

SAN JUAN BASIN AUTHORITY
Annual Financial Report
For the Year Ended June 30, 2017

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Annual Financial Report
For the Year Ended June 30, 2017

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

Board of Directors
San Juan Basin Authority
Rancho Santa Margarita, California

We have audited the accompanying financial statements of the San Juan Basin Authority (Authority), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority'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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2017, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 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.

Yaurinek, Trine, Day & Co., LLP

Laguna Hills, California
December 5, 2017

SAN JUAN BASIN AUTHORITY
Management's Discussion and Analysis
For the Year Ended June 30, 2017

This section of the Authority's annual financial report presents our analysis of the Authority's financial objectives and performance during the fiscal year ended June 30, 2017. Please read it in conjunction with the financial statements and accompanying notes, which follow this section.

Mission Statement of the Authority:

To develop and maintain a reliable, high-quality, economical local water supply for residents in the San Juan Basin by maximizing water use through management of local ground and surface water of San Juan Creek and its tributaries, with due consideration for preservation, enhancement, and conservation of the environment, including, but not limited to, the natural resources, fish and wildlife, infrastructure improvements, and the cultural heritage of the area.

Keeping the mission statement in mind, the Authority's major objective has been to obtain a Water Rights Permit from the State Water Resources Control Board ("SWRCB"). This permit that was approved in October 2000, will allow the Authority to secure a right to divert authorized amounts of water from the San Juan Basin that can be used for beneficial purposes in accordance with the Authority's stated mission. The permit contains specific requirements for the monitoring and management of the San Juan Basin Authority.

Annual Operating Budget

The operating budget includes proposed expenses and the means of financing them. The Authority's operating budget remains in effect the entire fiscal year, but can be revised to add project expenses with approval by the board. The goal of each year's work effort is to complete the tasks as outlined in the budget and not to accumulate funds for any other purpose.

The total operating budget for the Authority for the fiscal years 2017 and 2016 was \$1,568,410 and \$1,791,067, respectively. The original 2017 approved budget was for \$1,541,410. There was an amount included for PC 10 of \$400,000 as a budgetary item only, and it was excluded from assessments. Later in the fiscal year, an adjustment to PC 11 of \$27,000 was approved and assessed. The funds collected from the member agencies as a result of the annual budget process are used to accomplish certain defined tasks. At the end of the fiscal year, the unexpended funds are normally rolled forward to the next fiscal year and incorporated into the next budget process. A part of the budget funding for fiscal year 2017 and 2016 included a grant from Metropolitan Water District of Southern California (MWD), the majority of those funds were accrued at the end of fiscal year 2016, and received along with the remainder of the grant in fiscal year 2017.

A comparison of member assessments for participation are as follows:

	<u>Fiscal Year 2017</u>	<u>Fiscal Year 2016</u>
Total Assessments	\$ 812,135	\$ 936,327

SAN JUAN BASIN AUTHORITY
Management's Discussion and Analysis
For the Year Ended June 30, 2017

The Authority's management has prepared and is responsible for the financial statements and related information included in this report. A system of internal accounting controls is maintained to provide assurance that assets are safeguarded and that the records reflect only authorized transactions. The Authority's system of internal accounting controls is evaluated on an ongoing basis by the Authority's internal financial staff. The Authority's independent external auditor also reviews the internal control system in order to determine auditing procedures for the purpose of expressing an opinion on the financial statements.

Financial Highlights

- In 2017, the Authority's net position increased by \$374,581 from \$219,454 to \$594,035 due to the difference in actual and budgeted expenses. Some of the expenses that were well under budget included general legal, administration expenses, and PC 5 & PC 10 engineering expenses.
- In 2016, grant funds from Metropolitan Water District of Southern California (MWD) for \$187,940 were accrued. The funds were received in fiscal year 2017, along with the remaining eligible balance of \$12,060.

