

VICTORVILLE WATER DISTRICT
(A Subsidiary District of the City of Victorville, California)

BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2015

VICTORVILLE WATER DISTRICT

Basic Financial Statements

Year ended June 30, 2015

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Board of Directors
Victorville Water District
Victorville, California

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Victorville Water District ("District"), a component unit of the City of Victorville, California as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise 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 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Victorville Water District, as of June 30, 2015, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

The financial statements for the year ended June 30, 2015 reflect certain prior period adjustments as described further in note 9 to the financial statements. Our opinion is not modified with respect to this matter.

As described further in note 9 to the financial statements, during the year ended June 30, 2015 the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

The financial statements of the City of Victorville for the fiscal year ended June 30, 2014 were audited by other auditors whose report dated February 12, 2015 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 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.

Irvine, California
February 2, 2016

VICTORVILLE WATER DISTRICT
Statement of Net Position
Year ended June 30, 2015
(with comparative data for June 30, 2014)

<u>Assets:</u>	2015	2014
<u>Current assets:</u>		
Cash and investments (note 2)	\$ 39,526,413	35,486,012
Cash and investments with fiscal agent (note 2)	1,949,500	1,930,332
Accounts receivable, net	3,340,953	3,073,136
Interest receivable	20,345	11,787
Due from other governments	19,167	30,604
Inventory	499,264	466,367
Total current assets	45,355,642	40,998,238
 <u>Noncurrent assets:</u>		
Prepaid items	1,400	297,561
Non-depreciable capital assets (note 3)	25,709,143	25,271,099
Depreciable capital assets, net (note 3)	152,448,325	160,389,292
Total noncurrent assets	178,158,868	185,957,952
Total assets	223,514,510	226,956,190
 <u>Deferred Outflow of Resources:</u>		
Deferred outflow - pension contribution (note 8)	709,786	-
Deferred charge on refunding	107,818	120,323
Total deferred outflow of resources	817,604	120,323
 <u>Liabilities:</u>		
<u>Current liabilities:</u>		
Accounts payable	1,193,216	854,290
Interest payable	241,523	249,450
Unearned revenue	1,395,788	1,395,788
Deposits payable	1,616,093	1,558,754
Long-term liabilities, due within one year (note 4 and 8)	703,889	701,608
Total current liabilities	5,150,509	4,759,890
 <u>Noncurrent liabilities:</u>		
Long-term liabilities, due in more than one year (note 4 and 8)	20,694,686	13,669,060
Total noncurrent liabilities	20,694,686	13,669,060
Total liabilities	25,845,195	18,428,950
 <u>Deferred Inflows of Resources:</u>		
Deferred inflows - actuarial (note 8)	1,984,558	-
Total deferred outflows of resources	1,984,558	-
 <u>Net position:</u>		
Net investment in capital assets	167,641,968	174,715,723
Restricted for capital asset construction	5,227,435	4,662,074
Restricted for debt service	3,683,187	3,575,742
Unrestricted	19,949,771	25,694,024
Total net position	\$ 196,502,361	208,647,563

See accompanying notes to the basic financial statements.

VICTORVILLE WATER DISTRICT

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2015

(with comparative data for June 30, 2014)

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Water sales	\$ 13,103,644	13,583,548
Meter and service fees	8,931,017	8,059,262
Other	<u>3,106,645</u>	<u>3,058,992</u>
Total operating revenues	<u>25,141,306</u>	<u>24,701,802</u>
 Operating expenses:		
Personnel services	7,619,285	6,746,209
Maintenance and operations	7,470,282	6,584,789
Production costs	4,394,426	4,760,590
Depreciation	<u>10,194,572</u>	<u>10,058,329</u>
Total operating expenses	<u>29,678,565</u>	<u>28,149,917</u>
 Operating income (loss)	<u>(4,537,259)</u>	<u>(3,448,115)</u>
 Nonoperating revenues (expenses):		
Intergovernmental (noncapital)	725,454	695,584
Investment income	110,700	107,079
Interest expense	(534,558)	(611,981)
Arsenic surcharge	248,456	396,301
Gain (loss) on disposition of assets	(10,257)	(250,853)
Other revenue (expenses)	<u>102,120</u>	<u>295,166</u>
Total nonoperating revenues (expenses)	<u>641,915</u>	<u>631,296</u>
 Income (loss) before transfers and capital contributions	<u>(3,895,344)</u>	<u>(2,816,819)</u>
 Capital contributions:		
Connection fees	853,306	727,999
Alternate water source fees	145,948	166,520
Developer contributed assets	29,883	1,795,398
Facilities contributed from the City of Victorville	-	278,858
Transfers to the City of Victorville (note 5)	<u>(988,987)</u>	<u>-</u>
Total capital contributions and transfers	<u>40,150</u>	<u>2,968,775</u>
 Change in net position	<u>(3,855,194)</u>	<u>151,956</u>
 Net position at beginning of year, as restated (note 8)	<u>200,357,555</u>	<u>208,495,607</u>
Net position at end of year	<u>\$ 196,502,361</u>	<u>208,647,563</u>

