – due within one year:		
Compensated absences (note 6)	7,759	2,332
Loans payable (note 7)	103,827	144,453
Total current liabilities	202,976	274,240
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Loans payable (note 7)	1,510,125	1,123,263
Total non-current liabilities	1,510,125	1,123,263
Total liabilities	1,713,101	1,397,503
Net position: (note 8)		
Net investment in capital assets	4,075,185	4,324,106
Restricted	252,222	239,596
Unrestricted	981,053	626,311
Total net position	\$ 5,308,460	5,190,013

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, 2013 and 2012

	2013	2012
Operating revenues:		
Water consumption sales	\$ 986,161	759,321
Connection fees	2,880	3,380
Standby fees	101,416	102,134
Facility fees	102,600	128,390
Other charges	30,338	35,839
Total operating revenues	1,223,395	1,029,064
Operating expenses:		
Pumping and water treatment	106,775	70,937
Transmission and distribution	263,111	172,092
Customer accounts	24,995	22,556
General and administrative	443,914	514,434
Total operating expenses	838,795	780,019
Operating income before depreciation and amortization	384,600	249,045
Depreciation	(265,503)	(273,297)
Operating income (loss)	119,097	(24,252)
Non-operating revenue (expense)		
Property taxes	58,704	58,219
Rental income – cellular antennas	29,104	26,677
Investment earnings	5,280	5,979
Interest expense – long-term debt	(33,589)	(28,646)
Other non-operating revenue (expense), net	(60,149)	(76,646)
Total non-operating revenues, net	(650)	(14,417)
Change in net position	118,447	(38,669)
Net position, beginning of year	5,190,013	5,228,682
Net position, end of year	\$ 5,308,460	5,190,013

See accompanying notes to the basic financial statements

Cabazon Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash receipts from customers for water sales	\$ 1,099,364	919,277
Proceeds from standby fees	101,416	102,134
Cash paid to employees for salaries and wages	(133,530)	(169,639)
Cash paid to vendors and suppliers for materials and services	(789,748)	(628,403)
Net cash provided by operating activities	277,502	223,369
Cash flows from non-capital financing activities:		
Proceeds from rental income – cellular antennas	29,104	26,677
Proceeds from property taxes	57,539	65,869
Proceeds from Federal grant	-	13,505
Net cash provided by non-capital financing activities	86,643	106,051
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(362,817)	(267,931)
Proceeds from issuance of debt	787,309	-
Principal paid on long-term debt	(441,073)	(140,715)
Interest paid on long-term debt	(31,474)	(29,583)
Net cash used in capital and related financing activities	(48,055)	(438,229)
Cash flows from investing activities:		
Interest earnings	5,374	6,272
Net cash provided by investing activities	5,374	6,272
Net decrease in cash and cash equivalents	321,464	(102,537)
Cash and cash equivalents, beginning of year	751,969	854,506
Cash and cash equivalents, end of year	\$ 1,073,433	751,969
Reconciliation of cash and cash equivalents to statements of financial position:		
Cash and cash equivalents	\$ 821,211	512,373
Restricted assets – cash and cash equivalents	252,222	239,596
Total cash and cash equivalents	\$ 1,073,433	751,969

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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of operating income (loss) to net cash provided		
by operating activities:		
Operating income (loss)	\$ <u>119,097</u>	<u>(24,252)</u>
Adjustments to reconcile operating loss to net cash provided		
by operating activities:		
Depreciation	265,503	273,297
Other non-operating	(60,149)	(76,646)
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable – water sales and services, net	(22,615)	(7,653)
Note receivable	8,935	8,719
Materials and supplies inventory	2,996	(2,077)
Prepaid and other assets	(3,512)	(4,050)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(39,587)	48,591
Accrued wages and related payables	(271)	(1,186)
Compensated absences	5,427	(1,969)
Customer advances and deposits	<u>1,678</u>	<u>10,595</u>
Total adjustments	<u>158,405</u>	<u>247,621</u>
Net cash provided by operating activities	\$ <u><u>277,502</u></u>	<u><u>223,369</u></u>
Non-cash investing, capital and financing transactions:		
Change in fair-market value of funds deposited with LAIF	\$ <u><u>(325)</u></u>	<u><u>377</u></u>

