

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

BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2019

**VICTORVILLE WATER DISTRICT**  
**Basic Financial Statements**  
**Year Ended June 30, 2019**  
**Table of Contents**

---

---

	<u>Page</u>
Independent Auditors' Report.....	1
Basic Financial Statements:	
Statement of Net Position.....	4
Statement of Revenues, Expenses and Changes in Net Position.....	5
Statement of Cash Flows.....	6
Notes to the Basic Financial Statements .....	7
Required Supplementary Information:	
Schedule of Plan's Proportionate Share of the Net Pension Liability .....	30
Schedule of Plan Contributions .....	31
Schedule of Changes in Total OPEB Liability and Related Ratios.....	32
Supplementary Information:	
Combining Schedule of Net Position .....	33
Combining Schedule of Revenues Expenses and Changes in Net Position .....	34

## **INDEPENDENT AUDITORS' REPORT**

Honorable Mayor and City Council  
Victorville Water District  
Victorville, California

### **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, 2019, 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 financial position of the Victorville Water District, as of June 30, 2019, 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 discussed in Note 1, the financial statements present only the District and do not purport to, and do not present fairly, the financial position of the City of Victorville, California, as of June 30, 2019, and the changes in its financial position or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As described further in Note 8 to the financial statements, the net position of the District as of July 1, 2018 was restated. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Prior-Year Comparative Information*

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2018, from which such partial information was derived.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the schedule of the plan's proportionate share of the net pension liability, schedule of plan contributions, and schedule of changes in total OPEB liabilities and related ratios, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

## **Other Matters (Continued)**

### *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 schedule of net position and the combining schedule of revenues, expenses, and changes in net position (supplementary information), as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was 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, supplementary information is 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 February 5, 2020, 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.

*White Nelson Dick Evans LLP*

Irvine, California  
February 5, 2020

**VICTORVILLE WATER DISTRICT**  
**Statement of Net Position**  
**June 30, 2019**  
**(with comparative data for June 30, 2018)**

<b>ASSETS</b>	<u>2019</u>	<u>2018</u>
<b>CURRENT ASSETS:</b>		
Cash and investments	\$ 45,097,379	\$ 44,529,833
Cash and investments with fiscal agent	836,597	916,634
Accounts receivable, net	4,078,950	4,304,616
Interest receivable	192,348	139,664
Due from other governments	12,856	22,839
Inventory	691,323	479,443
<b>TOTAL CURRENT ASSETS</b>	<u>50,909,453</u>	<u>50,393,029</u>
<b>NONCURRENT ASSETS:</b>		
Prepaid deposits	537,906	642,576
Non-depreciable capital assets	28,600,035	29,932,627
Depreciable capital assets, net	135,132,918	137,192,319
<b>TOTAL NONCURRENT ASSETS</b>	<u>164,270,859</u>	<u>167,767,522</u>
<b>TOTAL ASSETS</b>	<u>215,180,312</u>	<u>218,160,551</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflow - OPEB related	216,889	199,802
Deferred outflow - pension related	2,779,029	3,111,407
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>2,995,918</u>	<u>3,311,209</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	2,595,779	2,562,768
Interest payable	187,704	193,538
Prepaid water connection fees	1,613,469	1,613,469
Deposits payable	1,790,809	1,710,104
Long-term liabilities, due within one year	695,450	698,788
<b>TOTAL CURRENT LIABILITIES:</b>	<u>6,883,211</u>	<u>6,778,667</u>
<b>NONCURRENT LIABILITIES:</b>		
Total OPEB liability	9,121,297	10,916,477
Net pension liability	11,526,434	11,480,941
Long-term liabilities, due in more than one year	9,506,405	9,842,433
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>30,154,136</u>	<u>32,239,851</u>
<b>TOTAL LIABILITIES</b>	<u>37,037,347</u>	<u>39,018,518</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflow - OPEB related	3,254,762	1,266,395
Deferred inflow - pension related	605,228	494,805
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>3,859,990</u>	<u>1,761,200</u>
<b>NET POSITION</b>		
Net investment in capital assets	154,789,274	157,905,111
Unrestricted	22,489,619	22,786,931
<b>TOTAL NET POSITION</b>	<u>\$ 177,278,893</u>	<u>\$ 180,692,042</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, 2019**  
**(with comparative data for the year ended June 30, 2018)**

