



DESERT WATER AGENCY

*FINANCIAL REPORT
June 30, 2025 and June 30, 2024*



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Independent Auditor's Report

**To the Board of Directors
Desert Water Agency**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Desert Water Agency (the Agency), which comprise the statements of net position as of June 30, 2025 and 2024, the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2025 and 2024, and the changes in its net position and its cash flows 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), 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. 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 Agency 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.

Management's Responsibilities 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 Agency's ability to continue as a going concern for twelve months beyond the financial statement 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 *Government Auditing Standards* 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 *Government Auditing Standards*, 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 Agency'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 Agency'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

We draw attention to Notes 2 and 15 which describe that the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*, during the fiscal year ended June 30, 2025. The financial statements for the year ended June 30, 2024 have been restated to reflect the impact of the new standard. 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 management's discussion and analysis on pages 5 through 12, and the required supplementary information on pages 52 through 54 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 GAAS, 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 Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The schedules of revenues and expenses by fund as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the organizational information 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 audits 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 December 23, 2025, on our consideration of the Agency'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 the Agency's 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 Agency's internal control over financial reporting and compliance.

**Glendale, California
December 23, 2025**

**MANAGEMENT 'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

Management's discussion and analysis of Desert Water Agency's (the Agency) financial performance provides an overview of the Agency's financial activities for the years ended June 30, 2025 and 2024. Please read it in conjunction with the Agency's basic financial statements which begin on page 13.

FINANCIAL HIGHLIGHTS

- In fiscal year 2025, the Agency's net position increased \$56.0 million or 11.3 percent as a result of the year's operations. In fiscal year 2024, the Agency's net position increased \$48.7 million or 11.0 percent, after restatement, as a result of the year's operations.
- In fiscal year 2025, the Agency's total assets increased \$48.7 million mainly due to a \$45.2 million increase in cash and investments and a \$5.0 million increase in capital assets. In fiscal year 2024, the Agency's total assets increased \$52.7 million mainly due to a \$43.6 million increase in cash and investments and a \$5.8 million increase in capital assets.
- Deferred outflows and inflows of resources were recorded for Pension, Other post-employment benefits (OPEB) and leases. In fiscal year 2025, deferred outflows and inflows decreased by \$1.3 million and \$4.1 million, respectively. In fiscal year 2024, deferred outflows and inflows decreased by \$1.5 million each. The decrease in deferred outflows and inflows is mainly due to the changes in market conditions.
- In fiscal year 2025, current year operating revenues increased \$5.2 million or 10.3 percent while operating expenses decreased \$1.5 million or 2.5 percent, which produced a decrease in net operating loss of \$6.7 million. In fiscal year 2024, current year operating revenues increased \$5.0 million or 11.0 percent while operating expenses increased \$9.4 million or 18.3 percent, after restatement, which produced an increase in net operating loss of \$4.4 million.
- In fiscal year 2025, total operating expenses decreased \$1.5 million or 2.5 percent. The decrease in operating expenses is mainly due to a \$3.8 million decrease in administration and general expenses, which is offset by a \$1.2 million increase in source of supply expenses and a \$1.0 million increase in pumping expenses. In fiscal year 2024, total operating expenses increased \$9.1 million or 17.7 percent. The increase in operating expenses is mainly due to a \$3.7 million increase in source of supply expense, a \$0.4 million increase in pumping, a \$3.3 million increase in administration and general expense, a \$0.5 million increase in other operating expense, and a \$0.7 million increase in depreciation expense.
- In fiscal year 2025, capital contributions increased \$.1 million mainly due to an increase in new and/or existing developer projects completed in the Agency's service area. In fiscal year 2024, capital contributions increased \$0.3 million mainly due to an increase in new and/or existing developer projects completed in the Agency's service area.
- Total operating and non-operating revenues for 2025 and 2024 were a combined \$115.3 million and \$109.5 million, respectively. Total expenses in 2025 and 2024 were \$60.1 million and \$61.5 million, respectively.

- In fiscal year 2025, non-operating revenues (expenses), net increased \$.5 million due to a \$1.5 million increase in unrealized gain on investments due to market conditions, a \$3.0 million increase in investment income, which was offset by a \$4.2 million decrease in property tax revenue. In fiscal year 2024, non-operating revenues (expenses), net increased \$11.4 million due to a \$10.1 million increase in unrealized gain of investments due to market conditions.
- In fiscal year 2025, other current assets increased by \$0.8 million due to an increase in investment revenue receivables. In fiscal year 2024, other current assets increased by \$0.9 million due to an increase in investment revenue receivables.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statements of net position and statements of revenues, expenses, and changes in net position (on pages 13 through 15) provide information about the activities of the Agency as a whole and present a longer-term view of the Agency's finances.

REPORTING THE AGENCY AS A WHOLE

Our analysis of the Agency as a whole begins on page 5. One of the most important questions asked about the Agency's finances is, "Is the Agency as a whole better off or worse off as a result of the year's activities?" The statement of net position and the statement of revenues, expenses, and changes in net position report information about the Agency as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Agency's net position and changes in them. You can think of the Agency's net position - the difference between assets and liabilities - as one way to measure the Agency's financial health or financial position. Over time, increases or decreases in the Agency's net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, such as changes in the Agency's property tax base and the condition of the Agency's water facilities, to assess the overall health of the Agency.

The Agency reports in the statement of net position and the statement of revenues, expenses, and changes in net position, one type of activity for the water service it provides. All Agency activities are reported in these statements.

**Desert Water Agency
Management's Discussion and Analysis (Unaudited)
Years ended June 30, 2025 and 2024**

THE AGENCY AS A WHOLE

In fiscal year 2025, the Agency's net position increased to \$551.2 million from \$495.2 million. In fiscal year 2024, the Agency's net position increased to \$495.2 million from \$446.5 million. Our analysis below focuses on the net position (Table 1) and the changes in net position (Table 2) of the Agency's activities.

**Table 1
Condensed Statement of Net Position
(in Millions)**

	2024		Change		2023		Change	
	2025	(Restated)	\$	%		\$	%	
Capital assets, net	\$ 225.7	\$ 220.7	\$ 5.0	2.3%	\$ 214.9	\$ 5.8	2.7%	
Current and other assets	382.7	339.0	43.7	12.9%	292.1	46.9	16.1%	
Total assets	608.4	559.7	48.7	8.7%	507.0	52.7	10.4%	
Deferred outflows of resources	8.8	10.1	(1.3)	(12.9%)	11.6	(1.5)	(12.9%)	
Total assets and deferred outflows of resources	\$ 617.2	\$ 569.8	\$ 47.4	8.3%	\$ 518.6	\$ 51.2	9.9%	
Long-term liabilities	47.7	50.3	(2.6)	(5.2%)	51.8	(1.5)	(2.9%)	
Current liabilities	11.2	13.1	(1.9)	-14.5%	7.6	5.5	72.4%	
Total liabilities	58.9	63.4	(4.5)	-7.1%	59.4	4.0	6.7%	
Deferred inflows of resources	7.1	11.2	(4.1)	(36.6%)	12.7	(1.5)	(11.8%)	
Net position								
Net investment in capital assets	225.3	220.1	5.2	2.4%	214.7	5.4	2.5%	
Restricted	189.0	193.6	(4.6)	-2.4%	128.6	65.0	50.5%	
Unrestricted	136.9	81.5	55.4	68.0%	103.2	(21.7)	(21.0%)	
Total net position	551.2	495.2	56.0	11.3%	446.5	48.7	10.9%	
Total liabilities, deferred inflows of resources, and net position	\$ 617.2	\$ 569.8	\$ 47.4	8.3%	\$ 518.6	\$ 51.2	9.9%	

The 2024 financial statements were restated due to implementation of GASB 101, *Compensated Absences*.

June 30, 2025 vs. June 30, 2024

In fiscal year 2025, the net position increased by \$56.0 million. The unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - increased by \$55.4 million.

June 30, 2024 vs. June 30, 2023

In fiscal year 2024, the net position increased by \$48.7 million, after restatement. The unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - decreased by \$21.7 million.

**Desert Water Agency
Management's Discussion and Analysis (Unaudited)
Years ended June 30, 2025 and 2024**

**Table 2
Condensed Statement of Revenues, Expenses and Changes in Net Position
(in Millions)**

	2024		Change		2023		Change	
	2025	(Restated)	\$	%		\$	%	
Operating revenues	\$ 55.7	\$ 50.5	\$ 5.2	10.3%	\$ 45.5	\$ 5.0	11.0%	
Operating expenses	59.3	60.8	(1.5)	(2.5%)	51.4	9.4	18.3%	
Operating income (loss)	(3.6)	(10.3)	6.7	(65.0%)	(5.9)	(4.4)	74.6%	
Nonoperating revenues	59.6	59.0	0.6	1.0%	47.5	11.5	24.2%	
Nonoperating expenses	(0.8)	(0.7)	0.1	14.3%	(0.6)	(0.1)	16.7%	
Capital contributions	0.8	0.7	0.1	14.3%	0.4	0.3	75.0%	
Change in net position	56.0	48.7	7.3	15.0%	41.4	7.3	17.6%	
Net position, beginning of year	495.2	446.5	48.7	10.9%	405.1	41.4	10.2%	
Net position, end of year	\$ 551.2	\$ 495.2	\$ 56.0	11.3%	\$ 446.5	\$ 48.7	10.9%	

Fiscal Year 2025 vs. Fiscal Year 2024

In fiscal year 2025, the Agency's operating revenues increased 10.3 percent and operating expenses decreased 2.5 percent. The factors driving these results include:

- Water sales revenue increased \$6.4 million or 14.5 percent primarily due to a domestic rate increase that went into effect on January 1, 2025 and replenishment assessment rate that went into effect on July 1, 2024 along with increased consumption.
- Governmental grant revenue decreased \$2.1 million due to the expiration of previous grants.
- The source of supply expenses increased \$1.2 million primarily due to a \$2.3 million increase in variable costs for the State Water Project, which is offset by a \$1.2 million decrease in water banking costs associated with the Agency's exchange agreement with Metropolitan Water District of Southern California.
- General and administrative expenses decreased \$3.8 million, mainly due to a \$2.5 million decrease in health insurance costs related to OPEB benefits and a \$1.4 million decrease in grass removal rebate costs due to a planned reduction in this rebate program.
- Nonoperating revenues increased 1.0 percent primarily due to an increase in unrealized gain on investments and investment income revenue, which is offset by a decrease in property tax revenues.
- Nonoperating expenses increased 14.3 percent primarily due to losses on retirement of capital assets.
- Capital contributions increased \$0.1 million because of an increase in new and/or existing developer projects completed in the Agency's service area.
- The Agency had 23,737 active water connections at June 30, 2025. This represents a net increase of 145 active meters during the year.

Fiscal Year 2024 vs. Fiscal Year 2023

In fiscal year 2024, the Agency's operating revenues increased 11.0 percent and operating expenses increased 17.7 percent. The factors driving these results include:

- Water sales revenue increased \$2.4 million or 5.7 percent primarily due to a domestic rate increase that went into effect on January 1, 2024 and replenishment assessment rate that went into effect on July 1, 2023.
- Governmental grant revenue increased \$2.4 million due to participation in the Urban Community drought relief grant.
- The source of supply expenses increased \$3.7 million primarily due to \$1.2 million in water banking costs associated with the Agency's exchange agreement with Metropolitan Water District of Southern California, increased Replenishment Assessments, an increase in variable costs for the State Water Project, and increased basin management costs.
- General and administrative expenses increased \$3.3 million, mainly due to increased health insurance costs.
- Nonoperating revenues increased 24.2 percent primarily due to an increase in unrealized gain on investments and investment income revenue.
- Nonoperating expenses increased 16.7 percent primarily due to losses on retirement of capital assets.
- Capital contributions increased \$0.3 million because of an increase in new and/or existing developer projects completed in the Agency's service area.
- The Agency had 23,588 active water connections at June 30, 2024. This represents a net increase of 106 active meters during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2025 and 2024, the Agency had \$515.0 million and \$501.2 million, respectively, (or \$225.7 million and \$220.7 million, net of accumulated depreciation) invested in a broad range of capital assets and construction in progress, including land, water transportation facilities, water storage facilities, water treatment facilities, reclamation facilities, water rights, water buildings, equipment, and subscription IT assets (see Table 3 below). This amount represents a net increase (including additions and deductions) of \$5.0 million or 2.27 percent in 2025 and \$5.8 million or 2.7 percent in 2024.

Table 3
Capital Assets
(in Millions)

	June 30,		
	2025	2024	2023
State Water Project	\$ 147.5	\$ 142.5	\$ 137.8
Mains	118.0	111.3	111.1
Wells, intakes, pumps	25.8	25.8	25.7
Water reclamation	29.6	29.6	29.6
Water transportation facilities	25.6	25.6	25.6
Wastewater transportation facilities	23.4	23.3	23.3
Hydro- electric plants	5.2	5.1	5.1
Water treatment	3.2	3.2	3.1
Services	25.4	24.7	24.1
Meters	9.3	8.9	8.7
Fire service and hydrants	18.9	18.1	17.8
Reservoirs	17.9	17.8	17.6
Structures and improvements	22.2	21.9	21.9
Building	4.2	4.2	4.2
Equipment	14.9	13.2	12.9
Subscription IT assets	1.7	1.4	-
Land	12.1	12.1	12.1
Construction in progress	10.1	12.5	6.0
Accumulated depreciation and amortization	(289.3)	(280.5)	(271.7)
Total capital assets, net	<u>\$ 225.7</u>	<u>\$ 220.7</u>	<u>\$ 214.9</u>

Fiscal year 2025 major capital assets additions included:

- \$5.0 million increase in State Water Project
- \$6.7 million increase in mains
- \$0.7 million increase in services
- \$0.8 million increase in fire services and hydrants
- \$1.7 million increase in equipment

Fiscal year 2024 major capital assets additions included:

- \$4.7 million increase in State Water Project
- \$0.6 million increase in services
- \$6.5 million increase in construction in progress
- \$1.4 million increase in subscription IT assets

Additional information regarding capital assets is provided in Note 5 of the Notes to the Financial Statements.

DEBT

Long-term debt consists of Water Revenue Advanced Refunding Bonds ("WRARB") debt issues at June 30, 2025 and 2024.