See accompanying notes to the basic financial statements

Cabazon Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Cabazon Water District (District) was formed on May 21, 1954 and provides potable water and water services within a 7,040 acre service area between the cities of Beaumont and Palm Springs within the County of Riverside. The District is governed by a five-member Board of Directors who serve four year terms.

B. Basis of Accounting and Measurement Focus

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

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

C. Financial Reporting

The financial statements of the District are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting, including:

Governmental Accounting Standards Board Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangements. This Statement addresses how to account for and report service concession arrangements, a type of public-private or public-public partnership that state and local governments are increasingly entering into.

Governmental Accounting Standards Board Statement No. 61 – The Financial Reporting Entity, Omnibus. This Statement is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statement and Management’s Discussion and Analysis for State and local Governments*.

Governmental Accounting Standards Board Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2013 and 2012

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

C. Financial Reporting, continued

Governmental Accounting Standards Board Statement No. 62, continued

Hereinafter, these pronouncements collectively are referred to as the “FASB and AICPA pronouncements.” This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989, FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989, FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

Governmental Accounting Standards Board Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

Governmental Accounting Standards Board Statement No. 65 – Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

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 and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Substantially all of the District’s cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less 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.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2013 and 2012

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

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

5. Property Taxes and Assessments

The County of Riverside Assessor's Office assesses all real and personal property within the County each year. The County of Riverside Tax Collector's Office bills and collects the District's share of property taxes and assessments. In 1993, the County adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1 (commencing section 4701) of the Revenue and Taxation Code of the State (also known as the "Teeter Plan"). This alternative method provides for funding each taxing entity included in the Teeter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at fiscal year-end. Under this plan, the County assumes an obligation under a debenture or similar demand obligation to advance funds to cover expected delinquencies, and by such financing, Cabazon Water District receives the full amount of secured property taxes levied each year and therefore, no longer experiences delinquent taxes. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the County of Riverside, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

6. Materials and Supplies Inventory

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

7. Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

8. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$1,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Transmission and distribution mains – 15 to 40 years
- Reservoirs and tanks – 10 to 40 years
- Wells – 10 to 30 years
- Buildings and structures – 5 to 40 years
- Office furniture and equipment – 5 to 10 years
- Tools and equipment – 7 to 20 years
- Vehicles – 5 years

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2013 and 2012

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

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

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 forfeit any unused sick time.

10. Net Position

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

- *Net Investment in Capital Assets Component of Net Position*– This component of net position consists of capital assets, net of accumulated depreciation, and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt is included in this component of net position
- *Restricted Component of Net Position* – This component of net position consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.
- *Unrestricted Component of Net Position* – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted component of net position.

11. Water Sales

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

12. Capital Contributions

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

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.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2013 and 2012

(2) Cash and Investments

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

	2013	2012
Cash and cash equivalents	\$ 821,211	512,373
Restricted – cash and cash equivalents	252,222	239,596
Total	\$ 1,073,433	751,969

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

	2013	2012
Cash on hand	\$ 5,363	6,616
Deposits with bank	336,560	101,366
Investments	731,510	643,987
Total	\$ 1,073,433	751,969

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

	2013	2012
Deposits held with California Local Agency Investment Fund (LAIF)	278 days	268 days

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

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

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

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits:

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2013 and 2012

(2) Cash and Investments, continued

Custodial Credit Risk, continued

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balances, up to \$250,000 as of June 30, 2013 and 2012 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

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

Investment in State Investment Pool

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District can manage its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide for cash flow requirements and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date:

Maturities of investments at June 30, 2013 consisted of the following:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining maturity 12 months or less</u>
Local Agency Investment Fund (LAIF)	\$ 668,647	668,647
Money market funds	238	238
Held by bond trustee:		
Money market funds	<u>62,625</u>	<u>62,625</u>
	<u>\$ 731,510</u>	<u>731,510</u>

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2013 and 2012

(2) Cash and Investments, continued

Maturities of investments at June 30, 2012 consisted of the following:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining maturity 12 months or less</u>
Local Agency Investment Fund (LAIF)	\$ 416,650	416,650
Money market funds	238	238
Held by bond trustee:		
Money market funds	<u>227,099</u>	<u>227,099</u>
	<u>\$ 643,987</u>	<u>643,987</u>

Credit Risk

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

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District's investments as of June 30, 2013.

Credit ratings of investments as of June 30 2013, 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)	\$ 668,647	N/A	-	668,647
Money market funds	238	AAA	238	-
Held by bond trustee:				
Money market funds	<u>62,625</u>	AAA	<u>62,625</u>	-
	<u>\$ 731,510</u>		<u>62,863</u>	<u>668,647</u>

Credit ratings of investments as of June 30 2012, 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)	\$ 416,650	N/A	-	416,650
Money market funds	238	AAA	238	-
Held by bond trustee:				
Money market funds	<u>227,099</u>	AAA	<u>227,099</u>	-
	<u>\$ 643,987</u>		<u>227,337</u>	<u>416,650</u>

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2013 and 2012

(3) Accounts Receivable

Water Sales and Services, Net

The balance at June 30, consists of the following:

	2013	2012
Accounts receivable - water sales and services	\$ 161,193	137,789
Allowance for uncollectable accounts	(19,858)	(19,069)
	\$ 141,335	118,720

(4) Note Receivable

Note Receivable – Beaumont Concrete Company

In 1995, the District entered into an agreement with the Beaumont Concrete Company regarding contributions to a Water System Improvement Project and for the acquisition of a parcel of land. Terms of the agreement provide that the District will receive annual principal and interest payments in the amount of \$9,680 with a final payment of \$11,679, at the rate of 2.50%, maturing June 1, 2015. These funds are obtained through standby fees collected by the County of Riverside as a portion of Current Secured Taxes and Assessments. Standby fees applied to principal were \$8,935 and \$8,719 at June 30, 2013 and 2012, respectively.

The change in note receivable for 2013 is as follows:

	Balance 2012	Principal Payments	Balance 2013
Beaumont Concrete Company	\$ 29,774	(8,935)	20,839
Total long-term debt	29,774	(8,935)	20,839
Less current portion	(8,936)		(9,159)
Total non-current	\$ 20,838		11,680

The change in note receivable for 2012 is as follows:

	Balance 2011	Principal Payments	Balance 2012
Beaumont Concrete Company	\$ 38,493	(8,719)	29,774
Total long-term debt	38,493	(8,719)	29,774
Less current portion	(8,718)		(8,936)
Total non-current	\$ 29,775		20,838

Note receivable amounts at June 30, are as follows:

Fiscal Year		Principal	Interest	Total
2014	\$	9,159	521	9,680
2015		11,680	269	11,949
Total		20,839	790	21,629
Less current portion		(9,159)		
Total non-current	\$	11,680		

