

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

BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2018

VICTORVILLE WATER DISTRICT

Basic Financial Statements

Year ended June 30, 2018

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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, 2018, 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.

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 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, 2018, and the respective changes in financial position and, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described further in Note 10 to the financial statements, during the year ended June 30, 2018, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75. The District reported a prior period adjustment related to the implementation of GASB No. 75 as described further in Note 10 to the financial statements. Our opinion is not modified with respect to these matters.

Report on Summarized Comparative Information

We have previously audited the District's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 12, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that *management's discussion and analysis, schedule of the plan's proportionate share of the net pension liability, schedule of plan contributions, and schedule of changes in Total OPEB liability and related ratios* be presented to supplement the basic financial statements. 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.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The *combining financial statements* are presented for purposes of additional analysis and are not a required part of the basic financial statements

The *combining financial statements* are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *combining financial statements* are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2019 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
January 25, 2019

VICTORVILLE WATER DISTRICT
Statement of Net Position
June 30, 2018
(with comparative data for June 30, 2017)

<u>Assets:</u>	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and investments (note 2)	\$ 44,529,833	43,012,637
Cash and investments with fiscal agent (note 2)	916,634	978,955
Accounts receivable, net	4,304,616	4,683,907
Interest receivable	139,664	66,989
Due from other governments	22,839	31,718
Inventory	479,443	423,369
Total current assets	<u>50,393,029</u>	<u>49,197,575</u>
Noncurrent assets:		
Prepaid items	642,576	12,820
Non-depreciable capital assets (note 3)	29,932,627	25,850,312
Depreciable capital assets, net (note 3)	137,192,319	142,019,397
Total noncurrent assets	<u>167,767,522</u>	<u>167,882,529</u>
Total assets	<u>218,160,551</u>	<u>217,080,104</u>
 Deferred Outflow of Resources:		
Deferred outflow - OPEB related (note 5)	199,802	-
Deferred outflow - pension related (note 9)	3,111,407	2,887,961
Total deferred outflow of resources	<u>3,311,209</u>	<u>2,887,961</u>
 Liabilities:		
Current liabilities:		
Accounts payable	2,562,768	3,648,501
Interest payable	193,538	198,981
Prepaid water connection fees	1,613,469	1,395,788
Deposits payable	1,710,104	1,678,348
Long-term liabilities, due within one year (note 4)	698,788	634,115
Total current liabilities	<u>6,778,667</u>	<u>7,555,733</u>
Noncurrent liabilities:		
Total OPEB liability (note 5)	10,916,477	3,286,280
Net pension liability (note 9)	11,480,941	9,777,304
Long-term liabilities, due in more than one year (note 4)	9,842,433	10,231,480
Total noncurrent liabilities	<u>32,239,851</u>	<u>23,295,064</u>
Total liabilities	<u>39,018,518</u>	<u>30,850,797</u>
 Deferred Inflows of Resources:		
Deferred inflow - OPEB related (note 5)	1,266,395	-
Deferred inflow - pension related (note 9)	494,805	639,017
Total deferred outflows of resources	<u>1,761,200</u>	<u>639,017</u>
 Net position:		
Net investment in capital assets	157,905,111	158,371,001
Restricted for capital asset construction	8,403,625	6,950,623
Restricted for debt service	5,533,314	5,030,319
Unrestricted	8,849,992	18,126,308
Total net position	<u>\$ 180,692,042</u>	<u>188,478,251</u>

See accompanying notes to the basic financial statements.

VICTORVILLE WATER DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2018
(with comparative data for June 30, 2017)

	2018	2017
Operating revenues:		
Utility sales	\$ 21,389,682	18,867,209
Meter and service fees	6,623,891	6,331,129
Pass-thru charges	366,165	4,448,249
Fines and forfeitures	314,477	266,705
Other	2,068,429	1,348,134
Total operating revenues	30,762,644	31,261,426
Operating expenses:		
Personnel services	10,483,762	9,138,093
Maintenance and operations	12,817,230	12,832,157
Production costs	3,364,110	3,043,489
Pass-thru production costs	366,165	4,223,868
Depreciation	7,414,827	9,893,980
Total operating expenses	34,446,094	39,131,587
Operating income (loss)	(3,683,450)	(7,870,161)
Nonoperating revenues (expenses):		
Taxes	850,520	608,676
Investment income	566,060	326,368
Interest expense	(459,386)	(622,276)
Arsenic surcharge	248,150	238,170
Gain (loss) on disposition of assets	(29,341)	(106,651)
Other revenue (expenses)	(2,438)	(56,759)
Total nonoperating revenues (expenses)	1,173,565	387,528
Income (loss) before transfers and capital contributions	(2,509,885)	(7,482,633)
Capital contributions:		
Connection fees	1,569,962	1,013,963
Alternate water source fees	432,388	268,682
Capital restricted use fees	635,518	945,265
Capital grants	-	811,445
Contributions (to) from the City of Victorville (note 6)	239,483	(267,996)
Total capital contributions and transfers	2,877,351	2,771,359
Change in net position	367,466	(4,711,274)
Net position at beginning of year, as restated (note 10)	180,324,576	193,189,525
Net position at end of year	\$ 180,692,042	188,478,251

See accompanying notes to the basic financial statements.