	2019	2018
<b>OPERATING REVENUES:</b>		
Utility sales	\$ 23,796,073	\$ 21,389,682
Meter and service fees	6,873,891	6,623,891
Pass-thru charges	278,000	366,165
Fines and forfeitures	329,388	314,477
Arsenic surcharge	252,212	248,150
Other	290,122	2,068,429
	<b>31,819,686</b>	<b>31,010,794</b>
<b>OPERATING EXPENSES:</b>		
Personnel services	10,207,412	10,483,762
Maintenance and operations	18,479,725	12,817,230
Production costs	4,005,976	3,364,110
Pass-thru production costs	278,000	366,165
Depreciation	7,345,986	7,414,827
	<b>40,317,099</b>	<b>34,446,094</b>
	<b>(8,497,413)</b>	<b>(3,435,300)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Taxes	851,723	850,520
Investment income	1,106,017	566,060
Interest expense	(445,464)	(459,386)
Loss on disposition of assets	-	(29,341)
Other nonoperating expenses	(347,302)	(2,438)
	<b>1,164,974</b>	<b>925,415</b>
	<b>(7,332,439)</b>	<b>(2,509,885)</b>
<b>CAPITAL CONTRIBUTIONS:</b>		
Connection fees	2,374,825	1,569,962
Alternate water source fees	520,738	432,388
Capital restricted use fees	586,632	635,518
Capital grants	-	-
Contributions from the City of Victorville	-	239,483
	<b>3,482,195</b>	<b>2,877,351</b>
	<b>(3,850,244)</b>	<b>367,466</b>
<b>NET POSITION AT BEGINNING OF YEAR</b>	<b>180,692,042</b>	<b>180,324,576</b>
<b>RESTATEMENT</b>	<b>437,095</b>	<b>-</b>
<b>NET POSITION AT BEGINNING OF YEAR, AS RESTATED</b>	<b>181,129,137</b>	<b>180,324,576</b>
<b>NET POSITION AT END OF YEAR</b>	<b>\$ 177,278,893</b>	<b>\$ 180,692,042</b>

See accompanying notes to the basic financial statements.

**VICTORVILLE WATER DISTRICT**  
**Statement of Cash Flows**  
**Year ended June 30, 2019**  
**(with comparative data for the year ended June 30, 2018)**

