



Joshua Basin Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2016 and 2015



**Joshua Basin Water District
Board of Directors as of June 30, 2016**

Name	Title	Elected/ Appointed	Current Term
Victoria Fuller	President	Elected	12/14-12/18
Mickey Luckman	Vice President	Elected	12/12-12/16
Robert Johnson	Director	Elected	12/14-12/16
Michael Reynolds	Director	Elected	12/12-12/16
Rebecca Unger	Director	Elected	12/14-12/18

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

Joshua Basin Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2016 and 2015

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For the Fiscal Years Ended June 30, 2016 and 2015

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Financial Section



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Independent Auditor's Report

Board of Directors
Joshua Basin Water District
Joshua Tree, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Joshua Basin Water District (District), which comprises the statement of net position as of June 30, 2016 and 2015, and the related statement of revenues, expenses and changes in net position for the fiscal years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Independent Auditor's Report, continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Joshua Basin Water District as of June 30, 2016 and 2015, 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.

Emphasis of matter

As described in note 1 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72 – *Fair Value Measurement and Application*, GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants*, for the year ended June 30, 2016, GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71 – *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, for the year ended June 30, 2015. Our opinions are not modified with respect to these matters.

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 14, 2016, 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 14, 2016

Joshua Basin Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015

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, 2016 and 2015. We encourage readers to consider the information presented here with additional information that we have furnished in the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

- In fiscal year 2016, the District's net position decreased 2.43% or \$909,917 to \$36,547,848. In fiscal year 2015, the District's net position increased 1.3%, or \$479,334 to \$37,457,765.
- In fiscal year 2016, the District's total revenues increased 3.19% or \$166,804 to \$5,388,405. In fiscal year 2015, the District's total revenues increased 4.07% or \$204,148 to \$5,221,601.
- In fiscal year 2016, the District's total expenses increased 19.35% or \$1,026,802 to \$6,333,238. In fiscal year 2015, the District's total expenses increased by 7.92% or \$389,310 to \$5,306,436.

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, 2016 and 2015

Notes to the Basic Financial Statements

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

Statements of Net Position

	Condensed Statements of Net Position				
	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>2014</u>	<u>Change</u>
Assets:					
Current assets	\$ 9,838,989	9,535,632	303,357	9,335,648	199,984
Non-current assets	820,715	895,325	(74,610)	969,935	(74,610)
Capital assets, net	<u>29,983,210</u>	<u>31,214,205</u>	<u>(1,230,995)</u>	<u>31,378,673</u>	<u>(164,468)</u>
Total assets	<u>40,642,914</u>	<u>41,645,162</u>	<u>(1,002,248)</u>	<u>41,684,256</u>	<u>(39,094)</u>
Deferred outflows of resources	<u>280,820</u>	<u>147,279</u>	<u>133,541</u>	-	<u>147,279</u>
Liabilities:					
Current liabilities	737,788	664,184	73,604	1,428,825	(764,641)
Non-current liabilities	<u>3,462,074</u>	<u>3,566,162</u>	<u>(104,088)</u>	-	<u>3,566,162</u>
Total liabilities	<u>4,199,862</u>	<u>4,230,346</u>	<u>(30,484)</u>	<u>1,428,825</u>	<u>2,801,521</u>
Deferred inflows of resources	<u>176,024</u>	<u>104,330</u>	<u>71,694</u>	-	<u>104,330</u>
Net position:					
Net investment in capital assets	26,804,210	27,937,205	(1,132,995)	28,008,673	(71,468)
Unrestricted	<u>9,743,638</u>	<u>9,520,560</u>	<u>223,078</u>	<u>8,969,758</u>	<u>550,802</u>
Total net position	<u>\$ 36,547,848</u>	<u>37,457,765</u>	<u>(909,917)</u>	<u>36,978,431</u>	<u>479,334</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 \$36,547,848 and \$37,457,765 as of June 30, 2016 and 2015, respectively.

Compared to prior year, net position of the District decreased 2.43% or \$909,917. The District's total net position is made up of two components: (1) net investment of capital assets and (2) unrestricted net position.

By far the largest portion of the District's net position (73.34% and 74.58% as of June 30, 2016 and 2015, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2016 and 2015, the District showed a positive balance in its unrestricted net position of \$9,743,638 and \$9,520,560, respectively, which may be utilized in future years. See note 15 for further information.

