JOSHUA BASIN WATER DISTRICT
REGULAR MEETING OF THE BOARD OF DIRECTORS
WEDNESDAY, DECEMBER 5, 2018, AT 6:30 PM
61750 CHOLLITA ROAD, JOSHUA TREE, CA 92252

AGENDA

1. **CALL TO ORDER**

2. **PLEDGE OF ALLEGIANCE**

3. **DETERMINATION OF A QUORUM**

4. **APPROVAL OF AGENDA**

5. **PUBLIC COMMENT**
Members of the public may address the Board at this time with regard to matters within the Board's jurisdiction that are not listed on the agenda. State law prohibits the Board of Directors from discussing or taking action on items not included on the agenda. Members of the public will have the opportunity for public comment on any item listed on the agenda when it is addressed on the agenda. Please limit comments to three (3) minutes or less.

6. **CONSENT CALENDAR**
Matters on the Consent Calendar are considered routine in nature and will be enacted in a single motion without discussion. Any Board member or member of the public may request that an item be removed from the Consent Calendar and acted on separately.

Page 3
- Draft Minutes of November 7, 2018, Special Meeting of the Board of Directors

Pages 4-6
- Draft Minutes of November 7, 2018, Regular Meeting of the Board of Directors

Pages 7-69
7. **REVIEW OF FISCAL YEAR ENDING 6/30/2018 AND 2017-** Recommend that the Board of Directors receive the report, ask questions, and accept & file.

8. **UPDATES ON THE STRATEGIC PLAN-** Receive for information only.

9. **GENERAL MANAGER REPORT** – Curt Sauer

10. **DIRECTOR COMMENTS & REPORTS ON MEETINGS ATTENDED**
- Public Outreach Consultant – Kathleen Radnich
- Mojave Water Agency Board of Directors Meeting - November 8, 2018 – Director Unger
- Finance Committee – November 8, 2018 – Vice President Johnson & Director Floen
- Water Resources & Operations Committee –November 8, 2018 - President Luckman & Director Floen

11. **FUTURE DIRECTOR MEETINGS AND TRAINING OPPORTUNITIES**
- Mojave Water Agency, TAC – December 6, 2018, at 10:00 a.m.-
- Finance Committee – December 12, 2018, at 9:00 a.m.-Vice President Johnson and Director Floen
- Water Resources & Operations Committee – December 12, 2018, at 10:30 a.m.- President Luckman and Director Hund

- Morongo Basin Pipeline Commission – December 12, 2018, at 2:00 p.m. – Mojave Water Agency
- Mojave Water Agency Board of Directors – December 13, 2018, at 9:30 a.m. – Director Floen

12. **ADJOURNMENT-**

INFORMATION
The public is invited to comment on any item on the agenda during discussion of that item.
Any person with a disability who requires accommodation in order to participate in this meeting should telephone Joshua Basin Water District at (760) 366-8438, at least 48 hours prior to the meeting in order to make a request for a disability-related modification or accommodation.

Materials related to an item on this Agenda submitted to the Board of Directors after distribution of the agenda packet are available for public inspection in the District's office located at 61750 Chollita Road, Joshua Tree, California 92252 during normal business hours.

JOSHUA BASIN WATER DISTRICT
SPECIAL MEETING MINUTES
WEDNESDAY, NOVEMBER 7, 2018, at 5:15 p.m.

CALL TO ORDER/PLEDGE OF ALLEGIANCE
President Luckman called the Special meeting to order at 5:15 p.m.

ROLL CALL
Directors Present – President Luckman, Vice President Johnson, Director Floen, Director Hund, and Director Unger.

STAFF PRESENT
Curt Sauer, General Manager, and Beverly Waszak, Executive Assistant

CONSULTANTS PRESENT –
Gil Granito, Legal Counsel, Redwine & Sherrill

APPROVAL OF AGENDA
Vice President Johnson made a motion to approve the Agenda. Director Floen seconded the motion.

MSC[1] (Johnson/Floen) motion carried by the following vote

Ayes: Floen, Hund, Johnson, Luckman, and Unger
Noes: None
Absent: None
Abstain: None

PUBLIC COMMENT – None

CLOSED SESSION - CONFERENCE WITH LEGAL COUNSEL – POTENTIAL LITIGATION PURSUANT TO PARAGRAPH (2) OF SUBDIVISION (D) OF GOVERNMENT CODE SECTION 54956.9 (1) MATTER.

Immediately following "Public Comment" of the Special Agenda, the Board went into Closed Session at approximately 5:18 p.m. to consult with Legal Counsel pursuant to paragraph (2) of subdivision (d) of Government Code Section 54956.9, pertaining to potential litigation, (1) matter. The Closed Session ended at approximately 5:49 p.m. and the Board returned to Open Session. Mr. Gil Granito, Legal Counsel, reported that no reportable action was taken.

ADJOURNMENT – Vice President Johnson made a motion to adjourn at 5:40 p.m. Director Unger seconded the motion.

MSC[1] (Johnson/Unger) motion carried.

Respectfully Submitted:

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Curt Sauer, Board Secretary, and General Manager

JOSHUA BASIN WATER DISTRICT
REGULAR MEETING MINUTES
WEDNESDAY, NOVEMBER 7, 2018

CALL TO ORDER/PLEDGE OF ALLEGIANCE
President Luckman called the meeting to order at 6:30 p.m.

ROLL CALL
Directors Present – President Luckman, Vice President Johnson, Director Floen, Director Hund, and Director Unger.

STAFF PRESENT
Curt Sauer, GM, Susan Greer, AGM/Controller, Sarah Johnson, HR Mgr., and Beverly Waszak, Executive Assistant

CONSULTANTS PRESENT
Kathleen Radnich, Public Outreach
Gil Granito, Legal Counsel, Redwine & Sherrill

APPROVAL OF AGENDA
Vice President Johnson made a motion to approve the Agenda. Director Unger seconded the motion.

MSC[1] (Johnson/Unger) motion carried by the following vote

Ayes: Floen, Hund, Johnson, Luckman, and Unger
Noes: None
Absent: None
Abstain: None

PUBLIC COMMENT – None

CONSENT CALENDAR

- Draft Minutes of October 17, 2018, Special Meeting of the Board of Directors
- Draft Minutes of October 17, 2018, Regular Meeting of the Board of Directors

Vice President Johnson made a motion to approve the Consent Calendar. Director Hund seconded the motion.

MSC[1] (Johnson/Hund) motion carried by the following vote:

Ayes: Floen, Hund, Johnson, Luckman, and Unger
Noes: None
Absent: None
Abstain: None

RESULTS OF THE STRATEGIC PLANNING WORKSHOPS HELD ON OCTOBER 16-17, 2018- GM Sauer gave a brief report to the Board and a short Q&A period followed.

ADOPT RESOLUTION NO. 18-993, INCREASING THE GUARANTEE DEPOSIT FOR THE WATER ACCOUNTS AND ESTABLISHING AUTOMATIC FUTURE INCREASES TO THE GUARANTEE DEPOSIT BASED ON WATER RATES – AGM Greer gave the staff report and a brief Q&A period followed with the Board.

Director Hund made a motion to adopt Resolution No. 18-993. Director Unger seconded the motion.

MSC[1] (Hund/Unger) motion carried by the following vote:

Ayes: Floen, Hund, Johnson, Luckman, and Unger
Noes: None
Absent: None
Abstain: None

UPDATE ON SHOP REMODEL AND AMENDMENT TO THE 2018/2019 BUDGET TO REFLECT ALL EXPENSES AND INCOMES FOR THE CIRP – Recommend that the Board authorize the General Manager to adjust the 2018/2019 Budget to clearly identify costs and offsets for the CIRP for 2018/2019- GM Sauer updated the Board on current expenditures on the shop remodel and requested permission to transfer to different accounts. A brief Q&A period followed with the Board.

Director Floen made a motion to authorize the General Manager to adjust the 2018/2019 Budget to clearly identify costs and offsets for the CIRP for 2018/2019. Director Floen seconded the motion.

MSC[1] (Unger/Floen) motion carried by the following vote:

Ayes: Floen, Hund, Luckman, and Unger
Noes: Johnson
Absent: None
Abstain: None

POTENTIAL DEVELOPMENT PROPOSALS ABOUT WHICH THE DISTRICT HAS BEEN CONTACTED – GM Sauer gave a presentation outlining the four different proposals that the District has been contacted about. A brief Q&A period followed with the Board.

PUBLIC COMMENT –

Gayle Austin, Joshua Tree – Commented that we dodged a bullet with the Solar because they threatened to put in a huge well and we barely dodged it. However, it will happen sooner or later. She mentioned the RV Park and that they keep adding more things and more people, who take more water, showers, and the water is free to them. It will eventually happen and if we don't have a solid policy that we should be monitoring them. She doesn't feel they should take more and then we have to pay to recharge the water. She stated that yes you have the right to your land, but we all share the water, and it is limited here, no one has the right to more than their share.