Water Revenue Refunding Bonds, Series 2016

**Table 4
Water Revenue Advanced Refunding Bonds**

	2025	2024
Total Water Revenue Advanced Refunding Bonds issued June 29, 2016	\$ 19,720,000	\$ 19,720,000
Principal debt repayment in prior years	(5,825,000)	(5,025,000)
Principal debt repayment in current year	(830,000)	(800,000)
Water Revenue Advanced Refunding Bonds outstanding as of June 30, 2025	\$ 13,065,000	\$ 13,895,000

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Agency anticipates continued financial stability despite regulatory and environmental challenges. The State of California's Making Conservation a California Way of Life regulations will require sustained reductions in water consumption, which may impact operating revenues. To mitigate these impacts, the Agency has adopted a Revenue Stabilization Rate and a Drought Rate that can be implemented if consumption declines significantly.

For fiscal year 2026, the Agency's taxable assessed valuation is projected to increase by approximately 7.6%, continuing a trend of moderate growth in property tax revenues. The Agency's Board has approved a 9.3% increase in domestic water rates effective January 1, 2026, and a 6.2% increase in replenishment assessment rates effective July 1, 2025. These adjustments are expected to offset anticipated reductions in volumetric water sales due to conservation mandates.

The Agency will continue its aggressive capital improvement program, with \$39 million budgeted for pipeline replacements, reservoir rehabilitation, and technology upgrades over the next five years. These projects are designed to maintain system reliability and comply with evolving regulatory requirements.

Management believes that the Agency's strong reserve position, conservative debt profile, and proactive rate-setting policies provide a solid foundation to address future challenges, including drought conditions, inflationary pressures on operating costs, and potential changes in State Water Project charges.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director's Office at: Desert Water Agency, 1200 Gene Autry Trail South, Palm Springs, California.

BASIC FINANCIAL STATEMENTS

Desert Water Agency
Statements of Net Position
June 30, 2025 and 2024

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2025	2024 (as restated)
Current assets		
Cash and cash equivalents	\$ 31,668,108	\$ 23,922,098
Investments	115,923,021	105,054,144
Accounts receivable		
Utility	2,877,957	2,626,130
Property taxes	935,721	3,186,300
Other governmental agencies	1,113	239,475
Other	289,160	42,568
Inventories	2,425,300	2,624,745
Lease receivable, current portion	248,548	163,585
Other current assets	4,092,237	3,280,392
Total current assets	158,461,165	141,139,437
Noncurrent assets		
Restricted cash and cash equivalents	34,184,080	17,949,708
Restricted investments	188,450,132	178,146,110
Lease receivable, net of current portion	1,666,699	1,805,638
Depreciable capital assets, net	203,526,697	196,094,527
Nondepreciable capital assets	22,133,684	24,574,919
Total noncurrent assets	449,961,292	418,570,902
Total assets	608,422,457	559,710,339
Deferred outflows of resources		
Pension related	7,307,176	8,238,694
Other post employment benefits (OPEB) related	704,254	1,011,076
Deferred loss on refunding	796,912	869,359
Total deferred outflows of resources	8,808,342	10,119,129
Total assets and deferred outflows of resources	\$ 617,230,799	\$ 569,829,468

(Continued)

See notes to financial statements.

Desert Water Agency
Statements of Net Position (Continued)
June 30, 2025 and 2024

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	2025	2024 (as restated)
Current liabilities		
Accounts payable	\$ 5,625,411	\$ 8,650,148
Payable to other governmental agencies	11,550	36,879
Current portion of long-term debt	865,000	830,000
Customer deposits	3,203,524	2,456,552
Other employee benefits payable, current portion	646,436	548,597
Subscription liability, current portion	180,889	177,010
Lease liability, current portion	11,060	10,551
Other current liabilities	641,204	344,502
Total current liabilities	11,185,074	13,054,239
Long-term liabilities		
OPEB liability	17,807,711	18,128,566
Net pension liability	14,777,420	16,226,434
Other employee benefits payable, net of current portion	1,607,253	1,338,473
Subscription liability, net of current portion	184,854	365,743
Lease liability, net of current portion	4,122	14,867
Long-term debt, net of current portion	13,313,438	14,279,659
Total long-term liabilities	47,694,798	50,353,742
Total liabilities	58,879,872	63,407,981
Deferred inflows of resources		
Pension related	869,752	1,180,206
OPEB related	4,515,625	8,111,901
Lease related	1,740,212	1,906,365
Total deferred inflows of resources	7,125,589	11,198,472
Net position		
Net investment in capital assets	225,279,456	220,101,275
Restricted	189,017,134	193,639,969
Unrestricted	136,928,748	81,481,771
Total net position	551,225,338	495,223,015
Total liabilities, deferred inflows of resources, and net position	\$ 617,230,799	\$ 569,829,468

See notes to financial statements.

Desert Water Agency
Statements of Revenues, Expenses and Changes in Net Position
Years ended June 30, 2025 and 2024

	2025	2024 (as restated)
Operating revenues		
Water sales	\$ 50,698,115	\$ 44,296,471
Water services	2,826,136	1,944,694
Government grants	548,992	2,601,991
Hydroplant revenues	328,483	313,628
Fines and fees	244,860	373,500
Reclamation sales/services	1,095,171	931,700
Total operating revenues	55,741,757	50,461,984
Operating expenses		
Source of supply	19,317,496	18,085,468
Pumping	6,392,403	5,393,212
Water treatment	1,211,899	1,218,529
Transmission and distribution	3,561,931	3,613,032
Customer accounts	1,443,336	1,177,045
Water reclamation	1,080,831	1,098,963
Regulatory	539,179	597,651
Administration and general	15,218,647	19,038,105
Other operating expenses	1,308,072	1,526,221
Depreciation and amortization	9,308,415	8,969,450
Total operating expenses	59,382,209	60,717,676
Operating loss	(3,640,452)	(10,255,692)
Non-operating revenues (expenses), net		
Property taxes	39,280,797	43,515,671
Unrealized gain on investments	9,068,418	7,557,231
Net investment return	9,764,320	6,774,304
Interest expense	(515,630)	(544,198)
Loss on debt refunding	(72,447)	(72,447)
Net losses on retirement of capital assets	(207,938)	(51,389)
Other	1,513,970	1,126,182
Total nonoperating revenues (expenses), net	58,831,490	58,305,354
Increase in net position, before capital contributions	55,191,038	48,049,662
Capital contributions		
Contributions of property	664,247	547,177
Capacity charges	147,038	122,808
Total capital contributions	811,285	669,985
Net change in net position	56,002,323	48,719,647
Net position		
Beginning of year	495,223,015	446,503,368
End of year	\$ 551,225,338	\$ 495,223,015

See notes to financial statements.

Desert Water Agency
Statements of Cash Flows
Years ended June 30, 2025 and 2024

	2025	2024
Cash flows from operating activities		
Cash received from customers	\$ 55,416,827	\$ 49,458,822
Cash paid to suppliers and employees	<u>(56,688,286)</u>	<u>(47,883,435)</u>
Net cash provided by (used in) operating activities	<u>(1,271,459)</u>	<u>1,575,387</u>
Cash flows from noncapital financing activities		
Property taxes	<u>41,531,376</u>	<u>41,606,790</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	(14,857,181)	(14,251,593)
Proceeds from sale of capital assets	349,893	18,734
Principal paid on subscription liability	(185,523)	-
Principal and interests paid on lease liability	(10,236)	(10,065)
Principal paid on long-term debt	(830,000)	(800,000)
Interest paid on long-term debt	(518,184)	(549,983)
Capacity charges collected	147,038	122,808
Other revenue collected	1,874,669	1,372,492
Collections from leases	<u>90,150</u>	<u>170,150</u>
Net cash used in capital and related financing activities	<u>(13,939,374)</u>	<u>(13,927,457)</u>
Cash flows from investing activities		
Purchases of investments	(161,650,076)	(63,225,789)
Proceeds from maturing investments and return of principal	149,545,595	27,950,756
Interest received on investments	<u>9,764,320</u>	<u>6,774,304</u>
Net cash used in investing activities	<u>(2,340,161)</u>	<u>(28,500,729)</u>
Net increase in cash and cash equivalents	23,980,382	753,991
Cash and cash equivalents, beginning of year	<u>41,871,806</u>	<u>41,117,815</u>
Cash and cash equivalents, end of year	<u>\$ 65,852,188</u>	<u>\$ 41,871,806</u>
Reconciliation of cash and cash equivalents to statements of net position		
Unrestricted cash and cash equivalents	\$ 31,668,108	\$ 23,922,098
Restricted cash and cash equivalents	<u>34,184,080</u>	<u>17,949,708</u>
Total cash and cash equivalents	<u>\$ 65,852,188</u>	<u>\$ 41,871,806</u>

(Continued)

See notes to financial statements.

Desert Water Agency
Statement of Cash Flows (Continued)
Years ended June 30, 2025 and 2024

	2025	2024
Reconciliation of operating revenue (loss) to net cash provided by operating activities		
Operating loss	(3,640,452)	(10,255,692)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation and amortization	9,308,415	8,969,450
Changes in operating assets and liabilities		
Accounts receivable:		
Utility	(251,827)	(494,139)
Other governmental agencies	238,362	51,066
Other	(246,592)	113,712
Inventories	199,445	(448,929)
Other current assets	(811,845)	(880,329)
Deferred outflows of resources - pension related	931,518	369,420
Deferred outflows of resources - OPEB related	306,822	1,038,496
Accounts payable	(3,013,670)	4,487,669
Payable to other governmental agencies	(25,329)	(48,647)
Customer deposits	746,972	206,528
Other current liabilities	943,138	40,107
OPEB liability	(320,855)	(883,258)
Net pension liability	(1,449,014)	300,685
Other employee benefits payable	(279,817)	292,174
Deferred inflows of resources - pension related	(310,454)	(413,602)
Deferred inflows of resources - OPEB related	(3,596,276)	(869,324)
Net cash provided by (used in) operating activities	\$ (1,271,459)	\$ 1,575,387
Noncash capital, financing, and investing activities		
Contributed capital assets	\$ 664,247	\$ 547,177
Unrealized gain on investments	\$ 9,068,418	\$ 7,557,231

See notes to financial statements.

NOTE 1 REPORTING ENTITY

The reporting entity includes all the funds of the Desert Water Agency (the Agency). The Agency is a special district created for the purpose of importing water and delivery of water to consumers within its service area. The Agency was founded as a groundwater management agency in the western Coachella Valley and started providing water service to customers in Palm Springs and Cathedral City. The Agency is governed by a five-member Board of Directors.

The Agency and the Desert Water Agency Financing Corporation (the Corporation) have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14 (GASB 14), *The Financial Reporting Entity*, as amended by GASB Statement No. 39 (GASB 39), *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, for inclusion of the Corporation as a blended component unit of the Agency. Accordingly, the financial activities of the Corporation have been included in the financial statements of the Agency.

The following are those aspects of the relationship between the Agency and the Corporation which satisfy GASB Statement No. 39 criteria:

- A. The Corporation's board of directors was appointed by the Agency's board of directors.
- B. The Agency is able to impose its will upon the Corporation, based on the following:
 - The Corporation has no employees. The Agency's general manager functions as an agent of the Corporation. The general manager does not receive additional compensation for work performed in this capacity.
 - The Agency exercises significant influence over the operations of the Corporation as it is anticipated that the Agency will be the sole lessee of all facilities owned by the Corporation. Likewise, it is anticipated that the Agency's lease payments will be the sole revenue source of the Corporation, with the exception of interest earned in the Corporation's trust accounts.
 - All major financing arrangements, contracts, and other transactions of the Corporation must have the consent of the Agency.
- C. The Corporation provides specific financial benefits or imposes specific financial burdens on the Agency based upon the following:
 - Any deficits incurred by the Corporation will be reflected in the lease payments of the Agency and any surpluses of the Corporation revert to the Agency at the end of the lease period.
 - The Agency has assumed a "moral obligation," and potentially a legal obligation, for any debt incurred by the Corporation.

NOTE 1 REPORTING ENTITY (CONTINUED)

The Corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State on August 31, 2007. The Corporation was formed for the sole purpose of providing financing assistance to the Agency. Under an installment purchase agreement, the Corporation obtained title to certain Agency water project improvements. At the end of the installment purchase arrangement in 2037, the title of all Corporation property will pass to the Agency for no additional consideration.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Measurement Focus

The Agency 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 Agency is that the costs of providing goods or services to the general public on a continuing basis (including depreciation) be financed or recovered primarily through user charges. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. An enterprise fund is accounted for on the flow of economic resources measurement focus. This means that all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the activity (whether current or noncurrent) are included on the statement of net position.

The Agency distinguishes operating revenues and expenses from those revenues and expenses that are non-operating. Operating revenues are those revenues that are generated by water sales and wastewater services, while operating expenses pertain directly to the furnishing of those services. Non-operating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of supplying water and wastewater treatment services.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, and then unrestricted resources as they are needed.

Basic Financial Statements

The basic financial statements are comprised of the statement of net position, the statement of revenues, expenses, and changes in net position, the statement of cash flows, and the related notes to the financial statements.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Agency considers all short-term debt securities purchased with an original maturity of three months or less to be cash equivalents. The Agency invests funds with the State of California's Local Agency Investment Fund (LAIF). Due to the high liquidity of this investment, the funds are classified as cash equivalents. For credit risk purposes, the fund is not rated.

Restricted Cash and Cash Equivalents and Restricted Investments

Restricted cash and cash equivalents represent money paid to the Agency as a deposit for water infrastructure to be installed by the Agency on behalf of customers, as well as property tax funds and replenishment assessment charges collected, which are restricted for the State Water Project.

Investments

Investments are reported in the accompanying statement of net position at fair value based on the reported sales price published on the national exchange at year-end. 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.

Accounts Receivable

Accounts receivable are reported at their net realizable value, less an allowance for uncollectible accounts, if deemed necessary. The Agency uses the allowance method for the write-off of bad debts. The Agency considers such factors as historical trends for collections and knowledge of the financial stability of debtors to establish the allowance for doubtful accounts. Receivables are written off when management determines that the amount will not be collectible. As of June 30, 2025 and 2024, no allowance for uncollectible accounts receivable was considered necessary as all accounts receivable were deemed fully collectable.

Inventories

Inventories consist primarily of water meters, pipes, and pipe fittings for the construction and repair of the Agency's water transmission and distribution system. Inventories are valued at cost using the average cost method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed. As of June 30, 2025 and 2024, no reserve for inventories was deemed necessary based on management's evaluation of the Agency's inventories.

Lease Receivable

At the commencement of the lease, the Agency initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflows of resources is recognized as revenue over the life of the lease term.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes

The County of Riverside (the County) 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 Agency's share of property taxes and assessments. The County of Riverside Treasurer's Office remits current and delinquent property tax collections to the Agency throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at 1.0 percent of countywide assessed valuations.