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2013 and 2012

(5) Capital Assets

Changes in capital assets for 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2013</u>
Non-depreciable assets:				
Land	\$ 409,548	-	-	409,548
Construction-in-process	-	345,716	(300,969)	44,747
Total non-depreciable assets	<u>409,548</u>	<u>345,716</u>	<u>(300,969)</u>	<u>454,295</u>
Depreciable assets:				
Transmission and distribution mains	7,588,055	29,800	-	7,617,855
Source of supply	859,915	280,507	-	1,140,422
Tools and equipment	118,016	-	-	118,016
Buildings and structures	135,535	-	-	135,535
Office furniture and equipment	103,388	2,379	-	105,767
Vehicles	85,071	5,385	-	90,456
Intangible plant	11,032	-	-	11,032
Total depreciable assets	<u>8,901,012</u>	<u>318,071</u>	<u>-</u>	<u>9,219,083</u>
Accumulated depreciation:				
Transmission and distribution mains	(3,111,612)	(192,087)	-	(3,303,699)
Source of supply	(244,994)	(48,038)	-	(293,032)
Tools and equipment	(106,326)	(2,378)	-	(108,704)
Buildings and structures	(92,188)	(3,592)	-	(95,780)
Office furniture and equipment	(95,636)	(6,158)	-	(101,794)
Vehicles	(58,305)	(12,757)	-	(71,062)
Intangible plant	(9,677)	(493)	-	(10,170)
Total accumulated depreciation	<u>(3,718,738)</u>	<u>(265,503)</u>	<u>-</u>	<u>(3,984,241)</u>
Total depreciable assets, net	<u>5,182,274</u>	<u>52,568</u>	<u>-</u>	<u>5,234,842</u>
Total capital assets, net	<u>\$ 5,591,822</u>			<u>5,689,137</u>

Major capital assets additions during the year include improvements to the transmission and distribution system and source of supply.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2013 and 2012

(5) Capital Assets, continued

Changes in capital assets for 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2012</u>
Non-depreciable assets:				
Land	\$ 409,548	-	-	409,548
Construction-in-process	50,288	222,821	(273,109)	-
Total non-depreciable assets	<u>459,836</u>	<u>222,821</u>	<u>(273,109)</u>	<u>409,548</u>
Depreciable assets:				
Transmission and distribution mains	7,570,715	17,340	-	7,588,055
Source of supply	559,036	300,879	-	859,915
Tools and equipment	118,016	-	-	118,016
Buildings and structures	135,535	-	-	135,535
Office furniture and equipment	103,388	-	-	103,388
Vehicles	85,071	-	-	85,071
Intangible plant	11,032	-	-	11,032
Total depreciable assets	<u>8,582,793</u>	<u>318,219</u>	<u>-</u>	<u>8,901,012</u>
Accumulated depreciation:				
Transmission and distribution mains	(2,908,929)	(202,683)	-	(3,111,612)
Source of supply	(212,379)	(32,615)	-	(244,994)
Tools and equipment	(92,443)	(13,883)	-	(106,326)
Buildings and structures	(88,773)	(3,415)	-	(92,188)
Office furniture and equipment	(87,573)	(8,063)	-	(95,636)
Vehicles	(46,401)	(11,904)	-	(58,305)
Intangible plant	(8,943)	(734)	-	(9,677)
Total accumulated depreciation	<u>(3,445,441)</u>	<u>(273,297)</u>	<u>-</u>	<u>(3,718,738)</u>
Total depreciable assets, net	<u>5,137,352</u>	<u>44,922</u>	<u>-</u>	<u>5,182,274</u>
Total capital assets, net	<u>\$ 5,597,188</u>			<u>5,591,822</u>

Major capital assets additions during the year include improvements to the transmission and distribution system and equipment.

(6) Compensated Absences

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

	<u>Balance 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2013</u>	<u>Due Within One Year</u>
\$	<u>2,332</u>	<u>7,639</u>	<u>(2,212)</u>	<u>7,759</u>	<u>7,759</u>
	<u>Balance 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2012</u>	<u>Due Within One Year</u>
\$	<u>4,301</u>	<u>7,529</u>	<u>(9,498)</u>	<u>2,332</u>	<u>2,332</u>