Joshua Basin Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2016 and 2015

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>2014</u>	<u>Change</u>
Revenue:					
Operating revenue	\$ 4,614,735	4,471,015	143,720	4,234,465	236,550
Non-operating revenue	773,670	750,586	23,084	782,988	(32,402)
Total revenue	<u>5,388,405</u>	<u>5,221,601</u>	<u>166,804</u>	<u>5,017,453</u>	<u>204,148</u>
Expense:					
Operating expense	4,386,562	3,466,368	920,194	3,315,480	150,888
Depreciation	1,372,100	1,255,109	116,991	1,164,944	90,165
Non-operating expense	574,576	584,959	(10,383)	436,702	148,257
Total expense	<u>6,333,238</u>	<u>5,306,436</u>	<u>1,026,802</u>	<u>4,917,126</u>	<u>389,310</u>
Net income (loss) before capital contributions	(944,833)	(84,835)	(859,998)	100,327	(185,162)
Capital contributions	<u>34,916</u>	<u>920,076</u>	<u>(885,160)</u>	<u>3,296,486</u>	<u>(2,376,410)</u>
Change in net position	<u>(909,917)</u>	<u>835,241</u>	<u>(1,745,158)</u>	<u>3,396,813</u>	<u>(2,561,572)</u>
Net position, beginning of period, as previously stated	37,457,765	36,978,431	479,334	33,581,618	3,396,813
Prior period adjustment (note 15)	<u>-</u>	<u>(355,907)</u>	<u>355,907</u>	<u>-</u>	<u>(355,907)</u>
Net position, beginning of period, as restated	<u>37,457,765</u>	<u>36,622,524</u>	<u>835,241</u>	<u>33,581,618</u>	<u>3,040,906</u>
Net position, end of period	<u>\$ 36,547,848</u>	<u>37,457,765</u>	<u>(909,917)</u>	<u>36,978,431</u>	<u>479,334</u>

Net position decreased 2.43% or \$909,917 to \$36,547,848, as a result of ongoing operations. In fiscal year 2015, the District's net position increased 1.3%, or \$479,334 to \$37,457,765, which is comprised of an increase from operations of \$835,241 and a decrease from prior period adjustment in the amount of \$355,907. Please see note 5 to the basic financial statements for further discussion.

Total revenues increased 3.19% or \$166,804 to \$5,388,405, primarily due to increases in water service charges of \$128,877, other charges for services of \$11,322, property tax revenues of \$39,397, investment earnings of \$23,590 and other non-operating revenue of \$44,628, which was offset by an \$84,531 decrease in special assessments for debt service. In fiscal year 2015, the District's total revenues increased 4.07% or \$204,148 to \$5,221,601, primarily due to an increase in water consumption sales of \$49,956, standby service charges of \$32,119 and an increase in reimbursement revenue from the HDMC project of \$138,819. The increase in water consumption sales and reimbursement revenue was offset by a \$24,381 decrease in property taxes and other non-operating expenses of \$25,329.

Total expenses increased by 19.35% or \$1,026,802 to \$6,333,238, primarily due to a \$920,194 increase in water fund expenses and an \$116,991 increase in depreciation. In fiscal year 2015, the District's total expenses increased by 7.92% or \$389,310 to \$5,306,436, primarily due to a \$150,888 increase in water fund expenses, a \$90,165 increase in depreciation and a \$154,228 increase in District expenses related to the HDMC project. Please see note 9 for a detailed discussion.

Joshua Basin Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2016 and 2015

Capital Asset Administration

Changes in capital asset amounts for 2016, were as follows:

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

Changes in capital asset amounts for 2015, were as follows:

	<u>Balance 2014</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2015</u>
Capital assets:				
Non-depreciable assets	\$ 4,930,072	121,702	(4,055,942)	995,832
Depreciable assets	48,903,640	5,024,881	-	53,928,521
Accumulated depreciation	<u>(22,455,039)</u>	<u>(1,255,109)</u>	<u>-</u>	<u>(23,710,148)</u>
Total capital assets, net	<u>\$ 31,378,673</u>	<u>3,891,474</u>	<u>(4,055,942)</u>	<u>31,214,205</u>

At the end of fiscal year 2016 and 2015, the District's investment in capital assets amounted to \$29,983,210 and 31,214,205 (net of accumulated depreciation), respectively. This investment in capital assets includes land, transmission and distribution systems, buildings, equipment, vehicles and construction-in-process. See note 6 to the basic financial statements for further detailed information on the District's capital assets.