VICTORVILLE WATER DISTRICT
Statement of Cash Flows
Year ended June 30, 2018
(with comparative data for June 30, 2017)

	2018	2017
Cash flows from operating activities:		
Cash received from customers	\$ 30,761,616	29,556,898
Cash payments to employees for services	(8,587,849)	(8,283,727)
Cash payments to suppliers for goods and services	(17,464,062)	(16,219,801)
Net cash provided by (used for) operating activities	4,709,705	5,053,370
Cash flows from noncapital financing activities:		
Cash received from County of San Bernardino	850,520	608,676
Cash received from City of Victorville	239,483	-
Net cash provided by (used for) noncapital financing activities	1,090,003	608,676
Cash flows from capital and related financing activities:		
Cash received from the sale of capital assets	60,443	810
Cash payments to acquire capital assets	(6,730,507)	(4,823,901)
Cash received for capital restricted use	2,637,868	811,445
Principal paid on capital-related debt	(335,000)	(1,675,000)
Interest paid on capital-related debt	(471,022)	(551,393)
Net cash provided by (used for) capital and related financing activities	(4,838,218)	(6,238,039)
Cash flows from investing activities:		
Interest received on investments	493,385	298,697
Net cash provided by investing activities	493,385	298,697
Net increase in cash and cash equivalents	1,454,875	(277,296)
Cash and cash equivalents at beginning of year	43,991,592	44,268,888
Cash and cash equivalents at end of year	\$ 45,446,467	43,991,592
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (3,683,450)	(7,870,161)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	7,414,827	9,893,980
Arsenic surcharge	248,150	238,170
Nonoperating miscellaneous expense	(31,779)	1,796,504
(Increase) decrease in accounts receivable	379,291	(1,714,758)
(Increase) decrease in due from other governments	8,879	(5,440)
(Increase) decrease in inventory	(56,074)	237,283
(Increase) decrease in prepaid items	(629,756)	(5,090)
(Increase) decrease in deferred outflows	(423,248)	(2,060,010)
Increase (decrease) in accounts payable	(1,085,733)	1,613,196
Increase (decrease) in deposits payable	31,756	15,320
Increase (decrease) in OPEB obligation	(523,478)	863,000
Increase (decrease) in compensated absences	16,819	20,235
Increase (decrease) in net pension liability	1,703,637	2,352,219
Increase (decrease) in deferred inflows	1,339,864	(321,078)
Total adjustments	8,393,155	12,923,531
Net cash provided by (used for) operating activities	\$ 4,709,705	5,053,370
<u>Noncash capital, financing and investing activities</u>		
Gain (loss) on disposal of capital assets	\$ (29,341)	(106,651)

See accompanying notes to the basic financial statements.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2018

(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, 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 (proprietary fund type), 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.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2018

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

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

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.

(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) Prepaid Water Connection Fees

Prepaid connection fees were received before year end but will not be earned until the following year.

(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 acquisition 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, 2018

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

(g) Capital Assets, (Continued)

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. Telemetering 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 District has two items that qualify for reporting in this category: deferred outflows – pension related and deferred outflows – OPEB related.

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 two items that qualifies for reporting in this category: deferred inflows – pension related and deferred inflows – OPEB related.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2018

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

(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.

Under GASB Statement No. 16, a liability is recorded for unused sick leave balances only to the extent that it is probable that the unused balances will result in termination payments. This is estimated by including in the liability the unused balances of employees currently entitled to receive termination payment, as well as those who are expected to become eligible to receive termination benefits as a result of continuing their employment with the City. Other amounts of unused sick leave are excluded from the liability since their payment is contingent solely upon the occurrence of a future event (illness), which is outside the control of the City and the employee.

Compensated absences (unpaid vacation and sick leave) are recorded as expenditures in the year they are paid. The balance of unpaid vacation and vested sick leave at year end is recorded as a long-term liability in the government-wide financial statements, as these amounts will be recorded as fund expenditures in the year in which they are paid or become due on demand to terminated employees.

(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) Fair Value Measurements

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs other than quoted prices included within the Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2018

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

(n) Fair Value Measurements, (Continued)

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
 - Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other items.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurements. These unobservable inputs reflect the District's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

(o) 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.

(p) 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.

(q) 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, 2018

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

(q) Pensions

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, 2016
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	June 30, 2016 to June 30, 2017

(r) Other Postemployment Benefits OPEB

For purposes of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense of the District's plan (OPEB Plan), these have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms.