DISTRICT GENERAL COUNSEL REPORT – None

GENERAL MANAGER REPORT – GM Sauer updated the Board on the following:

- Emergency Response Plan
- Joshua Tree Flood Event
- CEC Solar Grant
- Conservation Figures
- DWR Studies
- CIRP Vacancies shared by Sarah Johnson, HR Mgr.

DIRECTOR COMMENTS & REPORTS ON MEETINGS ATTENDED -

Public Outreach Consultant – Kathleen Radnich reported on the CAL WARN meetings attended by herself and Beverly Waszak, and described the new CAL WARN software to the Board. She updated the Board on the United Way Low-Income Assistance Program in which 40 customers have received assistance since October 31, 2018.

Director Unger thanked everyone that voted for her and that she truly loves sitting on the JBWD Board of Directors and wished she had started public service when she was younger. She congratulated Mike Reynolds on his win and thanked the other participants, Al Marquez, and Paul Coate. Director Unger thanked Director Floen for his excellent work on the Board and his great service to the District.

Vice President Johnson dittoed Director Unger remarks and appreciated the enthusiasm that the other candidates showed and encouraged them to keep getting involved with the District. He went on to invite everyone to the riveting Finance Committee tomorrow.

Director Hund echoed the sentiments of the other Board members and congratulated Mike Reynolds on his win and to also thank everyone who ran and also those who continue to engage and contribute.

Director Floen commented that it isn't surprising that Mike Reynolds won as there is significant fame with Mike Reynolds since he has been a member of the Joshua Tree community for decades. He continued to say that being on the Board of Directors has been an exceptional experience and that this is really hard work and just a tip of the iceberg to sit up here on the Board. It takes a lot of focus, research time, and commitment to do this job and the dedication that everyone shows is impressive. It takes a lot of courage to raise rates, and understands that it hurt a lot of people, but it needed to be done.

Director Johnson wished all the veterans a happy Veterans Day and thanked the first responders and those serving abroad for their service.

Director Unger stated the Veterans Day celebrations would begin on Sunday at 10 a.m. at the Community Center in Yucca Valley.

President Luckman thanked the current Board for their service and stated that she would miss Director Floen immensely. He was an amazing person before he was on the Board and he has served as an amazing Director.

FUTURE DIRECTOR MEETINGS AND TRAINING OPPORTUNITIES -

President Luckman read off the list of future meetings.

ADJOURNMENT –

Director Unger made a motion for adjournment at 7:31 p.m. Director Floen seconded.

MSC[1] (Unger/Floen) motion carried by the following vote:

Ayes: Floen, Hund, Johnson, Luckman, and Unger
Noes: None
Absent: None
Abstain: None

Respectfully Submitted,

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Curt Sauer, GM, and Board Secretary

JOSHUA BASIN WATER DISTRICT
MEETING AGENDA REPORT

Meeting of the Board of Directors December 5, 2018

Report to: President and Board

Prepared by: Susan Greer

TOPIC:
REVIEW OF FISCAL YEAR ENDING 6/30/18 AUDITED FINANCIAL STATEMENT

RECOMMENDATION:
Receive report, ask questions, accept and file

ANALYSIS:
The audit for the year ending 6/30/18 is complete and Jonathan Abadesco, CPA and Audit Manager with the Fedak & Brown audit firm, will be at the meeting to present the audit results. Jonathan already presented the report to the Finance Committee on November 8 and the Committee recommends for acceptance by the full board.

Note, the *result* we are looking for, the reason for the audit, is found at the top of page two, in the "Opinion" section, which says that the financial statements are presented fairly in all material respects.

The quick-read, big picture information is included in the "Management Discussion and Analysis" section towards the front of the document, pages 3-7. The first page of that section indicates that net position increased, and both revenues and expenses increased compared to the prior year.

The District's audit is performed in compliance with GASB, the Governmental Accounting Standards Board. GASB is an independent organization that establishes accounting and financial reporting standards for US state and local governments. GASB develops and issues accounting standards intended to promote financial reporting that provides useful information to taxpayers, public officials, investors and others who use financial reports.

The audit requirements continue to grow, resulting in more effort for staff each year. Page 14 shows the four new GASB standards implemented *this year*. Adopted but not-yet implemented GASB standards are presented on pages 33-35, which shows new GASB compliance required of us in the future.

Page 39-40 includes the Report on Internal Controls and Compliance. This information indicates that the audit found no deficiency in internal controls or material weaknesses or significant deficiencies or instances of noncompliance, although the financial audit is not designed to detect such issues.

There is a separate Management Report which is the Auditors report to the Board of Directors. The Report discusses internal controls again and includes the adjusting journal entries. Most of the entries relate to the very complex net pension liability associated with CalPERS. As stated in the Report, there are legitimate reasons for adjusting entries and this is not an indication that anything is wrong.

Starting at the transaction level, employees make hundreds of thousands of entries over the course of the year to bill customers, take customer payments, deposit funds, pay our employees, directors and vendors, record inventory and *much more*. Attention to detail is continuously required and I appreciate all of their hard work; we've got a great team here at the District. Beyond that, hundreds of hours of work, much of it in the evenings and on weekends, are required from Anne Roman in order to produce the annual financial report and undergo the Auditor's scrutiny. Anne sets a high standard for herself and others and the outstanding audit results are an example of her commitment. I am fortunate to have Anne on my Finance Team and she is an outstanding employee and role model for other employees. It's a privilege to work with someone of Anne's caliber and she's a huge asset to the District.

FISCAL IMPACT:

N/A

Joshua Basin Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2018 and 2017

Joshua Basin Water District

Board of Directors as of June 30, 2018

Name	Title	Elected/ Appointed	Current Term
Mickey Luckman	President	Elected	12/16-12/20
Robert Johnson	Vice President	Elected	12/16-12/20
Rebecca Unger	Director	Elected	12/14-12/18
Tom Floen	Director	Appointed	12/16-12/18
Geary Hund	Director	Elected	12/16-12/20

Joshua Basin Water District
Curt Sauer, General Manager
61750 Chollita Road
Joshua Tree, California 92252-0675
(760) 366-8438 – www.jbwd.com

Joshua Basin Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2018 and 2017

Joshua Basin Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2018 and 2017

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Financial Section

Independent Auditor's Report

Board of Directors
Joshua Basin Water District
Joshua Tree, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Joshua Basin Water District (District), which comprises the statements of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net position for the fiscal years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Joshua Basin Water District as of June 30, 2018 and 2017, and the respective changes in net position, and, where applicable, cash flows thereof for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the required supplementary information on pages 37 to 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. This report can be found on pages 39 and 40.

Fedak & Brown LLP
Cypress, California
December 5, 2018

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Joshua Basin Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2018 and 2017. We encourage readers to consider the information presented here with additional information that we have furnished in the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net position increased 1.99% or $739,437 to $37,854,430. In fiscal year 2017, the District's net position increased 1.55% or $567,145 to $37,114,993.
- The District's total revenues increased 9.43% or $544,946 to $6,324,873. In fiscal year 2017, the District's total revenues increased 8.10% or $433,135 to $5,779,927.
- The District's total expenses increased 7.56% or $423,696 to $6,031,292. In fiscal year 2017, the District's total expenses decreased 10.87% or $684,029 to $5,607,596.

Using This Financial Report

This annual report consists of a series of financial statements. The Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statements of Net Position includes all of the District's investments in resources (assets) and deferred outflows of resources, obligations to creditors (liabilities) and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statements of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statements of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

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

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 13 through 36.

Statements of Net Position

Condensed Statements of Net Position

		2018	2017	Change	2016	Change
Assets:						
Current assets	$	11,296,670	10,808,287	488,383	9,838,989	969,298
Non-current assets		671,494	746,104	(74,610)	820,715	(74,611)
Capital assets, net		29,737,371	29,612,924	124,447	29,983,210	(370,286)
Total assets		41,705,535	41,167,315	538,220	40,642,914	524,401
Deferred outflows of resources		477,782	446,356	31,426	280,820	165,536
Liabilities:						
Current liabilities		784,266	1,003,659	(219,393)	737,788	265,871
Non-current liabilities		3,531,815	3,451,436	80,379	3,462,074	(10,638)
Total liabilities		4,316,081	4,455,095	(139,014)	4,199,862	255,233
Deferred inflows of resources		12,806	43,583	(30,777)	176,024	(132,441)
Net position:						
Net investment in capital assets		26,717,030	26,535,924	181,106	26,804,210	(268,286)
Restricted		2,887,542	2,734,640	152,902	2,484,367	250,273
Unrestricted		8,249,858	7,844,429	405,429	7,259,271	585,158
Total net position	$	37,854,430	37,114,993	739,437	36,547,848	567,145

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets plus deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by $37,854,430 and $37,114,993 as of June 30, 2018 and 2017, respectively.