Debt Administration

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

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

Changes in long-term debt amounts for 2015, were as follows:

	<u>Balance 2014</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2015</u>
Long-term debt:				
Bonds payable	\$ 3,370,000	-	(93,000)	3,277,000
Total long-term debt	<u>\$ 3,370,000</u>	<u>-</u>	<u>(93,000)</u>	<u>3,277,000</u>

In 2016 and 2015, long-term debt decreased by \$98,000 and \$93,000, respectively, primarily due to principal payments. See further detailed information in Note 12.

Joshua Basin Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2016 and 2015

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, 2016 and 2015

	2016	2015
Current assets:		
Cash and cash equivalents (note 2)	\$ 8,203,685	6,264,166
Accrued interest receivable	14,599	6,557
Accounts receivable – water sales and services, net (note 3)	1,080,001	1,011,198
Property taxes receivable	27,145	28,241
Special assessments receivable	95,023	90,518
Grants receivable	150,000	1,922,013
Accounts receivable – other	91,798	43,203
Materials and supplies inventory	104,860	99,180
Prepaid expenses and other deposits	71,878	70,556
Total current assets	9,838,989	9,535,632
Non-current assets:		
Note receivable – Hi-Desert Medical Center (note 4)	820,715	895,325
Capital assets – not being depreciated (note 6)	774,844	995,832
Capital assets, net – being depreciated (note 6)	29,208,366	30,218,373
Total non-current assets	30,803,925	32,109,530
Total assets	40,642,914	41,645,162
Deferred outflows of resources:		
Deferred pension outflows (note 5 and 13)	280,820	147,279
Total deferred outflows of resources	\$ 280,820	147,279

Continued on next page

See accompanying notes to the basic financial statements

Joshua Basin Water District
Statements of Net Position, continued
June 30, 2016 and 2015

	2016	2015
Current liabilities:		
Accounts payable and accrued expenses	\$ 215,631	174,485
Accrued wages and related payables	65,548	83,864
Customer deposits and unearned revenue	268,792	225,760
Accrued interest payable	47,685	49,155
Long-term liabilities – due within one year:		
Compensated absences (note 7)	38,132	32,920
Bonds payable (note 12)	102,000	98,000
Total current liabilities	737,788	664,184
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 7)	114,395	98,759
Bonds payable (note 12)	3,077,000	3,179,000
Net pension liability (note 13)	270,679	288,403
Total non-current liabilities	3,462,074	3,566,162
Total liabilities	4,199,862	4,230,346
Deferred inflows of resources:		
Deferred pension inflows (note 13 and 14)	176,024	104,330
Total deferred inflows of resources	176,024	104,330
Net position: (note 16)		
Net investment in capital assets	26,804,210	27,937,205
Unrestricted	9,743,638	9,520,560
Total net position	\$ 36,547,848	37,457,765

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, 2016 and 2015

	2016	2015
Operating revenues:		
Water consumption sales	\$ 1,543,206	1,544,760
Water service charges	1,516,020	1,387,143
Standby service charges	1,214,103	1,210,582
HDMC operations revenue	200,352	204,301
Other charges for services	141,054	124,229
Total operating revenues	4,614,735	4,471,015
Operating expenses:		
Pumping, production and treatment	1,774,688	936,333
Transmission and distribution	842,546	763,025
Customer service	337,784	321,773
General and administrative	1,431,544	1,445,237
Total operating expenses	4,386,562	3,466,368
Operating income before depreciation expense	228,173	1,004,647
Depreciation expense	(1,372,100)	(1,255,109)
Operating loss	(1,143,927)	(250,462)
Non-operating revenue (expense):		
Property taxes	403,834	364,437
Special assessments for debt service	288,941	373,472
Investment earnings	39,282	15,692
Morongo Basin pipeline (note 10)	(219,426)	(219,578)
Interest expense	(143,765)	(146,802)
Debt administration charges	(10,442)	(11,172)
Property tax administration charge	(927)	(622)
HDMC project – District expense (note 9)	(200,016)	(206,785)
Other non-operating expenses, net	41,613	(3,015)
Total non-operating revenue, net	199,094	165,627
Net loss before capital contributions	(944,833)	(84,835)
Capital contributions:		
Water capacity charges	19,446	18,957
State capital grant	-	891,969
Local capital grant – MWA	15,470	9,150
Total capital contributions	34,916	920,076
Change in net position	(909,917)	835,241
Net position, beginning of period, as restated (note 15)	37,457,765	36,622,524
Net position, end of period	\$ 36,547,848	37,457,765