Required Financial Statements

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

The Statement of Net Position includes all of the Authority's investments and resources (assets) and the obligations to creditors (liabilities) as well as deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the change in the Authority's net position due to operating and non-operating resources. The final required financial statement is the Statement of Cash Flows, which provides information about the Authority's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, 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 Authority

One of the most important questions asked about the Authority's finances is, "Is the Authority better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

SAN JUAN BASIN AUTHORITY
Management's Discussion and Analysis
For the Year Ended June 30, 2017

These two statements report the Authority's net position and the related changes. The Authority's net position – the difference between assets and liabilities and deferred inflow of resources – is one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. However, one needs to consider other non-financial factors such as changes in economic conditions.

Management believes that its policies and procedures provide assurance that the Authority's operations are conducted according to a high standard of business ethics. The financial statements present the financial position of the Authority in conformity with Generally Accepted Accounting Principles.

Condensed Statement of Net Position

	2017	2016	Increase (Decrease)
Assets:			
Current Assets	\$ 1,940,691	\$ 1,594,160	\$ 346,531
Non-current Assets	16,831,592	18,064,065	(1,232,473)
Capital Assets, net of accumulated depreciation	22,363	38,233	(15,870)
Total Assets	18,794,646	19,696,458	(901,812)
Liabilities:			
Current Liabilities	1,336,802	1,378,872	(42,070)
Non-current Liabilities	16,831,592	18,064,065	(1,232,473)
Total Liabilities	18,168,394	19,442,937	(1,274,543)
Deferred Inflow of Resources:	32,217	34,067	(1,850)
Net Position:			
Net investment in capital assets	22,363	38,233	(15,870)
Unrestricted	571,672	181,221	390,451
Total Net Position	\$ 594,035	\$ 219,454	\$ 374,581

The changes in total assets, liabilities, deferred inflow of resources and net position are primarily the result of decreases in both the lease receivable and the bonds payable due to scheduled principal payment. The ending cash balance increased in fiscal year 2017, partly from the under-budget expenses and receipt of grant funds previously outstanding from MWD. In fiscal year 2017, SJBA increased their general administration budget for anticipated legal expenses and for the addition of an independent Administrator. The Administrator was not hired until March 2017, and the pending lawsuit was settled in the beginning of the fiscal year. They also budgeted for monitoring expenses in the various Project Committees that were not used.

SAN JUAN BASIN AUTHORITY
Management's Discussion and Analysis
For the Year Ended June 30, 2017

Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>2017</u>	<u>2016</u>	Increase (Decrease)
Revenues			
Operating revenues	\$ 812,135	\$ 936,327	\$ (124,192)
Non-operating revenues	726,744	941,519	(214,775)
Total revenues	<u>1,538,879</u>	<u>1,877,846</u>	<u>(338,967)</u>
Expenses:			
Operating expenses	435,641	1,048,084	(612,443)
Depreciation expense	15,870	15,870	-
Non-operating expenses	712,787	751,702	(38,915)
Total expenses	<u>1,164,298</u>	<u>1,815,656</u>	<u>(651,358)</u>
Change in net position	<u>374,581</u>	<u>62,190</u>	<u>312,391</u>
Net position - beginning of year	219,454	157,264	62,190
Net position - end of year	<u>\$ 594,035</u>	<u>\$ 219,454</u>	<u>\$ 374,581</u>

The Statement of Revenues, Expenses and Changes in Net Position shows how the government's net position changed during the fiscal year. In the case of the Authority, net position increased by \$374,581 during the fiscal year ended June 30, 2017. The decrease in operating revenues is primarily due to the surplus funds available from fiscal year 2016 assessments. Non-operating revenues also decreased from fiscal year 2016 when \$187,940 in grant revenue was accrued, along with a decrease in investment and interest income. Operating expenses decreased by \$140,591 in legal and consulting fees and \$478,127 in engineering expenses. The pending lawsuit was settled early in the year. Some of the anticipated expenses related to the drilling and monitoring of new wells, which was delayed. Non-operating expenses decreased from fiscal year 2016 due to lower interest expenses.

The Authority Consists of Four Member Agencies. The Santa Margarita Water District (SMWD), Moulton Niguel Water District (MNWD), City of San Juan Capistrano (CSJC) and South Coast Water District (SCWD) are member agencies of the Authority. The Authority has several projects that each member agency may participate in based on their own particular needs. The schedules below reflect their individual participation in various Project Committees (PC) as a percentage and the change in member agency individual fund balances.

