

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

**BASIC FINANCIAL STATEMENTS**

Year Ended June 30, 2014

VICTORVILLE WATER DISTRICT

Basic Financial Statements

Year ended June 30, 2014

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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, 2014, 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.

Board of Directors  
Victorville Water District  
Victorville, California  
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*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, 2014, 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.

**Report on Summarized Comparative Information**

We have previously audited the District's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 13, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 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 the 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 Boards 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. 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 12, 2015 on our consideration of 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 District's internal control over financial reporting and compliance.

*Angela Hoffman Miller, A.C.*

Irvine, California  
February 12, 2015

VICTORVILLE WATER DISTRICT  
Statement of Net Position  
June 30, 2014

<u>Assets:</u>	2014	2013
<b>Current assets:</b>		
Cash and investments (note 2)	\$ 35,486,012	27,626,352
Cash and investments with fiscal agent (note 2)	1,930,332	1,909,999
Accounts receivable, net	3,073,136	3,189,634
Interest receivable	11,787	8,315
Due from other governments	30,604	37,206
Inventory	466,367	456,328
Total current assets	40,998,238	33,227,834
<b>Noncurrent assets:</b>		
Prepaid items	297,561	907,273
Non-depreciable capital assets (note 3)	25,271,099	24,651,654
Depreciable capital assets, net (note 3)	160,389,292	168,337,520
Total noncurrent assets	185,957,952	193,896,447
Total assets	226,956,190	227,124,281
 <u>Deferred outflow of resources:</u>		
Deferred charge on refunding	120,323	132,828
Total deferred outflow of resources	120,323	132,828
 <u>Liabilities:</u>		
<b>Current liabilities:</b>		
Accounts payable	854,290	716,690
Interest payable	249,450	256,888
Unearned revenue	1,395,788	1,395,788
Deposits payable	1,558,754	1,798,685
Long-term liabilities, due within one year (note 4)	701,608	457,053
Total current liabilities	4,759,890	4,625,104
 <b>Noncurrent liabilities:</b>		
Long-term liabilities, due in more than one year (note 4)	13,669,060	14,136,398
Total noncurrent liabilities	13,669,060	14,136,398
Total liabilities	18,428,950	18,761,502
 <u>Net position:</u>		
Net investment in capital assets	174,715,723	181,639,173
Restricted for capital asset construction	4,664,105	3,838,681
Restricted for debt service	1,930,332	1,909,655
Unrestricted	27,337,403	21,108,098
Total net position	\$ 208,647,563	208,495,607

See accompanying notes to the basic financial statements.

VICTORVILLE WATER DISTRICT  
Statement of Revenues, Expenses and Changes in Net Position  
Year ended June 30, 2014  
(with comparative data for June 30, 2013)

	2014	2013
Operating revenues:		
Water sales	\$ 13,583,548	13,575,726
Meter and service fees	8,059,262	7,810,357
Other	3,058,992	3,528,582
Total operating revenues	24,701,802	24,914,665
 Operating expenses:		
Personnel services	6,746,209	6,560,722
Maintenance and operations	6,584,789	8,422,578
Production costs	4,760,590	4,013,247
Depreciation	10,058,329	10,212,139
Total operating expenses	28,149,917	29,208,686
 Operating income (loss)	 (3,448,115)	 (4,294,021)
 Nonoperating revenues (expenses):		
Intergovernmental (noncapital)	695,584	667,813
Investment income	107,079	101,635
Interest expense	(611,981)	(633,874)
Arsenic surcharge	396,301	566,398
Gain (loss) on disposition of assets	(250,853)	-
Other revenue (expenses)	295,166	83,769
Total nonoperating revenues (expenses)	631,296	785,741
 Income (loss) before transfers and capital contributions	 (2,816,819)	 (3,508,280)
 Capital contributions:		
Connection fees	727,999	392,828
Alternate water source fees	166,520	149,343
Developer contributed assets	1,795,398	1,347,473
Facilities contributed from the City of Victorville	278,858	5,246
Transfers from the City of Victorville	-	1,433,400
Total capital contributions and transfers	2,968,775	3,328,290
 Change in net position	 151,956	 (179,990)
 Net position at beginning of year	 208,495,607	 208,675,597
Net position at end of year	\$ 208,647,563	208,495,607

See accompanying notes to the basic financial statements.