Generally accepted accounting principles require that the reported results must pertain to liability information within certain defined timeframes. For this report, the following timeframes are used:

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

(s) 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."

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2018

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

(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, 2018, are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and investments	\$ 44,529,833
Cash and investments with fiscal agent	916,634
Total cash and investments	<u>\$ 45,446,467</u>

Cash and investments as of June 30, 2018, consist of the following:

Deposits with financial institutions	\$ 98,381
Deposits held in City pool	14,998,064
Investments	30,350,022
Total cash and investments	<u>\$ 45,446,467</u>

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

The table on the following page identifies the investment types that are authorized for the District by the California Government Code and the District's investment policy. The table also identifies certain provisions of the California Government Code (or the District's investment policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2018

(2) Cash and Investments, (Continued)

This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

<u>Investment Types</u> <u>Authorized by State Law</u>	<u>Authorized by</u> <u>Investment</u> <u>Policy</u>	<u>Maximum</u> <u>Maturity*</u>	<u>Maximum</u> <u>Percentage</u> <u>of Portfolio*</u>	<u>Maximum</u> <u>Investment</u> <u>In One Issuer*</u>
Local Agency Bonds	No	5 years	70%	None
U.S. Treasury Obligations	Yes	5 years	70%	None
U.S. Agency Securities	Yes	5 years	75%	None
Banker's Acceptances	No	180 days	30%	5%
Commercial Paper	No	270 days	15%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	No	1 year	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	No	5 years	30%	5%
Mutual Funds	Yes	5 Years	20%	10%
Money Market Mutual Funds	Yes	5 years	20%	10%
Mortgage Pass-Through Securities	No	5 years	20%	None
County Pooled Investment Funds	No	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (other investment pools)	No	N/A	None	None

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

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 on the following page 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</u> <u>Investment Type</u>	<u>Maximum</u> <u>Maximum</u> <u>Maturity</u>	<u>Maximum</u> <u>Percentage</u> <u>Allowed</u>	<u>Investment</u> <u>In One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	360 days	None	None
Commercial Paper	270 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

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2018

(2) Cash and Investments, (Continued)

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

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 Maturity (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	\$ 29,433,388	29,433,388	-	-	-
Held by bond trustee:					
Guaranteed investment contract *	816,500	-	-	-	816,500
Money market funds	100,134	100,134	-	-	-
Total	<u>\$ 30,350,022</u>	<u>29,533,522</u>	<u>-</u>	<u>-</u>	<u>816,500</u>

* - The District's GIC is with Financial Security Assurance (FSA). The contract required FSA to deposit cash, governmental securities, or governmental bonds as collateral with Bank of New York, at a value of at least 100%, 104%, or 105%, respectfully, of the investment balance. The termination of the investment contract and release of collateral would occur in the event of default by FSA. As of June 30, 2018, FSA was not in default and the value of the collateral met the requirements.

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 on the following page 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 yearend for each investment type.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2018

(2) Cash and Investments, (Continued)

<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	\$ 29,433,388	N/A	-	29,433,388
Held by bond trustee:				
Guaranteed investment contract	816,500	N/A	-	816,500
Money market funds	100,134	A	100,134	-
Total	<u>\$ 30,350,022</u>		<u>100,134</u>	<u>30,249,888</u>

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit).

The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. For investments identified herein as held by bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

Investment in State Investment Pool

The District is a voluntary participant in the 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 District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2018

(3) Capital Assets

Capital asset activity for the year ended June 30, 2018 is as follows:

	Balance at 7/1/2017	Additions	Deletions	Balance at 6/30/2018
Non-depreciable assets:				
Land	\$ 8,708,845	-	-	8,708,845
Intangibles	12,911,453	-	(58,086)	12,853,367
Idle Assets	3,017,958	-	-	3,017,958
Construction in progress	<u>1,212,056</u>	<u>4,655,924</u>	<u>(515,523)</u>	<u>5,352,457</u>
Total non-depreciable assets	<u>25,850,312</u>	<u>4,655,924</u>	<u>(573,609)</u>	<u>29,932,627</u>
Depreciable assets:				
Buildings and improvements	27,792,275	342,616	(29,003)	28,105,888
Computer and communication	794,908	-	(179,020)	615,888
Furniture and equipment	36,007,929	206,307	(85,852)	36,128,384
Infrastructure	188,926,461	1,657,184	-	190,583,645
Intangibles	3,474,893	-	(30,682)	3,444,211
Land improvements	536,342	-	-	536,342
Vehicles	<u>3,380,775</u>	<u>384,000</u>	<u>(299,802)</u>	<u>3,464,973</u>
Total depreciable assets	<u>260,913,583</u>	<u>2,590,107</u>	<u>(624,359)</u>	<u>262,879,331</u>
Less accumulated depreciation:				
Buildings and improvements	(8,051,194)	(672,684)	29,003	(8,694,875)
Computer and communication	(610,590)	(43,062)	179,020	(474,632)
Furniture and equipment	(24,096,041)	(1,342,548)	83,494	(25,355,095)
Infrastructure	(80,739,840)	(4,922,780)	-	(85,662,620)
Intangibles	(2,726,100)	(200,020)	30,682	(2,895,438)
Land improvements	(233,770)	(54,257)	-	(288,027)
Vehicles	<u>(2,436,651)</u>	<u>(179,476)</u>	<u>299,802</u>	<u>(2,316,325)</u>
Total accumulated depreciation	<u>(118,894,186)</u>	<u>(7,414,827)</u>	<u>622,001</u>	<u>(125,687,012)</u>
Total depreciable assets, net	<u>142,019,397</u>	<u>(4,824,720)</u>	<u>(2,358)</u>	<u>137,192,319</u>
Capital assets, net	<u>\$ 167,869,709</u>	<u>(168,796)</u>	<u>(575,967)</u>	<u>167,124,946</u>