Project Committee Participation
For the Year Ended June 30, 2017

	General fund	PC 1 Ortega Well	PC 5 Basin Plan Amend	PC 9 Well Field	PC 10 Monitoring	PC 11 Future Projects
SMWD	25%	50%	61.0%	50%	35.3%	25%
MNWD	25%	0%	37.5%	0%	6.6%	25%
City of San Juan	25%	50%	1.5%	50%	35.3%	25%
SCWD	25%	0%	0.0%	0%	22.8%	25%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

SAN JUAN BASIN AUTHORITY
Management's Discussion and Analysis
For the Year Ended June 30, 2017

Member Agency Net Position
For the Year Ended June 30, 2017

	<u>SMWD</u>	<u>MNWD</u>	<u>City of SJC</u>	<u>SCWD</u>	<u>TOTAL</u>
Assessments received	\$ 229,956	\$ 140,000	\$ 221,843	\$ 220,336	\$ 812,135
Other Income	3,015	3,015	3,015	3,015	12,060
Investment Income	12	12	714,648	12	714,684
Operating Expenses	(139,746)	(57,399)	(137,007)	(101,489)	(435,641)
Interest Expense	-	-	(712,787)	-	(712,787)
Depreciation Expense	(7,935)	-	(7,935)	-	(15,870)
Change in Net Position	85,302	85,628	81,777	121,874	374,581
Net Position - Beginning of Year	101,039	64,909	21,203	32,303	219,454
Net Position - End of Year	\$ 186,341	\$ 150,537	\$ 102,980	\$ 154,177	\$ 594,035

Member Agency Net Position
For the Year Ended June 30, 2016

	<u>SMWD</u>	<u>MNWD</u>	<u>City of SJC</u>	<u>SCWD</u>	<u>TOTAL</u>
Assessments received	\$ 233,459	\$ 218,160	\$ 229,099	\$ 255,609	\$ 936,327
Other Income	46,985	46,985	46,985	46,985	187,940
Investment Income	7	7	753,558	7	753,579
Operating Expenses	(265,865)	(251,384)	(266,987)	(263,848)	(1,048,084)
Interest Expense	-	-	(751,702)	-	(751,702)
Cost of Bond Issuance	-	-	-	-	-
Depreciation Expense	(7,935)	-	(7,935)	-	(15,870)
Change in Net Position	6,651	13,768	3,018	38,753	62,190
Net Position - Beginning of Year	94,388	51,141	18,185	(6,450)	157,264
Net Position - End of Year	\$ 101,039	\$ 64,909	\$ 21,203	\$ 32,303	\$ 219,454

The Authority Adopts an Annual Operating Budget. The Operating Budget includes proposed expenses and the means of financing them. The Authority's operating budget remains in effect the entire year but may be adjusted by board approval. The only change to capital assets was the increase in accumulated depreciation. Long term debt decreased by the scheduled payment of principal.

Contacting the Authority's Financial Management. The Authority's basic financial statements are designed to demonstrate the Authority's accountability. If you have any questions about the annual report or need additional information, please contact the Authority's Treasurer at P.O. Box 7005, Mission Viejo, California 92690-7005.

SAN JUAN BASIN AUTHORITY
Statement of Net Position
As of June 30, 2017

ASSETS

Current Assets

Cash and investments (note 2)	\$	648,947
City of San Juan Capistrano lease receivable - current (notes 3 & 5)		1,232,473
Accounts receivable - other		15
Accrued interest receivable		56,024
Prepaid expenses		3,232
Total Current Assets		1,940,691

Non-current Assets

Restricted - City of San Juan Capistrano lease receivable - non-current (notes 3 & 5)		16,831,592
Capital assets, net of accumulated depreciation (note 4)		22,363
Total Non-current Assets		16,853,955
Total Assets		18,794,646

LIABILITIES

Current Liabilities:

Accounts payable and accrued liabilities		48,305
Accrued interest payable		56,024
Bonds payable - current (note 5)		1,232,473
Total Current Liabilities		1,336,802

Non-current Liabilities:

Bonds payable, less current portion (note 5)		16,831,592
Total Non-current Liabilities		16,831,592
Total Liabilities		18,168,394

DEFERRED INFLOW OF RESOURCES

Deferred gain on debt defeasance (note 5)		32,217
		32,217

NET POSITION

Net investment in capital assets		22,363
Unrestricted		571,672
Total Net Position		\$ 594,035

See accompanying notes to the basic financial statements.