See accompanying notes to the basic financial statements.

VICTORVILLE WATER DISTRICT
Statement of Cash Flows
Year ended June 30, 2015
(with comparative data for June 30, 2014)

	2015	2014
Cash flows from operating activities:		
Cash received from customers	\$ 25,226,989	25,188,081
Cash payments to employees for services	(7,033,760)	(6,927,270)
Cash payments to suppliers for goods and services	(11,196,666)	(10,519,749)
Net cash provided by (used for) operating activities	6,996,563	7,741,062
Cash flows from noncapital financing activities:		
Cash received from County of San Bernardino	725,454	695,584
Cash received from City of Victorville	-	278,858
Cash paid to City of Victorville	(988,987)	-
Net cash provided by (used for) noncapital financing activities	(263,533)	974,442
Cash flows from capital and related financing activities:		
Cash payments to acquire capital assets	(2,830,461)	(1,722,744)
Cash received from capital restricted revenue	999,254	1,432,265
Principal paid on capital-related debt	(410,000)	(29,217)
Interest paid on capital-related debt	(534,396)	(619,422)
Net cash provided by (used for) capital and related financing activities	(2,775,603)	(939,118)
Cash flows from investing activities:		
Interest received on investments	102,142	103,607
Net cash provided by investing activities	102,142	103,607
 Net increase in cash and cash equivalents	 4,059,569	 7,879,993
Cash and cash equivalents at beginning of year	37,416,344	29,536,351
Cash and cash equivalents at end of year	\$ 41,475,913	37,416,344
 Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (4,537,259)	(3,448,115)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	10,194,572	10,058,329
Arsenic surcharge	248,456	396,301
Nonoperating miscellaneous expense	102,120	295,166
(Increase) decrease in accounts receivable	(267,817)	116,498
(Increase) decrease in due from other governments	11,437	6,602
(Increase) decrease in inventory	(32,897)	(10,039)
(Increase) decrease in prepaid items	296,161	609,712
(Increase) decrease in deferred outflows	(47,188)	-
Increase (decrease) in accounts payable	338,926	137,600
Increase (decrease) in deposits payable	57,339	(239,931)
Increase (decrease) in OPEB obligation	652,796	12,578
Increase (decrease) in compensated absences	34,721	(193,639)
Increase (decrease) in net pension liability	(2,039,362)	-
Increase (decrease) in deferred inflows	1,984,558	-
Total adjustments	11,533,822	11,189,177
Net cash provided by (used for) operating activities	\$ 6,996,563	7,741,062
 <u>Noncash capital, financing and investing activities</u>		
Facilities contributed from City of Victorville	-	278,858
Loss on disposal of capital assets	(10,257)	-
Developer contributed capital assets	29,883	1,795,398
Total noncash capital, financing and investing activities	\$ 19,626	2,074,256

See accompanying notes to the basic financial statements.

