



**REGULAR FINANCE COMMITTEE MEETING  
MONDAY, NOVEMBER 20, 2017 AT 9:00 AM  
61750 CHOLLITA ROAD, JOSHUA TREE, CA 92252**

**AGENDA**

1. CALL TO ORDER
2. PLEDGE OF ALLEGIANCE
3. DETERMINATION OF QUORUM
4. APPROVAL OF AGENDA
5. PUBLIC COMMENT
6. APPROVE MINUTES OF THE PRIOR COMMITTEE MEETING
  - Regular Finance Committee Meeting Draft Minutes of October 30, 2017
7. REVIEW OF FISCAL YEAR ENDING 6/30/17 AUDITED FINANCIAL STATEMENT-  
Receive report, ask questions, and recommend to Board of Directors for acceptance.
8. STAFF REPORT
9. ADJOURNMENT

**INFORMATION**

During "Public Comment", please use the podium microphone. State your name and have your information prepared and be ready to provide your comments. The District is interested and appreciates your comments. A 3-minute time limit will be imposed. 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 Committee 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  
Minutes of the  
REGULAR MEETING OF THE FINANCE COMMITTEE  
Monday, October 30, 2017  
61750 Chollita Road, Joshua Tree, CA 92252

1. CALL TO ORDER 9:00 a.m.

2. PLEDGE OF ALLEGIANCE

Committee Members Present:

Bob Johnson, Vice President  
Tom Floen, Director

Staff Present:

Curt Sauer, General Manager  
Susan Greer, Assistant General Manager/Controller  
Anne Roman, Accountant

Consultant Present:

Guests: 0

3. DETERMINATION OF QUORUM

A quorum is present.

4. APPROVAL OF AGENDA

MSC/Floen/Johnson 2/0 to approve the agenda for the October 30, 2017, Regular Meeting of the Finance Committee.

5. PUBLIC COMMENT - None

6. APPROVE MINUTES OF THE PRIOR COMMITTEE MEETING –

- Regular Meeting of the Finance Committee of September 25, 2017

MSC/Floen/Johnson 2/0 to approve the minutes of September 25, 2017, Regular Meeting of the Finance Committee.

7. REVIEW SEPTEMBER 2017 CHECK REGISTERS – Receive information and recommend to the Board for approval.

MSC/Floen/Johnson 2/0 reviewed September 2017 check register and referred to the Board for approval.

8. CONSIDER CHANGING BANKS TO PACIFIC WESTERN BANK – Receive information and recommend bank change to the full Board for implementation. Finance Committee recommends no change at this time.

9. DISCUSS POLICY ALTERNATIVES TO REDUCE BAD DEBT – Recommend that the Finance Committee receive the report and recommend to the Board of Directors that regulations be drafted for future Board action regarding the following:

1. Implementing a Policy prohibiting tenant accounts and requiring owner accounts where there have been multiple bad debts at one location.
2. Implementing \$200 new account guarantee deposit for “red/poor credit” accounts, and designating that a \$300 deposit be required for accounts locked off for non-payment.
3. Implementing collections of delinquent water charges via the property tax rolls.
4. Implementing an owner guarantee of payment requirement for new tenant accounts.

Director Floen recommended sending to full Board to hear input from all. Not a recommendation for change but to hear what everyone has to say. Vice President Johnson concurred.

10. STAFF REPORT - None

11. ADJOURNMENT –

MSC Floen/Johnson 2/0 to adjourn the Regular Meeting of the Finance Committee at 10:32 a.m.

Respectfully submitted:

Susan Greer, Assistant General Manager/Controller

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JOSHUA BASIN WATER DISTRICT  
MEETING AGENDA REPORT

Meeting of the Finance Committee

November 20, 2017

Report to: Committee

Prepared by: Susan Greer 

TOPIC:

REVIEW OF FISCAL YEAR ENDING 6/30/17 AUDITED FINANCIAL STATEMENT

RECOMMENDATION:

Receive report, ask questions, recommend to Board of Directors for acceptance

ANALYSIS:

The audit for the year ending 6/30/17 is complete and Chris Brown, CPA, partner at the Fedak & Brown audit firm, will be at the Finance Committee meeting to present the results.

Note, the *result* we are looking for, the reason for the audit, is found at the top of page 2, 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. The first page of that section provides some good news; net position increased, meaning that we generated net revenues, revenues increased and expenses decreased 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 and more effort for staff each year. Page 13 and 14 show the 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 evaluate such issues.

Note, Section 4.04.14 of the Administration Code addresses the requirement for the audit, which must be presented to the Board by the end of December.

**4.04.14 Annual Independent Audit.** It is the duty of the General Manager to submit a draft of the District's Annual Audit to the Board of Directors for its review and approval no later than the end of December of each year.

Literally hundreds of hours of staff effort go into this final product, and this provides an opportunity to recognize our Accountant, Anne Roman, for her outstanding management of the project. The audit takes months of effort and coordination, with our staff, the auditor and a few third parties. Anne works many extra hours to produce the audit within the required timeline, the auditors then review her work, resulting in their opinion. The District is fortunate to have Anne on staff, I am privileged to have her on my Finance Team, and I cannot say enough good things about Anne, her commitment, integrity and the quality of her work.