Compared to prior year, net position of the District increased 1.99% or $739,437. The District's total net position is made up of three components: (1) net investment of capital assets, (2) restricted net position and (2) unrestricted net position.

By far the largest portion of the District's net position (70.58% and 71.50% as of June 30, 2018 and 2017, respectively) reflects the District's net investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2018 and 2017, the District showed a positive balance in its unrestricted net position of $11,137,400 and $10,579,069, respectively, which may be utilized in future years. See note 14 for further information.

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2018	2017	Change	2016	Change
Revenue:					
Operating revenue	$ 5,294,374	4,903,804	390,570	4,414,383	489,421
Non-operating revenue	1,030,499	876,123	154,376	932,409	(56,286)
Total revenue	6,324,873	5,779,927	544,946	5,346,792	433,135
Expense:					
Operating expense	4,284,015	3,880,431	403,584	4,386,562	(506,131)
Depreciation	1,235,914	1,212,568	23,346	1,372,100	(159,532)
Non-operating expense	511,363	514,597	(3,234)	532,963	(18,366)
Total expense	6,031,292	5,607,596	423,696	6,291,625	(684,029)
Net income (loss) before capital contributions	293,581	172,331	121,250	(944,833)	1,117,164
Capital contributions	445,856	394,814	51,042	34,916	359,898
Change in net position	739,437	567,145	172,292	(909,917)	1,477,062
Net position, beginning of period	37,114,993	36,547,848	567,145	37,457,765	(909,917)
Net position, end of period	$ 37,854,430	37,114,993	739,437	36,547,848	567,145

Net position increased 1.99% or $739,437 to $37,854,430, as a result of ongoing operations. In fiscal year 2017, the District's net position increased 1.55% or $567,145 to $37,114,993, as a result of ongoing operations.

Total revenues increased 9.43% or $544,946 to $6,324,873. Operating revenues increased 7.96% or $390,570, primarily due to increases in water consumption sales of $251,556, and water service charges of $64,502. Non-operating revenue increased 17.62% or $154,376, primarily due to investment earnings of $77,744 and HDMC operations revenue of $47,119. In fiscal year 2017, the District's total revenues increased 8.10% or $433,135 to $5,779,927. Operating revenues increased 11.09% or $489,421, primarily due to increases in water consumption sales of $221,530 and water service charges of $213,000. Non-operating revenues decreased 6.04% or $56,286, primarily due to a decrease in HDMC operations revenue of $67,456.

Total expenses increased by 7.56% or $423,696 to $6,031,292. Operating expense increased 10.40% or $403,584, primarily due to increases of $269,206 in general and administrative, and $218,108 in transmission and distribution. Non-operating expense decreased 0.63% or $3,234. In fiscal year 2017, the District's total expenses decreased by 10.87% or $684,029 to $5,607,596. Operating expense decreased 11.54% or $506,131, primarily due to decreases of $642,188 in pumping, production and treatment cost, $111,563 in transmission and distribution, which was offset by an increase of $191,779 in general and administrative expenses. Non-operating expense decreased 3.45% or $18,366, primarily due to a decrease of $67,120, which was offset by an increase in other operating expenses of $52,751.

Capital Asset Administration

Changes in capital asset for 2018, were as follows:

	Balance 2017	Additions	Transfers/ Deletions	Balance 2018
Capital assets:				
Non-depreciable assets	$ 1,401,019	1,284,857	(559,251)	2,126,625
Depreciable assets	54,032,325	640,284	(178,293)	54,494,316
Accumulated depreciation	(25,820,420)	(1,236,019)	172,869	(26,883,570)
Total capital assets, net	$ 29,612,924	689,122	(564,675)	29,737,371

Capital Asset Administration, continued

Changes in capital asset for 2017, were as follows:

	Balance 2016	Additions	Transfers/ Deletions	Balance 2017
Capital assets:				
Non-depreciable assets	$ 774,844	814,529	(188,354)	1,401,019
Depreciable assets	54,290,614	216,107	(474,396)	54,032,325
Accumulated depreciation	(25,082,248)	(1,212,568)	474,396	(25,820,420)
Total capital assets, net	$ 29,983,210	(181,932)	(188,354)	29,612,924

At the end of fiscal year 2018 and 2017, the District's capital assets amounted to $29,737,371 and 29,612,924 (net of accumulated depreciation), respectively. This capital assets include land, transmission and distribution systems, buildings, equipment, vehicles and construction-in-process. See note 9 to the basic financial statements for further detailed information on the District's capital assets.

Debt Administration

Changes in long-term debt for 2018, were as follows:

	Balance 2017	Additions	Payments	Balance 2018
Long-term debt:				
Bonds payable	$ 3,077,000	-	(107,000)	2,970,000
Loans payable	-	50,341	-	50,341
Total long-term debt	$ 3,077,000	50,341	(107,000)	3,020,341

Changes in long-term debt for 2017, were as follows:

	Balance 2016	Additions	Payments	Balance 2017
Long-term debt:				
Bonds payable	$ 3,179,000	-	(102,000)	3,077,000
Total long-term debt	$ 3,179,000	-	(102,000)	3,077,000

In 2018, long-term debt decreased by $56,659, primarily due to additions to long-term debt of $50,341, which was offset by a $107,000 decreased due to principal payments. In 2017, long term debt decreased by $102,000, primarily due to principal payments. See further detailed information in Note 11.

Conditions Affecting Current Financial Position

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

Requests for Information

This financial report is designed to provide the District's present users, including funding sources, customers, stakeholders and other interested parties with a general overview of the District's finances and to demonstrate the District's accountability with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Assistant General Manager/Controller, Susan Greer at Joshua Basin Water District, 61750 Chollita Road, Joshua Tree, California, 92252 or (760) 366-8438.

Basic Financial Statements

Joshua Basin Water District
Statements of Net Position
June 30, 2018 and 2017

		2018	2017
Current assets:			
Cash and cash equivalents (note 2)	$	7,539,542	7,126,952
Cash and cash equivalents - restricted (note 2)		2,112,718	1,889,950
Accrued interest receivable		38,568	17,209
Accrued interest receivable - restricted		16,360	9,100
Accounts receivable – water sales and services, net (note 3)		1,061,836	1,011,156
Property taxes receivable		23,433	24,190
Special assessments receivable - restricted		86,970	89,486
Grants receivable (note 5)		63,961	339,570
Loan receivable (note 4)		50,341	-
Accounts receivable – other		102,014	74,539
Materials and supplies inventory		119,752	149,862
Prepaid expenses and other deposits		81,175	76,273
Total current assets		11,296,670	10,808,287
Non-current assets:			
Note receivable – restricted (note 6)		671,494	746,104
Capital assets – not being depreciated (note 9)		2,126,625	1,401,019
Capital assets, net – being depreciated (note 9)		27,610,746	28,211,905
Total non-current assets		30,408,865	30,359,028
Total assets		41,705,535	41,167,315
Deferred outflows of resources:			
Deferred pension outflows (note 12)		477,782	446,356
Total deferred outflows of resources	$	477,782	446,356

Continued on next page

See accompanying notes to the basic financial statements

Joshua Basin Water District
Statements of Net Position, continued
June 30, 2018 and 2017

		2018	2017
Current liabilities:			
Accounts payable and accrued expenses	$	256,558	433,956
Accrued wages and related payables		50,997	38,232
Customer deposits and unearned revenue		277,253	344,438
Accrued interest payable		44,550	46,155
Long-term liabilities – due within one year:			
Compensated absences (note 10)		43,908	33,878
Bonds payable (note 11)		111,000	107,000
Total current liabilities		784,266	1,003,659
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 10)		131,724	101,634
Bonds payable (note 11)		2,859,000	2,970,000
Loans payable (note 11)		50,341	-
Net pension liability (note 12)		490,750	379,802
Total non-current liabilities		3,531,815	3,451,436
Total liabilities		4,316,081	4,455,095
Deferred inflows of resources:			
Deferred pension inflows (note 12)		12,806	43,583
Total deferred inflows of resources		12,806	43,583
Net position: (note 14)			
Net investment in capital assets		26,717,030	26,535,924
Restricted		2,887,542	2,734,640
Unrestricted		8,249,858	7,844,429
Total net position	$	37,854,430	37,114,993