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 31,238,530	\$ 30,761,616
Cash payments to employees for services	(9,023,156)	(8,587,849)
Cash payments to suppliers for goods and services	(18,805,497)	(17,464,062)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,409,877	4,709,705
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Cash received from other governments	851,723	850,520
Cash received from City of Victorville	-	239,483
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	851,723	1,090,003
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Cash received from the sale of capital assets	-	60,443
Cash payments to acquire capital assets and other assets	(4,019,933)	(6,730,507)
Cash received for capital restricted use	-	2,637,868
Principal paid on capital-related debt	(350,000)	(335,000)
Interest paid on capital-related debt	(457,491)	(471,022)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(4,827,424)	(4,838,218)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest received on investments	1,053,333	493,385
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,053,333	493,385
NET INCREASE IN CASH AND CASH EQUIVALENTS	487,509	1,454,875
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	45,446,467	43,991,592
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 45,933,976	\$ 45,446,467
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION:</b>		
Cash and Investments	\$ 45,097,379	\$ 44,529,833
Cash and investments with fiscal agent	836,597	916,634
CASH AND CASH EQUIVALENTS	\$ 45,933,976	\$ 45,446,467
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	7,345,986	7,414,827
Nonoperating miscellaneous expense	3,134,893	(31,779)
(Increase) decrease in accounts receivable, net	225,666	379,291
(Increase) decrease in due from other governments	9,983	8,879
(Increase) decrease in inventory	(211,880)	(56,074)
(Increase) decrease in prepaid deposits	104,670	(629,756)
(Increase) decrease in deferred outflows - OPEB	(17,087)	-
(Increase) decrease in deferred outflows - pension	835,413	(423,248)
Increase (decrease) in accounts payable	33,011	(1,085,733)
Increase (decrease) in deposits payable	80,705	31,756
Increase (decrease) in compensated absences	16,827	16,819
Increase (decrease) in total OPEB liability	(1,795,180)	(523,478)
Increase (decrease) in net pension liability	45,493	1,703,637
Increase (decrease) in deferred inflows - OPEB	1,988,367	-
Increase (decrease) in deferred inflows - pension	110,423	1,339,864
Total adjustments	11,907,290	8,145,005
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 3,409,877	\$ 4,709,705
<b>NONCASH CAPITAL, FINANCING, AND INVESTING ACTIVITIES:</b>		
Loss on disposal of capital assets	-	(29,341)

See accompanying notes to the basic financial statements.



**VICTORVILLE WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

---

---

**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 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 of Victorville. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. 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.

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, and the notes to the basic financial statements.

C. Basis of Accounting, Measurement Focus 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.

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Proprietary funds are presented using the *economic resources measurement focus*. This means that all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) associated with their activity are included on their balance sheets.

**VICTORVILLE WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

---

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

Proprietary funds are presented using the *accrual basis of accounting*. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered, regardless of when the related cash flows take place. Amounts paid to acquire capital assets are capitalized as assets. Proceeds of long-term debt and acquisitions under capital leases are recorded as a liability. Amounts paid to reduce long-term indebtedness are reported as a reduction of the related liability. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenses.

The District distinguishes operating revenues and expenses from non-operating items. 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 taxes 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.

D. Cash and Investments

Investments are reported in the accompanying balance sheet at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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.

E. 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.

F. 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 directly write-off of those accounts.

G. Inventory

The District uses the consumption method of accounting for inventories. Inventory consists 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.

**VICTORVILLE WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

---

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

H. Prepaid Deposits

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

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. Donated assets are recorded at estimated acquisition value at the date of donation. The District capitalizes all assets with an initial individual cost of more than \$5,000 and a useful life in excess of one year. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the life are not capitalized.

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

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. 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.

K. Compensated Absences

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.

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 District. 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 District and the employee.

The balance of unpaid vacation and vested sick leave at year-end is recorded as a long-term liability in the financial statements.

**VICTORVILLE WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

---

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

L. 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 until that time. The District has the following items that qualify for reporting in this category:

- Deferred outflow related to pensions and OPEB equal to employer contributions made after the measurement date of the net pension liability and the total OPEB liability.
- Deferred outflow related to pensions for differences between expected and actual experiences and changes in assumptions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.
- Deferred outflow related to pensions resulting from the difference in projected and actual earnings on investments of the pension plan fiduciary net position. These amounts are amortized over five years.

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 the following items that qualify for reporting in this category:

- Deferred inflow related to pensions and OPEB for differences between expected and actual experiences and changes in assumptions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.

M. Prepaid Water Connection Fees

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

N. 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.

**VICTORVILLE WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

---

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

O. 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 (including premiums and discounts) that attributed to the acquisition, construction, or improvement of the assets.

*Restricted Net Position*

This amount is restricted by enabling legislation (such as external creditors, grantors, contributors, 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.”

P. 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 of the District’s California Public Employees’ Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans’ fiduciary net position have been determined on the same basis as they are reported by the CalPERS. 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.