VICTORVILLE WATER DISTRICT  
Statement of Cash Flows  
Year ended June 30, 2014  
(with comparative data for June 30, 2013)

	2014	2013
Cash flows from operating activities:		
Cash received from customers	\$ 25,188,081	25,945,184
Cash payments to employees for services	(6,746,209)	(7,193,327)
Cash payments to suppliers for goods and services	(10,519,749)	(10,754,665)
Nonoperating miscellaneous revenue received (expenses paid)	-	83,587
Net cash provided by (used for) operating activities	7,922,123	8,080,779
Cash flows from noncapital financing activities:		
Cash received from County of San Bernardino	695,584	667,813
Cash received from SCLAA	-	22,193,025
Cash received from City of Victorville	278,858	1,433,400
Cash paid to City of Victorville	-	(24,111,781)
Net cash provided by (used for) noncapital financing activities	974,442	182,457
Cash flows from capital and related financing activities:		
Cash payments to acquire capital assets	(1,722,744)	(2,753,874)
Cash received from capital restricted revenue	1,432,265	1,894,890
Principal paid on capital-related debt	(210,278)	(216,734)
Interest paid on capital-related debt	(619,422)	(633,874)
Net cash provided by (used for) capital and related financing activities	(1,120,179)	(1,709,592)
Cash flows from investing activities:		
Interest received on investments	103,607	96,586
Net cash provided by investing activities	103,607	96,586
Net increase in cash and cash equivalents	7,879,993	6,650,230
Cash and cash equivalents at beginning of year	29,536,351	22,886,121
Cash and cash equivalents at end of year	\$ 37,416,344	29,536,351
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (3,448,115)	(4,294,021)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	10,058,329	10,212,139
Arsenic surcharge	396,301	566,398
Nonoperating miscellaneous expense	295,166	83,769
(Increase) decrease in accounts receivable	116,498	1,193,740
(Increase) decrease in due from other governments	6,602	480,764
(Increase) decrease in inventory	(10,039)	138,766
(Increase) decrease in prepaid items	609,712	-
Increase (decrease) in accounts payable	137,600	(137,555)
Increase (decrease) in deposits payable	(239,931)	(163,221)
Total adjustments	11,370,238	12,374,800
Net cash provided by (used for) operating activities	\$ 7,922,123	8,080,779
<u>Noncash capital, financing and investing activities</u>		
Facilities contributed from City of Victorville	\$ 278,858	\$ 5,246
Developer contributed capital assets	1,795,398	1,347,473
Total noncash capital, financing and investing activities	\$ 2,074,256	1,352,719

See accompanying notes to the basic financial statements.

VICTORVILLE WATER DISTRICT  
 Statement of Fiduciary Net Position  
 Fiduciary Fund (Agency Fund Type)  
 June 30, 2014  
 (with comparative data for June 30, 2013)

	2014	2013
<u>Assets:</u>		
Cash and investments (note 2)	\$ 401,253	951,511
Cash and investments with fiscal agent (note 2)	405,520	407,740
Total assets	\$ 806,773	1,359,251
 <u>Liabilities:</u>		
Deposits payable	\$ 806,773	1,359,251
Total liabilities	\$ 806,773	1,359,251

See accompanying notes to the basic financial statements.



VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2014

(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 criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of No. 14). The City of Victorville 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 ("City Council"). The District is a subsidiary district of the City of Victorville, which the City Council is the governing body thereof and is duly responsible for conducting the business of the District as part of its governing process over the City of Victorville. The City 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.

(b) 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.

# VICTORVILLE WATER DISTRICT

## Notes to the Basic Financial Statements

Year ended June 30, 2014

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

#### (c) 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.

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis —for State and Local Governments*" (GASB No. 34). This statement established revised financial, reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

A statement of revenues, expenses and changes in net position replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board ("FASB") subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

# VICTORVILLE WATER DISTRICT

## Notes to the Basic Financial Statements

Year ended June 30, 2014

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

#### (d) Relationship to the City of Victorville

The Victorville Water District (“District”) is an integral part of the reporting entity of the City of Victorville (“City”) and is reflected as a blended component unit within the City. The District fund has been included within the scope of the basic financial statements of the City because the City Council is the governing board and has financial accountability over the operations of the District. Only the District fund is included herein and these financial statements, therefore, do not purport to represent the financial position or results of operations of the City of Victorville, California.

#### (e) 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.

#### (f) 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.

#### (g) 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.

#### (h) 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.

#### (i) 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.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2014

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

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

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

(j) 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.

(k) 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.

(l) Deferred Charges on Refunding

Unamortized losses on refunding are amortized over the shorter of the term of the new debt or the refunded debt. Unamortized losses on refunding are recorded as deferred charge on refunding, under Deferred Outflow of Resources.

(m) Bond Premiums/Discounts and Issuance Costs

Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Debt issuance costs other than prepaid insurance are expensed when incurred.

(n) 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.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2014

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

(o) 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.

(p) 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.

(q) 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.

(r) 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 "invested in capital assets" or "restricted net position."

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2014

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

(s) Deferred Outflows and Deferred Inflows of Resources

When applicable, the statement of net position 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.

When applicable, the statement of net position 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.

(t) 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.