**FISCAL IMPACT:**

N/A



**Joshua Basin Water District**

**Annual Financial Report**

**For the Fiscal Years Ended June 30, 2017 and 2016**



**Joshua Basin Water District  
Board of Directors as of June 30, 2017**

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
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	Elected	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](http://www.jbwd.com)**

**Joshua Basin Water District**

**Annual Financial Report**

**For the Fiscal Years Ended June 30, 2017 and 2016**



**Joshua Basin Water District  
Annual Financial Report  
For the Fiscal Years Ended June 30, 2017 and 2016**

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## **Financial Section**

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## **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 statement of net position as of June 30, 2017 and 2016, and the related statement 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.

## Independent Auditor's Report, continued

### ***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, 2017 and 2016, 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 6 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 6, 2017, 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 6, 2017

**Joshua Basin Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

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, 2017 and 2016. 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**

- In fiscal year 2017, the District's net position increased 1.55% or \$567,145 to \$37,114,993. In fiscal year 2016, the District's net position decreased 2.43% or \$909,917 to \$36,547,848.
- In fiscal year 2017, the District's total revenues increased 7.06% or \$380,384 to \$5,768,789. In fiscal year 2016, the District's total revenues increased 3.19% or \$166,804 to \$5,388,405.
- In fiscal year 2017, the District's total expenses decreased 11.63% or \$736,780 to \$5,596,458. In fiscal year 2016, the District's total expenses increased 19.35% or \$1,026,802 to \$6,333,238.

**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.

**Joshua Basin Water District**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**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 12 through 36.

**Statements of Net Position**

<b>Condensed Statements of Net Position</b>					
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>2015</u>	<u>Change</u>
<b>Assets:</b>					
Current assets	\$ 10,808,287	9,838,989	969,298	9,535,632	303,357
Non-current assets	746,104	820,715	(74,611)	895,325	(74,610)
Capital assets, net	<u>29,612,924</u>	<u>29,983,210</u>	<u>(370,286)</u>	<u>31,214,205</u>	<u>(1,230,995)</u>
<b>Total assets</b>	<u>41,167,315</u>	<u>40,642,914</u>	<u>524,401</u>	<u>41,645,162</u>	<u>(1,002,248)</u>
<b>Deferred outflows of resources</b>	<u>446,356</u>	<u>280,820</u>	<u>165,536</u>	<u>147,279</u>	<u>133,541</u>
<b>Liabilities:</b>					
Current liabilities	1,003,659	737,788	265,871	664,184	73,604
Non-current liabilities	<u>3,451,436</u>	<u>3,462,074</u>	<u>(10,638)</u>	<u>3,566,162</u>	<u>(104,088)</u>
<b>Total liabilities</b>	<u>4,455,095</u>	<u>4,199,862</u>	<u>255,233</u>	<u>4,230,346</u>	<u>(30,484)</u>
<b>Deferred inflows of resources</b>	<u>43,583</u>	<u>176,024</u>	<u>(132,441)</u>	<u>104,330</u>	<u>71,694</u>
<b>Net position:</b>					
Net investment in capital assets	26,535,924	26,804,210	(268,286)	27,937,205	(1,132,995)
Unrestricted	<u>10,579,069</u>	<u>9,743,638</u>	<u>835,431</u>	<u>9,520,560</u>	<u>223,078</u>
<b>Total net position</b>	<u>\$ 37,114,993</u>	<u>36,547,848</u>	<u>567,145</u>	<u>37,457,765</u>	<u>(909,917)</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets plus deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by \$37,114,993 and \$36,547,848 as of June 30, 2017 and 2016, respectively.

Compared to prior year, net position of the District increased 1.55% or \$567,145. The District's total net position is made up of two components: (1) net investment of capital assets and (2) unrestricted net position.

By far the largest portion of the District's net position (71.50% and 73.34% as of June 30, 2017 and 2016, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2017 and 2016, the District showed a positive balance in its unrestricted net position of \$10,579,069 and \$9,743,638, respectively, which may be utilized in future years. See note 15 for further information.

**Joshua Basin Water District**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

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

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

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>2015</u>	<u>Change</u>
<b>Revenue:</b>					
Operating revenue	\$ 5,036,700	4,614,735	421,965	4,471,015	143,720
Non-operating revenue	732,089	773,670	(41,581)	750,586	23,084
<b>Total revenue</b>	<u>5,768,789</u>	<u>5,388,405</u>	<u>380,384</u>	<u>5,221,601</u>	<u>166,804</u>
<b>Expense:</b>					
Operating expense	3,880,431	4,386,562	(506,131)	3,466,368	920,194
Depreciation	1,212,568	1,372,100	(159,532)	1,255,109	116,991
Non-operating expense	503,459	574,576	(71,117)	584,959	(10,383)
<b>Total expense</b>	<u>5,596,458</u>	<u>6,333,238</u>	<u>(736,780)</u>	<u>5,306,436</u>	<u>1,026,802</u>
<b>Net income (loss) before capital contributions</b>	<u>172,331</u>	<u>(944,833)</u>	<u>1,117,164</u>	<u>(84,835)</u>	<u>(859,998)</u>
<b>Capital contributions</b>	<u>394,814</u>	<u>34,916</u>	<u>359,898</u>	<u>920,076</u>	<u>(885,160)</u>
Change in net position	<u>567,145</u>	<u>(909,917)</u>	<u>1,477,062</u>	<u>835,241</u>	<u>(1,745,158)</u>
<b>Net position, beginning of period</b>	<u>36,547,848</u>	<u>37,457,765</u>	<u>(909,917)</u>	<u>36,622,524</u>	<u>835,241</u>
<b>Net position, end of period</b>	<u>\$ 37,114,993</u>	<u>36,547,848</u>	<u>567,145</u>	<u>37,457,765</u>	<u>(909,917)</u>