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2018

(4) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2018, is noted below:

	Balance at July 1, 2017	Additions	Retirements	Balance at June 30, 2018	Due Within One Year
Compensated Absences	\$ 387,932	399,218	(382,398)	404,752	342,595
2006 Certificate of Participation	10,360,000	-	(335,000)	10,025,000	350,000
Unamortized Discounts/Premiums	117,663	-	(6,194)	111,469	6,193
Total	<u>\$ 10,865,595</u>	<u>399,218</u>	<u>(723,592)</u>	<u>10,541,221</u>	<u>698,788</u>

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, 2018 is \$10,025,000.

The annual requirements to amortize outstanding debt of the District as of June 30, 2018 are as follows for each fiscal year ending June 30:

Year Ending June 30	Certificates of Participation	
	Principal	Interest
2019	\$ 350,000	457,490
2020	365,000	443,190
2021	380,000	428,195
2022	395,000	412,403
2023	410,000	395,388
2024-28	2,325,000	1,687,828
2029-33	2,910,000	1,094,263
2034-37	2,890,000	297,750
Subtotal	10,025,000	<u>5,216,506</u>
Discounts / Premiums	111,469	
Total	<u>\$ 10,136,469</u>	

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2018

(5) Other Post-Employment Benefits Plan

Plan Description. The District Plan provides medical benefits to eligible retired Water District employees and beneficiaries in accordance with various labor agreements. The plan covers employees who retire directly from the District with 5 years of service. The District Plan also provides Dental and Vision benefits to eligible former Water District employees with 15 years of service. The District also pays life insurance premium for eight Water District retirees and no benefit is available for future retirees. The District provides a contribution up to a certain amount (a portion of the HMO single premium). The percentage varies based on years of service.

Employees Covered. As of the June 30, 2017 measurement date, the following current and former employees were covered by the benefit terms under the Plan:

Active employees	87
Inactive employees or beneficiaries currently receiving benefits	23
Inactive employees entitled to, but not yet receiving benefits	<u>1</u>
Total	<u><u>111</u></u>

Contributions. The District pays benefits on a pay-as-you-go basis. For the fiscal year ended June 30, 2018, the District's cash contributions were \$162,802 in cash benefit payments and the estimated implied subsidy was \$37,000 resulting in total payments of \$199,802.

OPEB Liability. The District's total OPEB liability was measured as of June 30, 2017 and was determined by an actuarial valuation dated June 30, 2016 that was rolled forward to determine the June 30, 2017 total OPEB liability, based on the following actuarial methods and assumptions:

Actuarial Cost Method:	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	3.58%
Inflation	2.75%
Salary Increases	3.0% per annum, in aggregate
Investment Rate of Return	N/A
Mortality Rate	CalPERS 1997-2011 Experience Study
Pre-Retirement Turnover	Derived using CalPERS' Membership Data for all funds
Healthcare Trend Rate	Non-Medicare - 7.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 and later years Medicare - 6.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 and later years

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2018

(5) Other Post-Employment Benefits Plan, (Continued)

Discount Rate. The discount rate used to measure the total OPEB liability was 3.58 percent. The discount rate was based on the Bond Buyer 20-bond index.

Changes in the OPEB Liability. The changes in the OPEB liability for the Plan are as follows:

	Total OPEB Liability
Balance at: 6/30/2016	\$ 11,625,768
Service cost	583,831
Interest	345,325
Assumption changes	(1,452,630)
Benefit payments	(185,817)
Net Changes during 2016-2017	(709,291)
Balance at: 6/30/2017	\$ 10,916,477

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following presents the net OPEB liability of the District if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	Discount Rate		
	1% Decrease	Current Rate	1% Increase
	(2.58%)	(3.58%)	(4.58%)
Plan's Total OPEB Liability	\$ 12,975,790	\$ 10,916,477	\$ 9,294,033