See accompanying notes to the basic financial statements

Joshua Basin Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 4,540,369	4,546,278
Cash paid to employees for salaries and wages	(1,508,583)	(1,538,498)
Cash paid to vendors and suppliers for materials and services	<u>(3,110,056)</u>	<u>(2,993,307)</u>
Net cash (used in) provided by operating activities	<u>(78,270)</u>	<u>14,473</u>
Cash flows from non-capital financing activities:		
Property taxes	<u>404,930</u>	<u>387,575</u>
Net cash provided by non-capital financing activities	<u>404,930</u>	<u>387,575</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(141,105)	(1,090,641)
HDMC project expense	(200,016)	(206,785)
Capital contributions	34,916	920,076
Payments received for note receivable	74,610	74,610
Grants	1,772,013	1,358,962
Special assessments for debt service	284,436	391,002
Principal paid on debt	(98,000)	(93,000)
Interest paid on debt	<u>(145,235)</u>	<u>(149,532)</u>
Net cash provided by capital and related financing activities	<u>1,581,619</u>	<u>1,204,692</u>
Cash flows from investing activities:		
Investment earnings	<u>31,240</u>	<u>14,311</u>
Net cash provided by investing activities	<u>31,240</u>	<u>14,311</u>
Net increase in cash and cash equivalents	1,939,519	1,621,051
Cash and cash equivalents, beginning of period	<u>6,264,166</u>	<u>4,643,115</u>
Cash and cash equivalents, end of period	<u><u>\$ 8,203,685</u></u>	<u><u>6,264,166</u></u>

Continued on next page

See accompanying notes to the basic financial statements

Joshua Basin Water District
Statement of Cash Flows, continued
For the Fiscal Years Ended June 30, 2016 and 2015

	2016	2015
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ <u>(1,143,927)</u>	<u>(250,462)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,372,100	1,255,109
Morongo Basin pipeline	(219,426)	(219,578)
Debt administration charges	(10,442)	(11,172)
Property tax administration charge	(927)	(622)
Other non-operating expenses, net	41,613	(3,015)
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable – water sales and services, net	(68,803)	21,658
Accounts receivable – other	(48,595)	9,217
Materials and supplies inventory	(5,680)	(4,905)
Prepaid expenses and other deposits	(1,322)	(3,152)
Deferred outflows of resources	(133,541)	(147,279)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	41,146	(729,732)
Accrued wages and related payables	(18,316)	8,732
Customer deposits and unearned revenue	43,032	44,388
Compensated absences	20,848	8,460
Net pension liability	(17,724)	(105,659)
Deferred inflows of resources	<u>71,694</u>	<u>142,485</u>
Total adjustments	<u>1,065,657</u>	<u>264,935</u>
Net cash (used in) provided by operating activities	<u>\$ (78,270)</u>	<u>14,473</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, 2016 and 2015

(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, 2016 and 2015

(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. 72

In February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application*, effective for financial statements for periods beginning after June 15, 2015.

The objective of this Statement is to enhance comparability of financial statements among governments by measurement of certain assets and liabilities at their fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value.

Government Accounting Standards Board Statement No. 73

In June 2015, the GASB issued Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*, effective for fiscal years beginning after June 15, 2015.

The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the Scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions.

Government Accounting Standards Board Statement No. 76

In June 2015, the GASB issued Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for financial statements for periods beginning after June 15, 2015.

This Statement replaces the requirements of Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of local governmental entities in conformity with GAAP and the framework for selecting those principles.

This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment is not specified within the source of authoritative GAAP.

Government Accounting Standards Board Statement No. 79

In December 2015, the GASB issued Statement No. 79 – *Certain External Investment Pools and Pool Participants*, effective for financial statements for periods beginning after June 15, 2015.

This Statement enhances comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement.

Joshua Basin Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

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

C. Financial Reporting, continued

Government Accounting Standards Board Statement No. 79, continued

Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share.

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.

Joshua Basin Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

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

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

5. Accounts Receivable and Allowance for Uncollectible Accounts

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

6. Property Taxes and Assessments

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

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

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

7. Materials and Supplies Inventory

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

8. Prepaid Expenses

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

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.