Q. Prior Year Data

Selected information regarding the prior year had been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District’s prior year financial statements, from which this selected financial data was derived.

R. 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, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

**VICTORVILLE WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

---

**2. CASH AND INVESTMENTS**

Cash and investments as of June 30, 2019, are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and investments	\$ 45,097,379
Cash and investments with fiscal agent	<u>836,597</u>
Total cash and investments	<u>\$ 45,933,976</u>

Cash and investments as of June 30, 2019, consist of the following:

Deposits with financial institutions	\$ 98,655
Deposits held in City pool	14,846,148
Investments	<u>30,989,173</u>
Total cash and investments	<u>\$ 45,933,976</u>

Investments Pool of the City of Victorville

The District's equity in the cash and investment City pool is managed by the City of Victorville. The District is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Victorville. The District has not adopted an investment policy separate from that of the City of Victorville. 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 calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis.

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

The City adopts the investment policy for the District. The table on the following page identifies the investment types that are authorized for the District by the California Government Code and the City's investment policy. The table also identifies certain provisions of the California Government Code (or the City's investment policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

**VICTORVILLE WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

**2. CASH AND INVESTMENTS (CONTINUED)**

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

Investment Types Authorized by State Law	Authorized by Investment Policy	Maximum Maturity*	Maximum Percentage of Portfolio*	Maximum Investment In One Issuer*
Local Agency Bonds	Yes	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	40%	30%
Commercial Paper - Non-pooled Funds	No	270 days	25%	10%
Commercial Paper - Pooled Funds	No	270 days	40%	10%
Negotiable Certificates of Deposit	Yes	2 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%	None
Mutual Funds***	Yes	5 years	20%*	10%
Money Market Mutual Funds***	Yes	5 years	20%*	None
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.

\*\* Ginnie Mae is not to exceed 20% of the total portfolio.

\*\*\* Fund must be an AAA rated Government or US Treasury money fund.

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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment In One Issuer
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 (LAIF)	None	None	None
California Common Law Trust Shares	None	None	None

**VICTORVILLE WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

**2. CASH AND INVESTMENTS (CONTINUED)**

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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:

Investment Type	Total	Remaining Maturities (in Months)			
		Within 12	13 to 24	25 to 60	60+
LAIF	\$ 30,152,576	30,152,576	-	-	-
Held by bond trustee:					
Guaranteed Investment					
Contract (GIC)*	816,500	-	-	-	816,500
Money market mutual funds	20,097	20,097	-	-	-
Total	\$ 30,989,173	30,172,673	-	-	816,500

\* 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, 2019, FSA was not in default and the value of the collateral met the requirements.

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 City's investment policy, or debt agreements, and the actual Standard & Poor's rating as of year-end for each investment type.

Investment Type	Total	Minimum Legal Rating	Ratings as of Year End	
			AAA	Not Rated
LAIF	\$ 30,152,576	N/A	\$ -	\$ 30,152,576
Held by bond trustee:				
Guaranteed Investment				
Contract (GIC)	816,500	N/A	-	816,500
Money market mutual funds	20,097	AAA	20,097	-
Total	\$ 30,989,173		\$ 20,097	\$ 30,969,076



**VICTORVILLE WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

---

---

**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. The District has no investments in any one issuer (other than LAIF and money market mutual funds) that represent 5% or more of the City's investments.

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 City'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. At June 30, 2019, the District's deposits (bank balances) were insured by the federal depository insurance limits or collateralized as required under California Law.

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.

Fair Value Measurements

The District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. 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.

**VICTORVILLE WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

---

---

**2. CASH AND INVESTMENTS (CONTINUED)**

Fair Value Measurements (Continued)

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:

- 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 of 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.

The District's investments in LAIF and money market mutual funds (held by bond trustee) are not subject to the fair value measurement hierarchy.