Sensitivity of the Total OPEB Liability to Changes in the Health Care Cost Trend Rates. The following presents the total OPEB liability of the District if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	Healthcare Trend Rate		
	1% Decrease	Current Rate	1% Increase
Plan's Total OPEB Liability	\$ 9,080,599	\$ 10,916,477	\$ 13,300,208

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2018

(5) Other Post-Employment Benefits Plan, (Continued)

The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on OPEB plan investments	5 years
All other amounts	Expected average remaining service lifetime (EARSL) (7.8 Years at June 30, 2017)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the District recognized OPEB expense of \$742,921. As of fiscal year ended June 30, 2018, the District reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 199,802	-
Changes of Assumptions	-	(1,266,395)
Total	<u><u>\$ 199,802</u></u>	<u><u>(1,266,395)</u></u>

The \$199,802 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the total OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

<u>Measurement Period Ended June 30:</u>	<u>Deferred (Inflows) of Resources</u>
2018	\$ (186,235)
2019	(186,235)
2020	(186,235)
2021	(186,235)
2022	(186,235)
Thereafter	(335,220)

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2018

(6) Contributions to/from the City of Victorville

The City of Victorville contributed \$239,483 of capital assets to the District.

(7) Interfund Receivables, Payables and Transfers

The composition of interfund balances as of June 30, 2018 is as follows:

Advances to/from other funds:

Per a loan agreement approved on May 18, 2009, the District entered into a Promissory Note, whereby, the District promised to pay to the Water Fund an amount not to exceed Forty-Five Million Dollars, together with interest. The note has an annualized Local Investment Fund ("LAIF") rate of return as the interest rate. The note is to cover the design, construction management, and construction related costs associated with the SCLA Wastewater Treatment Facility.

<u>Fund Reporting Receivable</u>	<u>Fund Reporting Payable</u>	<u>Amount</u>
Water Fund	Wastewater Reclamation Facility	\$ 35,079,369

(8) Net Investment in Capital Assets

The balance of net position that is invested in capital assets, net of related debt at June 30, 2018, consists of the following:

Capital assets, net	\$ 167,124,946
Capital debt proceeds not invested in capital assets	916,634
Certificates of participation	<u>(10,136,469)</u>
Net investment in capital assets	<u>\$ 157,905,111</u>

(9) Pension Plan

Plan Descriptions (Agent Plan) - All qualified permanent and probationary employees are eligible to participate in the District'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, 2018

(9) 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, 2018, are summarized as follows:

	<u>Miscellaneous</u>	
	<u>Prior to</u>	<u>On or after</u>
Hire date	<u>January 1, 2013</u>	<u>January 1, 2013</u>
Benefit formula	2.5% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years of 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	17.04%	17.04%

Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law ("PERL") requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS annual actuarial valuation process. The Plan's actuarially is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contributions rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

Actuarial Methods and Assumptions used to determine Total Pension Liability

For the measurement period ending June 30, 2017 (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 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor On Purchasing Power Applies, 2.75% thereafter

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2018

(9) Pension Plan, (Continued)

Actuarial Methods and Assumptions used to determine Total Pension Liability, (Continued)

The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2016 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.

Changes in Assumptions

In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

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

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (Public Employees' Retirement Fund) cash flows. Taking into account historical returns of all Public Employees Retirement Funds' asset classes (which includes the agenet plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term the present value of benefits was calculated for each PERF fund.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2018

(9) Pension Plan, (Continued)

Discount Rate, (Continued)

The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2014.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10¹</u>	<u>Real Return Years 11+²</u>
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0	0.80	2.27
Inflation Sensitive	6.0	0.60	1.39
Private Equity	12.0	6.60	6.63
Real Estate	11.0	2.80	5.21
Infrastructure and Forestland	3.0	3.90	5.36
Liquidity	2.0	(0.40)	(0.90)

¹An expected inflation of 2.5% used for this period

²An expected inflation of 3.0% used for this period

Allocation of Net Pension Liability and Pension Expense to Individual Employers

A key aspect of GASB 68 pertaining to cost-sharing employers is the establishment of an approach to allocate the net pension liability and pension expense to the individual employers within the risk pool. Paragraph 49 of GASB 68 indicates that for pools where contribution rates within the pool are based on separate relationships, the proportional allocation should reflect those relationships. The allocation method utilized by CalPERS determines the employer's share by reflecting these relationships. Employer liability and asset-related information are used where available, and proportional allocations of individual employer amounts as of the valuation date are used where not available.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2018

(9) Pension Plan, (Continued)

Allocation of Net Pension Liability and Pension Expense to Individual Employers, (Continued)

The following table shows the Plan's proportionate share of the net pension liability over the measurement period:

	Increase (Decrease)			Proportionate Share
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)	
Balance at: 6/30/2016 (MD)	\$ 39,845,189	\$ 30,067,885	\$ 9,777,304	24.63%
Balance at: 6/30/2017 (MD)	44,920,058	33,439,117	11,480,941	24.87%
Net Changes during 2016-17	<u>\$ 5,074,869</u>	<u>\$ 3,371,232</u>	<u>\$ 1,703,637</u>	<u>26.35%</u>

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

The following presents the net pension liability of the Plan as of the Measurement Date, calculated using the discount rate of 7.15 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate.