See accompanying notes to the basic financial statements

Joshua Basin Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2018 and 2017

	2018	2017
Operating revenues:		
Water consumption sales	$ 2,016,292	1,764,736
Water service charges	1,793,522	1,729,020
Standby service charges	1,251,065	1,222,964
Other charges for services	233,495	187,084
Total operating revenues	5,294,374	4,903,804
Operating expenses:		
Pumping, production and treatment	1,000,951	1,132,500
Transmission and distribution	949,091	730,983
Customer service	441,444	393,625
General and administrative	1,892,529	1,623,323
Total operating expenses	4,284,015	3,880,431
Operating income before depreciation expense	1,010,359	1,023,373
Depreciation expense	(1,235,914)	(1,212,568)
Operating loss	(225,555)	(189,195)
Non-operating revenue (expense):		
Property taxes	441,402	423,104
Special assessments for debt service	275,638	264,423
Investment earnings	133,444	55,700
Morongo Basin pipeline (note 13)	(219,594)	(219,898)
Interest expense	(134,427)	(139,205)
Debt administration charges	(11,142)	(10,392)
Property tax administration charge	(1,104)	(1,068)
HDMC operations revenue (note 7)	180,015	132,896
HDMC project – District expense (note 7)	(145,749)	(132,896)
Other non-operating revenues (expenses), net	653	(11,138)
Total non-operating revenue, net	519,136	361,526
Net income before capital contributions	293,581	172,331
Capital contributions:		
Water capacity charges	132,030	68,222
Wastewater capacity charges	36,311	5,918
State capital grant	126,091	189,570
Capital contributions	145,787	99,924
Local capital grant – MWA	5,637	31,180
Total capital contributions	445,856	394,814
Change in net position	739,437	567,145
Net position, beginning of period	37,114,993	36,547,848
Net position, end of period	$ 37,854,430	37,114,993

See accompanying notes to the basic financial statements

Joshua Basin Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	$ 5,149,034	5,065,554
Cash paid to employees for salaries and wages	(3,055,618)	(2,965,306)
Cash paid to vendors and suppliers for materials and services	(1,278,957)	(979,382)
Net cash provided by operating activities	814,459	1,120,866
Cash flows from non-capital financing activities:		
Property taxes	429,913	414,599
Morongo Basin pipeline	(219,594)	(219,898)
Other non-operating expenses, net	653	(11,138)
Net cash provided by non-capital financing activities	210,972	183,563
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,360,361)	(842,282)
HDMC project expense	34,266	-
Capital contributions	319,765	205,244
Payments received for note receivable	74,610	74,611
Proceeds from capital grants	401,700	-
Loan receivable from State Revolving Fund	(50,341)	-
Special assessments for debt service	278,154	269,960
Principal paid on debt	(56,659)	(102,000)
Interest paid on debt	(136,032)	(140,735)
Net cash used in capital and related financing activities	(494,898)	(535,202)
Cash flows from investing activities:		
Investment earnings	104,825	43,990
Net cash provided by investing activities	104,825	43,990
Net increase in cash and cash equivalents	635,358	813,217
Cash and cash equivalents, beginning of period	9,016,902	8,203,685
Cash and cash equivalents, end of period	$ 9,652,260	9,016,902

Reconciliation of cash and cash equivalents to the statements of net position:

	2018	2017
Cash and cash equivalents	$ 7,539,542	7,126,952
Cash and cash equivalents - restricted	2,112,718	1,889,950
Total cash and cash equivalents	$ 9,652,260	9,016,902

Continued on next page

See accompanying notes to the basic financial statements

Joshua Basin Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2018 and 2017

		2018	2017
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(225,555)	(189,195)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation		1,235,914	1,212,568
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:			
(Increase) decrease in assets and deferred outflows of resources:			
Accounts receivable – water sales and services, net		(50,680)	68,845
Accounts receivable – other		(27,475)	17,259
Materials and supplies inventory		30,110	(45,002)
Prepaid expenses and other deposits		(4,902)	(4,395)
Deferred outflows of resources		(31,426)	(165,536)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		(177,398)	218,325
Accrued wages and related payables		12,765	(27,316)
Customer deposits and unearned revenue		(67,185)	75,646
Compensated absences		40,120	(17,015)
Net pension liability		110,948	109,123
Deferred inflows of resources		(30,777)	(132,441)
Total adjustments		1,040,014	1,310,061
Net cash provided by operating activities	$	814,459	1,120,866

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Joshua Basin Water District (District) was organized in January 1963, under provisions of Division 12 of the Water Code of the State of California. The purpose of the District is to finance, construct, operate and maintain a water system and wastewater system to serve properties within the District's boundaries. The District services approximately 96 square miles in the unincorporated area of Joshua Tree, located in the Morongo Basin of San Bernardino County. The District is governed by a Board of Directors made up of five members elected by the qualified voters in the District.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 61, *The Financial Reporting Entity*. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

The District normally conducts two monthly general meetings of the Board of Directors which are held on the first and third Wednesdays of the month in the District's office.

The Joshua Basin Water District Copper Mountain Mesa Assessment District (Assessment District) was formed in 1996 to finance the improvements and construction of the potable water system facilities, including pipelines, booster pumping station, water storage reservoir and the necessary appurtenances. The bonds were sold to the United States Department of Agriculture, who is the sole bondholder. The District's directors serve as directors of the Assessment District; the District's General Manager serves as its executive officer. The assets and liabilities of the Assessment District are blended with those of the District in the financial statements.

B. Basis of Accounting and Measurement Focus

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

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal value. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses. Non-operating revenues and expenses, such as grant funding, investment income and interest expense, result from non-exchange transactions, in which the District gives (receives) value without directly (giving) value in exchange.

C. Financial Reporting

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

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

C. Financial Reporting, continued

The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

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

Government Accounting Standards Board Statement No. 75

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB.

Government Accounting Standards Board Statement No. 81

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

Government Accounting Standards Board Statement No. 85

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

Government Accounting Standards Board Statement No. 86

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

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

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

1. Use of Estimates

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

2. Cash and Cash Equivalents

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

3. Investments and Investment Policy

The District has adopted an investment policy as written in Article 8 of the District's administration code. Any surplus funds or funds held for any length of time for special projects shall only be invested with reputable institutions.

The District's investment policy authorizes investments in Certificates-of-deposit and the California Local Agency Investment Fund (LAIF). The District's investment policy does contain specific provisions intended to limit its exposure to interest rate risk, credit risk, custodial risk, and concentration of credit risk.

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

4. Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- **Level 1** – Valuation is based on quoted prices in active markets for identical assets.
- **Level 2** – Valuation is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3** – Valuation is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

5. Accounts Receivable and Allowance for Uncollectible Accounts

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

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

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

6. Property Taxes and Assessments

The San Bernardino County Assessor's Office assesses all real and personal property within the County each year. The San Bernardino County Tax Collector's Offices bills and collects the District's share of property taxes and assessments. The San Bernardino County Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

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

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

7. Materials and Supplies Inventory

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

8. Prepaid Expenses

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

9. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Transmission and distribution system – 3 to 50 years
- Structures and improvements – 10 to 30 years
- Vehicles and large equipment – 5 to 10 years
- Office furniture and equipment – 5 to 10 years
- Water rights – 25 years
- Wastewater system in development – 15 years
- Surveys and plans – 2 to 5 years

10. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources that is applicable to future periods.

11. Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources that is applicable to future periods.

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

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

12. Compensated Absences

The District's policy is to permit employees to accumulate earned vacation up to a total of 400 hours, with amounts exceeding the limit being paid out as part of the employee's regular compensation. Upon termination of employment, employees are paid all unused vacation and forfeit any unused sick time.

13. 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 District's California Public Employees' Retirement System (CalPERS) plans (Plans) and addition to/deduction from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation Date: June 30, 2016
- Measurement Date: June 30, 2017
- Measurement Period: July 1, 2016 to June 30, 2017

14. Net Position

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

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

15. Water Sales and Services

Water sales are billed on a monthly cyclical basis and recognize the respective revenues when they are earned.

16. Capital Contributions

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

17. Reclassification

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

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

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

18. Budgetary Policies

The District adopts a bi-annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30, consist of the following:

		2018	2017
Cash on hand	$	2,300	2,100
Deposits held with financial institutions		354,615	218,665
Deposits held with the California Local Agency Investment Fund:			
Unrestricted		7,182,627	6,906,187
Restricted		2,112,718	1,889,950
Subtotal		9,295,345	8,796,137
Total cash and investments	$	9,652,260	9,016,902

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

	2018	2017
Deposits held with the California Local Agency Investment Fund	193 days	194 days

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations - CA and Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Agency Obligations	5 years	None	None
Negotiable Certificates of Deposit	5 years	30%	None
Collateralize Bank Deposits	5 years	None	None
Corporate debt - Short and Long Term	5 years	None	None
Commercial Paper - Pooled Funds	270 days	40% of the District's	None
Commercial Paper - Non-Pooled Funds	270 days	money	
Repurchase agreements	1 year	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

(2) Cash and Cash Equivalents, continued

Investment in State Investment Pool

The District is a voluntary participant in the Local District Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 and is under the management of the Treasurer of the State of California with oversight provided by the Local Agency Investment Advisory Board. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Bank balances are secured by the pledging of a pool of eligible securities to collateralize the District's deposits with the bank in accordance with the Code.