Net position increased 1.55% or \$567,145 to \$37,114,993, as a result of ongoing operations. In fiscal year 2016, the District's net position decreased 2.43% or \$909,917 to \$36,547,848, as a result of ongoing operations.

Total revenues increased 7.06% or \$380,384 to \$5,768,789, primarily due to increases in water consumption sales of \$221,530 and water service charges of \$213,000. In fiscal year 2016, the District's total revenues increased 3.19% or \$166,804 to \$5,388,405, primarily due to increases in water service charges of \$128,877, other charges for services of \$11,322, property tax revenues of \$39,397, investment earnings of \$23,590 and other non-operating revenue of \$44,628, which was offset by an \$84,531 decrease in special assessments for debt service.

Total expenses decreased by 11.63% or \$736,780 to \$5,596,458, primarily due to decreases of \$642,188 in pumping, production and treatment cost, \$111,563 in transmission and distribution, that was offset by a \$159,532 increase in depreciation expense. In fiscal year 2016, the District's total expenses increased by 19.35% or \$1,026,802 to \$6,333,238, primarily due to a \$920,194 increase in water fund expenses and an \$116,991 increase in depreciation.

**Capital Asset Administration**

Changes in capital asset for 2017, were as follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2017</u>
<b>Capital assets:</b>				
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	<u>(25,082,248)</u>	<u>(1,212,568)</u>	<u>474,396</u>	<u>(25,820,420)</u>
<b>Total capital assets, net</b>	<u>\$ 29,983,210</u>	<u>(181,932)</u>	<u>(188,354)</u>	<u>29,612,924</u>



**Joshua Basin Water District**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**Capital Asset Administration, continued**

Changes in capital asset for 2016, were as follows:

	<u>Balance 2015</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2016</u>
Capital assets:				
Non-depreciable assets	\$ 995,832	322,170	(543,158)	774,844
Depreciable assets	53,928,521	362,093	-	54,290,614
Accumulated depreciation	<u>(23,710,148)</u>	<u>(1,372,100)</u>	<u>-</u>	<u>(25,082,248)</u>
Total capital assets, net	<u>\$ 31,214,205</u>	<u>(687,837)</u>	<u>(543,158)</u>	<u>29,983,210</u>

At the end of fiscal year 2017 and 2016, the District's investment in capital assets amounted to \$29,612,924 and 29,983,210 (net of accumulated depreciation), respectively. This investment in capital assets includes land, transmission and distribution systems, buildings, equipment, vehicles and construction-in-process. See note 7 to the basic financial statements for further detailed information on the District's capital assets.

**Debt Administration**

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

	<u>Balance 2016</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2017</u>
Long-term debt:				
Bonds payable	\$ 3,179,000	-	(102,000)	3,077,000
Total long-term debt	<u>\$ 3,179,000</u>	<u>-</u>	<u>(102,000)</u>	<u>3,077,000</u>

Changes in long-term debt for 2016, were as follows:

	<u>Balance 2015</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2016</u>
Long-term debt:				
Bonds payable	\$ 3,277,000	-	(98,000)	3,179,000
Total long-term debt	<u>\$ 3,277,000</u>	<u>-</u>	<u>(98,000)</u>	<u>3,179,000</u>

In 2017 and 2016, long-term debt decreased by \$102,000 and \$98,000, respectively, primarily due to principal payments. See further detailed information in Note 13.

**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**

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**Joshua Basin Water District**  
**Statements of Net Position**  
**June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Current assets:</b>		
Cash and cash equivalents (note 2)	\$ 9,016,902	8,203,685
Accrued interest receivable	26,309	14,599
Accounts receivable – water sales and services, net (note 3)	1,011,156	1,080,001
Property taxes receivable	24,190	27,145
Special assessments receivable	89,486	95,023
Grants receivable	339,570	150,000
Accounts receivable – other	74,539	91,798
Materials and supplies inventory	149,862	104,860
Prepaid expenses and other deposits	76,273	71,878
<b>Total current assets</b>	<u>10,808,287</u>	<u>9,838,989</u>
<b>Non-current assets:</b>		
Note receivable – Hi-Desert Medical Center (note 4)	746,104	820,715
Capital assets – not being depreciated (note 7)	1,401,019	774,844
Capital assets, net – being depreciated (note 7)	28,211,905	29,208,366
<b>Total non-current assets</b>	<u>30,359,028</u>	<u>30,803,925</u>
<b>Total assets</b>	<u>41,167,315</u>	<u>40,642,914</u>
<b>Deferred outflows of resources:</b>		
Deferred pension outflows (note 5 and 14)	446,356	280,820
<b>Total deferred outflows of resources</b>	<u>\$ 446,356</u>	<u>280,820</u>