	Discount Rate - 1%	Current Discount Rate	Discount Rate + 1%
	6.15%	Rate (7.15%)	(8.15%)
Plan's Net Pension Liability	\$ 18,082,316	\$ 11,480,941	\$ 6,089,413

Amortization of Deferred Outflows and Deferred Inflows of Resources

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on pension plan investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lifetime (EARS� of all members that are provided with pensions (active, inactive, and retired) as of the beginning of the measurement period

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2018

(9) Pension Plan, (Continued)

Amortization of Deferred Outflows and Deferred Inflows of Resources. (Continued)

The EARS� for the Plan for the June 30, 2017 measurement date is 3.1 years, which was obtained by dividing the total service years of 3,451 (the sum of remaining service lifetimes of the active employees) by 1,103 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

For the measurement period ending June 30, 2017 (the measurement date), the District recognized a pension expense of \$916,742 for the Plan.

As of June 30, 2018, the District reports other amounts for the Plan as deferred outflows and deferred inflows of resources related to pension as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 523,608	-
Changes of Assumptions	2,081,353	(313,941)
Differences between Expected and Actual Experiences	-	(180,864)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	506,446	-
Total	<u>\$ 3,111,407</u>	<u>(494,805)</u>

Employer contributions subsequent to the measurement date reported as deferred outflows of resources in the amount of \$523,608 will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Measurement Period Ended June 30:</u>	<u>Deferred (Inflows) of Resources</u>
2018	\$ 748,471
2019	1,326,764
2020	273,708
2021	(255,949)
2022	-
Thereafter	-

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2018

(9) Pension Plan, (Continued)

Subsequent Events

Effective June 30, 2019, the amortization period for new pension liabilities will change from the current thirty years to twenty years. This change was approved by the CalPERS Board in February 2018.

(10) Restatement of Prior Year Financial Statements

The implementation of GASB Statement No. 75 requires reporting the District's OPEB liability on the financial statements and is applied retroactively by restating the net position as of the beginning of the fiscal year. The implementation of GASB Statement No. 75 resulted in reducing the net position by \$8,153,675 at the beginning of fiscal year 2018. The prior year financial statements were not restated due to the unavailability of the actuarial information. The summary of changes in the net position as of June 30, 2017 is as follows:

Net position as of June 30, 2017, as previously reported	\$188,478,251
Implementation of GASB 75	<u>(8,153,675)</u>
Net position as of June 30, 2017, as restated	<u>\$ 180,324,576</u>

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY SCHEDULES

VICTORVILLE WATER DISTRICT
Schedule of the Plan's Proportionated Share
of the Net Pension Liability (Cost Sharing Plan)
Last Ten Fiscal Years*

Measurement Date	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
Plan's Proportion of the Net Pension Liability (Asset)	24.87%	24.63%	24.40%	24.28%
Plan's Proportionate Share of the Net Pension Liability (Asset)	\$11,480,941	\$ 9,777,304	\$ 7,425,085	\$ 6,754,806
Plan's Covered Payroll	5,560,616	4,906,922	4,848,845	4,707,026
Plan's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	206.47%	199.26%	153.13%	143.50%
Plan's Proportion of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	18.52%	18.59%	19.55%	24.28%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 839,557	\$ 839,557	\$ 827,951	\$ 709,786

**The fiscal year ended June 30, 2015 was the first year of implementation. Information for the last 10 years is not available.*

Notes to schedule:

Benefit Changes - The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2014 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (aka Golden Handshakes).

Changes in assumptions - In 2017, the discount rate was changed from 7.65 percent (net of administrative expense) to 7.15 percent.

VICTORVILLE WATER DISTRICT
Schedule of Plan Contributions (Cost Sharing Plan)
Last Ten Fiscal Years*

Fiscal Year	<u>2017-2018</u>	<u>2016-2017</u>	<u>2015-2016</u>	<u>2014-2015</u>	<u>2013-2014</u>
Actuarially Determined Contribution	\$ 523,608	\$ 916,742	\$ 827,951	\$ 709,786	\$ 662,598
Contributions in relation to the Actuarially Determined Contribution	<u>(523,608)</u>	<u>(916,742)</u>	<u>(827,951)</u>	<u>(709,786)</u>	<u>(662,598)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 6,063,039	\$ 5,560,616	\$ 4,906,922	\$ 4,848,845	\$ 4,707,026
Contributions as a Percentage of Covered Payroll	8.64%	16.49%	16.87%	14.64%	14.08%

*The fiscal year ended June 30, 2015 was the first year of implementation. Information for the last 10 years is not available.