SAN JUAN BASIN AUTHORITY
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2017

Operating Revenues:	
Member Agency assessments	\$ 812,135
Operating Expenses:	
Accounting (note 6)	19,834
Engineering	287,069
Legal	54,445
Administration and Management support	74,293
Depreciation	15,870
Total Operating Expenses	451,511
Operating Income	360,624
Non-operating Revenues (Expenses)	
Grant funds	12,060
Interest expense	(712,787)
Investment income - lease	714,637
Other investment income and miscellaneous income	47
Total Non-operating Revenues	13,957
Change in Net Position	374,581
Net Position - beginning of year	219,454
Net Position - end of year	\$ 594,035

See accompanying notes to the basic financial statements.

SAN JUAN BASIN AUTHORITY
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

Cash flow from operating activities:

Cash receipts from member agency assessments	\$	871,862
Cash paid to vendors and suppliers for materials and services		(519,358)
Net cash provided by operating activities		352,504

Cash flows from non-capital financing activities:

City of San Juan Capistrano lease receipts		1,905,462
Other receipts		200,000
Net cash provided by non-capital financing activities		2,105,462

Cash flows from capital and related financing activities:

Principal paid for debt service		(1,187,143)
Interest paid for debt service		(718,319)
Net cash used in capital and related financing activities		(1,905,462)

Net increase in cash and cash equivalents		552,504
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Cash and cash equivalents at June 30, 2016		90,072
Cash and cash equivalents at June 30, 2017	\$	642,576

See accompanying notes to the basic financial statements.

SAN JUAN BASIN AUTHORITY
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

(Continued)

Reconciliation of cash and cash equivalents to amounts reported on the statement of net position:

Cash and cash equivalents	\$ 642,576
Cash and investments	6,371
Total cash and investments	\$ 648,947

Reconciliation of operating income to net cash (used in) operating activities:

Operating income	360,624
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	15,870
Change in assets - (increase)decrease:	
Accounts receivable	59,727
Prepaid expenses and other deposits	2
Change in liabilities - increase(decrease):	
Accounts payable and accrued expenses	(83,719)
Total adjustments	(8,120)
Net cash provided by operating activities	\$ 352,504

Supplemental disclosure of non-cash capital and related financing and investing activities

Amortization of debt defeasance	1,850
	\$ 1,850

See accompanying notes to the basic financial statements.

SAN JUAN BASIN AUTHORITY
Notes to Financial Statement
For the Fiscal Year Ended June 30, 2017

1. Organization and Summary of Significant Accounting Policies

Reporting Entity

The San Juan Basin Authority (Authority) is a public entity created for the joint exercise of common powers pursuant to a Joint Exercise of Powers Agreement dated November 22, 1972 by and between the member agencies: Capistrano Beach County Water District (CBWD) (predecessor of Capistrano Beach Water District), Capistrano Valley Water District (CVWD) and the Santa Margarita Water District (SMWD). Moulton Niguel Water District (MNWD) and Trabuco Canyon Water District (TCWD) were subsequently admitted as members to the Authority. Capistrano Beach Water District (CBWD) and TCWD withdrew as member agencies effective April 5, 1989 and June 30, 1997, respectively. Effective in 1997, the City of San Juan Capistrano (CSJC) became the successor Agency of the CVWD. Effective April 7, 1998, CBWD was readmitted as a member to the Authority. Effective January 1, 1999, CBWD was dissolved and the South Coast Water District (SCWD) became the successor entity. The Authority was formed under the powers granted to the member agencies pursuant to Article 1, Chapter 5, Division 7, Title 1 of the California Government Code. The Authority is a joint venture of the member agencies - SMWD, MNWD, CSJC and SCWD.

The Authority was created to plan, acquire, construct, maintain, repair, operate and control facilities to supply the inhabitants and lands within each of the member agencies' boundaries with water and provide for the development and conservation of water supplies.