*Continued on next page*

See accompanying notes to the basic financial statements

**Joshua Basin Water District**  
**Statements of Net Position, continued**  
**June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 433,956	215,631
Accrued wages and related payables	38,232	65,548
Customer deposits and unearned revenue	344,438	268,792
Accrued interest payable	46,155	47,685
Long-term liabilities – due within one year:		
Compensated absences (note 8)	33,878	38,132
Bonds payable (note 13)	107,000	102,000
<b>Total current liabilities</b>	<b>1,003,659</b>	<b>737,788</b>
<b>Non-current liabilities:</b>		
Long-term liabilities – due in more than one year:		
Compensated absences (note 8)	101,634	114,395
Bonds payable (note 13)	2,970,000	3,077,000
Net pension liability (note 14)	379,802	270,679
<b>Total non-current liabilities</b>	<b>3,451,436</b>	<b>3,462,074</b>
<b>Total liabilities</b>	<b>4,455,095</b>	<b>4,199,862</b>
<b>Deferred inflows of resources:</b>		
Deferred pension inflows (note 12 and 14)	43,583	176,024
<b>Total deferred inflows of resources</b>	<b>43,583</b>	<b>176,024</b>
<b>Net position: (note 15)</b>		
Net investment in capital assets	26,535,924	26,804,210
Unrestricted	10,579,069	9,743,638
<b>Total net position</b>	<b>\$ 37,114,993</b>	<b>36,547,848</b>

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, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Operating revenues:</b>		
Water consumption sales	\$ 1,764,736	1,543,206
Water service charges	1,729,020	1,516,020
Standby service charges	1,222,964	1,214,103
HDMC operations revenue	132,896	200,352
Other charges for services	187,084	141,054
<b>Total operating revenues</b>	<b>5,036,700</b>	<b>4,614,735</b>
<b>Operating expenses:</b>		
Pumping, production and treatment	1,132,500	1,774,688
Transmission and distribution	730,983	842,546
Customer service	393,625	337,784
General and administrative	1,623,323	1,431,544
<b>Total operating expenses</b>	<b>3,880,431</b>	<b>4,386,562</b>
Operating income before depreciation expense	1,156,269	228,173
Depreciation expense	(1,212,568)	(1,372,100)
<b>Operating loss</b>	<b>(56,299)</b>	<b>(1,143,927)</b>
<b>Non-operating revenue (expense):</b>		
Property taxes	423,104	403,834
Special assessments for debt service	264,423	288,941
Investment earnings	55,700	39,282
Morongo Basin pipeline (note 10)	(219,898)	(219,426)
Interest expense	(139,205)	(143,765)
Debt administration charges	(10,392)	(10,442)
Property tax administration charge	(1,068)	(927)
HDMC project – District expense (note 9)	(132,896)	(200,016)
Other non-operating expenses, net	(11,138)	41,613
Total non-operating revenue, net	228,630	199,094
<b>Net loss before capital contributions</b>	<b>172,331</b>	<b>(944,833)</b>
<b>Capital contributions:</b>		
Water capacity charges	68,222	19,446
Wastewater capacity charges	5,918	-
State capital grant	189,570	-
Capital contributions	99,924	-
Local capital grant – MWA	31,180	15,470
Total capital contributions	394,814	34,916
<b>Change in net position</b>	<b>567,145</b>	<b>(909,917)</b>
<b>Net position, beginning of period</b>	<b>36,547,848</b>	<b>37,457,765</b>
<b>Net position, end of period</b>	<b>\$ 37,114,993</b>	<b>36,547,848</b>

See accompanying notes to the basic financial statements

**Joshua Basin Water District**  
**Statements of Cash Flows**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities:</b>		
Cash receipts from customers for water sales and services	\$ 5,198,450	4,540,369
Cash paid to employees for salaries and wages	(3,074,298)	(2,617,381)
Cash paid to vendors and suppliers for materials and services	(1,112,886)	(2,001,258)
Net cash provided by (used in) operating activities	1,011,266	(78,270)
<b>Cash flows from non-capital financing activities:</b>		
Property taxes	426,059	404,930
Net cash provided by non-capital financing activities	426,059	404,930
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(842,282)	(141,105)
HDMC project expense	(132,896)	(200,016)
Capital contributions	205,244	34,916
Payments received for note receivable	74,611	74,610
Grants	-	1,772,013
Special assessments for debt service	269,960	284,436
Principal paid on debt	(102,000)	(98,000)
Interest paid on debt	(140,735)	(145,235)
Net cash (used in) provided by capital and related financing activities	(668,098)	1,581,619
<b>Cash flows from investing activities:</b>		
Investment earnings	43,990	31,240
Net cash provided by investing activities	43,990	31,240
<b>Net increase in cash and cash equivalents</b>	813,217	1,939,519
<b>Cash and cash equivalents, beginning of period</b>	8,203,685	6,264,166
<b>Cash and cash equivalents, end of period</b>	\$ 9,016,902	8,203,685