Joshua Basin Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

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

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

11. Deferred Inflows of Resources

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

12. Compensated Absences

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

13. Pensions

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

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

- Valuation Date: June 30, 2014
- Measurement Date: June 30, 2015
- Measurement Period: July 1, 2014 to June 30, 2015

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.

Joshua Basin Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

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

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

17. Budgetary Policies

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

(2) Cash and Cash Equivalents

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

	2016	2015
Cash on hand	\$ 2,100	2,100
Deposits held with financial institutions	270,931	235,338
Deposits held with California Local Agency Investment Fund	7,930,654	6,026,728
Total cash and investments	\$ 8,203,685	6,264,166

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

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

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

Investment in State Investment Pool

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

Joshua Basin Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(2) Cash and Cash Equivalents, continued

Investment in State Investment Pool

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.

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.

Joshua Basin Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(2) Cash and Cash Equivalents, continued

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 97% and 96% as of June 30, 2016 and 2015, 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

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

		<u>2016</u>		<u>2015</u>
Accounts receivable – water sales	\$	366,908		294,666
Unbilled water sales receivables		351,981		278,726
Standby charges receivables		463,211		553,669
Allowance for doubtful accounts		<u>(102,099)</u>		<u>(115,863)</u>
Total accounts receivable, net	\$	<u>1,080,001</u>		<u>1,011,198</u>

(4) Note Receivable – Hi-Desert Medical Center

On July 1, 2012, the District executed a note receivable with the Hi-Desert Medical Center for \$1,119,156 for capacity charges due for sanitary sewer service to the Hi-Desert Medical Center Wastewater Treatment Plant. The note is to be repaid over a 15-year period (\$74,610 principal per year) with interest charged at the quarterly LAIF interest earnings rate. As of June 30, 2016 and 2015, the note principal balance remaining was \$820,715 and \$895,325, respectively. At June 30, 2016 and 2015, accrued interest receivable on the note was \$3,506 and \$2,315, respectively and is included as part of the accrued interest receivable balance in the statements of net position.

(5) Deferred Outflows of Resources

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

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

Changes in deferred outflows of resources for 2015, were as follows:

		<u>Balance 2014</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance 2015</u>
Deferred outflows of resources:					
Deferred pension outflows	\$	<u>-</u>	<u>147,624</u>	<u>(345)</u>	<u>147,279</u>
Total deferred outflows of resources	\$	<u>-</u>	<u>147,624</u>	<u>(345)</u>	<u>147,279</u>

Joshua Basin Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(6) Capital Assets

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

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

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

Joshua Basin Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(6) Capital Assets, continued

	<u>Balance</u> <u>2014</u>	<u>Additions/</u>	<u>Deletions/</u> <u>Transfers</u>	<u>Balance</u> <u>2015</u>
Non-depreciable assets:				
Land and land rights	\$ 508,177	-	-	508,177
Construction-in-process	4,421,895	121,702	(4,055,942)	487,655
Total non-depreciable assets	<u>4,930,072</u>	<u>121,702</u>	<u>(4,055,942)</u>	<u>995,832</u>
Depreciable assets:				
Transmission and distribution system	40,152,771	344,446	-	40,497,217
Recharge facilities	4,598,927	4,500,989	-	9,099,916
Structures and improvements	850,283	46,923	-	897,206
Vehicles and large equipment	1,353,316	106,270	-	1,459,586
Office furniture and equipment	1,066,262	-	-	1,066,262
Water rights	263,759	-	-	263,759
Wastewater system in development	22,419	-	-	22,419
Surveys and plans	595,903	26,253	-	622,156
Total depreciable assets	<u>48,903,640</u>	<u>5,024,881</u>	<u>-</u>	<u>53,928,521</u>
Accumulated depreciation:				
Transmission and distribution mains	(19,441,923)	(938,893)	-	(20,380,816)
Recharge facilities	(7,665)	(99,480)	-	(107,145)
Structures and improvements	(385,878)	(28,422)	-	(414,300)
Vehicles and large equipment	(834,495)	(74,133)	-	(908,628)
Office furniture and equipment	(968,403)	(73,601)	-	(1,042,004)
Water rights	(202,464)	(10,216)	-	(212,680)
Wastewater system in development	(18,308)	(4,111)	-	(22,419)
Surveys and plans	(595,903)	(26,253)	-	(622,156)
Total accumulated depreciation	<u>(22,455,039)</u>	<u>(1,255,109)</u>	<u>-</u>	<u>(23,710,148)</u>
Total depreciable assets, net	<u>26,448,601</u>	<u>3,769,772</u>	<u>-</u>	<u>30,218,373</u>
Total capital assets, net	\$ <u>31,378,673</u>	<u>3,891,474</u>	<u>(4,055,942)</u>	<u>31,214,205</u>

Major depreciable capital assets additions during the fiscal year ended 2015 include upgrades and extensions of the District's water transmission and distribution systems, recharge facilities and equipment purchases.