Notes to schedule:

Fiscal Year End: 6/30/2018
Valuation Date: 6/30/2015

Methods and assumptoins used to determine contribution rates:

Actuarial Cost Method	Entry Age
Discount Rate	7.65%
Asset Valuation Method	Market Value of Assets
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.50 Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Retirement Age	2010 CaPERS Experience Study from 1997 to 2007
Mortality	Derived using CalPERS' Membership Data for all funds
Post Retirement Benefit Increase	Derived using CalPERS' Membership Data for all funds Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA.

VICTORVILLE WATER DISTRICT
Schedule of Changes in Total OPEB Liability and Related Ratios
Last Ten Fiscal Years*

Measurement Period	2017
Total OPEB Liability	
Service cost	\$ 583,831
Interest on the total OPEB liability	345,325
Actual and expected experience difference	-
Changes in assumptions	(1,452,630)
Changes in benefit terms	-
Benefit payments	(185,817)
Net change in total OPEB liability	(709,291)
Total OPEB liability - beginning	11,625,768
Total OPEB liability - ending (a)	\$ 10,916,477

Notes to Schedule:

Changes in assumptions. The discount rate was changed from 2.85 percent (net of administrative expense) to 3.58 percent for the measurement period ended June 30, 2017.

*Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

VICTORVILLE WATER DISTRICT
Combining Schedule of Net Position
June 30, 2018
(with comparative data for June 30, 2017)

	Victorville Wastewater Reclamation				2018	2017
	Water	Facility	Reclaimed Water	Eliminations		
Assets:						
Current assets:						
Cash and investments	\$ 39,513,740	2,505,285	2,510,808	-	44,529,833	43,012,637
Cash and investments with fiscal agent	916,634	-	-	-	916,634	978,955
Accounts receivable, net	2,940,327	1,357,638	6,651	-	4,304,616	4,683,907
Interest receivable	139,664	-	-	-	139,664	66,989
Due from other governments	22,839	-	-	-	22,839	31,718
Inventory	479,443	-	-	-	479,443	423,369
Total current assets	<u>44,012,647</u>	<u>3,862,923</u>	<u>2,517,459</u>	<u>-</u>	<u>50,393,029</u>	<u>49,197,575</u>
Noncurrent assets:						
Prepaid items	91,551	551,025	-	-	642,576	12,820
Advances to other funds	35,079,370	-	-	(35,079,370)	-	-
Non-depreciable capital assets	28,702,293	1,230,334	-	-	29,932,627	25,844,085
Depreciable capital assets, net	117,105,190	15,032,467	5,054,662	-	137,192,319	142,025,624
Total noncurrent assets	<u>180,978,404</u>	<u>16,813,826</u>	<u>5,054,662</u>	<u>(35,079,370)</u>	<u>167,767,522</u>	<u>167,882,529</u>
Total assets	<u>224,991,051</u>	<u>20,676,749</u>	<u>7,572,121</u>	<u>(35,079,370)</u>	<u>218,160,551</u>	<u>217,080,104</u>
Deferred Outflow of Resources:						
Deferred outflow - pension related	3,053,016	58,391	-	-	3,111,407	2,887,961
Deferred outflow - OPEB related	196,030	3,772	-	-	199,802	-
Total deferred outflow of resources	<u>3,249,046</u>	<u>62,163</u>	<u>-</u>	<u>-</u>	<u>3,311,209</u>	<u>2,887,961</u>
Liabilities:						
Current liabilities:						
Accounts payable	1,873,345	686,906	2,517	-	2,562,768	3,648,501
Interest payable	193,538	-	-	-	193,538	198,981
Prepaid water connection fees	1,613,469	-	-	-	1,613,469	1,395,788
Deposits payable	1,710,104	-	-	-	1,710,104	1,678,348
Long-term liabilities, due within one year	698,788	-	-	-	698,788	634,115
Total current liabilities	<u>6,089,244</u>	<u>686,906</u>	<u>2,517</u>	<u>-</u>	<u>6,778,667</u>	<u>7,555,733</u>
Noncurrent liabilities:						
Advances from other funds	-	35,079,370	-	(35,079,370)	-	-
Total OPEB liability	10,710,368	206,109	-	-	10,916,477	3,286,280
Net pension liability	11,377,368	103,573	-	-	11,480,941	9,777,304
Long-term liabilities, due in more than one year	9,842,433	-	-	-	9,842,433	10,231,480
Total noncurrent liabilities	<u>31,930,169</u>	<u>35,389,052</u>	<u>-</u>	<u>(35,079,370)</u>	<u>32,239,851</u>	<u>23,295,064</u>
Total liabilities	<u>38,019,413</u>	<u>36,075,958</u>	<u>2,517</u>	<u>(35,079,370)</u>	<u>39,018,518</u>	<u>30,850,797</u>
Deferred Inflows of Resources:						
Deferred inflows - OPEB related	1,242,485	23,910	-	-	1,266,395	-
Deferred inflows - pension related	484,909	9,896	-	-	494,805	639,017
Total deferred outflows of resources	<u>1,727,394</u>	<u>33,806</u>	<u>-</u>	<u>-</u>	<u>1,761,200</u>	<u>639,017</u>
Net position:						
Net investment in capital assets	136,587,648	16,262,801	5,054,662	-	157,905,111	158,371,001
Restricted for capital asset construction	5,628,956	-	2,774,669	-	8,403,625	6,950,623
Restricted for debt service	5,533,314	-	-	-	5,533,314	5,030,319
Unrestricted	40,743,372	(31,633,653)	(259,727)	-	8,849,992	18,126,308
Total net position	<u>\$ 188,493,290</u>	<u>(15,370,852)</u>	<u>7,569,604</u>	<u>-</u>	<u>180,692,042</u>	<u>188,478,251</u>