*Continued on next page*

See accompanying notes to the basic financial statements

**Joshua Basin Water District**  
**Statement of Cash Flows, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Reconciliation of operating loss to net cash provided by (used in) operating activities:</b>		
<b>Operating loss</b>	\$ (56,299)	(1,143,927)
<b>Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:</b>		
Depreciation	1,212,568	1,372,100
Morongo Basin pipeline	(219,898)	(219,426)
Debt administration charges	(10,392)	(10,442)
Property tax administration charge	(1,068)	(927)
Other non-operating expenses, net	(11,138)	41,613
<b>Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:</b>		
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable – water sales and services, net	68,845	(68,803)
Accounts receivable – other	17,259	(48,595)
Materials and supplies inventory	(45,002)	(5,680)
Prepaid expenses and other deposits	(4,395)	(1,322)
Deferred outflows of resources	(165,536)	(133,541)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	218,325	41,146
Accrued wages and related payables	(27,316)	(18,316)
Customer deposits and unearned revenue	75,646	43,032
Compensated absences	(17,015)	20,848
Net pension liability	109,123	(17,724)
Deferred inflows of resources	(132,441)	71,694
<b>Total adjustments</b>	1,067,565	1,065,657
<b>Net cash provided by (used in) operating activities</b>	\$ 1,011,266	(78,270)

See accompanying notes to the basic financial statements



**Joshua Basin Water District**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(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.



**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(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. 74*

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for financial statements for periods beginning after June 15, 2016.

The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50, *Pension Disclosures*.

*Government Accounting Standards Board Statement No. 77*

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*, effective for fiscal years beginning after December 15, 2015.

The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development.

*Government Accounting Standards Board Statement No. 78*

In December 2015, the GASB issued Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for financial statements for periods beginning after December 15, 2015.

In December 2015, the GASB issued Statement No. 78 – *Pensions* The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meet certain criteria.

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

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

**C. Financial Reporting, continued**

*Government Accounting Standards Board Statement No. 80*

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*, effective for financial statements for periods beginning after June 15, 2016.

The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

*Government Accounting Standards Board Statement No. 82*

In March 2016, the GASB issued Statement No. 82 – *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for financial statements for periods beginning after June 15, 2016.

This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

**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.

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

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

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

**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.

**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.

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

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

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

**9. Capital Assets**

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$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.

**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, 2015
- Measurement Date: June 30, 2016
- Measurement Period: July 1, 2015 to June 30, 2016

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

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

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

**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. 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:

	<b>2017</b>	<b>2016</b>
Cash on hand	\$ 2,100	2,100
Deposits held with financial institutions	218,665	270,931
Deposits held with California Local Agency Investment Fund	8,796,137	7,930,654
Total cash and investments	\$ 9,016,902	8,203,685

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

	<b>2017</b>	<b>2016</b>
Deposits in Local Agency Investment Fund	194 days	167 days



**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(2) Cash and Cash Equivalents, continued**

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

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

<b>Authorized Investment Type</b>	<b>Maximum Maturity</b>	<b>Maximum Percentage Of Portfolio</b>	<b>Maximum Investment in One Issuer</b>
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	5 years	None	None
Repurchase agreements	1 year	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

***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.

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(2) Cash and Cash Equivalents, continued**

***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.

***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 98% and 97% as of June 30, 2017 and 2016, 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**

Account receivable, net consisted of the following as of June 30:

		<u>2017</u>	<u>2016</u>
Accounts receivable – water sales	\$	483,329	366,908
Unbilled water sales receivables		322,060	351,981
Standby charges receivables		358,654	463,211
Allowance for doubtful accounts		<u>(152,887)</u>	<u>(102,099)</u>
Total accounts receivable, net	\$	<u>1,011,156</u>	<u>1,080,001</u>

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(4) 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, 2017 and 2016, the note principal balance remaining was \$746,104 and \$820,715, respectively. At June 30, 2017 and 2016, accrued interest receivable on the note was \$5,617 and \$3,506, respectively and is included as part of the accrued interest receivable balance in the statements of net position.

**(5) Deferred Outflows of Resources**

Changes in deferred outflows of resources for 2017, were as follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance 2017</u>
Deferred outflows of resources:				
Deferred pension outflows	\$ 280,820	464,050	(298,514)	446,356
Total deferred outflows of resources	<u>\$ 280,820</u>	<u>464,050</u>	<u>(298,514)</u>	<u>446,356</u>

Changes in deferred outflows of resources for 2016, were as follows:

	<u>Balance 2015</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance 2016</u>
Deferred outflows of resources:				
Deferred pension outflows	\$ 147,279	343,324	(209,783)	280,820
Total deferred outflows of resources	<u>\$ 147,279</u>	<u>343,324</u>	<u>(209,783)</u>	<u>280,820</u>

**(6) 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, 2017 and 2016, the market value of all plan assets held in trust by ICMA-RC was \$517,047 and \$440,908, 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.