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, 2016 and 2015

(6) Capital Assets, continued

Construction-In-Process

At June 30, 2016 and 2015, the balance of construction-in-process was \$258,825 and \$487,655, respectively, as follows:

Construction-in-process consisted of the following projects:

Project Description	2016	2015
Chromium study	\$ 126,141	-
Grading for new tank	-	238,199
Various other minor projects < \$100,000	132,684	249,456
Total construction-in-process	<u>\$ 258,825</u>	<u>487,655</u>

(7) Compensated Absences

Changes to compensated absences for 2016, were as follows:

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

Changes to compensated absences for 2015, were as follows:

Balance 2014	Earned	Taken	Balance 2015	Due within One Year	Due in more than one year
\$ 123,219	242,695	(234,235)	131,679	32,920	98,759

(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, 2016 and 2015, the market value of all plan assets held in trust by ICMA-RC was \$440,908 and \$432,989, 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, 2016 and 2015

(9) Hi-Desert Medical Center Project

In fiscal year 2013, the District was engaged by the Hi-Desert Medical Center (HDMC) to construct, own and operate the HDMC's Wastewater Treatment Plant (Plant). Please see note 4 for more details of the District's agreement with HDMC. During the construction phase, HDMC was making 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 will continue to own the Plant, while the District shall operate and maintain the Plant. For the fiscal year ended June 30, 2016 and 2015, the District incurred \$200,016 and \$206,785, respectively, in reimbursable costs towards the project.

(10) Morongo Basin Pipeline Project

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

The District makes annual payments under the Agreement for Improvement District M's general obligation bond sales of \$12,000,000 principal amount in May 1991 (Series A) and \$40,735,000 principal amount in 1993 (Series B). 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 \$219,426 and \$219,578 for the fiscal year ended June 30, 2016 and 2015.

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

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

Joshua Basin Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(12) Long-Term Debt

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

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

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

	<u>Balance 2014</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2015</u>	<u>Current Portion</u>
Long-term debt:					
Bonds payable:					
1996 Bonds	\$ 3,370,000	-	(93,000)	3,277,000	98,000
Total bonds payable	<u>\$ 3,370,000</u>	<u>-</u>	<u>(93,000)</u>	<u>3,277,000</u>	<u>98,000</u>

1996 Limited Obligation Improvement Bonds

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

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 102,000	140,760	242,760
2018	107,000	136,057	243,057
2019	111,000	131,153	242,153
2020	116,000	126,045	242,045
2021	121,000	120,713	241,713
2022-2026	692,000	514,755	1,206,755
2027-2031	861,000	340,896	1,201,896
2032-2036	<u>1,069,000</u>	<u>124,493</u>	<u>1,193,493</u>
Total	3,179,000	<u>1,634,872</u>	<u>4,813,872</u>
Current	<u>(102,000)</u>		
Long-term	<u>\$ 3,077,000</u>		

Joshua Basin Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(13) Defined Benefit Pension Plan

Plan Description

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

Benefits provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

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

The Plans' provision and benefits in effect at June 30, 2015 are summarized as follows:

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous Plan	
	Classic	PEPRA
	Prior to	On or after
Hire date	January 1, 2013	January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.50%
Required employer contribution rates	9.353%	6.73%

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 the 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, 2016 and 2015

(13) Defined Benefit Pension Plan, continued

Contributions, continued

For the fiscal years ended June 30, 2016 and 2015, the contributions recognized as part of pension expense for the Plan was as follows:

	Miscellaneous Plan	
	2016	2015
Contributions – employer	\$ 121,564	146,314

Net Pension Liability

As of the fiscal year ended June 30, 2016 and 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability	
	2016	2015
Miscellaneous Plan	\$ 270,679	288,403

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, 2015 and 2014 (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, 2014 and 2013 (the valuation dates), rolled forward to June 30, 2015 and 2014, 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, 2015, was as follows:

	Miscellaneous Plan
Proportion – June 30, 2014	0.00463%
Proportion – June 30, 2015	0.00394%
Change – Decrease	-0.00069%

The District’s proportionate share of the pension liability for the Plan as of the measurement date June 30, 2015, was as follows:

	Miscellaneous Plan
Proportion – June 30, 2013	0.00489%
Proportion – June 30, 2014	0.00463%
Change – Decrease	-0.00026%

Joshua Basin Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(13) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources

For the fiscal years ended June 30, 2016 and 2015, the District recognized pension expense of \$41,993 and \$35,861, respectively.