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures, or comes close to maturity evenly over time, as necessary to provide requirements for cash flow and liquidity needed for operations.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits, or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Of the bank balances, up to $250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

(2) Cash and Cash Equivalents, continued

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The District's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The District's deposit portfolio with governmental agencies, LAIF, is 96% and 98% as of June 30, 2018 and 2017, respectively of the District's total depository and investment portfolio. There were no investments in any one non-governmental issuer that represent 5% or more of the District's total investments.

(3) Accounts Receivable – Water Sales and Services, net

The balance at June 30 consists of the following:

		2018	2017
Accounts receivable – water sales	$	592,847	483,329
Unbilled water sales receivables		351,488	322,060
Standby charges receivables		298,339	358,654
Allowance for doubtful accounts		(180,838)	(152,887)
Total accounts receivable, net	$	1,061,836	1,011,156

(4) Loan Receivable

On December 17, 2015, the District was awarded a federal pass through grant funding from the State Water Resources Control Board (State) in the form of Drinking Water State Revolving Fund financing. The financing is designed to assist the District in financing the planning regarding the possible implementation of the Chromium VI Remediation Project. The total project cost is estimated to be $2,016,000, consisting of $1,516,000 in state revolving fund and $500,000 in grant fund (see Note 5). As of June 30, 2018, the receivable balance from the State amounted to $50,341.

(5) Grant Receivable

The balance at June 30 consists of the following:

		2018	2017
State Water Resources Control Board	$	63,961	189,570
Prop 84 IRWM Grant		-	150,000
Total accounts receivable, net	$	63,961	339,570

On December 17, 2015, the District was awarded with a state pass through grant funding from the State Water Resources Control Board (State). The State provides funding pursuant from the California Health and Safety Code to assist the District in planning regarding the possible implementation of the Chromium VI Remediation Project. The agreement provides for a total funding of $2,016,000, consisting of $500,000 in grant fund and $1,516,000 in state revolving fund (see Note 4). As of June 30, 2018 and 2017, the grant receivable balance from the State amounted to $63,961 and $189,570, respectively and is included as part of grants receivable.

(5) Grant Receivable, continued

On March 10, 2013, Mojave Water Agency and the State of California, Department of Water Resources, entered into a grant agreement to assist in financing projects associated with the Regional Water Management Plan Integrated Regional Water Management Plan (IRWMP) pursuant to Chapter 8 of Division 26.5 of the California Water Code. Funding is provided from the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006. The grant agreement consists of three separate IRWMP projects; for Mojave Water Agency, Joshua Basin Water District and Hi-Desert Water District. The grant agreement provides for a total grant amount of $8,000,000. The District used their $3,000,000 grant funding for the Recharge Project, which was completed in 2014. The District was required to wait until all projects associated with the grant agreement were completed in order to apply for release of retention held by the state. As of June 30, 2018 and 2017, the receivable balance from DWR amounted to $0 and $150,000 respectively and is included as part of grants receivable.

(6) Note Receivable – Hi-Desert Medical Center

On July 1, 2012, the District executed a note receivable with the Hi-Desert Medical Center for $1,119,156 for capacity charges due for sanitary sewer service to the Hi-Desert Medical Center Wastewater Treatment Plant. The note is to be repaid over a 15-year period ($74,610 principal per year) with interest charged at the quarterly LAIF interest earnings rate. As of June 30, 2018 and 2017, the note principal balance remaining was $671,494 and $746,104, respectively. At June 30, 2018 and 2017, accrued interest receivable on the note was $9,642 and $5,617, respectively and is included as part of the accrued interest receivable balance in the statements of net position.

(7) Hi-Desert Medical Center Project

In fiscal year 2013, the District was engaged by the Hi-Desert Medical Center (HDMC) to construct, own and operate the HDMC's Wastewater Treatment Plant (Plant). Please see note 6 for more details of the District's agreement with HDMC. During the construction phase, HDMC made capital contributions to the District for the construction of the Wastewater Treatment Plant in the amount of $2,901,551. Upon completion, it was agreed that HDMC would continue to own the Plant, while the District would be contracted to operate and maintain the Plant. For the fiscal year ended June 30, 2018 and 2017, the District incurred $145,749 and $132,896, respectively, in reimbursable costs towards the project.

(8) Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program). The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. At June 30, 2018 and 2017, the market value of all plan assets held in trust by ICMA-RC was $616,393 and $517,047, respectively.

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.* Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net position.

(9) Capital Assets

Changes in capital assets for the year ended June 30, 2018, were as follows:

	Balance 2017	Additions/ Transfers	Deletions/ Transfers	Balance 2018
Non-depreciable assets:				
Land and land rights	$ 516,019	-	-	516,019
Construction-in-process	885,000	1,284,857	(559,251)	1,610,606
Total non-depreciable assets	1,401,019	1,284,857	(559,251)	2,126,625
Depreciable assets:				
Transmission and distribution system	40,861,701	182,650	-	41,044,351
Recharge facilities	9,108,029	-	-	9,108,029
Structures and improvements	959,507	159,289	-	1,118,796
Vehicles and large equipment	1,360,220	91,206	(4,741)	1,446,685
Office furniture and equipment	1,115,289	159,738	(173,552)	1,101,475
Water rights	-	-	-	-
Wastewater system in development	22,419	-	-	22,419
Studies and reports	605,160	47,401	-	652,561
Total depreciable assets	54,032,325	640,284	(178,293)	54,494,316
Accumulated depreciation:				
Transmission and distribution mains	(22,377,693)	(855,176)	-	(23,232,869)
Recharge facilities	(471,227)	(182,169)	-	(653,396)
Structures and improvements	(470,632)	(28,968)	-	(499,600)
Vehicles and large equipment	(834,855)	(101,217)	105	(935,967)
Office furniture and equipment	(1,038,434)	(21,088)	172,764	(886,758)
Water rights	-	-	-	-
Wastewater system in development	(22,419)	-	-	(22,419)
Studies and reports	(605,160)	(47,401)	-	(652,561)
Total accumulated depreciation	(25,820,420)	(1,236,019)	172,869	(26,883,570)
Total depreciable assets, net	28,211,905	(595,735)	(5,424)	27,610,746
Total capital assets, net	$ 29,612,924	689,122	(564,675)	29,737,371

Major depreciable capital assets additions during the fiscal year ended 2018, include upgrades and extensions of the District's water transmission and distribution systems of $182,650, purchases of structures and improvements of $159,289, purchases of vehicles and large equipment of $91,206, purchases of office furniture and equipment of $159,738, and capital improvement plans related to surveys and plans of $47,401. During the year, the District wrote-off office furniture and equipment amounting to $173,552 related to vehicles and large equipment, surveys and plans and office, furniture and equipment.

(9) Capital Assets, continued

Changes in capital assets for the year ended June 30, 2017, were as follows:

	Balance 2016	Additions/	Deletions/ Transfers	Balance 2017
Non-depreciable assets:				
Land and land rights	$ 516,019	-	-	516,019
Construction-in-process	258,825	814,529	(188,354)	885,000
Total non-depreciable assets	774,844	814,529	(188,354)	1,401,019
Depreciable assets:				
Transmission and distribution system	40,540,280	321,421	-	40,861,701
Recharge facilities	9,099,916	8,113	-	9,108,029
Structures and improvements	899,266	60,241	-	959,507
Vehicles and large equipment	1,575,481	69,407	(284,668)	1,360,220
Office furniture and equipment	1,136,500	20,684	(41,895)	1,115,289
Water rights	263,759	(263,759)	-	-
Wastewater system in development	22,419	-	-	22,419
Studies and reports	752,993	-	(147,833)	605,160
Total depreciable assets	54,290,614	216,107	(474,396)	54,032,325
Accumulated depreciation:				
Transmission and distribution mains	(21,285,801)	(1,091,892)	-	(22,377,693)
Recharge facilities	(289,143)	(182,084)	-	(471,227)
Structures and improvements	(443,376)	(27,256)	-	(470,632)
Vehicles and large equipment	(1,004,176)	(115,347)	284,668	(834,855)
Office furniture and equipment	(1,061,444)	(18,885)	41,895	(1,038,434)
Water rights	(222,896)	222,896	-	-
Wastewater system in development	(22,419)	-	-	(22,419)
Studies and reports	(752,993)	-	147,833	(605,160)
Total accumulated depreciation	(25,082,248)	(1,212,568)	474,396	(25,820,420)
Total depreciable assets, net	29,208,366	(996,461)	-	28,211,905
Total capital assets, net	$ 29,983,210	(181,932)	(188,354)	29,612,924

Major depreciable capital assets additions during the fiscal year ended 2017, include upgrades and extensions of the District's water transmission and distribution systems of $321,421, purchases of structures and improvements of $60,241, purchases of vehicles and large equipment of $69,407, and purchases of office furniture and equipment of $20,684. During the year, the District wrote-off discontinued projects amounting to $474,396 related to vehicles and large equipment, surveys and plans and office, furniture and equipment.