**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(7) Capital Assets**

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

	<u>Balance 2016</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2017</u>
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	<u>774,844</u>	<u>814,529</u>	<u>(188,354)</u>	<u>1,401,019</u>
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
Surveys and plans	752,993	-	(147,833)	605,160
Total depreciable assets	<u>54,290,614</u>	<u>216,107</u>	<u>(474,396)</u>	<u>54,032,325</u>
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)
Surveys and plans	(752,993)	-	147,833	(605,160)
Total accumulated depreciation	<u>(25,082,248)</u>	<u>(1,212,568)</u>	<u>474,396</u>	<u>(25,820,420)</u>
Total depreciable assets, net	<u>29,208,366</u>	<u>(996,461)</u>	<u>-</u>	<u>28,211,905</u>
<b>Total capital assets, net</b>	<u>\$ 29,983,210</u>	<u>(181,932)</u>	<u>(188,354)</u>	<u>29,612,924</u>

Major depreciable capital assets additions during the fiscal year ended 2017, include upgrades and extensions of the District's water transmission and distribution systems, purchases of structures and improvements, purchases of vehicles and large equipment, and purchases of office furniture and equipment. 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.

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(7) Capital Assets, continued**

Changes in capital assets for the year ended June 30, 2016, were as follows:

	<u>Balance</u> <u>2015</u>	<u>Additions/</u>	<u>Deletions/</u> <u>Transfers</u>	<u>Balance</u> <u>2016</u>
Non-depreciable assets:				
Land and land rights	\$ 508,177	7,842	-	516,019
Construction-in-process	487,655	314,328	(543,158)	258,825
Total non-depreciable assets	<u>995,832</u>	<u>322,170</u>	<u>(543,158)</u>	<u>774,844</u>
Depreciable assets:				
Transmission and distribution system	40,497,217	43,063	-	40,540,280
Recharge facilities	9,099,916	-	-	9,099,916
Structures and improvements	897,206	2,060	-	899,266
Vehicles and large equipment	1,459,586	115,895	-	1,575,481
Office furniture and equipment	1,066,262	70,238	-	1,136,500
Water rights	263,759	-	-	263,759
Wastewater system in development	22,419	-	-	22,419
Surveys and plans	622,156	130,837	-	752,993
Total depreciable assets	<u>53,928,521</u>	<u>362,093</u>	<u>-</u>	<u>54,290,614</u>
Accumulated depreciation:				
Transmission and distribution mains	(20,380,816)	(904,985)	-	(21,285,801)
Recharge facilities	(107,145)	(181,998)	-	(289,143)
Structures and improvements	(414,300)	(29,076)	-	(443,376)
Vehicles and large equipment	(908,628)	(95,548)	-	(1,004,176)
Office furniture and equipment	(1,042,004)	(19,440)	-	(1,061,444)
Water rights	(212,680)	(10,216)	-	(222,896)
Wastewater system in development	(22,419)	-	-	(22,419)
Surveys and plans	(622,156)	(130,837)	-	(752,993)
Total accumulated depreciation	<u>(23,710,148)</u>	<u>(1,372,100)</u>	<u>-</u>	<u>(25,082,248)</u>
Total depreciable assets, net	<u>30,218,373</u>	<u>(1,010,007)</u>	<u>-</u>	<u>29,208,366</u>
<b>Total capital assets, net</b>	<u>\$ 31,214,205</u>	<u>(687,837)</u>	<u>(543,158)</u>	<u>29,983,210</u>

Major depreciable capital assets additions during the fiscal year ended 2016, include purchases of vehicles and large equipment, capital improvement plans related to surveys and plans, upgrades and extensions of the District's water transmission and distribution systems and purchases of office furniture and equipment. During the year, the District wrote-off discontinued projects amounting to \$330,466 related to transmission and distribution systems and structures and improvements.

***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.

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(7) Capital Assets, continued**

***Construction-In-Process***

At June 30, 2017 and 2016, the balance of construction-in-process was \$885,000 and \$258,825, respectively, as follows:

Construction-in-process consisted of the following projects:

<u>Project Description</u>	<u>2017</u>	<u>2016</u>
Chromium study	\$ 269,389	126,141
Well 14 Rehabilitation	504,876	-
Various other minor projects < \$100,000	110,735	132,684
Total construction-in-process	<u>\$ 885,000</u>	<u>258,825</u>

**(8) Compensated Absences**

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

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

The changes to compensated absences for 2016, were as follows:

<u>Balance</u> <u>2015</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2016</u>	<u>Due within</u> <u>One Year</u>	<u>Due in more</u> <u>than one year</u>
\$ 131,679	212,206	(191,358)	152,527	38,132	114,395

**(9) 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 4 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, 2017 and 2016, the District incurred \$132,896 and \$200,016, respectively, in reimbursable costs towards the project.

**(10) 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).

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(10) 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 \$219,898 and \$219,426 for the fiscal year ended June 30, 2017 and 2016, respectively.