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

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

At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to the measurement date	\$ 146,314	-
Net differences between projected and actual earnings on plan investments	-	(96,916)
Net adjustment due to differences in proportions of net pension liability	<u>965</u>	<u>(7,414)</u>
Total	<u>\$ 147,279</u>	<u>(104,330)</u>

As of June 30, 2016 and 2015, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to the measurement date of \$121,564 and \$146,314 will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017 and 2016, respectively.

Joshua Basin Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(13) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

At June 30, 2016, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year	Deferred Net
Ending	Outflows/(Inflows)
June 30,	of Resources
2017	\$ (8,110)
2018	(7,650)
2019	(8,078)
2020	7,070
2021	-
Remaining	-

Actuarial Assumptions

The total pension liability in the June 30, 2015 and 2014 actuarial valuation report was determined using the following actuarial assumptions:

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2014 and 2013
Measurement Date	June 30, 2015 and 2014
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Discount rate	7.50% Net of Administrative Expenses for 2015 and 2014
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment Rate of Return	7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

* The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 Experience Study report. Further details of the Experience Study can be found on the CalPERS website.

Joshua Basin Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(13) Defined Benefit Pension Plan, continued

Discount Rate

For the June 30, 2015 and 2014 valuation reports, the discount rate used to measure the total pension liability was 7.50% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate used is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% will be applied to all plans in the Public Employees' Retirement Fund (PERF). The stress test results are presented in a detailed report which can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS confirmed the materiality threshold for the difference in the calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the Discount rate will require CalPERS Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the fiscal year ended 2017-2018. CalPERS will continue to check the materiality of the difference in the calculation until such time as it has changed its methodology.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculates over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

Joshua Basin Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(13) Defined Benefit Pension Plan, continued

Discount Rate, continued

The table below reflects 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.

<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%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)
Total	<u>100.0%</u>		

* An expected inflation of 2.5% used for this period

** An expected inflation of 3.0% used for this period

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

The following tables 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.

At June 30, 2016, the discount rate comparison was the following:

	<u>Discount Rate - 1%</u>	<u>Current Discount Rate</u>	<u>Discount Rate + 1%</u>
	<u>6.65%</u>	<u>7.65%</u>	<u>8.65%</u>
District's Net Pension Liability	\$ <u>417,033</u>	<u>270,679</u>	<u>109,663</u>

At June 30, 2015, the discount rate comparison was the following:

	<u>Discount Rate - 1%</u>	<u>Current Discount Rate</u>	<u>Discount Rate + 1%</u>
	<u>6.50%</u>	<u>7.50%</u>	<u>8.50%</u>
District's Net Pension Liability	\$ <u>513,844</u>	<u>288,403</u>	<u>101,307</u>

Joshua Basin Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(13) Defined Benefit Pension Plan, continued

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, 2016 and 2015, the District reported no payables for the outstanding amount of contribution to the pension plan.

(14) Deferred Inflows of Resources

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

	Balance 2015	Additions	Amortization	Balance 2016
Deferred inflows of resources:				
Deferred pension inflows	\$ 104,330	143,273	(71,579)	176,024
Total deferred inflows of resources	\$ 104,330	143,273	(71,579)	176,024

Changes in deferred inflows of resources for 2015, were as follows:

	Balance 2014	Additions	Amortization	Balance 2015
Deferred inflows of resources:				
Deferred pension inflows	\$ -	104,330	-	104,330
Total deferred inflows of resources	\$ -	104,330	-	104,330

(15) Prior Year Restatement of Net Position

Net Pension Liability – GASB 68 and 71 Implementation

In fiscal year 2015, the District implemented GASB pronouncements 68 and 71 to recognize its proportionate share of the net pension liability. As a result of the implementation, the District recognized the pension liability and recorded a net prior period adjustment, a decrease in net position of \$394,062 at July 1, 2014. The District recorded a prior period adjustment, an increase in net position, to reclassify from expense to deferred outflows of resources, the prior year's proportionate share of employer pension contribution totaling \$38,155 at July 1, 2014.