VICTORVILLE WATER DISTRICT
Statement of Fiduciary Net Position
Fiduciary Fund (Agency Fund Type)
June 30, 2015
(with comparative data for June 30, 2014)

	2015	2014
<u>Assets:</u>		
Cash and investments (note 2)	\$ 301,780	401,253
Cash and investments with fiscal agent (note 2)	-	405,520
Due from City of Victorville	390	-
Total assets	\$ 302,170	806,773
<u>Liabilities:</u>		
Deposits payable	\$ 302,170	806,773
Total liabilities	\$ 302,170	806,773

See accompanying notes to the basic financial statements.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2015

(1) Summary of Significant Accounting Policies

(a) Description of the Reporting Entity

On August 15, 2007, the Victor Valley Water District and the Baldy Mesa Water District were consolidated into a subsidiary district of the City of Victorville ("City"), known as the Victorville Water District ("District"), per Resolution No. 2977 of the Executive Officer of the Local Agency Formation Commission ("LAFCO") of San Bernardino County, which adopted a change of organization without election. All of the liabilities including debt obligations of the Victor Valley Water District and the Baldy Mesa Water District were assumed by this subsidiary district and the City upon consolidation. Upon consolidation of the two districts the City consolidated the operations and activities of its Water Department and Water Funds into the District to serve all of the water customers of the City under this District. The basic operations of the District are financed by user charges plus capital contributions to finance growth of the water delivery system. The District is governed by a five-member Board of Directors ("City Council"), each holding staggered four-year terms.

The Victorville Water District meets the definition of a blended component unit of the City of Victorville. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities.

Basic Financial Statements

The basic financial statements are comprised of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows, Statement of Fiduciary Net Position and the notes to the basic financial statements.

(b) Measurement Focus, Basis of Accounting and Financial Statement Presentation

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 costs of providing water to its customers on a continuing basis be financed or recovered primarily through user charges (water sales and services), 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, such as water sales and service charges, result from exchange transactions associated with the principal activities of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as grant funding and investment income, result from non-exchange transactions, in which, the District gives (receives) value without directly receiving (giving) value in exchange. Operating expenses for the District include the cost of purchased water, cost of sales and services, administration expenses, and depreciation on capital assets. All expenses not meeting this definition are reported as non-operating expenses.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2015

(1) Summary of Significant Accounting Policies, (Continued)

Additionally, the District reports the following agency fund:

The Water Assessment District No. 2R agency fund accounts for the agency activities of the City of Victorville on behalf of the Water Assessment District No. 2R which includes providing administrative duties such as placing assessment on the County tax rolls and submitting payments to the trustee for the holders of \$8,292,572 Refunding Improvement Bonds, Series 1989, Assessment District No. 2R (assessment bond).

(c) Cash and Investments

Investments are reported in the accompanying balance sheet at fair value. 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.

(d) Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less from the date of acquisition that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents include the cash and investments held by a fiscal agent.

(e) Accounts Receivable, Net

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.

(f) Unearned Revenue

The unearned revenue associated with the District is for prepaid connection fees which were received before year end that will not be earned until the following year.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2015

(1) Summary of Significant Accounting Policies, (Continued)

(g) Capital Assets

Capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. The District capitalizes all assets with a historical cost of at least \$5,000 and a useful life of at least three years. Donated assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the life are not capitalized.

Depreciation is computed utilizing the straight-line method over the following useful lives:

1. Buildings and improvements	10-50 years
2. Transmission and distribution systems	40 years
3. Source of supply – wells	10-40 years
4. Water treatment systems	5-10 years
5. Telemetry equipment	5 years
6. Furniture and equipment	3-7 years
7. Vehicles	8-15 years

(h) Materials and Supplies

Materials and supplies consist primarily of water meters, pipe and pipe fittings for construction and repair to the District's water transmission and distribution system. Materials and supplies are valued at cost using a weighted average method. Materials and supplies items are charged to expense at the time that individual items are consumed.

(i) Prepaid Expenses

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

(j) Deferred Outflows and Deferred Inflows of Resources

When applicable, the statement of net position and balance sheet will report a separate section for deferred outflows of resources. *Deferred outflows of resources* represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, are not recognized as an expense or expenditure until that time. The government has two items that qualify for reporting in this category. Deferred outflows – pension contribution relates to the net pension liability. Deferred charge on refunding is the difference between the reacquisition price and net carrying amount of refunded debt and is deferred and amortized over a period time.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2015

(1) Summary of Significant Accounting Policies, (Continued)

When applicable, the statement of net position and the balance sheet will report a separate section for deferred inflows of resources. *Deferred inflows of resources* represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Deferred inflows – actuarial relates to the net pension liability.