**(11) Joint-Venture: Joshua Basin – Hi-Desert Financing Authority**

On February 1991, the District and Hi-Desert Water District (Hi-Desert) created the Joshua Basin – Hi-Desert Financing Authority (Authority) pursuant to the laws of the State of California. The Authority is a joint exercise of powers agreement (JPA Agreement) by and between the District and Hi-Desert. The purpose of the Authority is to cause the acquisition and construction of water facilities and to finance such projects through the issuance of bonds. The Authority has a five-member Board of Directors comprised of: (a) three members of the Board of Directors of the District and (b) two members of the Board of Directors of Hi-Desert. Participation in the joint venture gives the District the ability to finance the cost of the installation and construction of any building, facility, structure, or other improvement which may be used to provide water to the lands and inhabitants of the District. As provided in the law, the Authority shall be a public entity separate from the District and Hi-Desert. The debts, liabilities and obligations of the Authority shall not constitute debts, liabilities or obligations of the District or Hi-Desert. The debts, liabilities and obligations of either the District or Hi-Desert shall not constitute debts, liabilities or obligations of the other agency.

On May 3, 2017, the District adopted resolution 17-975 terminating the Authority, and Hi-Desert adopted a similar resolution, number 17-06, on April 12, 2017. On May 15, 2017, the District filed with the California Secretary of State to terminate the JPA Agreement and the Authority.

**(12) Deferred Inflows of Resources**

Changes in deferred inflows of resources for 2017, were as follows:

	<u>Balance</u> <u>2015</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance</u> <u>2016</u>
Deferred inflows of resources:				
Deferred pension inflows	\$ 176,024	-	(132,441)	43,583
Total deferred inflows of resources	<u>\$ 176,024</u>	<u>-</u>	<u>(132,441)</u>	<u>43,583</u>

Changes in deferred inflows of resources for 2016, were as follows:

	<u>Balance</u> <u>2014</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance</u> <u>2015</u>
Deferred inflows of resources:				
Deferred pension inflows	\$ 104,330	143,273	(71,579)	176,024
Total deferred inflows of resources	<u>\$ 104,330</u>	<u>143,273</u>	<u>(71,579)</u>	<u>176,024</u>

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(13) Long-Term Debt**

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

	<u>Balance 2016</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2017</u>	<u>Current Portion</u>
Long-term debt:					
Bonds payable:					
1996 Bonds	\$ 3,179,000	-	(102,000)	3,077,000	107,000
Total bonds payable	<u>\$ 3,179,000</u>	<u>-</u>	<u>(102,000)</u>	<u>3,077,000</u>	<u>107,000</u>

Changes in long-term debt amounts for 2016, were as follows:

	<u>Balance 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2016</u>	<u>Current Portion</u>
Long-term debt:					
Bonds payable:					
1996 Bonds	\$ 3,277,000	-	(98,000)	3,179,000	102,000
Total bonds payable	<u>\$ 3,277,000</u>	<u>-</u>	<u>(98,000)</u>	<u>3,179,000</u>	<u>102,000</u>

***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 2<sup>nd</sup> and September 2<sup>nd</sup> of each year as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 107,000	136,057	243,057
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
2023-2027	722,000	482,940	1,204,940
2028-2032	899,000	301,296	1,200,296
2033-2036	874,000	80,775	954,775
Total	3,077,000	<u>1,494,112</u>	<u>4,571,112</u>
Current	<u>(107,000)</u>		
Long-term	<u>\$ 2,970,000</u>		



**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(14) 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. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

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, 2017 are summarized as follows:

	<b>Miscellaneous Risk Pool</b>	
	<b>Classic</b>	<b>PEPRA</b>
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%	6.50%
Required employer contribution rates	9.558%	6.93%

***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.

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(14) Defined Benefit Pension Plan, continued**

***Contributions, continued***

For the fiscal years ended June 30, 2017 and 2016, the contributions recognized as part of pension expense for the Plan was as follows:

	<b>2017</b>	<b>2016</b>
Contributions – employer	\$ 121,564	146,314

***Net Pension Liability***

As of June 30, 2017 and 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	<b>2017</b>	<b>2016</b>
Proportionate share of net pension liability \$	379,802	270,679

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, 2016 and 2015 (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, 2015 and 2014 (the valuation dates), rolled forward to June 30, 2016 and 2015, 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, 2016 and 2015, were as follows:

	<b>Miscellaneous</b>
Proportion – June 30, 2014	0.00463%
Decrease in proportion	-0.00069%
Proportion – June 30, 2015	0.00394%
Increase in proportion	0.00045%
Proportion – June 30, 2016	0.00439%

***Deferred Pension Outflows (Inflows) of Resources***

For the fiscal years ended June 30, 2017 and 2016, the District recognized pension expense (credit) of \$188,854 and \$79,571, respectively.

As of June 30, 2017 and 2016, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to the measurement date of \$137,342 and \$121,564 will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018 and 2017, respectively.