The adjustment to net position is as follows:

Net position at July 1, 2014, as previously stated	\$ 36,978,431
Effect of adjustment to record net pension liability	(394,062)
Effect of adjustment to record deferred pension outflows	38,155
Total adjustments	(355,907)
Net position at July 1, 2014, as restated	\$ 36,622,524

Joshua Basin Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(16) Net Position

	2016	2015
Investment in capital assets, net of related debt:		
Capital assets, not being depreciated	\$ 774,844	995,832
Depreciable capital assets, net	29,208,366	30,218,373
Current:		
Bonds payable	(102,000)	(98,000)
Non-current:		
Bonds payable	(3,077,000)	(3,179,000)
Total net investment in capital assets	26,804,210	27,937,205
Non-spendable net position:		
Materials and supplies inventory	104,860	99,180
Prepaid expenses and other deposits	71,878	70,556
Total non-spendable net position	176,738	169,736
Spendable net assets are designated as follows:		
Capital replacement reserve	6,377,933	6,233,883
Rate stabilization reserve	3,188,967	3,116,941
Total spendable net position	9,566,900	9,350,824
Total unrestricted net position	9,743,638	9,520,560
Total net position	36,547,848	37,457,765

(17) 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, 2016, 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 \$2,000,000, combined single limit at \$2,000,000 per occurrence. The JPIA purchases additional excess coverage layers up to \$60 million per occurrence total for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

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

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

Joshua Basin Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(17) Risk Management, continued

- Property loss, including boiler and machinery coverage is paid at the replacement cost for buildings, fixed equipment and personal property on file of \$18,258,662 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, 2016, 2015 and 2014. 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, 2016, 2015 and 2014.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2016, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 74

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50, *Pension Disclosures*. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 75

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

This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Joshua Basin Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

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

Governmental Accounting Standards Board Statement No. 80

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this Statement is to improve 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. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement is effective for financial statements for periods beginning after June 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District’s financial statements.

Governmental Accounting Standards Board Statement No. 81

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement is effective for financial statements for periods beginning after December 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District’s financial statements.

Governmental Accounting Standards Board Statement No. 82

In March 2016, the GASB issued Statement No. 82 – *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No.73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for financial statements for periods beginning after June 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District’s financial statements.

(19) 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, 2016 and 2015

(19) 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.

(20) Subsequent Events

Events occurring after June 30, 2016, have been evaluated for possible adjustment to the financial statements or disclosure as of December 14, 2016, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

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Required Supplementary Information

Joshua Basin Water District
Schedule of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2016
Last Ten Years*

	Measurement Date <u>6/30/2015</u>	Measurement Date <u>6/30/2014</u>
District's Proportion of the Net Pension Liability	<u>0.00394%</u>	<u>0.00463%</u>
District's Proportionate Share of the Net Pension Liability	\$ <u>270,679</u>	<u>288,403</u>
District's Covered-Employee Payroll	\$ <u>1,384,707</u>	<u>1,385,362</u>
District's proportionate share of the net pension liability as a as a Percentage of its Covered-Employee Payroll	<u>19.55%</u>	<u>20.82%</u>
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	<u>87.09%</u>	<u>83.03%</u>
Plan's Proportionate Share of Aggregate Employer Contributions	<u>63,158</u>	<u>38,155</u>

Notes:

* Fiscal Year 2015 was the first year of implementation, therefore only two years are shown.

Joshua Basin Water District
Schedule of Pension Plan Contributions
As of June 30, 2016
Last Ten Years*

<u>Schedule of Pension Plan Contributions (a):</u>	Measurement Date <u>2014-2015</u>	Measurement Date <u>2013-2014</u>
Actuarially Determined Contribution	\$ 63,158	138,973
Contributions in Relation to the Actuarially Determined Contribution	<u>(121,564)</u>	<u>(138,973)</u>
Contribution Deficiency (Excess)	\$ <u>(58,406)</u>	<u>-</u>
Covered Payroll	\$ <u>1,384,707</u>	<u>1,385,362</u>
Contribution's as a percentage of Covered-employee Payroll	<u>4.56%</u>	<u>10.03%</u>

Notes:

* Fiscal Year 2015 was the first year of implementation, therefore only two years are shown.

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, 2016 and 2015, 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 14, 2016.

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 14, 2016