(k) Compensated Absences

In accordance with GASB No. 16, a liability is recorded for unused vacation and similar compensatory leave balances since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

(l) Customer Deposits

Based on a customer's credit, the District may require a deposit deemed reasonable by the District. These deposits are held to pay off close out bills or to cover delinquent payments.

(m) Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District through the collection of AB-1600 connection fees, by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment.

(n) Estimates

The presentation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

(o) Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2015

(1) Summary of Significant Accounting Policies, (Continued)

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 (VD)	June 30, 2013
Measurement Date (MD)	June 30, 2014
Measurement Period (MP)	June 30, 2013 to June 30, 2014

(p) Net Position

Net Position is classified in the following categories:

Net Investment in Capital Assets

This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position

This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Position

This amount is all of the net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

(q) Prior Year Data

Selected information regarding the prior year had been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived. In addition, certain minor reclassifications of the prior year data have been made to enhance their comparability to the current year.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2015

(2) Cash and Investments

Cash and investments as of June 30, 2015, are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments	\$ 39,526,413
Cash and investments with fiscal agent	1,949,500

Fiduciary funds:

Cash and investments	301,780
Total cash and investments	<u>\$ 41,777,693</u>

Cash and investments as of June 30, 2015, consist of the following:

Deposits with financial institutions	\$ 11,036,059
Investments	<u>30,741,634</u>
Total cash and investments	<u>\$ 41,777,693</u>

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Investment In One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	1 year	None	None
Commercial Paper	180 days	None	None
Money Market Mutual Funds	None	None	None
Repurchase Agreements	None	None	None
Investment Contracts	None	None	None
Certificate of Deposit	None	None	None
Local Agency Investment Fund	None	None	None
California Common Law Trust Shares	None	None	None

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. 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

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2015

(2) Cash and Investments, (Continued)

maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of these investments by maturity:

Investment Type	Total	Remaining Maturing (in Months)			
		12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
State investment pool	\$28,792,134	28,792,134	-	-	-
Held by bond trustee:					
Guaranteed investment contract	816,500	-	-	-	816,500
Money market funds	<u>1,133,000</u>	<u>1,133,000</u>	-	-	-
Total	<u>\$30,741,634</u>	<u>29,925,134</u>	<u>-</u>	<u>-</u>	<u>816,500</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, the District's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Investment Type	Total	Minimum Legal Rating	Rating as of Year End	
			AAA	Not Rated
State investment pool	\$ 28,792,134	N/A	-	28,792,134
Held by bond trustee:				
Guaranteed investment contract	816,500	N/A	-	816,500
Money market funds	<u>1,133,000</u>	AAA	<u>1,133,000</u>	-
Total	<u>\$ 30,741,634</u>		<u>1,133,000</u>	<u>29,608,634</u>

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2015

(3) Capital Assets

Capital asset activity for the year ended June 30, 2015 is as follows:

	Balance at 7/1/2014*	Additions	Deletions	Balance at 6/30/2015
Non-depreciable assets:				
Land	\$ 8,750,702	-	-	8,750,702
Intangibles - easements	10,000	-	-	10,000
Intangibles - water rights	12,678,475	-	-	12,678,475
Idle Assets	3,017,958	-	-	3,017,958
Construction in progress	<u>813,964</u>	<u>679,592</u>	<u>(241,548)</u>	<u>1,252,008</u>
Total non-depreciable assets	<u>25,271,099</u>	<u>679,592</u>	<u>(241,548)</u>	<u>25,709,143</u>
Depreciable assets:				
Buildings and improvements	29,026,384	699,999	(16,421)	29,709,962
Computer and communication	573,597	30,405	-	604,002
Furniture and equipment	34,511,679	124,547	(12,500)	34,623,726
Infrastructure	181,064,558	953,570	(29,961)	181,988,167
Intangibles - water related	2,060,063	93,212	-	2,153,275
Intangibles - software	1,388,907	-	-	1,388,907
Land improvements	437,480	-	-	437,480
Vehicles	<u>2,473,472</u>	<u>542,447</u>	<u>(37,556)</u>	<u>2,978,363</u>
Total depreciable assets	<u>251,536,140</u>	<u>2,444,180</u>	<u>(96,438)</u>	<u>253,883,882</u>
Less accumulated depreciation:				
Buildings and improvements	(6,919,675)	(896,171)	16,421	(7,799,425)
Computer and communication	(428,208)	(56,254)	-	(484,462)
Furniture and equipment	(14,110,801)	(3,422,282)	-	(17,533,083)
Infrastructure	(66,481,850)	(5,102,603)	10,324	(71,574,129)
Intangibles - water related	(561,935)	(269,423)	-	(831,358)
Intangibles - software	(542,585)	(280,090)	-	(822,675)
Land improvements	(91,142)	(43,748)	-	(134,890)
Vehicles	<u>(2,169,090)</u>	<u>(124,001)</u>	<u>37,556</u>	<u>(2,255,535)</u>
Total accumulated depreciation	<u>(91,305,286)</u>	<u>(10,194,572)</u>	<u>64,301</u>	<u>(101,435,557)</u>
Total depreciable assets, net	<u>160,230,854</u>	<u>(7,750,392)</u>	<u>(32,137)</u>	<u>152,448,325</u>
Capital assets, net	<u>\$ 185,501,953</u>	<u>(7,070,800)</u>	<u>(273,685)</u>	<u>178,157,468</u>

* - See footnote 9 for additional information regarding a prior period adjustment to adjust beginning accumulated depreciation.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2015

(4) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2015, is noted below:

	Balance at 7/1/2014*	Additions	Retirements	Balance at June 30, 2015	Due Within One Year
Compensated Absences	\$ 307,839	317,213	(282,492)	342,560	260,345
OPEB Obligation	1,071,134	768,000	(115,204)	1,723,930	-
Net Pension Liability	8,794,168	-	(2,039,362)	6,754,806	-
Certificates of Participation (COP):					
1998 Certificate of Participation	1,590,000	-	(115,000)	1,475,000	120,000
2006 Certificate of Participation	11,285,000	-	(295,000)	10,990,000	310,000
COP Subtotals	<u>12,875,000</u>	<u>-</u>	<u>(410,000)</u>	<u>12,465,000</u>	<u>430,000</u>
Unamortized Discounts/Premiums	116,695	-	(4,416)	112,279	13,544
Total	<u>\$ 23,164,836</u>	<u>1,085,213</u>	<u>(2,851,474)</u>	<u>21,398,575</u>	<u>703,889</u>

* - See footnote 9 for additional information regarding a prior period adjustment to adjust beginning net pension liability.

Certificates of Participation:

1998 Certificates of Participation

In 1998, the City of Victorville's Baldy Mesa Water District issued 1998 Certificates of Participation in the amount \$2,850,000. The proceeds were used to finance public improvements within the Baldy Mesa Water District service area.

The Certificates of Participation had a stated interest rates ranging from 4.10% to 5.00%. The annual debt service is a special limited obligation of the District payable from and secured by a pledge of and lien on the net revenues of the District. Principal and interest payments are due each August 1 and interest only payments are due each February 1. The amount of Certificates of Participation outstanding at June 30, 2015 is \$1,475,000.

2006 Certificates of Participation

On March 1, 2006, the City of Victorville's Baldy Mesa Water District issued 2006 Certificates of Participation. The proceeds were used to finance public improvements within the Baldy Mesa Water District service area.

The Certificates of Participation had a stated interest rates ranging from 3.20% to 5.00%. The annual debt service is a special limited obligation of the District payable from and secured by a pledge of and lien on the net revenues of the District. Principal and interest payments are due each August 1 and interest only payments are due each February 1. The amount of Certificates of Participation outstanding at June 30, 2015 is \$10,990,000.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2015

(4) Long-Term Liabilities, (Continued)

The annual requirements to amortize outstanding debt of the District as of June 30, 2015, are as follows for each fiscal year ending June 30:

<u>Year Ending June 30</u>	<u>Certificate of Participation Principal</u>
2016	\$ 430,000
2017	440,000
2018	465,000
2019	490,000
2020	505,000
2021-25	2,880,000
2026-30	2,540,000
2031-35	3,200,000
2036-37	<u>1,515,000</u>
Subtotal	12,465,000
Discounts / Premiums	<u>112,279</u>
Total	<u>\$12,577,279</u>

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2015

(4) Long-Term Liabilities, (Continued)

Pledged Revenue

The District has a number of debt issuances outstanding that are collateralized by the pledging of certain revenues. The covenants of these debt issuances require that Pledged Revenues are at least equal to 110% of Annual Debt Service Payments. The amount and term of the remainder of these commitments are indicated in the debt service to maturity tables presented in the accompanying notes. The purposes for which the proceeds of the related debt issuances were utilized are disclosed in the debt descriptions in the accompanying notes. For the current year, debt service payments as a percentage of the pledged gross revenue (or net of certain expenses were so required by the debt agreement) are indicated in the table below. These percentages also approximate the relationship of debt service to pledged revenue for the remainder of the term of the commitment:

<u>Description of Pledged Revenue</u>	<u>Annual Amount of Pledged Revenue (net of expenses, where required)</u>	<u>Annual Debt Service Payment (of all debt secured by this revenue)</u>	<u>Debt Service as a Percentage of Pledged Revenue</u>
Water Improvement District No.2	\$ 1,613,062	\$ 999,168	62%

Other Post Employment Benefits Plan (OPEB)

The amounts recorded in the financial statements represent the portion of the City's net OPEB obligation that is associated with the District. Certain required OPEB disclosures are not available separately for the District, including the three year trend information, because the Water District is included in the City of Victorville's plans and actuarial valuations. Complete plan information can be found in the City of Victorville Comprehensive Annual Financial Report.

Plan Descriptions

The City of Victorville contributes to two single-employer defined benefit healthcare plans: City Retiree Healthcare Plan (City Plan) and Water District Retiree Healthcare Plan (District Plan). Each plan provides medical benefits to eligible retired City employees and Water District employees and beneficiaries in accordance with various labor agreements. The plan covers employees who retire directly from the City with 8 years of service (5 years for Water District employees). The Water District Retiree Healthcare Plan also provides Dental and Vision benefits to eligible former Water District employees with 15 years of service. The City provides a contribution up to a certain amount (a portion of the Health Net HMO single premium). The percentage varies based on years of City service. The City currently also pays life insurance premium for eight Water District retirees and no benefit is available for future retirees.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2015

(4) Long-Term Liabilities, (Continued)

City's Funding Policy. The contribution requirements of plan members and the District are established and may be amended by City Council. The contribution required to be made under City Council and labor agreement requirements is based on a pay-as-you-go basis (i.e., as medical insurance premiums become due). For the fiscal year ended June 30, 2015, the District contributed \$115,204 to the plan. The District has not established a trust that is administered by the City for the purpose of holding assets accumulated for plan benefits.

Annual OPEB Cost and Net OPEB Obligation. The District's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the *annual required contribution of the employer* ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the value of employer promised benefits expected to be earned or allocated for each fiscal year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation for these benefits:

Annual required contribution	\$ 814,000
Interest on net OPEB obligation	42,000
Adjustment to annual required contribution	<u>(88,000)</u>
Annual OPEB cost (expense)	768,000
Contributions made (including premiums paid)	<u>(115,204)</u>
Increase in net OPEB cost (expense)	652,796
Net OPEB obligation – beginning of year	<u>1,071,134</u>
Net OPEB obligation – end of year	<u>\$ 1,723,930</u>

(5) Transfers to City of Victorville

During the year the District transferred \$988,987 to the City of Victorville. \$933,333 was for the payment of interest expenses on interfund loans. \$55,654 was for the purchase of office furniture and equipment.