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2013 and 2012

(7) Long-Term Debt

Changes in long-term debt in 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2013</u>
1993 Calif. Dept. of Water Resources Loan - E58416	\$ 565,736	-	(33,195)	532,541
1993 Calif. Dept. of Water Resources Loan - E62039	401,980	-	(401,980)	-
Zions First National Bank	-	787,309	(5,898)	781,411
Riverside County Economic Development Agency	<u>300,000</u>	<u>-</u>	<u>-</u>	<u>300,000</u>
Total long-term debt	1,267,716	<u>787,309</u>	<u>(441,073)</u>	1,613,952
Less current portion	<u>(144,453)</u>			<u>(103,827)</u>
Total non-current	<u>\$ 1,123,263</u>			<u>1,510,125</u>

Changes in long-term debt in 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2012</u>
1993 Calif. Dept. of Water Resources Loan - E58416	\$ 597,903	-	(32,167)	565,736
1993 Calif. Dept. of Water Resources Loan - E62039	510,528	-	(108,548)	401,980
Riverside County Economic Development Agency	<u>300,000</u>	<u>-</u>	<u>-</u>	<u>300,000</u>
Total long-term debt	1,408,431	<u>-</u>	<u>(140,715)</u>	1,267,716
Less current portion	<u>(140,765)</u>			<u>(144,453)</u>
Total non-current	<u>\$ 1,267,666</u>			<u>1,123,263</u>

Loans Payable

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 \$24,808 are payable semi-annually on October 1st and April 1st each year at a rate of 2.955%, with the obligation maturing in 2026. 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>
2014	\$ 34,136	15,480	49,616
2015	35,152	14,464	49,616
2016	36,199	13,417	49,616
2017	37,277	12,339	49,616
2018	38,386	11,230	49,616
2019-2023	209,764	38,316	248,080
2024-2026	<u>141,627</u>	<u>7,403</u>	<u>149,030</u>
Total	532,541	<u>112,649</u>	<u>645,190</u>
Less current portion	<u>(34,136)</u>		
Total non-current	<u>\$ 498,405</u>		

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2013 and 2012

(7) Long-Term Debt, continued

Loans Payable

1993 California Dept. of Water Resources Loan – E62039

In 1993 the Cabazon Water District contracted with the California Dept. of Water Resources for a \$1,890,000 20-year loan under the 1988 California Water Conservation Bond Law to assist in financing the construction and upgrade of District transmission mains. Terms of the loan call for monthly debt service deposits by the District with a trustee. Principal and interest payments of \$60,331 are payable semi-annually on October 1st and April 1st each year at a rate of 2.50%, maturing in 2015. In 2013, the District retired the remaining loan balance from proceeds obtained from a financing agreement with Zions First National Bank.

Zions First National Bank

In 2013, the Cabazon Water District entered into a loan agreement with Zions First National Bank in the amount of \$787,309 to refinance the 1993 California Dept. of Water Resources Loan – E62039, and provide funding for the construction and upgrade of District transmission mains. Terms of the loan call for semi-annual debt service payments of principal and interest payable on April 1st and October 1st of each year at a rate of 2.49%, maturing in 2023. Annual debt service requirements on the loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 69,691	19,012	88,703
2015	71,438	17,265	88,703
2016	73,228	15,475	88,703
2017	75,062	13,641	88,703
2018	76,942	11,761	88,703
2019-2023	<u>415,050</u>	<u>28,902</u>	<u>443,952</u>
Total	781,411	<u>106,056</u>	<u>887,467</u>
Less current portion	<u>(69,691)</u>		
Total non-current	\$ <u>711,720</u>		

Riverside County Economic Development Agency

In 1997, the Cabazon Water District contracted with the Riverside County Economic Development Agency for a \$300,000 loan to construct water improvements, in conjunction with MKA Cabazon Partnership Construction Agreement. The agreement calls for a zero interest loan with funds to be repaid with connection fees as development occurs. The unpaid balance has been classified as long-term as no connections are anticipated in 2013.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2013 and 2012

