



**Joshua Basin Water District**

**Annual Financial Report**

**For the Fiscal Years Ended June 30, 2018 and 2017**



**Joshua Basin Water District  
Board of Directors as of June 30, 2018**

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

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

**Joshua Basin Water District**

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**For the Fiscal Years Ended June 30, 2018 and 2017**

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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 statements of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net position for the fiscal years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

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

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

## 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, 2018 and 2017, and the respective changes in net position, and, where applicable, cash flows thereof for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

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

#### *Other Reporting Required by Government Auditing Standards*

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

*Fedak & Brown LLP*

**Fedak & Brown LLP**

Cypress, California  
December 5, 2018



**Joshua Basin Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

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

**Financial Highlights**

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

**Using This Financial Report**

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

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

**Financial Analysis of the District**

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

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

**Joshua Basin Water District**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**Notes to the Basic Financial Statements**

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

**Statements of Net Position**

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

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

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

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

**Joshua Basin Water District**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

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

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

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

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

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

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

**Joshua Basin Water District**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**Capital Asset Administration**

Changes in capital asset for 2018, were as follows:

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

Changes in capital asset for 2017, were as follows:

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

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

**Debt Administration**

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

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

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

	<u>Balance 2016</u>	<u>Additions</u>	<u>Payments</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>

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

**Joshua Basin Water District**  
*Management's Discussion and Analysis, continued*  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**Conditions Affecting Current Financial Position**

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

**Requests for Information**

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

# **Basic Financial Statements**

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

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

*Continued on next page*

See accompanying notes to the basic financial statements

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

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

See accompanying notes to the basic financial statements



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

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

See accompanying notes to the basic financial statements

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

	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities:</b>		
Cash receipts from customers for water sales and services	\$ 5,149,034	5,065,554
Cash paid to employees for salaries and wages	(3,055,618)	(2,965,306)
Cash paid to vendors and suppliers for materials and services	(1,278,957)	(979,382)
Net cash provided by operating activities	814,459	1,120,866
<b>Cash flows from non-capital financing activities:</b>		
Property taxes	429,913	414,599
Morongo Basin pipeline	(219,594)	(219,898)
Other non-operating expenses, net	653	(11,138)
Net cash provided by non-capital financing activities	210,972	183,563
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(1,360,361)	(842,282)
HDMC project expense	34,266	-
Capital contributions	319,765	205,244
Payments received for note receivable	74,610	74,611
Proceeds from capital grants	401,700	-
Loan receivable from State Revolving Fund	(50,341)	-
Special assessments for debt service	278,154	269,960
Principal paid on debt	(56,659)	(102,000)
Interest paid on debt	(136,032)	(140,735)
Net cash used in capital and related financing activities	(494,898)	(535,202)
<b>Cash flows from investing activities:</b>		
Investment earnings	104,825	43,990
Net cash provided by investing activities	104,825	43,990
<b>Net increase in cash and cash equivalents</b>	635,358	813,217
<b>Cash and cash equivalents, beginning of period</b>	9,016,902	8,203,685
<b>Cash and cash equivalents, end of period</b>	\$ 9,652,260	9,016,902
<b>Reconciliation of cash and cash equivalents to the statements of net position:</b>		
Cash and cash equivalents	\$ 7,539,542	7,126,952
Cash and cash equivalents - restricted	2,112,718	1,889,950
Total cash and cash equivalents	\$ 9,652,260	9,016,902

*Continued on next page*

See accompanying notes to the basic financial statements

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

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

See accompanying notes to the basic financial statements

**Joshua Basin Water District**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**(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, 2018 and 2017**

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

**C. Financial Reporting, continued**

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

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

*Government Accounting Standards Board Statement No. 75*

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

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

*Government Accounting Standards Board Statement No. 81*

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

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

*Government Accounting Standards Board Statement No. 85*

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

*Government Accounting Standards Board Statement No. 86*

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

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

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

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

**1. Use of Estimates**

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

**2. Cash and Cash Equivalents**

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

**3. Investments and Investment Policy**

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

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

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

**4. Fair Value Measurements**

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

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

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

**5. Accounts Receivable and Allowance for Uncollectible Accounts**

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

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

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

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

**6. Property Taxes and Assessments**

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

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

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

**7. Materials and Supplies Inventory**

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

**8. Prepaid Expenses**

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

**9. Capital Assets**

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

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

**10. Deferred Outflows of Resources**

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

**11. Deferred Inflows of Resources**

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

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

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

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

**12. Compensated Absences**

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

**13. Pensions**

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

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

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

**14. Net Position**

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

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

**15. Water Sales and Services**

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

**16. Capital Contributions**

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

**17. Reclassification**

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



**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

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

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

**18. Budgetary Policies**

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

**(2) Cash and Cash Equivalents**

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

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

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

	<b>2018</b>	<b>2017</b>
Deposits held with the California Local Agency Investment Fund	193 days	194 days