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

Lien date:	January 1
Levy date:	On July 1 for July 1 to June 30
Due date:	November 1 - 1st installment February 1 - 2nd installment
Collection date:	December 10 - 1st installment April 10 - 2nd installment

Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. Agency policy has set the capitalization threshold for reporting capital assets at \$10,000. Donated assets are recorded at estimated acquisition 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 system	22 to 50 years
Service lines	26 to 38 years
Wells and water treatment equipment	21 to 45 years
Other equipment and vehicles	5 to 17 years

Capitalized State Water Project costs are amortized over forty-five years.

Right-of-Use Lease Assets

The Agency has recorded right-of-use lease assets as a result of implementing GASB Statement No. 87, *Leases*. The right-of-use lease assets are initially measured at an amount equal to the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right-of-use lease assets are amortized on a straight-line basis over the term of the related leases or the useful life of the underlying assets, whichever is shorter.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subscription IT Assets

The Agency has recorded subscription IT assets as a result of implementing GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*. The subscription IT assets are initially measured at an amount equal to the related subscription liability plus payments associated with the SBITA contract made to the SBITA vendor at the commencement of the subscription term, if applicable, and capitalizable initial implementation costs, less any SBITA vendor incentives received from SBITA vendor at the commencement of the subscription term.

The subscription IT asset is amortized over the shorter of the subscription term or the useful life of the underlying IT assets. The amortization of the subscription IT asset is reported as an outflow of resources (for example, amortization expense), which is combined with depreciation and amortization expense related to other capital assets for financial reporting purposes. Amortization began at the commencement of the subscription term.

Employee Benefits Payable

Employees of the Agency are entitled to paid vacation and paid attendance benefits, depending on length of service and other factors. The liability for these benefits has been accrued as employee benefits payable in the accompanying statements of net position. Vacation is accrued beginning on the first day of employment and ranges from 8 to 13.34 hours per month based on longevity with the Agency. The Agency is not liable to pay vacation hours accrued until the employee has been employed for six months. Employee Attendance Bonus Plan hours accrue monthly. The employees have an opportunity to earn a maximum of 96 hours per year in this plan.

In 2025, the Agency implemented GASB Statement No. 101, *Compensated Absences (GASB 101)*. In accordance with GASB 101, a liability is recorded for unused vacation, sick, and similar compensatory leave balances, since the employees' entitlement to these balances accumulates, is attributable to services already rendered, and it is more likely than not that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

Net Investment in Capital Assets (including State Water Project costs) - 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.

Restricted Net Position - This component of net position consists of net position that is constrained by externally imposed requirements of creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions of enabling legislation.

Unrestricted Net Position - This component of net position does not meet the definition of restricted or net investment in capital assets.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Policies

The Agency 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.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California Public Employees' Retirement System (CalPERS) Miscellaneous Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, the benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68) requires that the reported results must pertain to the liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date:	June 30, 2023
Measurement Date:	June 30, 2024
Measurement Period:	June 30, 2023, to June 30, 2024

Other Postemployment Benefits (OPEB)

The Agency's OPEB Plan benefits are paid on pay-as-you-go basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75) requires that the reported results must pertain to liability information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date:	June 30, 2023
Measurement Date:	June 30, 2024
Measurement Period:	June 30, 2023, to June 30, 2024

Deferred Outflows and Inflows of Resources

GASB establishes criteria for recognizing deferred outflows and inflows of resources. A deferred outflow of resources is defined as a consumption of net assets by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net assets by the government that is applicable to a future reporting period. As of June 30, 2025 and 2024, the Agency reported deferred outflows of resources related to pension, OPEB and deferred loss on debt refunding. As of June 30, 2025 and 2024, the Agency reported deferred inflows of resources related to pension, OPEB and leases.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures made in the accompanying notes to the financial statements. While management believes these estimates are adequate, actual results could differ from those estimates.

Financial Reporting

During the fiscal year ended June 30, 2025, the Agency implemented the following GASB Standards:

GASB 101, Compensated Absences

Statement 101 updates the recognition and measurement guidance for compensated absences through aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The standard is effective for fiscal years beginning after December 15, 2024, and all reporting periods thereafter.

The Agency conducted a comprehensive review of its compensated absences balances as part of the implementation of GASB 101. This review identified additional leave liabilities that met the new recognition criteria. As a result, the Agency restated the compensated absences for the year ended June 30, 2024 to reflect the effect of adopting GASB 101. The implementation of this new accounting standard resulted in recognition of additional compensated absences (recorded as part of the other employee benefits payable) in the Agency's June 30, 2024 financial statements amounting to \$256,191.

GASB No. 102, Certain Risk Disclosures

Statement 102 provides users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The standard is effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. The implementation of this standard did not have an impact on the Agency's June 30, 2025 financial statements.

GASB has released the following statements, which will be implemented in future financial statements, if applicable:

GASB No. 103, Financial Reporting Model Improvements

Statement 103 improves 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. Certain application issues are also addressed by this statement. The standard is effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Reporting (Continued)

GASB No. 104, *Disclosure of Certain Capital Assets*

Statement 104 provides users of government financial statements with essential information about certain types of capital assets by requiring certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. This standard is effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter

Reclassifications

Certain amounts from the prior year have been reclassified to conform to the current year's presentation.

NOTE 3 STATE WATER PROJECT

The Agency has contracted with the State Department of Water Resources to participate in the State Water Project to convey water from Northern California into the Southern California area. This participation requires payments in varying amounts by the Agency for many years into the future, including capital costs in connection with the transportation facilities, operations and maintenance ("OMP&R") costs, and variable costs for the actual delivery of water. The Agency's total future payments have been estimated at June 30, 2025 by the State Department of Water Resources through 2035 as follows:

Water system revenue bond surcharge	\$	16,404,811
Delta water charges		23,646,428
Transportation charges:		
Capital cost component (principal and interest)		24,326,398
Minimum operations, maintenance, power, and replacement (OMP&R)		(337,532)
Variable OMP&R		471,627
Off- aqueduct facility charges		71,560
East branch enlargement transportation charges:		
Capital cost component		2,513,761
Minimum OMP&R		<u>6,548,651</u>
Total estimated future payments	\$	<u>73,645,704</u>

NOTE 3 STATE WATER PROJECT (CONTINUED)

As of June 30, 2025, the Agency has been billed formally through calendar year 2025 only. The policy of the Agency is not to accrue any amounts which are due after the fiscal year-end. The payments which have been billed but are not due until after the fiscal year-end are approximately as follows:

Capital cost component (delta water and transportation charges):	
Due July 1, 2025	\$ 2,150,009
Due January 1, 2026	2,256,081
Due July 1, 2026	2,256,080
Minimum OMP&R component:	
Water supply (delta water and transportation charges):	
Monthly payments of \$865,328 from July 1 to December 31, 2025	5,191,968
Monthly payments of \$1,002,323 for the calendar year 2026	12,027,871
Off- aqueduct power facilities:	
Monthly payments of \$4,567 from July 1 to December 31, 2025	27,402
Monthly payments of \$3,525 for the calendar year 2026	42,294
East Branch Enlargement Facilities:	
Monthly payments of \$50,917 from July 1 to December 31, 2025	305,502
Monthly payments of \$59,836 for the calendar year 2026	718,031
Estimated variable OMP&R component (water delivery charges):	
Monthly payments of \$469,193 from July 1 to December 31, 2025	2,815,157
Monthly payments of \$623,992 for the calendar year 2026	7,487,904
Water system revenue bond surcharge and 25 percent bond cover charge:	
Due July 1, 2025	471,129
Due January 1, 2026	709,515
Due July 1, 2026	709,514
Allocated capital costs of Tehachapi second afterbay facilities:	
Due September 1, 2025	47,382
Due March 1, 2026	69,596
Due September 1, 2026	69,595
Allocated capital costs of east branch enlargement:	
Due September 1, 2025	1,034,529
Due March 1, 2026	76,308
Due September 1, 2026	<u>506,124</u>
Total amounts billed but not yet due	<u>\$ 38,971,991</u>

The Agency has committed to purchase supplemental State Water Project water supply as they become available in the future. The future payments for this excess water are not determinable at this time.

NOTE 4 CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, cash equivalents, and investments are reported in the statements of net position in the following captions:

	June 30, 2025	June 30, 2024
Cash and cash equivalents	\$ 31,668,108	\$ 23,922,098
Restricted cash and cash equivalents	34,184,080	17,949,708
Total cash and cash equivalents	65,852,188	41,871,806
Investments	115,923,021	105,054,144
Restricted investments	188,450,132	178,146,110
Total investments	304,373,153	283,200,254
Total cash, cash equivalents, and investments	\$ 370,225,341	\$ 325,072,060

For purposes of the following discussion, the Agency's cash and investments are classified as follows:

	June 30, 2025	June 30, 2024
Deposits	\$ 2,983,200	\$ 1,164,077
Investments	367,242,141	323,907,983
Total deposits and investments	\$ 370,225,341	\$ 325,072,060

Deposits

At June 30, 2025 and 2024, the carrying amounts of the Agency's deposits were \$2,983,200 and \$1,164,077, respectively, and the corresponding bank balances were \$3,231,877 and \$1,792,732, respectively.

Custodial Credit Risk

The Agency maintains deposits with financial institutions in excess of the Federal Depository Insurance Corporation's (FDIC) insurance limit of \$250,000. The California Government Code and the Agency'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) in the Agency's name and places it ahead of general creditors of the institution. The market value of the pledged securities in the collateral pool must be equal to at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

NOTE 4 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Investments Authorized by the Agency's Investment Policy

Under the latest provisions of the Agency's investment policy adopted by Board Resolution No. 1342 in February 2025, which is in accordance with California Government Code Sections 53600 through 53686 et seq., the types of investments authorized for deposit are identified in the following table. Also, the following tables identify certain provisions of the California Government Code (or the Agency'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	Purchase Restrictions	Minimum Quality Requirements
U.S. Treasury Obligations	5 years	None	None	None
U.S. Agency Obligations	5 years	None	None	None
Local Agency Bonds	5 years	None	None	None
State Obligations	5 years	None	None	None
Bonds issued by DWA	5 years**	None	None	None
Bankers' Acceptances	180 days	40%	30% with any one commercial bank	None
Commercial Paper - Non-Pooled Funds (when DWA under \$100mm of investments)	270 days or less	25% of the agency's money	Max. 10% of the outstanding commercial paper and medium-term notes of any single issuer	Highest letter and number rating by an NRSRO ***
Commercial Paper - Non-Pooled Funds (when DWA \$100mm of investments and over)	270 days or less	40% of the agency's money	Max. 10% of the outstanding commercial paper and medium-term notes of any single issuer	Highest letter and number rating by an NRSRO ***
Local Agency Investment Fund (LAIF)	None	None	Set by State Treasurer	None
Negotiable certificates of deposit (CD's)	5 years	30%	Gov Code Sect 53638	None
Non-Negotiable Certificates of deposit (CD's)	5 years	20 million one bank	Gov Code Sect 53638	None
Repurchase Agreements	1 year	None	102% collateral	None
Reverse Repurchase Agreements and Securities Lending Agreements	92 days	20% of the base value of the portfolio	For temporary cash flow needs only	None
Medium-Term Notes (Corporate Notes)	Remaining maturity of 5 years or less	30%	Maximum 10% with any single issuer	"A" rating category or its equivalent or better
Mutual Funds and Money Market Mutual Funds	None	20%	See minimum Quality Requirements	Highest letter and number rating by at least two NRSRO *** or the fund must retain an investment meeting the qualifications of 53601(I)(3)(B) or 53601(I)(4)(B)

* Average life of portfolio at any time shall not exceed five years.

** Unless Board approved 3 months in advance.

*** NRSRO is defined as Nationally Recognized Statistical Ratings Organizations

NOTE 4 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

Investments in any one issuer, other than U.S. Treasury Securities and LAIF that represent 5 percent or more of the total investments of the Agency as of June 30, 2025 and 2024 are as follows:

Issuer	Investment Type	2025	2024
Federal Farm Credit	U. S. government sponsored agency securities	\$ 28,803,952	\$ 27,950,902
Federal Home Loan Bank	U. S. government sponsored agency securities	57,070,024	91,730,386

Not more than 5% in 2025 but above 5% in 2024:

Federal Home Loan Mortgage Corporation	U. S. government sponsored agency securities	6,949,114	29,342,019
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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. As a means of highlighting exposure to interest rate risk, the fair value of investments is reported quarterly to the Board. Investments' fair value and effective duration (in years) at June 30, 2025 and 2024 are as follows:

Authorized Investment Type	2025		2024	
	Fair Value	Duration	Fair Value	Duration
U.S. Agency Obligations	\$ 110,369,933	1.31	\$ 166,261,613	1.39
Corporate Notes	82,813,955	2.12	65,599,649	2.40
Negotiable Certificates of Deposit	1,689,122	1.53	1,639,582	2.46
U.S. Treasury Obligations	81,001,432	2.82	35,274,650	2.16
Municipal Bonds	23,501,892	2.64	14,424,489.00	2.85
Money Market Funds	5,001,461	less than a year	-	-
Local Agency Investment Funds	62,864,346	less than a year	40,708,000	less than a year
Total	<u>\$ 367,242,141</u>		<u>\$ 323,907,983</u>	

Disclosures Relating to Credit Risk

Generally, 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.

NOTE 4 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Disclosures Relating to Credit Risk (Continued)

Presented below is the actual rating by Standard and Poor's as of June 30 for each of the Agency's investment types:

<u>Authorized Investment</u>	<u>2025</u>	<u>2024</u>
AAA:		
Corporate Notes	\$ 5,917,800	\$ 5,752,569
Municipal bonds	1,992,125	1,917,508
AA (1-3):		
U.S. government-sponsored Agency Obligations	103,485,120	162,310,771
Corporate Notes	60,321,384	43,172,134
U.S. Treasury Obligations	65,147,070	21,443,281
Municipal Bonds	21,509,767	11,444,861
Negotiable Certificates of Deposit	244,924	-
A (1-2):		
Corporate Notes	16,574,771	16,674,946
Negotiable Certificates of Deposit	480,167	700,252
U.S. government-sponsored Agency Obligations	6,884,813	3,950,842
U.S. Treasury Obligations	15,854,361	13,831,369
Municipal Bonds	-	1,062,120
BBB (1-3):		
Negotiable Certificates of Deposit	723,484	939,330
Not Rated:		
Negotiable Certificates of Deposit	240,548	-
Money Market Funds	5,001,461	-
Exempt from Disclosure:		
Local Agency Investment Funds	62,864,346	40,708,000
Total Investments	<u>\$ 367,242,141</u>	<u>\$ 323,907,983</u>

Fair Value of Investments

GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72), provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

NOTE 4 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Fair Value of Investments (Continued)

The three levels of the fair value hierarchy under GASB 72 are described as follows:

- Level 1* Inputs to the valuation methodology are unadjusted quoted prices for identical assets as of the measurement date in active markets that the Agency has the ability to access.
- Level 2* Inputs to the valuation methodology include quoted prices for similar assets in active markets; quoted prices for identical or similar assets in inactive markets; and model based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets.
- Level 3* Inputs to the valuation methodology are unobservable and include situations where there is little, if any, market activity for the investment.

An asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

Obligations of U.S. government sponsored agencies - Valued at the closing price reported in the active market on which the individual securities are traded.

Negotiable certificates of deposit - Valued at the closing price reported on the active market on which the negotiable paper is traded.

Corporate notes - Valued at the closing price reported on the active market on which the notes are traded.

Municipal bonds - Valued at the coded price reported in the active markets for identical assets.

U.S. Treasury - Valued at the coded price reported in the active markets for identical assets.

California State Treasurer Local Agency Investment Fund (LAIF) - The Agency is a voluntary participant in LAIF that is regulated by the California Government Code under oversight by the Local Investment Advisory Board, which consists of five members, with the Treasurer of the State of California serving as chairman. The fair value of the Agency's position in the pool approximates the value of the pool shares. LAIF is not subject to fair value leveling.

NOTE 4 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Fair Value of Investments (Continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. Furthermore, while the Agency believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Agency's investments at fair value as of June 30, 2025:

	Level 1	Level 2	Level 3	Total
U.S. government sponsored				
Agency Obligations	\$ -	\$ 110,369,933	\$ -	\$ 110,369,933
Negotiable Certificates of				
Deposit	-	1,689,122	-	1,689,122
Corporate Notes	-	82,813,955	-	82,813,955
Municipal Bonds	-	23,501,892	-	23,501,892
U.S. Treasury Obligations	81,001,432	-	-	81,001,432
Money Market Funds	-	5,001,461	-	5,001,461
	<u>81,001,432</u>	<u>223,376,363</u>	<u>-</u>	<u>304,377,795</u>
Not subject to				
leveling - LAIF	-	-	-	62,864,346
Total	<u>\$ 81,001,432</u>	<u>\$ 223,376,363</u>	<u>\$ -</u>	<u>\$ 367,242,141</u>

The following table sets forth, by level, within the fair value hierarchy, the Agency's investments at fair value as of June 30, 2024:

	Level 1	Level 2	Level 3	Total
U.S. government sponsored				
Agency Obligations	\$ -	\$ 166,261,613	\$ -	\$ 166,261,613
Negotiable Certificates of				
Deposit	-	1,639,582	-	1,639,582
Corporate Notes	-	64,628,209	971,440	65,599,649
Municipal Bonds	-	14,424,489	-	14,424,489
U.S. Treasury Obligations	<u>35,274,650</u>	<u>-</u>	<u>-</u>	<u>35,274,650</u>
	<u>35,274,650</u>	<u>246,953,893</u>	<u>971,440</u>	<u>283,199,983</u>
Not subject to				
leveling - LAIF	-	-	-	40,708,000
Total	<u>\$ 35,274,650</u>	<u>\$ 246,953,893</u>	<u>\$ 971,440</u>	<u>\$ 323,907,983</u>

At June 30, 2025 and 2024, the Agency had no investments in repurchase and reverse repurchase agreements and did not invest in such during the years then ended. The balance available for withdrawal in LAIF is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. There are no limitations on the withdrawal of these funds.

Desert Water Agency
Notes to Financial Statements
Years ended June 30, 2025 and 2024

NOTE 5 CAPITAL ASSETS

For the year ended June 30, 2025, the changes in the Agency's capital assets were as follows:

	Balance 7/1/2024	Additions	Deletions/ Transfers	Balance 6/30/2025
Nondepreciable assets:				
Land	\$ 12,051,891	\$ -	\$ -	\$ 12,051,891
Construction in Progress	12,503,333	8,818,724	(11,259,959)	10,062,098
Other	19,695	-	-	19,695
Total nondepreciable assets	<u>24,574,919</u>	<u>8,818,724</u>	<u>(11,259,959)</u>	<u>22,133,684</u>
Depreciable assets:				
State Water Project	142,531,027	5,006,826	-	147,537,853
Mains	111,267,107	6,765,920	-	118,033,027
Wells, intakes, pumps	25,764,172	-	-	25,764,172
Water reclamation	29,581,602	-	-	29,581,602
Water transportation facilities	25,605,867	-	-	25,605,867
Wastewater transportation facilities	23,294,571	100,308	-	23,394,879
Hydro-electric plants	5,096,112	100,685	-	5,196,797
Water treatment	3,160,889	-	-	3,160,889
Services	24,663,844	1,177,585	(437,689)	25,403,740
Meters	8,914,721	498,785	(119,919)	9,293,587
Fire services and hydrants	18,118,147	756,278	(11,376)	18,863,049
Reservoirs	17,824,902	125,039	-	17,949,941
Structures and improvements	21,930,699	316,471	-	22,247,170
Building	4,193,742	10,469	-	4,204,211
Equipment	13,190,710	1,940,185	(315,801)	14,815,094
Right-of-use lease asset	54,344	-	-	54,344
Subscription IT assets	1,436,668	289,376	-	1,726,044
Total depreciable assets	<u>476,629,124</u>	<u>17,087,927</u>	<u>(884,785)</u>	<u>492,832,266</u>
Total capital assets	<u>501,204,043</u>	<u>25,906,651</u>	<u>(12,144,744)</u>	<u>514,965,950</u>
Less accumulated depreciation and amortization:				
State Water Project	(101,817,344)	(1,057,824)	-	(102,875,168)
Mains	(51,903,149)	(2,293,472)	-	(54,196,621)
Wells, intakes, pumps	(16,420,183)	(532,397)	-	(16,952,580)
Water reclamation	(22,451,359)	(690,659)	-	(23,142,018)
Water transportation facilities	(4,877,983)	(210,665)	-	(5,088,648)
Wastewater transportation facilities	(9,681,117)	(553,748)	-	(10,234,865)
Hydro-electric plants	(4,982,972)	(12,482)	-	(4,995,454)
Water treatment	(2,331,385)	(67,502)	-	(2,398,887)
Services	(11,663,574)	(794,011)	131,104	(12,326,481)
Meters	(2,780,223)	(325,255)	79,384	(3,026,094)
Fire services and hydrants	(9,941,624)	(398,758)	11,154	(10,329,228)
Reservoirs	(12,124,735)	(333,712)	-	(12,458,447)
Structures and improvements	(14,005,335)	(795,674)	-	(14,801,009)
Building	(3,413,503)	(153,086)	-	(3,566,589)
Equipment	(11,907,701)	(621,556)	315,801	(12,213,456)
Right-of-use lease asset	(27,172)	(10,869)	-	(38,041)
Subscription IT assets	(205,238)	(456,745)	-	(661,983)
Total accumulated depreciation and amortization	<u>(280,534,597)</u>	<u>(9,308,415)</u>	<u>537,443</u>	<u>(289,305,569)</u>
Total depreciable assets, net	<u>196,094,527</u>	<u>7,779,512</u>	<u>(347,342)</u>	<u>203,526,697</u>
Total capital assets, net	<u>\$ 220,669,446</u>	<u>\$ 16,598,236</u>	<u>\$ (11,607,301)</u>	<u>\$ 225,660,381</u>

Desert Water Agency
Notes to Financial Statements
Years ended June 30, 2025 and 2024

NOTE 5 CAPITAL ASETS (CONTINUED)

For the year ended June 30, 2024, the changes in the Agency's capital assets were as follows:

	Balance 7/1/2023	Additions	Deletions/ Transfers	Balance 6/30/2024
Nondepreciable assets:				
Land	\$ 12,070,625	\$ -	\$ (18,734)	\$ 12,051,891
Construction in Progress	5,973,913	8,978,369	(2,448,949)	12,503,333
Other	19,695	-	-	19,695
Total nondepreciable assets	<u>18,064,233</u>	<u>8,978,369</u>	<u>(2,467,683)</u>	<u>24,574,919</u>
Depreciable assets:				
State Water Project	137,804,980	4,726,047	-	142,531,027
Mains	111,095,854	171,253	-	111,267,107
Wells, intakes, pumps	25,731,333	32,839	-	25,764,172
Water reclamation	29,581,602	-	-	29,581,602
Water transportation facilities	25,605,867	-	-	25,605,867
Wastewater transportation facilities	23,294,571	-	-	23,294,571
Hydro-electric plants	5,096,112	-	-	5,096,112
Water treatment	3,128,301	32,588	-	3,160,889
Services	24,097,768	662,311	(96,235)	24,663,844
Meters	8,754,136	244,126	(83,541)	8,914,721
Fire services and hydrants	17,803,177	314,970	-	18,118,147
Reservoirs	17,655,354	169,548	-	17,824,902
Structures and improvements	21,851,871	78,828	-	21,930,699
Building	4,193,742	-	-	4,193,742
Equipment	12,844,296	390,866	(44,452)	13,190,710
Right-of-use lease asset	54,344	-	-	54,344
Subscription IT assets	-	1,436,668	-	1,436,668
Total depreciable assets	<u>468,593,308</u>	<u>8,260,044</u>	<u>(224,228)</u>	<u>476,629,124</u>
Total capital assets	<u>486,657,541</u>	<u>17,238,413</u>	<u>(2,691,911)</u>	<u>501,204,043</u>
Less accumulated depreciation and amortization:				
State Water Project	(100,867,673)	(949,671)	-	(101,817,344)
Mains	(49,666,708)	(2,236,441)	-	(51,903,149)
Wells, intakes, pumps	(15,857,684)	(562,499)	-	(16,420,183)
Water reclamation	(21,756,567)	(694,792)	-	(22,451,359)
Water transportation facilities	(4,572,203)	(305,780)	-	(4,877,983)
Wastewater transportation facilities	(9,107,684)	(573,433)	-	(9,681,117)
Hydro-electric plants	(4,973,408)	(9,564)	-	(4,982,972)
Water treatment	(2,264,659)	(66,726)	-	(2,331,385)
Services	(10,972,224)	(767,930)	76,580	(11,663,574)
Meters	(2,518,318)	(313,712)	51,807	(2,780,223)
Fire services and hydrants	(9,538,602)	(403,022)	-	(9,941,624)
Reservoirs	(11,761,929)	(362,806)	-	(12,124,735)
Structures and improvements	(13,217,035)	(788,300)	-	(14,005,335)
Building	(3,260,309)	(153,194)	-	(3,413,503)
Equipment	(11,386,680)	(565,473)	44,452	(11,907,701)
Right-of-use lease asset	(16,303)	(10,869)	-	(27,172)
Subscription IT assets	-	(205,238)	-	(205,238)
Total accumulated depreciation and amortization	<u>(271,737,987)</u>	<u>(8,969,450)</u>	<u>172,839</u>	<u>(280,534,597)</u>
Total depreciable assets, net	<u>196,855,321</u>	<u>(709,406)</u>	<u>(51,389)</u>	<u>196,094,527</u>
Total capital assets, net	<u>\$ 214,919,554</u>	<u>\$ 8,268,963</u>	<u>\$ (2,519,072)</u>	<u>\$ 220,669,446</u>

NOTE 5 CAPITAL ASETS (CONTINUED)

Construction in Progress

The Agency has begun construction of pipeline projects and numerous other smaller projects. Upon completion of these projects, they will be placed in service and depreciation will commence. As of June 30, total costs expended to date and the total budget for the projects are summarized as follows:

	June 30,			
	2025		2024	
	Cost of Construction in Progress	Total Budget	Cost of Construction in Progress	Total Budget
Major projects	\$ 8,482,089	\$ 39,961,100	\$ 10,561,740	\$ 33,808,100
All other projects	1,580,009	6,843,317	1,941,593	7,503,987
Total	\$ 10,062,098	\$ 46,804,417	\$ 12,503,333	\$ 41,312,087

Right-of-Use Lease Assets

The Agency has recorded right-of-use lease assets for leased vehicles. The right-of-use lease assets are amortized on a straight-line basis over the term of the related leases or useful life of the underlying assets, whichever is shorter. As of June 30, 2025 and 2024, the right-of-use lease assets of \$54,344, and related accumulated depreciation of \$38,041 and \$27,172, respectively, are recorded as a component of capital assets, net.

Subscription IT Assets

As of June 30, 2024, the financial statements include the adoption of GASB Statement No. 96 *Subscription-Based Information Technology Arrangements - SBITAs*. The primary objective of this statement is to enhance the relevance and consistency of information about governments' subscription activities. This statement establishes a single model for subscription accounting based on the principle that subscriptions are financings of the right to use an underlying asset. Under this Statement, an organization is required to recognize a subscription liability and an intangible right-of-use subscription asset. As of June 30, 2025 and 2024, the subscription IT assets were \$1,726,044 and \$1,436,668, respectively, and the related accumulated amortization was \$661,983 and \$205,238, respectively.

NOTE 6 LEASE RECEIVABLE

The Agency has entered into property leases with various lessees with lease terms ranging from 5 to 20 years. Lease receivable is measured at the present value of lease payments expected to be received during the lease term. The discount rate used is equivalent to the Agency's average annual investment earnings rate for LAIF of 0.5 percent for fiscal year 2022.

NOTE 6 LEASE RECEIVABLE (CONTINUED)

Deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. Deferred inflow of resources is amortized on a straight-line basis over the term of the related lease. As of June 30, 2025 and 2024, the Agency has recorded a total lease receivable of \$1,915,247 and \$1,969,223, respectively, and the Agency recognized \$1,740,212 and \$1,906,365, respectively, of deferred inflow of resources.