Also, the District determined the pumping equipment of $263,759 that was classified as water rights should be classified as part of the transmission and distribution system. As a result, depreciable assets and related accumulated depreciation of transmission and distribution system increased by $263,759 and $222,896, respectively.

Construction-In-Process

The District is involved in construction projects throughout the year. Once completed, projects are capitalized and depreciated over the life of the asset.

(9) Capital Assets, continued

Construction-In-Process

At June 30, 2018 and 2017, the balance of construction-in-process was $1,610,606 and $885,000, respectively, as follows:

Construction-in-process consisted of the following projects:

Project Description		2018	2017
Chromium study	$	388,979	269,389
Well 14 Rehabilitation		1,098,448	504,876
Various other minor projects < $100,000		123,179	110,735
Total construction-in-process	$	1,610,606	885,000

(10) Compensated Absences

The changes to compensated absences for 2018, were as follows:

	Balance 2017	Earned	Taken	Balance 2018	Due within One Year	Due in more than one year
$	135,512	296,214	(256,094)	175,632	43,908	131,724

The changes to compensated absences for 2017, were as follows:

	Balance 2016	Earned	Taken	Balance 2017	Due within One Year	Due in more than one year
$	152,527	198,683	(215,698)	135,512	33,878	101,634

(11) Long-Term Debt

Changes in long-term debt amounts 2018 were as follows:

		Balance 2017	Additions	Payments	Balance 2018	Current Portion
Long-term debt:						
Bonds payable:						
1996 Bonds	$	3,077,000	-	(107,000)	2,970,000	111,000
Loans payable:						
State Revolving Fund Loan		-	50,341	-	50,341	-
Total long-term debt	$	3,077,000	50,341	(107,000)	3,020,341	111,000

Changes in long-term debt amounts for 2017, were as follows:

		Balance 2016	Additions	Payments	Balance 2017	Current Portion
Long-term debt:						
Bonds payable:						
1996 Bonds	$	3,179,000	-	(102,000)	3,077,000	107,000
Total long-term debt	$	3,179,000	-	(102,000)	3,077,000	107,000

(11) Long-Term Debt, continued

1996 Limited Obligation Improvement Bonds

In March 1996, the District authorized the issuance of $4,551,389 in Copper Mountain Mesa limited obligation improvement bonds pursuant to the provisions of the Municipal Improvement Act of 1913. The bonds are payable solely from and secured solely by special assessments on property parcels and the amounts held by the District. The District is not obligated to, but may in its sole discretion, advance available surplus funds from the District treasury. The bonds bear interest at 4.5% per annum.

Principal and interest are payable on March 2nd and September 2nd of each year as follows:

Year		Principal	Interest	Total
2019	$	111,000	131,153	242,153
2020		116,000	126,045	242,045
2021		121,000	120,713	241,713
2022		127,000	115,133	242,133
2023	$	132,000	109,305	241,305
2024-2028		754,000	449,729	1,203,729
2029-2033		939,000	259,942	1,198,942
2034-2036		670,000	46,035	716,035
Total		2,970,000	1,358,055	4,328,055
Current		(111,000)		
Long-term	$	2,859,000		

Drinking Water State Revolving Fund Loan

On December 17, 2015, the District entered into a grant funding agreement with California State Water Resources Control Board ("State") for a planning loan and grant under the California Water State Revolving Fund (SRF) pursuant to Chapter 4.5, Part 12 of Division 104 of the California Health and Safety Code (State Act) to be used for purposes of the Chromium VI Remediation Project.

The project under the funding agreement includes planning regarding the possible implementation of the Chromium VI Remediation Project. The agreement provides for a total funding of $2,016,000. The amount consists of State Revolving Fund (SRF) in the amount of $1,516,000 and a Grant in the amount of $500,000. The SRF program is a federal state partnership that provides communities a permanent, independent source of low-cost financing for a wide range of water quality infrastructure projects. The State Revolving Fund has an interest rate of zero percent with a loan repayment term of 10 years. The loan repayment term shall commence after all disbursements have been paid and construction of the Project has been estimated to be completed in Fiscal Year 2020.

(12) Defined Benefit Pension Plan

Plan Description

All qualified permanent and qualified temporary employees, even if employed through a temporary agency, are eligible to participate in the District's Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and the District's resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service (vesting period). The death benefit range from simple return of contributions plus interest to a monthly allowance, based upon member eligibility.

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.0% at 55 Risk Pool Retirement Plan to new employee entrants effective December 31, 2013. All employees hired after January 1, 2013, are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

The Plans' provision and benefits in effect at June 30, 2018 are summarized as follows:

	Miscellaneous Risk Pool	
	Classic	PEPRA
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.500%
Required employer contribution rates	9.599%	6.908%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on July 1, following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

(12) Defined Benefit Pension Plan, continued

Contributions, continued

For the fiscal years ended June 30, 2018 and 2017, the contributions recognized as part of pension expense for the Plan was as follows:

	2018	2017
Contributions – employer	$ 137,342	121,564

Net Pension Liability

As of June 30, 2018 and 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	2018	2017
Proportionate share of net pension liability	$ 490,750	379,802

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017 and 2016 (the measurement dates), and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 and 2015 (the valuation dates), rolled forward to June 30, 2017 and 2016, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the pension liability for the Plan as of the measurement date June 30, 2017 and 2016, were as follows:

	Miscellaneous
Proportion – June 30, 2015	0.00394%
Increase in proportion	0.00045%
Proportion – June 30, 2016	0.00439%
Increase in proportion	0.00056%
Proportion – June 30, 2017	0.00495%

Deferred Pension Outflows (Inflows) of Resources

For the fiscal years ended June 30, 2018 and 2017, the District recognized pension expense (credit) of $48,745 and $(188,854), respectively.

As of June 30, 2018 and 2017, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to the measurement date of $159,828 and $137,342 will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019 and 2018, respectively.

(12) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

As of June 30, 2018 and 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description		2018 Deferred Outflows of Resources	2018 Deferred Inflows of Resources	2017 Deferred Outflows of Resources	2017 Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$	159,828	-	137,342	-
Differences between actual and expected experience		-	(12,806)	3,551	-
Changes in assumptions		110,140	-	-	(43,583)
Net differences between projected and actual earnings on plan investments		26,965	-	226,837	-
Differences between actual contribution and proportionate share of contribution		45,640	-	8,413	-
Net adjustment due to differences in proportions of net pension liability		135,209	-	70,213	
Total	$	477,782	(12,806)	446,356	(43,583)

At June 30, 2018, the District recognized other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30,		Deferred Net Outflows/(Inflows) of Resources
2019	$	119,296
2020		134,622
2021		102,412
2022		(38,376)
2023		-
Remaining		-

(12) Defined Benefit Pension Plan, continued

Actuarial Assumptions

The total pension liabilities were determined as of June 30, 2015, which were rolled forward to June 30, 2017, using the following actuarial assumptions:

Valuation Date	June 30, 2016 and 2015
Measurement Date	June 30, 2017 and 2016
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Discount rate	7.15% and 7.65%
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Period upon which actuarial experience survey assumptions were based	1997 - 2011
Post retirement benefit increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

* The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 Experience Study report (based on CalPERS demographic data from 1997 to 2011) available online at https://www.calpers.ca.gov/docs /forms-publications/calpers-experience-study-2014.pdf.

Discount Rate

The discount rates used in the actuarial valuations to measure the total pension liability as of June 30, 2017, reflect the long-term expected rates of return. The discount rates used to measure the total pension liability as of June 30, 2017, was 7.15%. These differ from the discount rates used as of June 30, 2016, which was 7.65%, due to a decrease in the long-term expected rate of return. The financial reporting discount rates are not adjusted for administrative expenses and are consistent with the funding discount rates at the end of the three-year funding discount rate phase-in period.

To determine whether the municipal bond rate should be used in the calculation of the discount rate, the amortization and smoothing periods adopted by CalPERS in 2013 were used. The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the PERF C.

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.