VICTORVILLE WATER DISTRICT
Combining Schedule of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2018
(with comparative data for June 30, 2017)

	Victorville Wastewater Reclamation				Total	
	Water	Facility	Reclaimed Water	Eliminations	2018	2017
Operating revenues:						
Utility sales	\$ 16,981,021	4,161,436	247,225	-	21,389,682	18,867,209
Meter and service fees	6,623,891	-	-	-	6,623,891	6,331,129
Pass-thru charges	366,165	-	-	-	366,165	4,448,249
Fines and forfeitures	314,477	-	-	-	314,477	266,705
Other	2,068,429	-	-	-	2,068,429	1,348,134
Total operating revenues	<u>26,353,983</u>	<u>4,161,436</u>	<u>247,225</u>	<u>-</u>	<u>30,762,644</u>	<u>31,261,426</u>
Operating expenses:						
Personnel services	10,159,415	201,268	123,079	-	10,483,762	9,138,093
Maintenance and operations	10,357,825	2,403,410	55,995	-	12,817,230	12,832,157
Production costs	3,353,098	-	11,012	-	3,364,110	3,043,489
Pass-thru production costs	366,165	-	-	-	366,165	4,223,868
Depreciation	6,119,702	1,120,106	175,019	-	7,414,827	9,893,980
Total operating expenses	<u>30,356,205</u>	<u>3,724,784</u>	<u>365,105</u>	<u>-</u>	<u>34,446,094</u>	<u>39,131,587</u>
Operating income (loss)	<u>(4,002,222)</u>	<u>436,652</u>	<u>(117,880)</u>	<u>-</u>	<u>(3,683,450)</u>	<u>(7,870,161)</u>
Nonoperating revenues (expenses):						
Taxes	850,520	-	-	-	850,520	608,676
Investment income	1,009,602	18,204	19,191	(480,937)	566,060	326,368
Interest expense	(459,386)	(480,937)	-	480,937	(459,386)	(622,276)
Arsenic surcharge	248,150	-	-	-	248,150	238,170
Gain (loss) on disposition of assets	(29,341)	-	-	-	(29,341)	(106,651)
Other revenue (expenses)	(2,438)	-	-	-	(2,438)	(56,759)
Total nonoperating revenues (expense)	<u>1,617,107</u>	<u>(462,733)</u>	<u>19,191</u>	<u>-</u>	<u>1,173,565</u>	<u>387,528</u>
Income (loss) before transfers and capital contributions	<u>(2,385,115)</u>	<u>(26,081)</u>	<u>(98,689)</u>	<u>-</u>	<u>(2,509,885)</u>	<u>(7,482,633)</u>
Capital contributions:						
Connection fees	1,022,749	547,213	-	-	1,569,962	1,013,963
Alternate water source fees	-	-	432,388	-	432,388	268,682
Capital restricted use fees	-	635,518	-	-	635,518	945,265
Capital grants	-	-	-	-	-	811,445
Contributions (to) from the City of Victorville	<u>194,052</u>	<u>45,431</u>	<u>-</u>	<u>-</u>	<u>239,483</u>	<u>(267,996)</u>
Total capital contributions and transfers	<u>1,216,801</u>	<u>1,228,162</u>	<u>432,388</u>	<u>-</u>	<u>2,877,351</u>	<u>2,771,359</u>
Change in net position	<u>(1,168,314)</u>	<u>1,202,081</u>	<u>333,699</u>	<u>-</u>	<u>367,466</u>	<u>(4,711,274)</u>
Net position at beginning of year, as restated	<u>189,661,604</u>	<u>(16,572,933)</u>	<u>7,235,905</u>	<u>-</u>	<u>180,324,576</u>	<u>193,189,525</u>
Net position at end of year	<u>\$ 188,493,290</u>	<u>(15,370,852)</u>	<u>7,569,604</u>	<u>-</u>	<u>180,692,042</u>	<u>188,478,251</u>