Payments for the lease receivables are expected to be received in the following subsequent years:

Year ending June 30,	Principal	Interest
2026	\$ 248,548	\$ 11,006
2027	202,490	9,930
2028	212,993	8,846
2029	213,196	7,736
2030	105,384	6,977
Thereafter	932,636	40,520
	\$ 1,915,247	\$ 85,015

NOTE 7 LONG-TERM LIABILITIES

Long-term liabilities activities for the year ended June 30, 2025 were as follows:

	Outstanding July 1, 2024 (as restated)	Additions	Reductions	Outstanding June 30, 2025	Amount due within on year
Long- term debt					
Water revenue refunding					
bonds	\$ 13,895,000	\$	\$ (830,000)	\$ 13,065,000	\$ 865,000
Bond premium	1,214,659		(101,221)	1,113,438	-
Total long term debt	15,109,659	-	(931,221)	14,178,438	865,000
Other long- term liabilities					
Lease liability	25,418	-	(10,236)	15,182	11,060
Subscription liability	542,753	-	(177,010)	365,743	180,889
Other employee benefits					
payable	1,887,070	1,333,671	(967,052)	2,253,689	646,436
OPEB liability (Note 12)	18,128,566	1,062,607	(1,383,462)	17,807,711	-
Net pension liability (Note 10)	16,226,434	2,600,910	(4,049,924)	14,777,420	-
Total long term liabilities	\$ 51,919,900	\$ 4,997,188	\$ (7,518,905)	\$ 49,398,183	\$ 1,703,385

NOTE 7 LONG-TERM LIABILITIES (CONTINUED)

Long-term liabilities activities for the year ended June 30, 2024, were as follows:

	Outstanding July 1, 2023	Additions	Reductions	Outstanding June 30, 2024 (as restated)	Amount due within on year
Long- term debt					
Water revenue refunding					
bonds	\$ 14,695,000	\$ -	\$ (800,000)	\$ 13,895,000	\$ 830,000
Bond premium	1,315,880	-	(101,221)	1,214,659	-
Total long term debt	<u>16,010,880</u>	<u>-</u>	<u>(901,221)</u>	<u>15,109,659</u>	<u>830,000</u>
Other long- term liabilities					
Lease liability	35,480	-	(10,062)	25,418	10,551
Subscription liability	-	547,634	(4,881)	542,753	177,010
Other employee benefits payable, as restated (Note 15)	1,594,896	1,385,214	(1,093,040)	1,887,070	548,597
OPEB liability (Note 12)	19,011,824	1,212,876	(2,096,134)	18,128,566	-
Net pension liability (Note 10)	15,925,749	3,491,904	(3,191,219)	16,226,434	-
Total long term liabilities	<u>\$ 52,578,829</u>	<u>\$ 6,637,628</u>	<u>\$ (7,296,557)</u>	<u>\$ 51,919,900</u>	<u>\$ 1,566,158</u>

Long-term Debt

On June 29, 2016, the Desert Water Agency Financing Corporation issued \$19,720,000 Water Revenue Refunding Bonds, Series 2016 to provide funds to defease and advance refund the Agency's outstanding Certificates of Participation (Water System Improvement Project) Series 2007 (COPS) outstanding at that date in the amount of \$21,420,000 and to pay the debt issue costs. A premium of \$2,024,430, related to the new debt issue, was recognized and is being amortized over the life of the new debt issue of 20 years. Amortization expense for the premium on the new debt was \$101,221 for each of the years ended June 30, 2025 and 2024. The bonds are payable from and secured by the Agency's pledge of net revenues defined generally as gross revenues received from the Agency's water system. The bonds bear interest at various rates from 2 to 5 percent and are payable on May 1 and November 1 of each year commencing on November 1, 2016. If there exists a default in payment of interest due on any interest payment date, the interest will be payable on the established payment date. Further, if interest thereon is in default, the bond will bear interest from the date to which interest has previously been paid or made available for payment thereon in full. The cost to retire the COPs was \$23,372,318, including debt issue costs.

The refunding produced a loss on the advance refunding of the old debt in the amount of \$1,420,128, which has been recorded as deferred outflows of resources and is being amortized over the life of the new debt or 20 years. As of June 30, 2025 and 2024, the balance of the deferred loss on refunding was \$796,912 and \$869,359, respectively.

NOTE 7 LONG-TERM LIABILITIES (CONTINUED)

Long-term Debt (Continued)

Future principal and interest payments for the Water Revenue Refunding Bonds Series 2016 as of June 30, 2025 are as follows:

Year ending June 30,	Principal	Interest
2026	\$ 865,000	\$ 479,450
2027	895,000	444,850
2028	945,000	400,100
2029	990,000	352,850
2030	1,030,000	313,250
Thereafter	8,340,000	1,066,050
	\$ 13,065,000	\$ 3,056,550

The Agency incurred bond interest expense for the years ended June 30, 2025 and 2024 in the amounts of \$507,117 and \$539,317, respectively.

Lease Liability

In November 2021, the Agency entered into a lease agreement for the use of two vehicles for 60 months. Monthly payments are made by the Agency amounting to \$480 per vehicle. Liability has been recorded at the present value of the future lease payments as of the commencement date using a discount rate of 4.72 percent.

Future principal and interest payments on the lease liability are as follows:

Year ending June 30,	Principal	Interest
2026	\$ 11,060	\$ 465
2027	4,122	38
	\$ 15,182	\$ 503

SBITA Liability

The Agency entered into a SBITA effective January 2024. Under this arrangement, the Agency was granted the right to use the software along with services that include system administration, system management, and system monitoring activities. This SBITA qualifies as a capital asset for accounting purposes and has been recorded at the present value of subscription payments as of commencement date using discount rate of 2.17 percent. The subscription liability as of June 30, 2025 and 2024 amounted to \$365,743 and \$542,753, respectively.

NOTE 7 LONG-TERM LIABILITIES (CONTINUED)

SBITA Liability (Continued)

Future principal and interest payments on the subscription liability are as follows:

Year ending June 30,	Principal	Interest
2026	\$ 180,889	\$ 4,634
2027	184,854	669
	\$ 365,743	\$ 5,303

NOTE 8 RESERVES AND DESIGNATIONS OF UNRESTRICTED NET POSITION

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, a governmental entity may establish "reserves" of unrestricted net position to segregate balances which are not available for expenditure in future periods, or which are legally set aside for a future specific use, or established to indicate tentative plans for financial resource utilization in future periods.

The Agency's reserves and designations of unrestricted net position at June 30 are presented below:

	2025	2024 (as restated)
Reserve for additional non-State Water		
Project (SWP) water	\$ 81,519,400	\$ 81,519,400
Reserve for operations	24,451,900	27,065,500
Reserve for replacements	7,451,400	7,468,060
Reserve for regulatory compliance	10,000,000	10,000,000
Reserve for land acquisition	5,675,000	5,675,000
Reserve for retirement benefits	4,098,000	5,000,000
Reserve for disaster response	2,000,000	2,000,000
Total designated	135,195,700	138,727,960
Undesignated (over designated)	1,733,048	(57,246,189)
Total unrestricted net position	\$ 136,928,748	\$ 81,481,771

NOTE 9 JOINT VENTURES

The Agency participates in a joint venture under a joint powers agreement with the Association of California Water Agencies Joint Powers Insurance Authority (JPIA). The relationship between the Agency and the JPA is such that the JPA is not a component unit of the Agency for financial reporting purposes. Audited financial statements are available by contacting the JPIA at 2100 Professional Drive, Roseville, California 95661.

The JPIA arranges for and provides insurance coverage for its approximately 401 member districts. JPIA is governed by a board of directors and each member agency is required to designate one representative from its local board of directors to participate in the JPIA board. From the JPIA's board of directors, eight members of a nine-member executive committee are elected and delegated the authority to make JPIA's preliminary policy decisions relying upon input received from other standing and ad hoc committees and subcommittees.

These policy decisions, along with other matters such as financial and claims data, are ultimately brought before the full board for review and/or ratification. JPIA's board of directors controls the operations of the JPIA, including the selection of management and approval of operating budgets, independent of any influence by the member agencies beyond their representation on the board.

JPIA provides joint protection coverage for losses in excess of the member districts' individually specified self-insurance retention levels. Individual claims (and aggregate public liability and property claims) in excess of the Agency's specified self-insurance coverage limit are covered by excess insurance policies purchased from commercial insurance carriers (see also Note 14).

Condensed audited financial information of the JPIA as of and for the year ended September 30, 2024 and 2023 (most recent available) follows:

	2024	2023
Total assets	\$ 308,144,466	\$ 288,462,503
Deferred outflows of resources	3,099,110	4,654,911
Total assets and deferred outflows of resources	\$ 311,243,576	\$ 293,117,414
Total liabilities	\$ 177,706,110	\$ 167,203,667
Deferred inflows of resources	4,357,741	5,200,835
Net position	129,179,725	120,712,912
Total liabilities, deferred inflows, and net position	\$ 311,243,576	\$ 293,117,414
Total operating revenues	\$ 222,223,993	\$ 229,844,143
Total operating expenses	(253,429,117)	(240,084,673)
Total nonoperating revenues (expenses), net	39,671,937	18,169,521
Change in net position	\$ 8,466,813	\$ 7,928,991

NOTE 10 PENSION PLAN

General Information About the Pension Plan

Plan Description

All qualified Agency employees are required to participate in the Desert Water Agency Miscellaneous Plan (the Plan), a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), unless they specifically opt out. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The Agency selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board approval. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, membership, and financial information that can be found on the CalPERS website at www.calpers.ca.gov.

Benefits Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are based on years of credited service, with one year of credited service being equal to one year of full-time employment. All members are eligible for improved non-industrial disability benefits after five years of service. The Agency has chosen the Optional Settlement 2W Death Benefit.

Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by an actuary and shall be effective on July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance any unfunded accrued costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Agency is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The Agency's total employer contributions were \$4,049,924 and \$3,191,219 for the years ended June 30, 2025 and 2024, respectively.

Active plan members who were hired before January 1, 2013 are referred to as "Classic" employees. Beginning January 1, 2013, the Agency established two classes of employees, as dictated by the newly enacted Public Employees Pension Reform Act (PEPRA).

NOTE 10 PENSION PLAN (CONTINUED)

General Information About the Pension Plan (Continued)

Contribution Description (Continued)

The Plan's provisions and benefits in effect at June 30, 2025 and 2024 are summarized as follows:

Hire date	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.5 percent at 55	2.0 percent at 62
Benefit vesting schedule	5 years	5 years
Benefit payments	Monthly for life	Monthly for life
Final average compensation period	12 months	36 months
Sick leave credit	Yes	Yes
Retirement age	50 to 55	52 to 67
Monthly benefits as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Cost of living adjustment	2.00%	2.00%
Required employee contribution rates		
2025	8.18 percent	8.25 percent
2024	8.00 percent	8.25 percent
Required employer contribution rates		
2025	14.99% + \$1,847,701	8.18% + \$8,445
2024	14.92% + \$1,092,003	8.00% + \$0

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

Methods and Assumptions

The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. For the measurement period ending June 30, 2024 (the measurement date), the total pension liability was determined by rolling forward the total pension liability determined in the June 30, 2023 actuarial valuation. The June 30, 2024 total pension liability was based on the following actuarial methods and assumptions:

Actuarial cost method	Entry age normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Investment rate of return	6.90%
Inflation	2.30%
Salary increases	Varies by entry age and service
Mortality rate table	Derived using CalPERS' membership data for all funds
Post-retirement benefit increase	Contract COLA up to 2.30% until purchasing power protection allowance floor on purchasing power applies

NOTE 10 PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability (Continued)

Methods and Assumptions (Continued)

The mortality table used was developed based on CalPERS specific data. The probabilities of mortality are based on the 2021 CalPERS Experience Study for the period from 2001 to 2019. Preretirement and Post-retirement mortality rates include generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from November 2021 that can be found on the CalPERS website.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11 + years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The table below reflects long-term expected real rate of return by asset class.

Asset Class	Asset Allocation	Real Return Years 1-10 ^{1,2}
Global equity - cap-weighted	30.00%	4.54%
Global equity - noncap-weighted	12.00%	3.84%
Private equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed securities	5.00%	0.50%
Investment grade corporates	10.00%	1.56%
High yield	5.00%	2.27%
Emerging market debt	5.00%	2.48%
Private debt	5.00%	3.57%
Real assets	15.00%	3.21%
Leverage	-5.00%	-0.59%
Total	100.00%	

¹An expected inflation of 2.30% used for this period

²Figures are based on the 2021-22 Asset Liability Management study

NOTE 10 PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.90 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability of the Plan as of the June 30, 2024 and 2023 measurement date calculated using the discount rate in effect at year end. The table also shows what the net pension liability would be if it were calculated using a discount rate that is 1.0 percentage-point lower or 1.0 percentage-point higher than the current rate:

	Measurement Date	Discount Rate -1.00%	Current Discount	Discount Rate +1%
Net pension liability	June 30, 2024	(5.90%) \$ 25,850,932	(6.90%) \$ 14,777,420	(7.90%) \$ 5,662,290
Net pension liability	2023	(5.90%) \$ 26,706,129	(6.90%) \$ 16,226,434	(7.90%) \$ 7,600,746

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial report.

Amortization of Deferred Outflows and Deferred Inflows of Resources

Under GASB 68, actuarial gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

NOTE 10 PENSION PLAN (CONTINUED)

Changes in the Net Pension Liability (Continued)

Amortization of Deferred Outflows and Deferred Inflows of Resources (Continued)

The amortization period differs depending on the source of the gain or loss as follows:

Net difference between projected and actual earnings on pension plan investments	5-year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lifetime (EARSL) of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period

Pension Related Liabilities, Expense, and Deferred Outflows/Deferred Inflows of Resources

The Agency's net pension liability is measured as the proportionate share of the net pension liability of the Plan. The net pension liability of the Plan is measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2023 rolled forward to June 30, 2023 using standard update procedures. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Agency's proportionate share of the net pension liability as of the June 30, 2024 measurement date was 0.34 percent.

For the years ended June 30, 2025 and 2024, the Agency recognized pension expense of \$3,221,974 and \$3,447,723, respectively. At June 30, 2025 and 2024, the Agency's deferred inflows and outflows of resources related to pensions are as follows:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2025	2024	2025	2024
Changes of assumptions	\$ 379,810	\$ 979,663	\$ -	\$ -
Differences between expected and actual experience	1,277,644	828,934	(49,853)	(128,588)
Net differences between projected and actual investment earnings	850,718	2,627,206	-	-
Differences between employer's contributions and proportionate share of contributions	749,080	611,672	(411)	(996)
Change in employer's proportion	-	-	(819,488)	(1,050,622)
Pension contributions subsequent to measurement date	4,049,924	3,191,219	-	-
Total	\$ 7,307,176	\$ 8,238,694	\$ (869,752)	\$ (1,180,206)

NOTE 10 PENSION PLAN (CONTINUED)

Pension Related Liabilities, Expense, and Deferred Outflows/Deferred Inflows of Resources (Continued)

The amounts above are net of outflows and inflows recognized in the pension expense for the years ended June 30, 2025 and 2024. The \$4,049,924 and \$3,191,219 reported as deferred outflows of resources related to contributions subsequent to the measurement date as of June 30, 2025 and 2024, respectively, will be recognized as a reduction of the net pension liability in the year ending June 30, 2026 and 2025.

Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	Amount
2026	\$ 710,410
2027	1,923,986
2028	44,634
2029	(291,531)
Total	\$ 2,387,499

NOTE 11 DEFINED CONTRIBUTION PLAN AND DEFERRED COMPENSATION PLAN

The Agency has a defined contribution plan and there is one employee eligible to participate in this plan (the “eligible employee”). All contributions by the Agency are fully vested upon receipt. The eligible employee cannot contribute directly to the defined contribution plan. The Agency contributes matching contributions to the defined contribution plan for any contributions the eligible employee makes to the defined contribution plan. The Agency contributed \$13,800 and \$47,055 to the defined contribution plan for the years ended June 30, 2025 and 2024, respectively.

There is also a deferred compensation plan under Internal Revenue Code (IRC) Section 457 available to Agency employees which the employees can voluntarily contribute to. The Agency makes contributions to the deferred compensation plan for certain eligible employees hired after May 1, 2007. The Agency contributed \$98,960 and \$96,637 to the deferred compensation plan for the years ended June 30, 2025 and 2024, respectively.

NOTE 12 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

General Information About the OPEB Plan

Plan Description and Benefits Provided

The Agency, a single employer, offers postemployment benefits through the Association of California Water Agencies Health Plans. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. There are two classes of employees eligible for postemployment medical benefits detailed as follows:

**NOTE 12 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(CONTINUED)**

General Information About the OPEB Plan (Continued)

Plan Description and Benefits Provided (Continued)

Employees hired prior to May 1, 2007, with at least 12 years of service, who retire from the Agency on or after age 50 are eligible for full retiree, spousal and eligible dependent health premiums. Surviving spouses of active employees at their time of death, whose age was 50 or greater and had attained 12 years of continuous service, will continue to have premiums paid by the Agency for their lifetime. For eligible retirees under this section with 25 or more years of Agency service, the Agency will also pay the full premiums for dental and vision insurance.

Employees hired after May 1, 2007, with at least 12 years of service, who retire from the Agency, are eligible for a portion of the retiree, spousal and eligible dependent health insurance premiums to be paid by the Agency until eligible for Medicare.

Employees Covered

At June 30, 2023 (the valuation date), the following number of employees (including spouses) were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefit payments	53
Active employees	90
Total	143

Total OPEB Liability

The Agency's total OPEB liability of \$17,807,711 was measured as of June 30, 2024 and was determined by an actuarial valuation date of June 30, 2023.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2024 (measurement date) roll forward valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Salary increase	2.75% per year was used since benefits do not depend on salary (as they do for pensions), this assumption is only used to determine the accrual pattern of the Actuarial Present Value of Projected Benefit Payments.
Discount rate	3.93% per year net of expenses. Discount rate is based on the Bond Buyer 20 Bond Index.
Healthcare cost trend rates	4.00% per year. Long-term trend assumption is based on the conclusion that, while medical trend will continue to be cyclical, the average increase over time cannot continue to outstrip general inflation by a wide margin. Trend increases in excess of general inflation result in dramatic increases in unemployment, the number of uninsured and the number of underinsured.

**NOTE 12 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(CONTINUED)**

Total OPEB Liability (Continued)

Actuarial Assumptions and Other Inputs (Continued)

The discount rate is based on the Bond Buyer 20 Bond Index.

Mortality rates were based on 2021 CalPERS Mortality for Miscellaneous and School Employees.

Change in the Total OPEB Liability

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
Balance, June 30, 2023 and 2022 (measurement date)	\$ 18,128,566	\$ 19,011,824
Changes for the year:		
Service Cost	406,350	544,071
Interest	656,257	668,805
Difference between expected and actual experience	47,534	(535,291)
Changes of assumptions	(679,290)	(3,075,437)
Changes in benefit terms	-	2,093,315
Benefit payments	(751,706)	(578,721)
Balance, June 30, 2024 and 2023 (measurement date)	<u>\$ 17,807,711</u>	<u>\$ 18,128,566</u>

There were changes in benefit terms from June 30, 2023 measurement date to June 30, 2024 measurement date. The discount rate assumption changed from 3.65% to 3.93%.

Sensitivity of the total OPEB Liability to Changes in the Discount Rate

The following presents the Agency's total OPEB liability, as well as what the Agency's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current discount rates:

		Discount Rate -1%	Current Rate	Discount Rate +1%
	Fiscal Year	2.65%	3.65%	4.65%
Total OPEB liability	June 30, 2025	<u>\$ 20,344,938</u>	<u>\$ 17,807,711</u>	<u>\$ 15,755,167</u>
	June 30, 2024	<u>\$ 20,780,433</u>	<u>\$ 18,128,566</u>	<u>\$ 15,948,775</u>

Sensitivity of the total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the Agency's total OPEB liability, as well as what the Agency's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower or 1 percentage-point higher than the current healthcare cost trend rates:

		Trend Rate -1%	Current Trend Rate	Trend Rate +1%
Total OPEB liability	June 30, 2025	<u>\$ 15,237,707</u>	<u>\$ 17,807,711</u>	<u>\$ 20,959,590</u>
	June 30, 2024	<u>\$ 15,607,495</u>	<u>\$ 18,128,566</u>	<u>\$ 21,281,474</u>

**NOTE 12 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(CONTINUED)**

Change in the Total OPEB Liability (Continued)

For the years ended June 30, 2025 and 2024, the Agency recognized OPEB expense of (\$2,947,930) and (\$118,087), respectively. The Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources as of June 30, 2025 and 2024:

	Deferred Outflows of Resources	Deferred Inflows of Resources
June 30, 2025:		
Differences between expected and actual experience	\$ 41,875	\$ (453,799)
Changes of assumptions	-	(4,061,826)
OPEB contributions subsequent to measurement date	662,379	-
Total	\$ 704,254	\$ (4,515,625)
June 30, 2024:		
Differences between expected and actual experience	\$ -	\$ (2,815,469)
Changes of assumptions	415,077	(5,296,432)
OPEB contributions subsequent to measurement date	595,999	-
Total	\$ 1,011,076	\$ (8,111,901)

The \$662,379 and \$595,999 reported as deferred outflows of resources related to contributions subsequent to the measurement date as of June 30, 2025 and 2024, respectively, will be recognized as a reduction of the total OPEB liability in the fiscal year ending June 30, 2026 and 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in future OPEB expense as follows:

Year Ending June 30,	Amount
2026	\$ (1,649,417)
2027	(526,876)
2028	(505,059)
2029	(505,059)
2030	(505,059)
Thereafter	(782,280)
Total	\$ (4,473,750)

NOTE 13 RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts, theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance through participation in the JPIA (see Note 9). The insurance purchased is for liability, property and workers' compensation insurance and there are various self-insured retention levels, similar to a deductible, per occurrence.

A summary of the Agency's self-insurance program is as follows:

- Property Loss - Insured up to the scheduled value with a \$25,000 deductible for buildings, personal property and fixed equipment and a \$5,000 deductible for mobile equipment.
- General and Auto Liability - Insured up to \$55,000,000 with aggregate policy limits. The JPIA is self-insured up to \$5,000,000 and excess insurance coverage has been purchased through the JPIA.
- Public Officials' Liability - Insured up to \$55,000,000 with aggregate policy limits. The JPIA is self-insured up to \$5,000,000 and excess insurance coverage has been purchased through the JPIA.
- Crime Liability - Insured up to \$100,000 for public employee theft, depositor's forgery or alteration and computer and funds transfer fraud with a deductible of \$1,000. The JPIA is self-insured up to \$100,000 and excess coverage has been purchased through the JPIA.
- Cyber Liability - The Agency has purchased cyber liability coverage through the JPIA.
- Workers' Compensation - Insured for statutory limits. Employer's liability is insured up to \$2,000,000 per occurrence. The JPIA is self-insured up to \$2,000,000 and excess insurance coverage has been purchased through the JPIA.

The Agency maintains separate Earthquake and Flood Insurance. Earthquake coverage includes a 5 percent or a \$50,000 minimum deductible. Flood coverage includes a \$50,000 deductible. The per occurrence and aggregate limit is \$43,184,517.

There have been no claims in excess of self-insurance coverage limits for the past 3 years.

NOTE 14 COMMITMENT AND CONTINGENCIES

Various claims and litigation involving the Agency are currently outstanding. The most significant activity is related to an action by the local tribe that is still pending in the Federal District Court to adjudicate its reserved right to groundwater and its right to storage space beneath reservation lands. The Agency has reached a settlement agreement with the tribe and awaits approval by Congress. If approved by Congress, potential significant unfavorable outcomes will be mitigated.

The Agency has a \$18,424,899 contractual commitment as of June 30, 2025, related to constructing pipeline replacements. This commitment is due within the next fiscal year.

NOTE 15 RESTATEMENT OF 2024 FINANCIAL STATEMENTS

The 2024 financial statements were restated to reflect the impact of GASB 101 implementation as follows:

	2024, as previously reported	Adjustments	2024, as restated
Other employee benefits payable (Note 7)	\$ 1,630,879	\$ 256,191	\$ 1,887,070
Change in net position	48,975,838	(256,191)	48,719,647
Net position	495,479,206	(256,191)	495,223,015

NOTE 16 SUBSEQUENT EVENTS

In preparing these financial statements, the Agency has evaluated events and transactions for potential recognition or disclosure through December 23, 2025, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

Desert Water Agency
Schedule of Pension Plan Contributions - Last 10 Years

Fiscal Year	Contractually Required Contributions	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency/ (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
2025	\$ 3,049,924	\$ (4,049,924)	\$ (1,000,000)	\$ 10,065,007	40.24%
2024	2,191,219	(3,191,219)	(1,000,000)	9,217,814	34.62%
2023	2,159,032	(3,159,032)	(1,000,000)	8,882,791	35.56%
2022	2,003,622	(3,003,622)	(1,000,000)	8,153,827	36.84%
2021	2,262,927	(3,262,927)	(1,000,000)	7,721,227	42.26%
2020	2,121,647	(3,121,647)	(1,000,000)	7,253,560	43.04%
2019	1,849,946	(2,849,946)	(1,000,000)	7,026,860	40.56%
2018	1,586,919	(1,586,919)	-	6,050,470	26.23%
2017	1,461,680	(1,461,680)	-	6,021,869	24.27%
2016	1,379,325	(1,379,325)	-	5,952,152	23.17%

Desert Water Agency
Schedule of the Agency's Proportionate Share of the Net Pension Liability
Last 10 Plan Years

Measurement Date	Proportion of the Net Pension Liability	Proportionate Share of Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a % of Payroll	Plan Fiduciary Net Position as a % of the Total Pension Liability
2024	0.34%	\$ 14,777,420	\$ 10,065,007	146.82%	79.91%
2023	0.34%	16,226,434	9,217,814	176.03%	77.97%
2022	0.34%	15,925,749	8,882,791	179.29%	78.19%
2021	0.37%	6,979,956	8,153,827	85.60%	90.49%
2020	0.37%	15,804,090	7,721,227	204.68%	77.71%
2019	0.40%	15,957,880	7,253,560	220.00%	77.73%
2018	0.42%	15,975,305	7,026,860	227.35%	77.69%
2017	0.42%	16,466,171	6,050,470	272.15%	75.39%
2016	0.42%	14,563,532	6,021,869	241.84%	75.87%
2015	0.44%	12,000,195	5,952,152	201.61%	79.89%

Notes to the Pension Schedules:

Benefit Changes: None

Changes in Assumptions: There were no assumption changes in 2024. Effective with the June 30, 2021 valuation date (June 30, 2022 measurement date), the accounting discount rate was reduced from 7.15 percent to 6.90 percent. In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. In addition, demographic assumptions and the price inflation assumption were changed in accordance with the 2021 CalPERS Experience Study and Review of Actuarial Assumptions. The accounting discount rate was 7.15 percent for measurement dates June 30, 2017 through June 30, 2021, 7.65 percent for measurement dates June 30, 2015 through June 30, 2016, and 7.50 percent for measurement date June 30, 2014.

Desert Water Agency
Schedule of Changes in the Agency's Total OPEB Liability and Related Ratios
Last Ten Plan Years*

	6/30/2024	6/30/2023	6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017
Balance beginning of year	\$ 18,128,566	\$ 19,011,824	\$ 23,161,439	\$ 33,237,468	\$ 28,314,463	\$ 29,198,670	\$ 29,766,869	\$ 32,704,594
Changes for the year								
Service Cost	406,350	544,071	514,837	789,682	585,056	631,297	664,025	809,859
Interest	656,257	668,805	503,005	742,561	996,782	1,137,027	1,076,226	947,450
Difference between expected and actual experience	47,534	(535,291)	-	(9,237,736)	-	(2,879,482)	(49,240)	-
Changes of assumptions	(679,290)	(3,075,437)	(4,385,333)	(1,511,619)	4,188,505	1,134,393	(1,413,861)	(4,102,481)
Changes in benefit terms	-	2,093,315	-	-	-	-	-	-
Benefit payments	(751,706)	(578,721)	(782,124)	(858,917)	(847,338)	(907,442)	(845,349)	(592,553)
Balance year-end	<u>\$ 17,807,711</u>	<u>\$ 18,128,566</u>	<u>\$ 19,011,824</u>	<u>\$ 23,161,439</u>	<u>\$ 33,237,468</u>	<u>\$ 28,314,463</u>	<u>\$ 29,198,670</u>	<u>\$ 29,766,869</u>
Covered Payroll	\$ 10,065,007	\$ 9,217,814	\$ 8,882,791	\$ 8,153,827	\$ 7,721,227	\$ 7,253,560	\$ 7,026,860	\$ 6,050,470
Plan net OPEB liability as a percentage of covered-employee payroll	177%	197%	214%	284%	430%	390%	416%	492%

*Fiscal year 2018 was the first year of implementation, therefore, not all 10 years of information is available.