The Authority currently has nine project committees to administer and develop various projects for the benefit of the member agencies. Member agencies may elect to participate in each of the Authority's project committees and are assessed annually for the estimated costs to be incurred related to each project committee based upon ownership or usage. Member agency assessments were made for the year ended June 30, 2017 as directed by the Board of Directors.

The powers and functions of the Authority are exercised by a Board of Directors, of which one Director may be appointed by each of the Board of Directors of the member agencies. Each Director holds office until a successor Director is appointed, serves at the pleasure of the legislative body of the appointing member agency and may be removed at any time, with or without cause, at the sole discretion of such legislative body.

Basis of Accounting

The accounting policies of the Authority's basic financial statements conform with accounting principles generally accepted in the United States of America applicable to state and local government agencies using pronouncements issued by the General Accounting Standards Board (GASB) and as such, the Authority reports its activities as an enterprise fund. The basic financial statements presented are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, 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.

SAN JUAN BASIN AUTHORITY
Notes to Financial Statement
For the Fiscal Year Ended June 30, 2017

1. Organization and Summary of Significant Accounting Policies (continued)

Operating revenues and expenses result from the Authority's activities to operate and maintain the facilities within the member agencies' boundaries. The operating revenues consist of charges to the member agencies for annual assessments. Operating expenses include the costs of providing the operation and maintenance of the facilities, administrative expenses, and depreciation. All revenues and expenses not meeting these definitions and which are not capital in nature are reported in non-operating revenues and expenses.

The Authority derives all its operating revenue from Member Agency assessments, which are based on the adopted fiscal year budget. The Member Agencies are assessed based on project participation and benefit. Non-operating activities includes interest income and expenses from the lease agreement and revenue bonds. The Authority also received grant revenue this fiscal year and last fiscal year.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and deferred inflows of resources and disclosures as of June 30, 2017, and revenues and expenses for the year then ended. Actual results could materially differ from those estimates in the near term.

Cash and Investments

The Authority has not adopted an investment policy but adheres to the California Government Code.

Substantially all of the Authority's cash is held in a checking account. The Authority considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents.

The Authority records investments at fair value and changes in fair value are recorded as unrealized gains or losses. Investment income is comprised of interest earnings, changes in fair value, and any gain or loss realized upon the liquidation on or sale of investments.

City of San Juan Capistrano Lease Agreement

On December 1, 2002, a lease agreement was executed related to the lease payments to be made by the CVWD and later assigned to CSJC to service the bond debt. The note receivable was originally in the amount of \$29,302,462. CSJC makes the lease agreement payments from pledged revenues to the bond fiscal agent to make the bond debt service payments. The Authority recorded the full lease receivable as an asset at the time that the bonds payable was recorded. When the lease payments are received from CSJC, the asset is reduced. When the debt service payments are made twice a year, the bond payable is reduced and applicable interest is expensed. In November 2014, CSJC issued \$20,361,090 in Lease Revenue Bonds and the proceeds were used to refund the 2002 bonds. See Notes 3 and 5 below for further information.

SAN JUAN BASIN AUTHORITY
Notes to Financial Statement
For the Fiscal Year Ended June 30, 2017

1. Organization and Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Contributed assets which consist mainly of pipelines, wells and pump stations are recorded as contributed facilities based on acquisition value. Depreciation on contributed facilities are charged the same as on purchased assets, using the straight-line method based on estimated lives which range from 10 to 40 years, consisting primarily of diversion structure over 20 years, wells over 25 years, and pump stations and pipelines over 40 years. Equipment that has been determined to have no useful life or value is removed from the records when such determination has been made by management.

Member Agencies' Net Position

Costs are applied directly against deposits received from member agencies. Costs are allocated between member agencies based on ownership or usage. Interest earned on member agency deposits is allocated to the member agencies on a monthly basis in accordance with their relative deposit balances. At the end of each fiscal year, operating surplus balances are refunded to member agencies or added to their net position as determined by the Board of Directors.

Net Position

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

- Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets. Deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt is included in this component of net position.
- Unrestricted Net Position – This component of net position is 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.