**VICTORVILLE WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

**3. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2019 is as follows:

	7/1/2018, as Restated	Additions	Deletions	Balance at 6/30/2019
Non-depreciable assets:				
Land	\$ 8,708,845	\$ -	\$ -	\$ 8,708,845
Intangibles	12,853,367	-	-	12,853,367
Idle Assets	3,017,958	-	-	3,017,958
Land Improvements	536,342	-	-	536,342
Construction in progress	5,352,457	2,366,226	(4,235,160)	3,483,523
Total non-depreciable assets	<u>30,468,969</u>	<u>2,366,226</u>	<u>(4,235,160)</u>	<u>28,600,035</u>
Depreciable assets:				
Buildings and improvements	28,105,888	-	-	28,105,888
Computer and communication	615,888	-	-	615,888
Furniture and equipment	36,128,384	1,008,081	-	37,136,465
Infrastructure	190,583,645	4,841,460	-	195,425,105
Intangibles	1,542,724	-	-	1,542,724
Vehicles	3,464,973	39,329	(67,705)	3,436,597
Total depreciable assets	<u>260,441,502</u>	<u>5,888,870</u>	<u>(67,705)</u>	<u>266,262,667</u>
Less accumulated depreciation:				
Buildings and improvements	(8,694,875)	(687,441)	-	(9,382,316)
Computer and communication	(474,632)	(43,062)	-	(517,694)
Furniture and equipment	(25,355,095)	(1,489,821)	-	(26,844,916)
Infrastructure	(85,662,620)	(4,798,980)	-	(90,461,600)
Intangibles	(1,347,921)	(152,770)	-	(1,500,691)
Vehicles	(2,316,325)	(173,912)	67,705	(2,422,532)
Total accumulated depreciation	<u>(123,851,468)</u>	<u>(7,345,986)</u>	<u>67,705</u>	<u>(131,129,749)</u>
Total depreciable assets, net	<u>136,590,034</u>	<u>(1,457,116)</u>	<u>-</u>	<u>135,132,918</u>
Capital assets, net	<u>\$ 167,059,003</u>	<u>\$ 909,110</u>	<u>\$ (4,235,160)</u>	<u>\$ 163,732,953</u>

Depreciation expense for the District was \$7,345,986 for the year ended June 30, 2019.

**VICTORVILLE WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

**4. LONG-TERM LIABILITIES**

A summary of changes in long-term liabilities for the year ended June 30, 2019, is noted below:

	Balance at 7/1/2018	Additions	Retirements	Balance at 6/30/2019	Due Within One Year
<i>Other long-term liabilities:</i>					
Compensated Absences	\$ 404,752	\$ 447,360	\$ (430,533)	\$ 421,579	\$ 330,450
<i>Other debt:</i>					
2006 Certificate of Participation	10,025,000	-	(350,000)	9,675,000	365,000
Unamortized Discounts/Premiums	111,469	-	(6,193)	105,276	-
<b>Total</b>	<u>\$ 10,541,221</u>	<u>\$ 447,360</u>	<u>\$ (786,726)</u>	<u>\$ 10,201,855</u>	<u>\$ 695,450</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 - see end of note. 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, 2019 is \$9,675,000.

The annual requirements to amortize outstanding debt of the District as of June 30, 2019 are as follows for each fiscal year ending June 30:

Year Ending June 30	Certificates of Participation	
	Principal	Interest
2020	\$ 365,000	\$ 443,190
2021	380,000	428,195
2022	395,000	412,403
2023	410,000	395,388
2024	425,000	377,226
2025-29	2,430,000	1,583,251
2030-34	3,050,000	949,363
2035-37	2,220,000	169,999
Subtotal	9,675,000	<u>4,759,015</u>
Premium	105,276	
Total	<u>\$ 9,780,276</u>	

**VICTORVILLE WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

---

**4. LONG-TERM LIABILITIES (CONTINUED)**

Rate Covenant

The 2006 Certificate of Participation require that the Baldy Mesa Water District to generate sufficient net revenues which are at least equal to 110% of the amount of the installment payments and Parity Obligation coming due and payable in each fiscal year. The 2006 Certificate of Participations were issued before Baldy Mesa and Victor Valley Water District were consolidated into Victorville Water District. The City performed the calculation that demonstrated compliance with rate covenant for the fiscal year ended June 30, 2019. The calculation was prepared using revenues and the proportionate expenses applicable to the Baldy Mesa Water District.