Notes to the Schedule:

Changes of benefit terms: None

Changes of assumptions reflect a change in the discount rate for the following measurement dates:

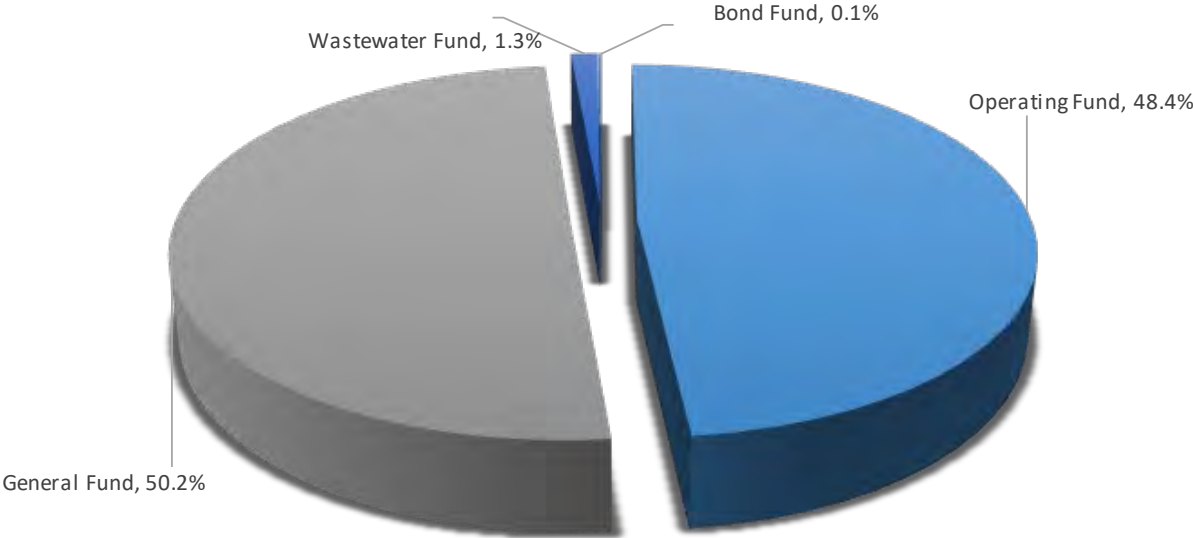
- June 30, 2017 – 2.85% to 3.58%
- June 30, 2018 – 3.58% to 3.87%
- June 30, 2019 – 3.87% to 3.50%
- June 30, 2020 – 3.50% to 2.21%
- June 30, 2021 – 2.21% to 2.16%
- June 30, 2022 – 2.16% to 3.54%
- June 30, 2023 – 3.54% to 3.65%
- June 30, 2024 – 3.65% to 3.93%

OTHER SUPPLEMENTARY INFORMATION

**Desert Water Agency
Source of Revenues by Fund
Year Ended June 30, 2025**

**DESERT WATER AGENCY
SOURCE OF REVENUES
FISCAL YEAR 2024 - 2025**

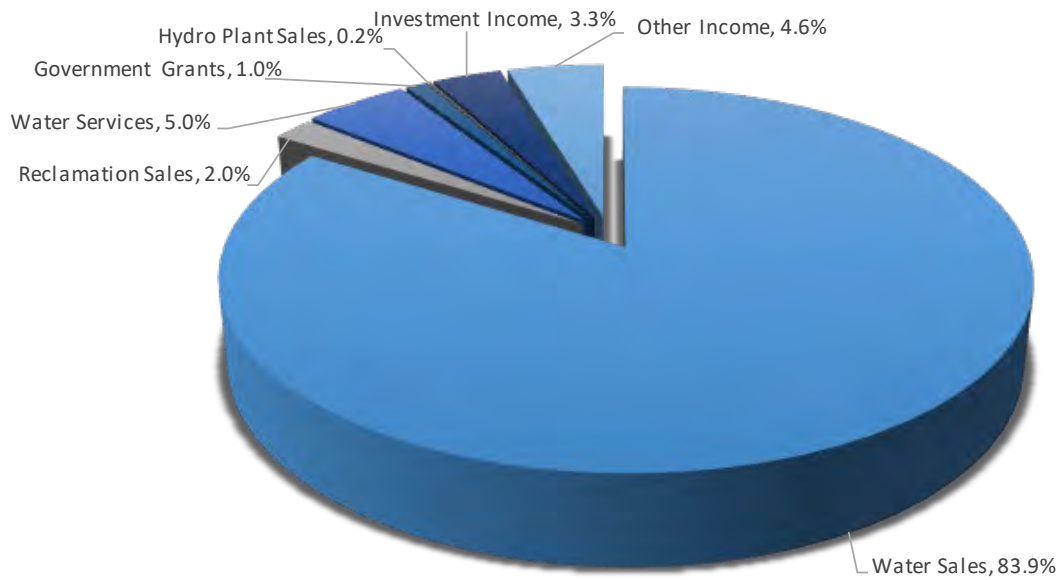
Fund Type	Amount	%
Operating Fund	\$ 55,866,678	48.4%
General Fund	\$ 57,867,205	50.2%
Wastewater Fund	\$ 1,533,993	1.3%
Bond Fund	\$ 101,386	0.1%
TOTAL	\$ 115,369,262	100.0%



**Desert Water Agency
Operating Fund Revenues
Year Ended June 30, 2025**

**DESERT WATER AGENCY
OPERATING FUND REVENUES
FISCAL YEAR 2024 - 2025**

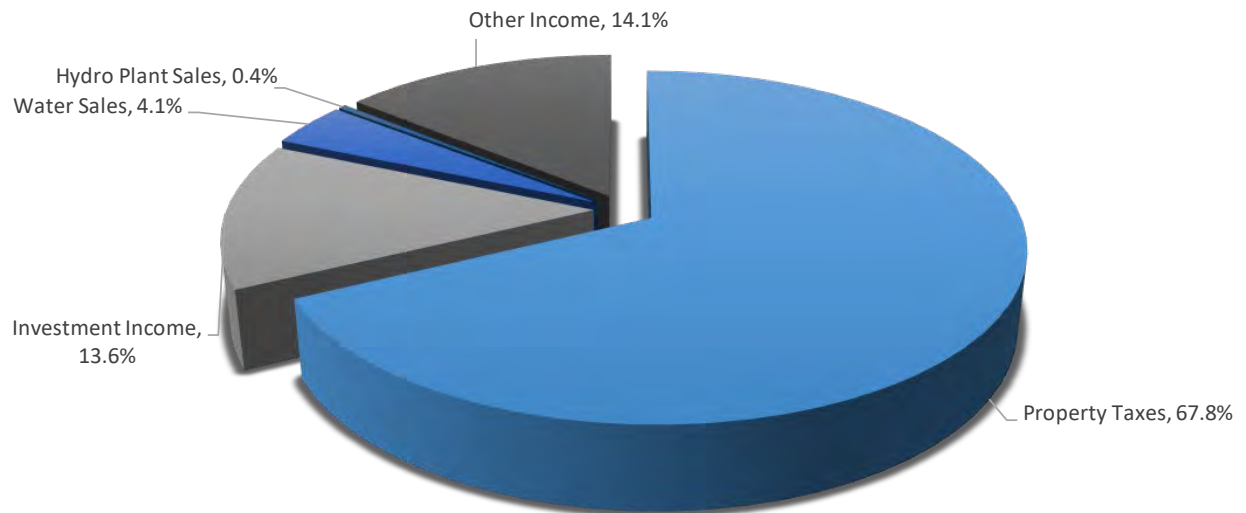
Revenue Source	Amount	%
Water Sales	\$ 46,917,526	83.9%
Reclamation Sales	\$ 1,095,171	2.0%
Water Services	\$ 2,801,904	5.0%
Government Grants	\$ 548,992	1.0%
Hydro Plant Sales	\$ 117,523	0.2%
Investment Income	\$ 1,826,990	3.3%
Other Income	\$ 2,558,572	4.6%
TOTAL	\$ 55,866,678	100.0%



**Desert Water Agency
General Fund Revenues
Year Ended June 30, 2025**

**DESERT WATER AGENCY
GENERAL FUND REVENUES
FISCAL YEAR 2024 - 2025**

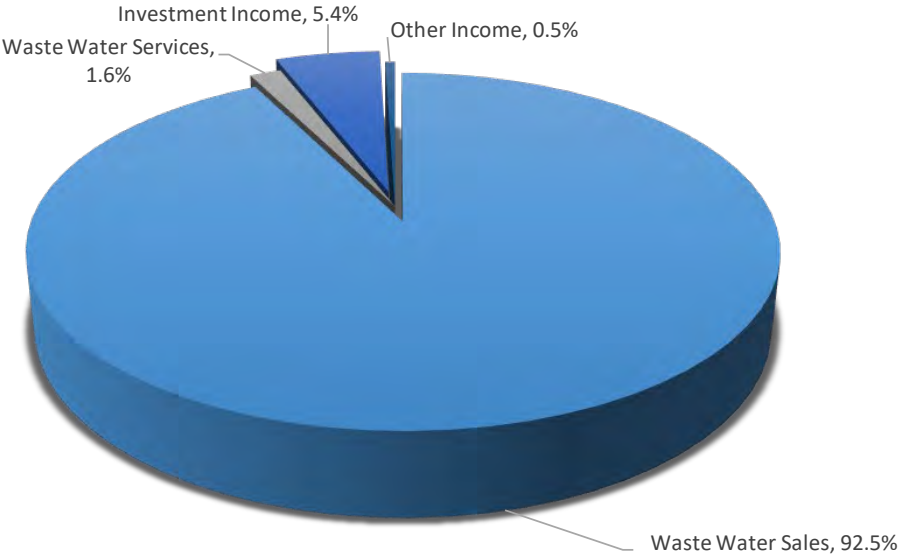
Revenue Source	Amount	%
Property Taxes	\$ 39,280,797	67.8%
Investment Income	\$ 7,853,681	13.6%
Water Sales	\$ 2,362,693	4.1%
Hydro Plant Sales	\$ 210,960	0.4%
Other Income	\$ 8,159,074	14.1%
TOTAL	\$ 57,867,205	100.0%



**Desert Water Agency
Wastewater Fund Revenues
Year Ended June 30, 2025**

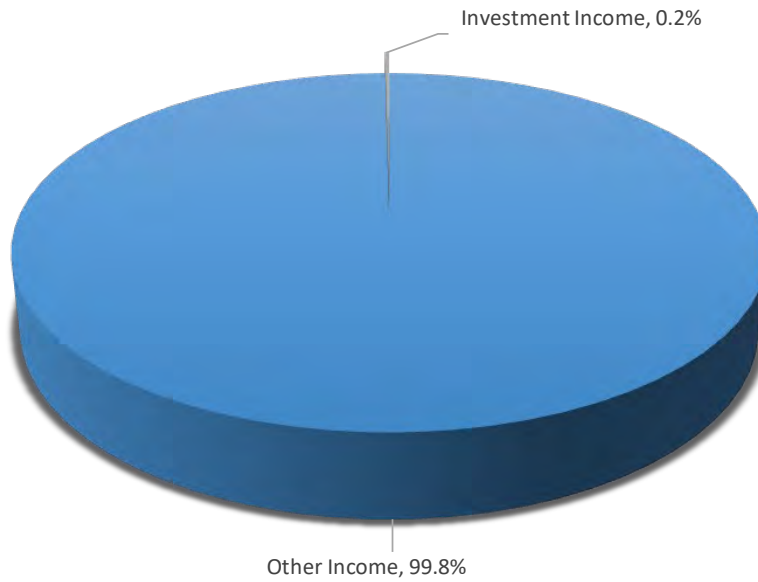
**DESERT WATER AGENCY
WASTEWATER FUND REVENUES
FISCAL YEAR 2024 - 2025**

Revenue Source	Amount	%
Waste Water Sales	\$ 1,417,896	92.5%
Waste Water Services	\$ 24,232	1.6%
Investment Income	\$ 83,485	5.4%
Other Income	\$ 8,380	0.5%
TOTAL	\$ 1,533,993	100.0%



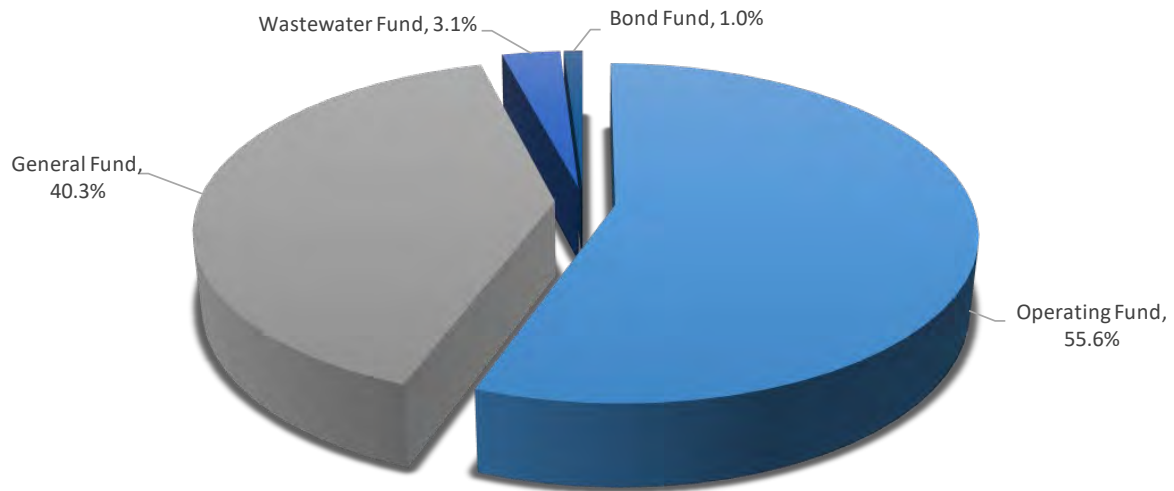
*DESERT WATER AGENCY
BOND FUND REVENUES
FISCAL YEAR 2024 - 2025*

Revenue Source	Amount	%
Other Income	\$ 101,222	99.8%
Investment Income	\$ 164	0.2%
TOTAL	\$ 101,386	100.0%