Grants

Grants are recorded when the Authority has met the criteria for eligibility and has incurred eligible reimbursable expenses. At June 30, 2017 the authority had a grant revenue from the Metropolitan Water District of Southern California for \$12,060.

SAN JUAN BASIN AUTHORITY
Notes to Financial Statement
For the Fiscal Year Ended June 30, 2017

1. Organization and Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

The Government Accounting Standards Board (GASB) has issued pronouncements that will impact future financial presentations. Management has not currently determined the impact, if any, of the newly issued pronouncements.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. Effective for the Agency's fiscal year June 30, 2018.

GASB Statement No. 83, *Certain Asset Retirement Obligations*. Effective for the Agency's fiscal year June 30, 2019.

GASB Statement No. 84, *Fiduciary Activities*. Effective for the Agency's fiscal year ending June 30, 2020.

GASB Statement No. 85, *Omnibus 2017*. Effective for the Agency's fiscal year ending June 30, 2018.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*. Effective for the Agency's fiscal year ending June 30, 2018.

GASB Statement No. 87, *Leases*. Effective for the Agency's fiscal year ending June 30, 2021.

2. Cash and Investments

Cash and investments as of June 30, 2017 are classified in the accompanying financial statements as follows:

Cash in bank	\$	642,576
California Local Agency Investment Pool (LAIF)		6,371
Total cash and investments	\$	648,947

SAN JUAN BASIN AUTHORITY
Notes to Financial Statement
For the Fiscal Year Ended June 30, 2017

2. Cash and Investments (continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits, or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Generally, 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 does 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 a state or local government 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 Authority deposits by pledging first trust deed mortgages noted having a value of 150% of the secured public deposits. Of the \$642,576 in bank balances, the federally insured amount is limited up to \$250,000 per bank.

Investment in State Investment Fund

The Authority is a voluntary participant in the California Local Agency Investment Fund (LAIF) that is regulated by the California Government Code, under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority'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 the amortized cost basis. LAIF is not registered with the U.S. Securities and Exchange Commission and is not relates. Deposits and withdrawals to or from LAIF are made on the basis of \$1 and not at fair value. Accordingly, under the fair value hierarchy, the investment with LAIF is uncategorized.

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Notes to Financial Statement
For the Fiscal Year Ended June 30, 2017

2. Cash and Investments (continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The following shows the Authority's distribution of investments by maturity:

<u>Investment Type</u>	<u>Remaining Maturity (In Months)</u>	
	<u>Total</u>	<u>Less than one year</u>
State investment pool (LAIF)	\$ 6,371	\$ 6,371
	<u>\$ 6,371</u>	<u>\$ 6,371</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, and the actual rating as of year-end for each investment type.

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>
			<u>Not Rated</u>
State investment pool (LAIF)	\$ 6,371	N/A	\$ 6,371
	<u>\$ 6,371</u>		<u>\$ 6,371</u>

3. City of San Juan Capistrano Lease Receivable

On December 1, 2002 the Authority entered into a direct financing lease agreement with the CSJC in conjunction with the issuance and payment of the 2002 Lease Revenue Bonds for the construction of the Desalter Treatment Plant. The lease payments are equal to the principal and interest of the debt service requirements of the bonds. In November 2014, CSJC issued \$20,361,090 in Lease Revenue Bonds and the proceeds were used to refund the 2002 bonds. When the 2002 bonds were refunded, the lease agreement related to those bonds was replaced with an amended and restated lease agreement with CSJC in conjunction with the issuance of the 2014 Lease Revenue Bonds. As of June 30, 2017, the outstanding lease receivable totaled \$18,064,065. See Note 5 for additional information.

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Notes to Financial Statement
For the Fiscal Year Ended June 30, 2017

4. Capital Assets

A summary of changes in capital assets is as follows:

	<u>Balance at July 1, 2016</u>	<u>Additions</u>	<u>Retirements/ Dispositions</u>	<u>Balance at June 30, 2017</u>
Water facilities, wells and pipelines	\$ 1,171,719	\$ -	\$ -	\$ 1,171,719
Accumulated depreciation	(1,133,486)	(15,870)	-	(1,149,356)
Net capital assets	<u>\$ 38,233</u>	<u>\$ (15,870)</u>	<u>\$ -</u>	<u>\$ 22,363</u>

Depreciation expense for the year ended June 30, 2017 was \$15,870.