(2) Cash and Investments

Cash and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and investments	\$ 35,267,578
Cash and investments with fiscal agent	1,930,332
Fiduciary funds:	
Cash and investments	401,253
Cash and investments with fiscal agent	405,520
Total cash and investments	<u>\$ 38,004,683</u>

Cash and investments as of June 30, 2014, consist of the following:

Deposits with financial institutions	\$ 19,431,689
Investments	18,572,994
Total cash and investments	<u>\$ 38,004,683</u>

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2014

(2) Cash and Investments, (Continued)

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 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:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturing (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
State investment pool	\$ 16,237,486	16,237,486	-	-	-
Held by bond trustee:					
State investment pool	405,520	405,520	-	-	-
Money market funds	<u>1,929,988</u>	<u>1,929,988</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 18,572,994</u>	<u>18,572,994</u>	<u>-</u>	<u>-</u>	<u>-</u>

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2014

(2) Cash and Investments, (Continued)

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.

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>	
			<u>AAA</u>	<u>Not Rated</u>
State investment pool	\$16,237,486	N/A	-	16,237,486
Held by bond trustee:				
State investment pool	405,520	N/A	-	405,520
Money market funds	<u>1,929,988</u>	A	<u>1,929,988</u>	<u>-</u>
Total	<u>\$18,572,994</u>		<u>1,929,988</u>	<u>16,643,006</u>

Concentration of Credit Risk

There are no investments in any one issuer (other than U.S Treasury securities, mutual funds, and investment pools) that represents 5% or more of total investments for the entire entity.



VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2014

(3) Capital Assets

Capital asset activity for the year ended June 30, 2014 is as follows:

	Balance at 7/1/2013	Additions	Deletions	Balance at 6/30/2014
Non-depreciable assets:				
Land	\$ 8,790,761	-	(40,059)	8,750,702
Intangibles - easements	10,000	-	-	10,000
Intangibles - water rights	12,678,475	-	-	12,678,475
Idle Assets	2,973,898	44,060	-	3,017,958
Construction in progress	<u>198,520</u>	<u>813,849</u>	<u>(198,405)</u>	<u>813,964</u>
Total non-depreciable assets	24,651,654	857,909	(238,464)	25,271,099
Depreciable assets:				
Buildings and improvements	29,172,172	-	(145,788)	29,026,384
Computer and communication	619,338	-	(45,741)	573,597
Furniture and equipment	35,893,744	276,370	(1,658,435)	34,511,679
Infrastructure	179,423,474	2,383,423	(742,339)	181,064,558
Intangibles - water related	2,178,499	194,628	(313,064)	2,060,063
Intangibles - software	1,388,907	-	-	1,388,907
Land improvements	437,480	-	-	437,480
Vehicles	<u>2,710,345</u>	<u>-</u>	<u>(236,873)</u>	<u>2,473,472</u>
Total depreciable assets	251,823,959	2,854,421	(3,142,240)	251,536,140
Less accumulated depreciation:				
Buildings and improvements	(6,271,452)	(795,199)	146,976	(6,919,675)
Computer and communication	(422,191)	(51,759)	45,742	(428,208)
Furniture and equipment	(11,871,434)	(3,434,604)	1,195,237	(14,110,801)
Infrastructure	(61,723,021)	(5,074,359)	473,968	(66,323,412)
Intangibles - water related	(611,981)	(263,018)	313,064	(561,935)
Intangibles - software	(265,411)	(277,174)	-	(542,585)
Land improvements	(47,394)	(43,748)	-	(91,142)
Vehicles	<u>(2,273,554)</u>	<u>(124,468)</u>	<u>228,932</u>	<u>(2,169,090)</u>
Total accumulated depreciation	<u>(83,486,438)</u>	<u>(10,064,329)</u>	<u>2,403,919</u>	<u>(91,146,848)</u>
Total depreciable assets, net	<u>168,337,521</u>	<u>(7,209,908)</u>	<u>(738,321)</u>	<u>160,389,292</u>
Capital assets, net	<u>\$ 192,989,175</u>	<u>(6,351,999)</u>	<u>(976,785)</u>	<u>185,660,391</u>

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2014

(4) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2014, is noted below:

	Balance at July 1, 2013	Additions	Retirements	Balance at June 30, 2014	Due Within One Year
Compensated Absences	\$ 320,417	171,124	(183,703)	307,838	61,568
OPEB Obligation	891,923	285,000	(105,789)	1,071,134	192,223
Certificates of Participation (COP):					
1998 Certificate of Participation	1,695,000	-	(105,000)	1,590,000	115,000
2006 Certificate of Participation	11,565,000	-	(280,000)	11,285,000	295,000
COP Subtotals	13,260,000	-	(385,000)	12,875,000	410,000
Unamortized Discounts/Premiums	121,111	-	(4,415)	116,696	37,817
Total	\$ 14,593,451	456,124	(678,907)	14,370,668	701,608

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, 2014 is \$1,590,000.