**DESERT WATER AGENCY
EXPENSE ANALYSIS
FISCAL YEAR 2024 - 2025**

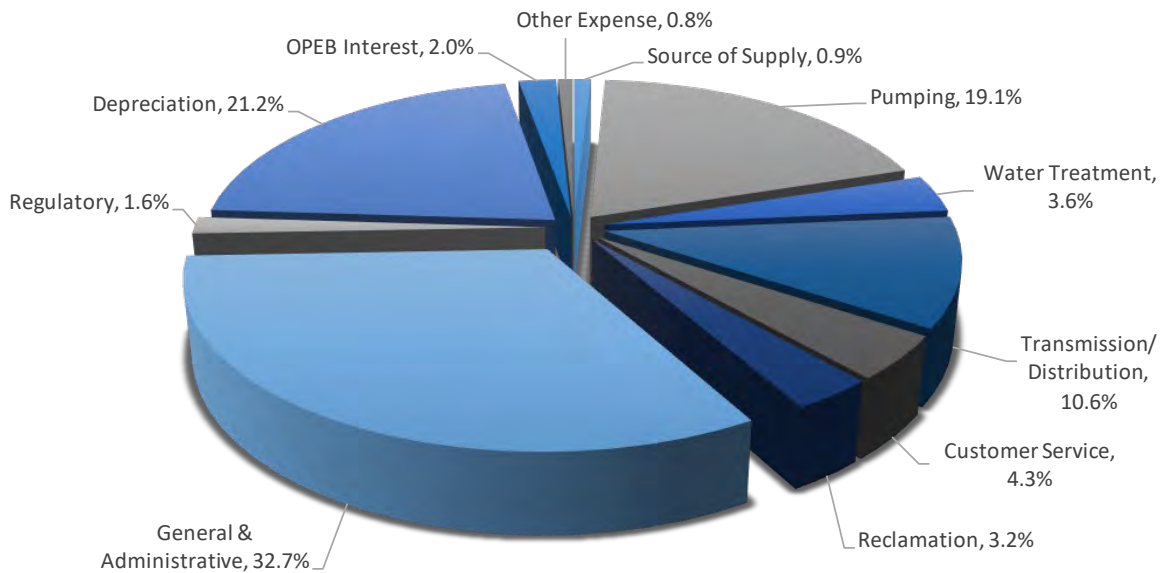
Fund Type	Amount	%
Operating Fund	\$ 33,479,435	55.6%
General Fund	\$ 24,257,403	40.3%
Wastewater Fund	\$ 1,859,522	3.1%
Bond Fund	\$ 581,864	1.0%
TOTAL	\$ 60,178,224	100.0%



**Desert Water Agency
Operating Fund Expenses
Year Ended June 30, 2025**

**DESERT WATER AGENCY
OPERATING FUND EXPENSES
FISCAL YEAR 2024 - 2025**

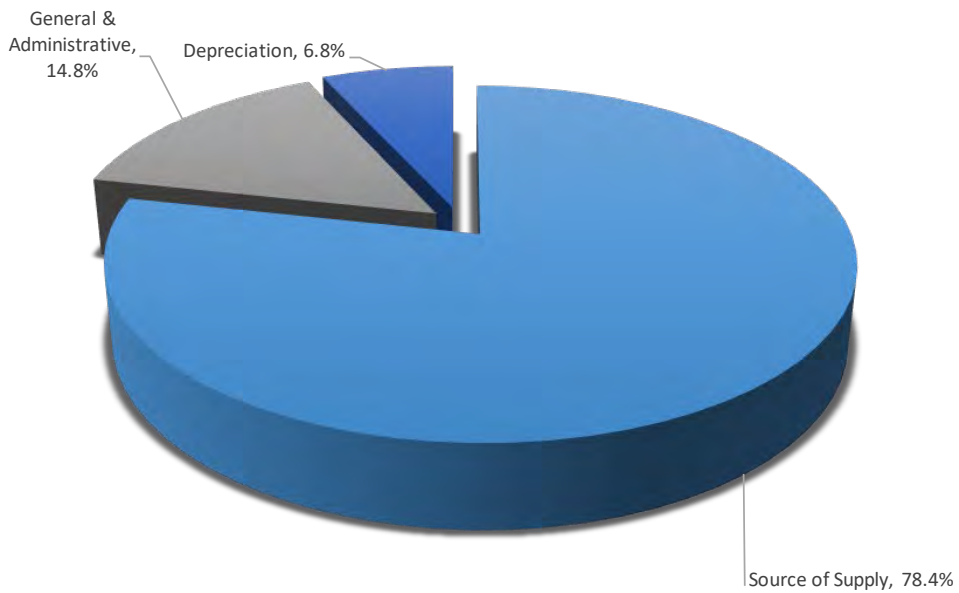
Expense Category	Amount	%
Source of Supply	\$ 299,065	0.9%
Pumping	\$ 6,392,403	19.1%
Water Treatment	\$ 1,211,899	3.6%
Transmission/Distribution	\$ 3,561,931	10.6%
Customer Service	\$ 1,443,336	4.3%
Reclamation	\$ 1,080,831	3.2%
General & Administrative	\$ 10,957,908	32.7%
Regulatory	\$ 539,179	1.6%
Depreciation	\$ 7,098,798	21.2%
OPEB Interest	\$ 656,257	2.0%
Other Expense	\$ 237,828	0.8%
TOTAL	\$ 33,479,435	100.0%



**Desert Water Agency
General Fund Expenses
Year Ended June 30, 2025**

**DESERT WATER AGENCY
GENERAL FUND EXPENSES
FISCAL YEAR 2024 - 2025**

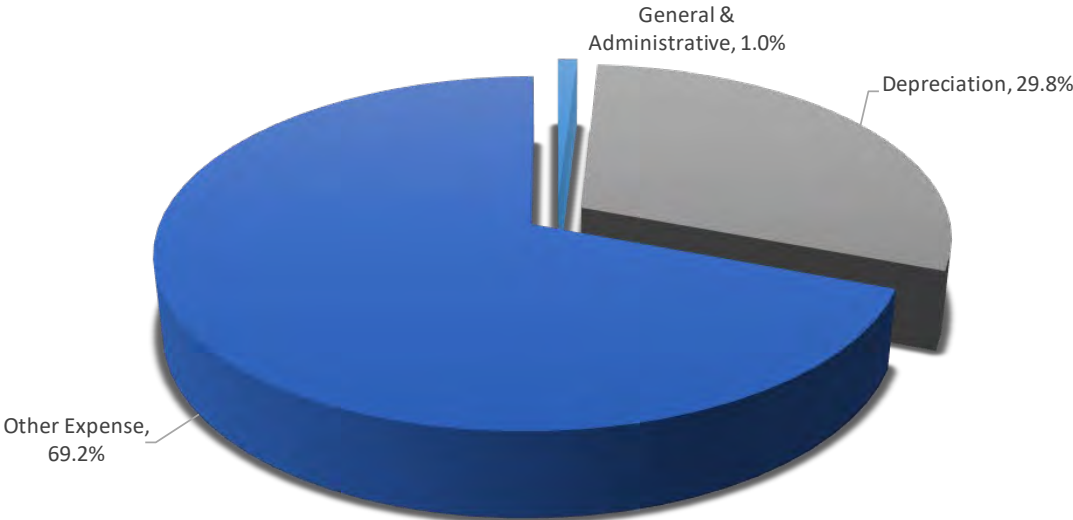
Expense Category	Amount	%
Source of Supply	\$ 19,018,431	78.4%
General & Administrative	\$ 3,583,104	14.8%
Depreciation	\$ 1,655,868	6.8%
TOTAL	\$ 24,257,403	100.0%



**Desert Water Agency
Wastewater Fund Expenses
Year Ended June 30, 2025**

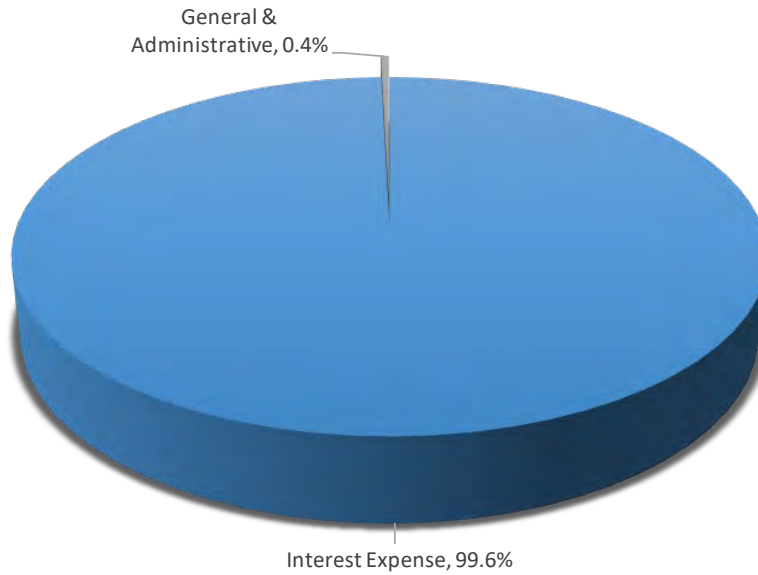
**DESERT WATER AGENCY
WASTEWATER FUND EXPENSES
FISCAL YEAR 2024 - 2025**

Expense Category	Amount	%
General & Administrative	\$ 19,079	1.0%
Depreciation	\$ 553,747	29.8%
Other Expense	<u>\$ 1,286,696</u>	<u>69.2%</u>
TOTAL	\$ 1,859,522	100.0%



*DESERT WATER AGENCY
BOND FUND EXPENSES
FISCAL YEAR 2024 - 2025*

Expense Category	Amount	%
Interest Expense	\$ 579,564	99.6%
General & Administrative	\$ 2,300	0.4%
TOTAL	\$ 581,864	100.0%



OTHER INFORMATION

Organization and Description of the Agency

Desert Water Agency (the "Agency") was formed in September 1961 by the Legislature of the State of California through the enactment of special legislation. The Agency was formed for the purpose of importing water by contracting for participation in the State Water Project of the State Department of Water Resources and for any other activities authorized by the Legislature as proper for the Agency to conduct. The Agency's contract for water provides for delivery of up to 38,100 acre feet of water per year, starting at 8,000 acre feet and increasing annually until deliveries totaled the full contract amount in 1990. In 2004, the contract was amended to reflect an allotment of 50,000 acre feet. In 2007, the contract was again amended to reflect an allotment of 55,750 acre feet, effective January 1, 2010. The Agency negotiated an agreement with the Metropolitan Water District of Southern California (Metropolitan Water District) for the exchange of the Agency's entitlement to Northern California water for an equal amount of Metropolitan Water District's Colorado River water. The exchange agreement became effective when approved by the Secretary of the Interior on December 1, 1972 and extends until 2035.

The Agency started receiving this exchange water in September 1973 when the service connection to the Metropolitan Water District's aqueduct was completed.

The Agency is committed to pay its proportionate share of the capital and other costs of the State Water Project, including the capital costs in connection with both the transportation facilities and the conservation facilities, the operation and maintenance costs in connection therewith, and the variable costs incident to the actual delivery of water. Annually, the State Department of Water Resources (DWR) issues a bulletin known as the 132 Series in which the capital and operating costs are estimated for the life of the project. On June 30 of each year, DWR bills for the costs to be paid during the next succeeding calendar year. The capital costs are being capitalized as utility plant while the other costs are charged to operations. The capital costs are being amortized using a life of 45 years.

The Agency shares in the costs of the Whitewater Turnout and the Mission Creek Turnout with the Coachella Valley Water District (CVWD). The Mission Creek Turnout connection makes imported water available for spreading in the Mission Creek area of the Mission Springs Water District. These facilities are necessary to enable the Agency and CVWD to perform under the present agreement for the exchange of State Water Project water for Colorado River water with the Metropolitan Water District of Southern California, which agreement was referred to in a paragraph above. The Whitewater connection was constructed by Metropolitan Water District crews and was completed in September 1973. The Mission Creek connection was completed in the late 1990's. Although the Whitewater and Mission Creek turnouts from the Colorado River Aqueduct were constructed by Metropolitan Water District, the Agency and Coachella Valley Water District funded the costs of constructing those turnouts.

The Agency is also committed to pay in future years its share of the cost of supplemental water facilities which may be necessary to enable it to benefit fully from participation in the State Water Project. Such supplemental facilities could be in the form of an aqueduct to transport State Water Project water from Hesperia or San Bernardino to the Coachella Valley or could consist of a desalination plant and/or other facilities necessary to continue the exchange of the Agency's Northern California water entitlement for Colorado River water. The cost of supplemental water facilities will be shared by other agencies which will benefit from their construction. Anticipated costs may also include construction of new Delta conveyance facilities and the cost of participation in additional surface water storage facilities, such as the Sites Reservoir.

Organization and Description of the Agency (Continued)

The Agency entered into a water management agreement with the CVWD on July 1, 1976. The agreement establishes principles which control the continuation of the parties' imported water program and the allocation of costs for these programs. It further provides for the collection and analysis of data which serves as the basis for management of the natural and imported water supplies of the management area. This agreement was amended in July 2014 to reflect a change in the allocation of certain costs to more accurately reflect allocations of water to each party. The Agency and CVWD have also entered into a similar, additional agreement to allocate between them the cost of delivering imported water to the Mission Creek spreading facilities.

FACTORS BEARING ON THE AGENCY'S FUTURE

The Agency has participated (along with Coachella Valley Water District, Metropolitan Water District, and San Geronio Pass Water Agency) in a partnership studying a potential desert aqueduct connection to the State Water Project. This potential connection remains an option to enable the delivery and storage of water in the local groundwater basins.

The Department of Water Resources is in the final stages of creating a plan to address the Delta Conveyance Project and the aging and unreliable levees in the Delta. This plan will directly affect the state water contractors and the costs associated with the State Water Project.

The Agency is participating in planning efforts for the Sites Reservoir Project along with many agricultural and municipal water providers throughout the State. The Agency is pursuing this project in order to meet its projected future increased water demands and promote water quality and environmental improvements in the Sacramento San Joaquin Delta. The Agency is working with DWR to incorporate the construction costs for this project on its State Water Project statement of charges.

It is important to recognize the potential desert aqueduct connection, the Delta Conveyance Project, and the Sites Reservoir Project, as they will have a major financial impact on the Agency and its operations. Not only do the aqueduct connection, Delta conveyance project, and Sites Reservoir Project constitute major financial transactions, but the potential financial obligations associated with the transactions are significant, thus impacting the financial statements and operations of the Agency.

Officers, Directors, and Senior Management

The officers, directors, and senior management of the Agency are listed below:

	<u>Term Expires</u>
Paul Ortega, President	December 2028
Jeff Bowman, Vice President	December 2026
Gerald McKenna, Secretary-Treasurer	December 2026
Kristin Bloomer, Director	December 2028
Steve Grasha, Director	December 2026
Steve Johnson, General Manager	July 2025



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**Independent Auditor’s Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

**To the Board of Directors
Desert Water Agency**

We have audited, 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, the financial statements of Desert Water Agency (the Agency), as of and for the years ended June 30, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Agency’s basic financial statements, and have issued our report thereon dated December 23, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency’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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency’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 Agency'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 financial statements. 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*.

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 Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**Glendale, California
December 23, 2025**

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