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(14) Defined Benefit Pension Plan, continued**

*Deferred Pension Outflows (Inflows) of Resources, continued*

As of June 30, 2017 and 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>2017</u>		<u>2016</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to the measurement date	\$ 137,342		121,564	-
Differences between actual and expected experience	3,551		9,363	-
Changes in assumptions		(43,583)	-	(88,581)
Net differences between projected and actual earnings on plan investments	226,837		-	(44,407)
Differences between actual contribution and proportionate share of contribution	8,413		-	(43,036)
Net adjustment due to differences in proportions of net pension liability	<u>70,213</u>		<u>149,893</u>	
Total	<u>\$ 446,356</u>	<u>(43,583)</u>	<u>280,820</u>	<u>(176,024)</u>

At June 30, 2017, the District recognized other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Fiscal Year</u>	<u>Deferred Net</u>
<u>Ending</u>	<u>Outflows/(Inflows)</u>
<u>June 30,</u>	<u>of Resources</u>
2018	\$ 63,280
2019	62,852
2020	75,777
2021	63,522
2022	-
Remaining	-



**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(14) 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, 2016, using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Discount rate	7.65%
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment Rate of Return	7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit	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 rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, the amortization and smoothing periods recently adopted by CalPERS were utilized. 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 Plan.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 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 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 equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(14) 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 the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 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 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 equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10*</u>	<u>Real Return Year 11+**</u>
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	<u>100.0%</u>		

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

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10*</u>	<u>Real Return Year 11+**</u>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	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	2.0%	-0.55%	-1.05%
Total	<u>100.0%</u>		

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(14) 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, 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:

	<b>Discount Rate - 1% 6.65%</b>	<b>Current Discount Rate 7.65%</b>	<b>Discount Rate + 1% 8.65%</b>
District's Net Pension Liability	\$ 536,161	379,802	185,444

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:

	<b>Discount Rate - 1% 6.65%</b>	<b>Current Discount Rate 7.65%</b>	<b>Discount Rate + 1% 8.65%</b>
District's Net Pension Liability	\$ 417,053	270,679	109,668

***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, 2017 and 2016, the District reported no payables for the outstanding amount of contribution to the pension plan.

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(15) Net Position**

	<b>2017</b>	<b>2016</b>
<b>Investment in capital assets, net of related debt:</b>		
Capital assets, not being depreciated	\$ 1,401,019	774,844
Depreciable capital assets, net	28,211,905	29,208,366
Current:		
Bonds payable	(107,000)	(102,000)
Non-current:		
Bonds payable	(2,970,000)	(3,077,000)
<b>Total net investment in capital assets</b>	<b>26,535,924</b>	<b>26,804,210</b>
<b>Non-spendable net position:</b>		
Materials and supplies inventory	149,862	104,860
Prepaid expenses and other deposits	76,273	71,878
<b>Total non-spendable net position</b>	<b>226,135</b>	<b>176,738</b>
<b>Spendable net assets are designated as follows:</b>		
Capital replacement reserve	6,901,956	6,377,933
Rate stabilization reserve	3,450,978	3,188,967
<b>Total spendable net position</b>	<b>10,352,934</b>	<b>9,566,900</b>
<b>Total unrestricted net position</b>	<b>10,579,069</b>	<b>9,743,638</b>
<b>Total net position</b>	<b>37,114,993</b>	<b>36,547,848</b>

**(16) 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, 2017, 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.

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(16) Risk Management, continued**

- 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, 2017, 2016 and 2015. 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, 2017, 2016 and 2015.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2017, that has effective dates that may impact future financial presentations.

***Governmental 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.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 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.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.



**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

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

***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 (6) and 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 provisions of this Statement are effective for reporting periods beginning after June 15, 2018. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 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 provisions of this Statement are effective for reporting periods beginning after December 15, 2018. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 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]).

The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

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

***Governmental 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.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 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 provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

**(18) 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.

***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.



**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(19) Subsequent Events**

Events occurring after June 30, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of December 6, 2017, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

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## **Required Supplementary Information**

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**Joshua Basin Water District**  
**Schedule of the District's Proportionate Share of the Net Pension Liability**  
**As of June 30, 2017**  
**Last Ten Years\***

	Measurement Dates		
	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
District's Proportion of the Net Pension Liability	0.00439%	0.00394%	0.00463%
District's Proportionate Share of the Net Pension Liability	\$ 379,802	270,679	288,403
District's Covered-Employee Payroll	\$ 1,344,686	1,384,706	1,385,362
District's proportionate share of the net pension liability as a as a Percentage of its Covered-Employee Payroll	28.24%	19.55%	20.82%
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	87.12%	89.37%	83.03%
Plan's Proportionate Share of Aggregate Employer Contributions	72,122	63,158	38,155

**Notes:**

***Changes in Benefit Terms*** – There were no changes in benefit terms for the measurement date June 30, 2017.

***Changes of Assumptions*** – There were no changes of assumption for the measurement date June 30, 2017.

\* 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, 2017**  
**Last Ten Years\***

<u>Description</u>	<u>Measurement Dates</u>		
	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
Actuarially Determined Contribution	\$ 145,219	143,957	138,973
Contributions in Relation to the Actuarially Determined Contribution	<u>(121,564)</u>	<u>(146,314)</u>	<u>(138,973)</u>
Contribution Deficiency (Excess)	\$ 23,655	<u>(2,357)</u>	-
Covered Payroll	\$ 1,344,686	<u>1,384,706</u>	<u>1,385,362</u>
Contribution's as a percentage of Covered-employee Payroll	<u>10.80%</u>	<u>10.40%</u>	<u>10.03%</u>

**Note:**

\* 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**

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

Board of Directors  
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, 2017 and 2016, 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 6, 2017.

**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 6, 2017

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