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

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

<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 - Pooled Funds	270 days	40% of the District's	None
Commercial Paper - Non-Pooled Funds	270 days	money	None
Repurchase agreements	1 year	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

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

***Investment in State Investment Pool***

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

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

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

***Interest Rate Risk***

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

***Custodial Credit Risk***

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

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

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

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

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

***Credit Risk***

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

***Concentration of Credit Risk***

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

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

The balance at June 30 consists of the following:

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

**(4) Loan Receivable**

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

**(5) Grant Receivable**

The balance at June 30 consists of the following:

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

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

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**(5) Grant Receivable, continued**

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

**(6) Note Receivable – Hi-Desert Medical Center**

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

**(7) Hi-Desert Medical Center Project**

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

**(8) Deferred Compensation Savings Plan**

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

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

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

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**(9) Capital Assets**

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

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

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

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**(9) Capital Assets, continued**

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

	<u>Balance 2016</u>	<u>Additions/</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
Studies and reports	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)
Studies and reports	(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 of \$321,421, purchases of structures and improvements of \$60,241, purchases of vehicles and large equipment of \$69,407, and purchases of office furniture and equipment of \$20,684. During the year, the District wrote-off discontinued projects amounting to \$474,396 related to vehicles and large equipment, surveys and plans and office, furniture and equipment.

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

***Construction-In-Process***

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

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**(9) Capital Assets, continued**

**Construction-In-Process**

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

Construction-in-process consisted of the following projects:

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

**(10) Compensated Absences**

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

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

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)	<u>135,512</u>	<u>33,878</u>	<u>101,634</u>

**(11) Long-Term Debt**

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

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

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

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

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**(11) Long-Term Debt, continued**

***1996 Limited Obligation Improvement Bonds***

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

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

***Drinking Water State Revolving Fund Loan***

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

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



**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**(12) Defined Benefit Pension Plan**

***Plan Description***

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

***Benefits provided***

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

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

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

	<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%	6.500%
Required employer contribution rates	9.599%	6.908%

***Contributions***

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

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

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

***Contributions, continued***

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

	<b>2018</b>	<b>2017</b>
Contributions – employer	\$ 137,342	121,564

***Net Pension Liability***

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

	<b>2018</b>	<b>2017</b>
Proportionate share of net pension liability	\$ 490,750	379,802

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

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

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

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

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

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

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

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

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

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

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

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

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

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

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

***Actuarial Assumptions***

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

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

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

***Discount Rate***

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

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

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

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

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

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

*Discount Rate, continued*

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

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

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

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

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

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

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

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

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

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

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	\$ <u>691,680</u>	<u>379,802</u>	<u>122,050</u>

***Pension Plan Fiduciary Net Position***

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

***Payable to the Pension Plan***

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

**(13) Morongo Basin Pipeline Project**

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

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**(13) Morongo Basin Pipeline Project, continued**

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

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

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

**(14) Net Position**

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

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

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**(15) Risk Management**

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

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

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

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

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

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

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

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

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

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

***Governmental Accounting Standards Board Statement No. 83***

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



**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

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

***Governmental Accounting Standards Board Statement No. 83, continued***

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

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

***Governmental Accounting Standards Board Statement No. 84***

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

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

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

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

***Governmental Accounting Standards Board Statement No. 87***

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

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

***Governmental Accounting Standards Board Statement No. 88***

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

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

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

***Governmental Accounting Standards Board Statement No. 88, continued***

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

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

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

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

***Governmental Accounting Standards Board Statement No. 89***

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

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

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

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

**(17) Commitments and Contingencies**

***Grant Awards***

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

***Construction Contracts***

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

**Joshua Basin Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**(17) Commitments and Contingencies, continued**

*Litigation*

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

**(18) Subsequent Events**

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

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

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## **Required Supplementary Information**



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

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

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

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

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

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

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

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

**Notes to the Schedule of Pension Plan Contributions**

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



# **Report on Internal Controls and Compliance**





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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, 2018 and 2017, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated December 5, 2018.

#### **Internal Control Over Financial Reporting**

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

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

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

#### **Compliance and Other Matters**

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

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

**Purpose of this Report**

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

A handwritten signature in black ink that reads "Fedak & Brown LLP". The signature is written in a cursive, slightly slanted style.

**Fedak & Brown LLP**

Cypress, California

December 5, 2018