(12) Defined Benefit Pension Plan, continued

Discount Rate, continued

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 tables below reflect the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

As of June 30, 2018, the target allocation and the long-term expected real rate of return by asset class were as follows:

Asset Class	New Strategic Allocation	Real Return Years 1-10*	Real Return Year 11+**
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	100.0%		

As of June 30, 2017, the target allocation and the long-term expected real rate of return by asset class were as follows:

Asset Class	New Strategic Allocation	Real Return Years 1-10*	Real Return Year 11+**
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
Total	100.0%		

(12) Defined Benefit Pension Plan, continued

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

The following table presents the District's proportionate share of the net position liability for the Plan, calculated using the discount rate, as well as what the District's proportional share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

As of June 30, 2018, the District's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, are as follows:

	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.65%
District's Net Pension Liability	$ 883,770	490,750	165,244

As of June 30, 2017, the District's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, are as follows:

	Discount Rate - 1% 6.65%	Current Discount Rate 7.65%	Discount Rate + 1% 8.65%
District's Net Pension Liability	$ 691,680	379,802	122,050

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 37 through 38 for the Required Supplementary Schedules.

Payable to the Pension Plan

At June 30, 2018 and 2017, the District reported no payables for the outstanding amount of contribution to the pension plan.

(13) Morongo Basin Pipeline Project

During the year ended June 30, 1991, the District executed an Agreement for construction, operation and financing of the Morongo Basin Pipeline project with the Mojave Water Agency (Agency). Pursuant to this Agreement, the Agency has constructed a pipeline to supply, on a wholesale basis, certain areas of San Bernardino County, including the Joshua Basin Water District, with water from the State Water Project. Voters within the area to be served by the pipeline project approved the issuance of $66,500,000 principal amount of general obligation bonds to finance the pipeline project. This resulted in the formation of Improvement District M of the Mojave Water Agency. In the Agreement, the District has agreed to make certain payments to the Agency to cover the District's share of fixed project costs, including debt service. The District makes annual payments under the Agreement for Improvement District M's general obligation bond sales of $12,000,000 principal amount in May 1991 (Series A) and $40,735,000 principal amount in 1993 (Series B).

(13) Morongo Basin Pipeline Project, continued

The District is obligated to pay 27% of the debt service on Improvement District M's general obligation bonds. Improvement District M bonds are general obligations of the Mojave Water Agency and are secured by and payable from the taxes levied upon the taxable property in Improvement District M. As part of the agreement, approximately 70% of the debt service will be derived from the levy of taxes on properties within Improvement District M, and 30% of the debt service on the bonds will be derived from payments to be made by the Mojave Water Agency participants.

In April 1996, $50,485,000 of the Improvement District Bonds was refinanced with $51,780,000 Improvement District M of the Mojave Water Agency General Obligation Bonds (Morongo Basin Pipeline Project) election of 1990, refunding Series of 1996. Interest rates range from 3.75% to 5.80%.

Payments of fixed project costs to the Agency have been classified as non-operating expenses in the amount of $219,594 and $219,898 for the fiscal year ended June 30, 2017 and 2016, respectively.

(14) Net Position

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

		2018	2017
Net Investment in capital assets, net of related debt:			
Capital assets, not being depreciated	$	2,126,625	1,401,019
Depreciable capital assets, net		27,610,746	28,211,905
Current:			
Bonds payable		(111,000)	(107,000)
Non-current:			
Bonds payable		(2,859,000)	(2,970,000)
Loans payable		(50,341)	-
Total net investment in capital assets		26,717,030	26,535,924
Restricted net position:			
Cash and cash equivalents - restricted		2,112,718	1,889,950
Accrued interest receivable - restricted		16,360	9,100
Special assessments receivable - restricted		86,970	89,486
Note receivable – Hi-Desert Medical Center, restricted		671,494	746,104
Total restricted net position		2,887,542	2,734,640
Unrestricted net position:			
Non-spendable net position:			
Materials and supplies inventory		119,752	149,862
Prepaid expenses and other deposits		81,175	76,273
Total non-spendable net position		200,927	226,135
Spendable net assets are designated as follows:			
Designated		4,644,315	3,701,050
Unrestricted		3,404,616	3,917,244
Total spendable net position		8,048,931	7,618,294
Total unrestricted net position		8,249,858	7,844,429
Total net position		37,854,430	37,114,993

(15) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage.

At June 30, 2018, the District participated in the liability, property and worker' compensation programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of $5,000,000, combined single limit at $5,000,000 per occurrence. The JPIA purchases additional excess coverage layers up to $60 million per occurrence total for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to $250,000 per loss includes public employee dishonesty, forgery or alteration and computer fraud subject to a $1,000 deductible per loss.

Property loss, including boiler and machinery coverage is paid at the replacement cost for buildings, fixed equipment and personal property on file of $18,621,226 subject to a $2,500 deductible per occurrence. Repairs or replacement must be completed within two years; otherwise loss is valued on an actual cash value basis. Mobile equipment and vehicles are valued based on actual cash value at time of loss, subject to a $1,000 deductible per occurrence. ACWA JPIA has purchased excess coverage up to $150 million.

- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law. The ACWA/JPIA is self-insured up to $2,000,000 and excess insurance coverage has been purchased.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the fiscal years ended June 30, 2018, 2017 and 2016. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There was no IBNR claims payable as of June 30, 2018, 2017 and 2016.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2018, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 83

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations.* This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually, and

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

Governmental Accounting Standards Board Statement No. 83, continued

(6) requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 88

In April 2018, the GASB issued Statement No. 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.* The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

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

Governmental Accounting Standards Board Statement No. 88, continued

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 89

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

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

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

(17) Commitments and Contingencies

Grant Awards

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

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water and wastewater facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and capital contributions.

(17) Commitments and Contingencies, continued

Litigation

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

(18) Subsequent Events

Events occurring after June 30, 2018, have been evaluated for possible adjustment to the financial statements or disclosure as of December 5, 2018, which is the date the financial statements were available to be issued.

In September 1, 2018, the District entered into a Project Fund Agreement with Municipal Finance Corporation (Corporation) and U.S. Bank National Association (Custodian) in reference to the Installment Sale Agreement (Agreement) between the Corporation and the District. The agreement requires that the funds for the acquisition and construction of the Joshua Basin Water District Project Fund (Project Fund) in the amount of $3,010,000 be deposited with the Custodian to pay for the construction, acquisition, and improvements to its water system pursuant to the California County Water District Law (Division 12 of the Water Code of the State of California).

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Required Supplementary Information

Joshua Basin Water District
Schedule of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2018
Last Ten Years*

	Measurement Dates			
	6/30/2017	**6/30/2016**	**6/30/2015**	**6/30/2014**
District's Proportion of the Net Pension Liability	0.00495%	0.00439%	0.00394%	0.00463%
District's Proportionate Share of the Net Pension Liability	$ 490,750	379,802	270,679	288,403
District's Covered-Employee Payroll	$ 1,462,157	1,344,686	1,384,706	1,385,361
District's proportionate share of the net pension liability as a Percentage of its Covered-Employee Payroll	33.56%	28.24%	19.55%	20.82%
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	82.83%	83.60%	87.09%	83.03%
Plan's Proportionate Share of Aggregate Employer Contributions	89,544	72,122	63,158	38,155

Notes to the Schedule of the District's Proportionate Share of Net Pension Liability

Changes in Benefit Terms – The District can make changes to their plan provisions, and such changes occur on an ongoing basis. A summary of the plan provisions that were used for the District's plan can be found in the plan's annual valuation report.

Changes of Assumptions – In fiscal year 2018, the financial reporting discount rate was lowered from 7.65% to 7.15%. In December 2016, the CalPERS Board approved lowering the funding discount rate used from 7.50% to 7.00%, which is to be phased-in over a three-year period (7.50% to 7.375%, 7.375% to 7.25%, and 7.25% to 7.00%) beginning with the June 30, 2016, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

* The District has presented information for those years for which information is available until a full 10- year trend is compiled.

Joshua Basin Water District
Schedule of Pension Plan Contributions
As of June 30, 2018
Last Ten Years*

		Fiscal Years			
Description	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Actuarially Determined Contribution	$ 144,890	145,219	143,957	156,268	148,451
Contributions in Relation to the Actuarially Determined Contribution	(159,828)	(137,342)	(121,564)	(146,314)	(138,973)
Contribution Deficiency (Excess)	$ (14,938)	7,877	22,393	9,954	9,478
Covered Payroll	$ 1,467,121	1,462,157	1,344,686	1,384,706	1,385,361
Contributions as a percentage of Covered-Employee Payroll	9.88%	9.93%	10.71%	11.29%	10.72%

Notes to the Schedule of Pension Plan Contributions

* The District has presented information for those years for which information is available until a full 10- year trend is compiled.