(8) Net Position

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

	2013	2012
Net investment in capital assets:		
Capital assets, net	\$ 5,689,137	5,591,822
Loans payable – current portion	(103,839)	(144,453)
Loans payable – non-current portion	(1,510,113)	(1,123,263)
Total net investment in capital assets	4,075,185	4,324,106
Restricted for debt service	252,222	239,596
Unrestricted:		
Non-spendable unrestricted net position:		
Materials and supplies inventory	70,888	73,884
Prepaid and other assets	9,544	6,032
Total non-spendable unrestricted net position	80,432	79,916
Spendable unrestricted net position is designated as follows:		
Operating reserve	900,621	546,395
Total spendable unrestricted net position	900,621	546,395
Total unrestricted net position	981,053	626,311
Total net position	\$ 5,308,460	5,190,013

(9) Defined Benefit Pension Plan

Plan Description

The District provides pension benefits to all covered employees under the Collective Bargaining Agreement to the Service Employees International Union National Industry Pension Fund. The District's contribution is based on 15% of gross wages. The District's contributions to the Plan were \$21,594 and \$20,161 at June 30, 2013 and 2012, respectively.

(10) Deferred Compensation Savings Plan

401(a) 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, 2013 and 2012, the Plan included two participants, respectively. The market value of all assets held in trust by the District's 401(a) Plan at June 30, 2013 and 2012, amounted to \$71,521 and \$47,744, respectively.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2013 and 2012

(11) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is insured for a variety of potential exposures. The following is a summary of the insurance policies carried by the District as of June 30, 2013:

- Property: \$1,000,000 with liability limits varying by property type with no deductible.
- Bodily injury and property damage: \$1,000,000 per occurrence and \$3,000,000 in the aggregate.
- Personal and advertising injury: \$1,000,000 per person or organization and \$3,000,000 in the aggregate.
- Professional liability: \$1,000,000 per claim and \$3,000,000 in the aggregate.
- Wrongful acts: \$1,000,000 per claim and \$3,000,000 in the aggregate with a \$1,000 deductible.
- Employment practices liability: \$1,000,000 per claim and \$3,000,000 in the aggregate.
- Employee benefits liability: \$1,000,000 per person and \$3,000,000 in the aggregate.
- Fire damage limit: \$1,000,000 on any one premises.
- Automobile: \$5,000 to \$1,000,000 per occurrence varying by vehicle and ownership status with a \$1,000,000 combined single limit.
- Crime coverage: \$100,000 to \$250,000 limits per occurrence varying by type of infraction.
- Excess liability: \$4,000,000 employer's liability excluded.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2013, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 66

In March 2012, the GASB issued Statement No. 66 – *Technical Corrections–2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 68

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2013 and 2012

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

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 69

In January 2013, the GASB issued Statement No. 69 – *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 70

In April 2013, the GASB issued Statement No. 70 – *Accounting and Financial Reporting for Non-exchange Guarantees*. Provisions of this Statement require that governments that extend non-exchange financial guarantees to recognize a liability when qualitative factors and historic data, if any, indicate that it is more likely than not that the government will be required to make a payments on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

Governmental Accounting Standards Board Statement No. 71

In November 2013, the GASB issued Statement No. 71 – *Pension Transition for Contributions made Subsequent to the Measurement Date* – an amendment of GASB No. 68. The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and non-employer contributing entities. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

Cabazon Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2013 and 2012

(13) Commitments and Contingencies

Grant Awards

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

Litigation

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

(14) Subsequent Events

Events occurring after June 30, 2013 have been evaluated for possible adjustment to the financial statements or disclosure as of November 17, 2014, which is the date the financial statements were available to be issued.

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Report on Internal Controls and Compliance



Charles Z. Fedak, CPA, MBA
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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 Cabazon Water District (District), as of and for the years June 30, 2013 and 2012, 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 17, 2014.

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 audit 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 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.

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs - An Accountancy Corporation
Cypress, California
November 17, 2014