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, 2014 is \$11,285,000.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2014

(4) Long-Term Liabilities, (Continued)

The annual requirements to amortize outstanding debt of the District as of June 30, 2014, are as follows for each fiscal year ending June 30:

<u>Year Ending June 30</u>	<u>Certificate of Participation Principal</u>
2015	\$ 410,000
2016	430,000
2017	440,000
2018	465,000
2019	490,000
2020-24	2,760,000
2025-29	2,610,000
2030-34	3,050,000
2035-39	<u>2,220,000</u>
Subtotal	<u>12,875,000</u>
Discounts / Premiums	<u>116,696</u>
Total	<u>\$ 12,991,696</u>

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2014

(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 Payments (of all debt secured by this revenue)</u>	<u>Debt Service as a Percentage of Pledged Revenue</u>
Improvement District No.2 Revenues	\$2,143,668	992,605	46%

Other Post Employment Benefits Plan

The amounts recorded in the financial statements represent the portion of the City's net OPEB (post-employment benefits other than pension) obligation that is associated with the District. The information below pertains to the entire OPEB plan of the City of Victorville.

*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, 2014

(4) Long-Term Liabilities, (Continued)

*City's Funding Policy.* The contribution requirements of plan members and the City 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, 2014, the City contributed \$301,080 to the plan. The City 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 City'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 City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for these benefits:

	<b><u>City and Water District Plan</u></b>
Annual required contribution	\$ 3,526,000
Interest on net OPEB obligation	514,000
Adjustment to annual required contribution	<u>(1,054,000)</u>
Annual OPEB cost (expense)	2,986,000
Contributions made (including premiums paid)	<u>(301,080)</u>
Increase in net OPEB cost (expense)	2,684,920
Net OPEB obligation – beginning of year	<u>13,158,614</u>
Net OPEB obligation – end of year	<u>\$15,843,534</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the three preceding years for each of the plans were as follows (dollar amounts in thousands):

<b><u>Year Ended</u></b>	<b><u>Annual OPEB Cost</u></b>	<b><u>Actual Contribution</u></b>	<b><u>Percentage Contributed</u></b>
6/30/12	\$3,596,000	395,517	10.98%
6/30/13	2,813,000	360,540	12.82%
6/30/14	2,986,000	301,080	10.08%

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2014

(4) Long-Term Liabilities, (Continued)

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information at the end of this note, present multi-year trend information about whether the actuarial value of plan asset is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation date and the historical pattern of sharing benefit costs between the city and the plan members to that point. Actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for this valuation is the Entry Age Normal (EAN) cost method. Under the EAN cost method, the Normal Cost for each participant is determined as a level percent of payroll throughout the participant's working lifetime. The Unfunded Actuarial Accrued Liability was amortized over a fixed 30-year period as a level percentage of payroll beginning with the 2009/10 fiscal year. The City has selected the discount rate (4.00%) and healthcare is assumed to increase, on the average 7.1% for HMO's and 7.5% for PPO's a year for the next 9 years, with a 3% inflation rate.

*Schedule of Funding Progress*

The funding progress of the plan as of the date of the most recent actuarial valuation is as follows:

<u>Actuarial Date</u>	<u>Actuarial Assets</u>	<u>Actuarial Liability Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
6/30/08	\$ -	21,266,000	21,266,000	0%	25,251,000	84.22%
6/30/10	\$ -	30,408,000	30,408,000	0%	26,072,000	116.63%
6/30/12	\$ -	28,312,000	28,312,000	0%	23,288,000	121.57%

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2014

(5) Debt without Government Commitment

Refunding Improvement Bonds:

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

On March 2, 2006, the Baldy Mesa Water District issued \$4,070,000 principle 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.

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 has been 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. Principal and interest payments are due each September 2nd and interest only payments are due each March 2nd. The amount of refunding bonds outstanding on June 30, 2014 was \$550,000.

(6) Net Investment in Capital Assets

The balance of net position that is invested in capital assets, net of related debt at June 30, 2014, consists of the following:

Capital assets, net	\$ 185,660,391
Capital debt not invested in capital assets	1,930,332
Certificates of participation	<u>(12,875,000)</u>
Net investment in capital assets	<u>\$ 174,715,723</u>

(7) Defined Benefit Plan

Employees of the District are members of the Public Employees' Retirement System (PERS), the cost of which is paid by the District. At June 30, 2014, the District's net other post employment benefits obligation of \$1,071,134 has been included in the accompanying statement of net position as a long term liability. For further details regarding actuarial assumptions etc., refer to the City of Victorville's Comprehensive Annual Financial Report.