(6) Debt without Government Commitment

Refunding Improvement Act Bonds, Series 2006, Assessment District 2R

On March 2, 2006, the Baldy Mesa Water District issued \$4,070,000 principal amount in Refunding improvement Bonds Series 2006. The proceeds were used to refinance and refund the Refunding Improvement Bonds, Series 1989, Assessment District 2R, to fund a reserve fund for the Bonds and pay cost related to the issuance of the Bonds.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2015

(6) Debt without Government Commitment, (Continued)

A total of \$4,998,487 was deposited with an escrow agent to pay down the outstanding principal, interest on the 1989 Series Refunding Improvement Bonds. The escrow agent purchased a \$4,998,487 U.S. Government security (SLGS) and deposited it into an irrevocable trust to provide for all future debt service payments on the Refunding Improvement Bonds Series 1989.

As a result, the Refunding improvement Bonds, Series 1989, Assessment District 2R, are considered defeased and the liability for those obligations has been removed from the financial statements. The Baldy Mesa Water District completed the advance refunding to reduce the total debt service payments over the next eight fiscal years by \$283,563 and to obtain an economic gain of approximately \$197,553.

A special assessment was levied on the property tax bill of those residents who reside within the boundaries of Assessment District 2R to repay the debt service of this obligation. During the year ending June 30, 2015 these bonds fully matured and the outstanding balance and June 30, 2015 \$0. These bonds do not constitute a debt or an obligation of the District because the bonds are solely payable and secured by assets and revenues of other parties.

(7) Net Investment in Capital Assets

The balance of net position that is invested in capital assets, net of related debt at June 30, 2015, consists of the following:

Capital assets, net	\$ 178,157,468
Capital debt not invested in capital assets	1,949,500
Certificates of participation	<u>(12,465,000)</u>
Net investment in capital assets	<u>\$ 167,641,968</u>

(8) Pension Plan

Plan Descriptions (Agent Plan) - All qualified permanent and probationary employees are eligible to participate in the City's Miscellaneous Plan, agent multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and Local Government 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.

Certain required pension disclosures are not available separately for the District, including the required supplemental information, because the District is included in the City of Victorville Miscellaneous Plan. Complete plan information can be found in the City of Victorville Comprehensive Annual Financial Report.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2015

(8) Pension Plan, (Continued)

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. The Plan's provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.5% @ 55	2.5% @ 62
		5 years of
Benefit vesting schedule	5 years service	service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	52-67
Required employee contribution rates	8%	6.75%
Required employer contribution rates	17.038%	17.038%

Actuarial Methods and Assumptions used to determine Total Pension Liability

For the measurement period ending June 30, 2014 (the measurement date), the total pension liability was determined using the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	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

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at the CalPERS website under Forms and Publications.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2015

(8) Pension Plan, (Continued)

Changes in Net Pension Liability

The following table shows the changes in the District's net pension liability recognized over the measurement period:

	Net Pension Liability
Balance at: 6/30/2013	\$ 8,794,168
Net Changes during 2013-14	(2,039,362)
Balance at: 6/30/2014	\$ 6,754,806

For the measurement period ending June 30, 2014 (the measurement date), the District recognized a pension expense of \$662,598 for the Plan.

As of June 30, 2015, the District reports other amounts for the Plan as deferred outflows and deferred inflows of resources related to pension as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 709,786	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	(1,984,558)
Total	\$ 709,786	(1,984,558)

\$709,786 report as deferred outflows or resources related to employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measure Period Ended June 30:	Deferred (Inflows) of Resources
2015	\$ (496,140)
2016	(496,140)
2017	(496,140)
2018	(496,138)
2019	-
Thereafter	-

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2015

(9) Prior Period Adjustments

The accompanying financial statements reflect certain other prior period adjustments, as set for below. It is not practical to restate the 2014 partial comparative financial information due to the unavailability of information.

Below is a summary of prior period adjustments affecting net position of the District:

	<u>Water District</u>
As previously reported	\$ 208,647,563
GASB 68	(8,131,570) a)
Accumulated depreciation	<u>(158,438) b)</u>
As restated	<u>\$ 200,357,555</u>

- a) During the fiscal year ended June 30, 2015 the District implemented GASB No. 68. As part of the implementation of this accounting standard, net position as of June 30, 2014 was restated.
- b) During the year ended June 30, 2015, the District identified a discrepancy in their records causing accumulated depreciation to be recorded in the incorrect funds in prior years. An entry was booked to adjust beginning accumulated depreciation. There was also an immaterial error noted in the calculation of prior year depreciation expense.