Report on Internal Controls and Compliance

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

Board of Directors
Joshua Basin Water District
Joshua Tree, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Joshua Basin Water District (District) as of and for the fiscal years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated December 5, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Purpose of this Report

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

Fedak & Brown LLP
Cypress, California
December 5, 2018

Joshua Basin Water District

Management Report

June 30, 2018

Joshua Basin Water District

Management Report

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CONFIDENTIAL

Board of Directors
Joshua Basin Water District
Joshua Tree, California

Dear Members of the Board:

In planning and performing our audit of the financial statements of Joshua Basin Water District (District) as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Our comments, all of which have been discussed with the appropriate members of management, are summarized as follows:

Summary of Current Year Comments and Recommendations

Disclosure of Audit Adjustments and Reclassifications

As your external auditor, we assume that the books and records of the District are properly adjusted before the start of the audit. In many cases, however, audit adjustments and reclassifications are made in the normal course of the audit process to present the District's financial statements in conformity with accounting principles generally accepted in the United States of America or for comparison purposes with the prior year. For the Board of Directors to gain a full and complete understanding and appreciation of the scope and extent of the audit process we have presented these audit adjustments and reclassifications as an attachment to this letter. There can be very reasonable explanations for situations of having numerous adjustments as well as having no adjustments at all. However, the issue is simply disclosure of the adjustments and reclassifications that were made and to provide the Board of Directors with a better understanding of the scope of the audit.

Management's Response

The District has reviewed and approved all of the audit adjustment and reclassification entries provided by the auditor and have entered those entries into the District's accounting system.

Summary of Comments and Recommendations Made in the Previous Year

Disclosure of Audit Adjustments and Reclassifications

As your external auditor, we assume that the books and records of the District are properly adjusted before the start of the audit. In many cases, however, audit adjustments and reclassifications are made in the normal course of the audit process to present the District's financial statements in conformity with accounting principles generally accepted in the United States of America or for comparison purposes with the prior year. For the Board of Directors to gain a full and complete understanding and appreciation of the scope and extent of the audit process we have presented these audit adjustments and reclassifications as an attachment to this letter. There can be very reasonable explanations for situations of having numerous adjustments as well as having no adjustments at all. However, the issue is simply disclosure of the adjustments and reclassifications that were made and to provide the Board of Directors with a better understanding of the scope of the audit.

Management's Response

The District has reviewed and approved all of the audit adjustment and reclassification entries provided by the auditor and have entered those entries into the District's accounting system.

* * * * * * * * * * *

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

We appreciate the courtesy and cooperation extended to us during our examination. We would be pleased to discuss the contents of this letter with you at your convenience. Please do not hesitate to contact us.

Fedak & Brown LLP
Cypress, California

APPENDIX

Joshua Basin Water District

Audit/Finance Committee Letter

June 30, 2018

Board of Directors
Joshua Basin Water District
Joshua Tree, California

We have audited the basic financial statements of the Joshua Basin Water District (District) for the year ended June 30, 2018 and have issued our report thereon dated ______________. Generally accepted auditing standards require that we provide the Governing Board and management with the following information related to our audit of the District's basic financial statements.

Auditor's Responsibility under United States Generally Accepted Auditing Standards

As stated in our Audit Engagement Letter dated March 22, 2018, our responsibility, as described by professional standards, is to express an opinion about whether the basic financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with United States generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of its responsibilities.

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

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing requirements as previously communicated to management. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the basic financial statements.

We noted no transactions entered into by the District during fiscal year 2018 for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Management's Judgments, Accounting Estimates and Financial Disclosures

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the position in the basic financial statements were:

> Management's estimate of the fair value of cash and cash equivalents is based on information provided by financial institutions. We evaluated the key factors and assumptions used to develop the fair value of cash and investments in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate of the allowance for delinquent/doubtful accounts is based on historical write-offs of past due delinquent/doubtful customer accounts, customer creditworthiness, and calculated assumptions of expected future write-offs. We evaluated the key factors and assumptions used to develop the allowance for delinquent/doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate of capital assets depreciation is based on historical estimates of each capitalized item's useful life expectancy or cost recovery period. We evaluated the key factors and assumptions used to develop the capital asset depreciation calculations in determining that they are reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate of the defined benefit pension plan's deferred outflows of resources, net pension liability, and deferred inflows of resources are based on an actuarial evaluation of these amounts which was conducted by a third-party actuary. We evaluated the basis, actuarial methods and assumptions used by the actuary to calculate these amounts for the District to determine that it is reasonable in relation to the financial statements taken as a whole.

Certain basic financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the basic financial statements are:

> The disclosure of fair value of cash and cash equivalents in Note 2 to the basic financial statements represents amounts susceptible to market fluctuations.
>
> The disclosure of the District's allowance for delinquent/doubtful accounts in Note 3 to the basic financial statements represents amounts susceptible to external factors the District has no control over, such as, the state of the economy in the District's service area.
>
> The disclosure of capital assets, net in Note 9 to the basic financial statements is based on historical information which could differ from actual useful lives of each capitalized item.
>
> The disclosure of the District's defined benefit pension plan in Note 12 to the basic financial statements is based on actuarial assumptions which could differ from actual costs.

The disclosures in the basic financial statements are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional Standards require us to accumulate all known and likely misstatements identified during the audit, except those that are considered trivial, and communicate them to the appropriate level of management. (See Page 4)

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the basic financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit of the District.

Management Representations

We have requested certain representations from management that are included in the Management Representational Letter to the Auditor dated ______________.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves the application of an accounting principle to the District's basic financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Restriction on Use

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than the specified, parties. This restriction is not intended to limit the distribution of this letter, which is a matter of public record.

Conclusion

We appreciate the cooperation extended us by Susan Greer, Assistant General Manager/Controller, and Anne Roman, Accountant, in the performance of our audit testwork.

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the District.

Fedak & Brown LLP
Cypress, California
____

Joshua Basin Water District
Schedule of Adjusting Journal Entries
June 30, 2018

Adjusting Journal Entries JE No. 1
To reclassify 2017 contributions to NPL at June 30, 2018.

200-22360	NET PENSION LIABILITY	$	137,342.00	
100-13600	DEFERRED OUTFLOWS OF RESOURCES			137,342.00

Adjusting Journal Entries JE No. 2
To reclassify 2018 contributions to Deferred Outflows of Resources at June 30, 2018.

100-13600	DEFERRED OUTFLOWS OF RESOURCES	159,828.00	
551-01230	RETIREMENT: PERS Classic 2%@55		159,828.00

Adjusting Journal Entries JE No. 3
To record changes in pension liability during FY16/17 at June 30, 2018.

100-13600	DEFERRED OUTFLOWS OF RESOURCES	175,129.00	
200-23050	DEFERRED INFLOWS OF RESOURCES	47,134.00	
551-01230	RETIREMENT: PERS Classic 2%@55	92,062.00	
100-13600	DEFERRED OUTFLOWS OF RESOURCES		47,134.00
200-22360	NET PENSION LIABILITY		248,290.00
200-23050	DEFERRED INFLOWS OF RESOURCES		18,901.00

Adjusting Journal Entries JE No. 4
To record changes in the deferred outflows and deferred inflows (amortization) during FY17/18 at June 30, 2018.

200-23050	DEFERRED INFLOWS OF RESOURCES	4,974.00	
551-01230	RETIREMENT: PERS Classic 2%@55	116,511.00	
100-13600	DEFERRED OUTFLOWS OF RESOURCES		58,205.00
100-13600	DEFERRED OUTFLOWS OF RESOURCES		60,850.00
200-23050	DEFERRED INFLOWS OF RESOURCES		2,430.00

Adjusting Journal Entries JE No. 5
To reverse accrued payroll taxes as of June 30, 2017.

200-22300	ACCRUED PAYROLL TAX PAYABLE	7,061.94	
551-01230	RETIREMENT: PERS Classic 2%@55		2,796.34
551-01231	RETIREMENT: PERS Tier 2 2%@62		2,027.48
551-01305	PAYROLL TAXES		2,238.12

Adjusting Journal Entries JE No. 6
To reverse entry made on a disposed asset to its proper account as of June 30, 2018.

100-15400	OFFICE FURNITURE/EQUIPMENT	6,795.12	
100-15401	OFFICE FURN/EQUIP-ACCUM DEPREC		6,795.12

Adjusting Journal Entries JE No. 7
To adjust prepaid expense accounts to its proper balances as of June 30, 2018.

100-12325	PREPAID COMP SUPPORT & LICENSE		1,315.29	
504-07401	PROPERTY INSURANCE		287.91	
100-12320	PREPAID PROPERTY INSURANCE			287.91
553-04015	COMPUTER SOFTWARE & SUPPORT	$		1,315.29