5. Bonds Payable

The activity relating to the bonds payable was as follows:

	<u>Balance at July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2017</u>	<u>Amount Due Within One Year</u>	<u>Amount Due Beyond One Year</u>
2014 Lease revenue bonds	\$ 19,251,208	\$ -	\$ (1,187,143)	\$ 18,064,065	\$ 1,232,473	\$ 16,831,592
Bonds payable	<u>\$ 19,251,208</u>	<u>\$ -</u>	<u>\$ (1,187,143)</u>	<u>\$ 18,064,065</u>	<u>\$ 1,232,473</u>	<u>\$ 16,831,592</u>

On December 11, 2002, the Authority issued lease revenue bonds (Bonds) in the amount of \$31,555,000 for the Ground Water Recovery Project. The Bonds are special limited obligations of the Authority payable solely from the trustee estate, including lease payments to be made by the CJSC to the Authority solely from revenues of the CSJC Water Enterprise Fund pursuant to the lease agreement between the CSJC and the Authority. The Authority pledges the annual lease payments received from CSJC to make the debt service payments as they come due.

The proceeds of the Bonds were applied to finance and reimburse the costs of the design, development, acquisition and construction of a groundwater recovery plant and related improvements and facilities, fund a debt service reserve fund securing the Bonds, fund capitalized interest through June 1, 2004 and pay certain costs of issuance of the Bonds.

In November 2014, the Authority issued \$20,361,090 in Lease Revenue Bonds with a fixed interest rate of 3.85%. The proceeds of the bonds were used for the current refunding of the 2002 Lease Revenue Bonds, which had an average interest rate of 5.03%. The final maturity date of the bonds remains the same, at December 2034. The previously required debt reserve of approximately \$2.3 million was utilized in the refunding (a debt reserve is no longer required). The outstanding bond balance at June 30, 2017 is \$18,064,065.

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Notes to Financial Statement
For the Fiscal Year Ended June 30, 2017

5. Bonds Payable (continued)

Scheduled future payments by the Authority for the Bonds payable are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2018	1,232,473	671,741	1,904,214
2019	1,281,398	623,349	1,904,747
2020	1,328,794	573,103	1,901,897
2021	1,384,603	520,870	1,905,473
2022	1,433,622	466,619	1,900,241
2023-2027	5,801,427	1,529,592	7,331,019
2028-2032	2,587,788	770,584	3,358,372
2033-2034	3,013,960	135,298	3,149,258
	<u>\$ 18,064,065</u>	<u>\$ 5,291,157</u>	<u>\$ 23,355,222</u>

During the 2014 refunding of the Lease Revenue Bonds, the difference between the reacquisition price and the carrying amount of the old debt resulted in a gain, which is included as a deferred inflow of resources on the accompanying Statement of Net Position and amortized over the maturity of the refunding debt under the straight-line method. The balance on the deferred gain on debt defeasance as of June 30, 2017 is as follows:

	Balance at June 30, 2016	Additions	Reductions	Balance at June 30, 2017
2014 Lease Revenue Bond	34,067	-	(1,850)	32,217
	<u>\$ 34,067</u>	<u>\$ -</u>	<u>\$ (1,850)</u>	<u>\$ 32,217</u>

6. Related Party Transactions

SMWD provides accounting services based on an hourly rate for the Authority. The total expenses incurred for services for the year ended June 30, 2017 was \$10,734 which is included in accounting expenses on the Statement of Revenues, Expenses and Changes in Net Position.

7. Commitments and Contingencies

The Authority believes there are no existing matters which will have a material adverse effect on the Authority's financial position. In the opinion of the Authority's Counsel, the Authority had no material claims which would require loss provisions in the financial statement.

8. Risk Management

The Authority has commercial general liability coverage. The Authority believes there are no existing matters which will have a material adverse effect on the Authority's financial position. There were no significant settlements, or reductions in insurance coverage from settlements, for the past three years.