Pledged Revenues

The District has a debt issuance outstanding that is collateralized by the pledging of certain revenues. The amount and term of the remainder of this commitment is indicated in the debt service to maturity table presented previously. The purpose for which the proceeds of the related debt issuance was utilized are disclosed in the debt description noted previously. 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:

<u>Description of Pledged Revenue</u>	<u>Annual Amount of Pledged Revenue (net of expenses, where required)</u>	<u>Annual Debt Service Payment (of all debt secured by this revenue)</u>	<u>Debt Service as a Percentage of Pledged Revenue</u>
Net revenues pledged by the District for the 2006 Certificates of Participation	\$ 1,284,501	\$ 807,490	63%

**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 Health Net HMO single premium). The percentage varies based on years of service.

Funding Policy - The contribution requirements of plan members and the District are established and may be amended by City Council. The contribution required to be made under City Council and labor agreement requirements is based on a pay-as-you-go basis (i.e., as medical insurance premiums become due). The District has not established a trust for the purpose of holding assets accumulated for plan benefits.

**VICTORVILLE WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

---

**5. OTHER POST-EMPLOYMENT BENEFITS PLAN (CONTINUED)**

Employees Covered - As of the June 30, 2018 measurement date, the following current and former employees were covered by the benefit terms under the Plan:

Active employees	79
Inactive employees or beneficiaries currently receiving benefits	25
Inactive employees entitled to, but not yet receiving benefits	4
Total	108

Contributions - The District Plan and its contribution requirements are established by Memoranda of Understanding with the applicable employee bargaining units and may be amended by agreements between the District and the bargaining units.

The annual contribution is based on the year's retiree medical premiums (pay-as-you-go basis). For the fiscal year ended June 30, 2019, the District's cash contributions were \$162,802 for current premiums 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, 2018 and was determined by an actuarial valuation dated June 30, 2018.

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	3.87%
Inflation	2.75%
Salary Increases	3.0% per annum, in aggregate
Investment Rate of Return	N/A
Mortality, Retirement, Disability, Termination	1997-2015 Experience Study
Mortality Improvement	Post-retirement mortality projected fully generational with Scale MP-2018
Healthcare Trend Rate	Non-Medicare: 7.5% for 2020, decreasing to an ultimate rate of 4.0% in 2076 Medicare: 6.5% for 2020, decreasing to an ultimate rate of

Discount Rate - The discount rate used to measure the total OPEB liability was 3.87%. The discount rate is determined based on the Bond Buyer 20-bond index since the District has not established a trust.

Change in Actuarial Assumptions - The discount rate changed from 3.58% at the beginning of the measurement period to 3.87% based on changes in the index. The mortality, retirement, disability, and termination rates for the measurement periods ended June 30, 2017 and 2018 were based on the CalPERS 1997-2011 Experience Study and CalPERS 1997-2015 Experience Study, respectively. The mortality improvement rates for the measurement periods ended June 30, 2017 and 2018 were based on the Scale MP-2016 and Scale-2018, respectively. In the June 30, 2018 measurement period, the pre-65 waived retiree re-election was updated to be 10% after age 65.

**VICTORVILLE WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

---

**5. OTHER POST-EMPLOYMENT BENEFITS PLAN (CONTINUED)**

Changes in the Total OPEB Liability - The changes in the total OPEB liability for the District Plan are as follows:

	<u>Total OPEB Liability</u>
Total OPEB Liability 6/30/2017 (Measurement Date)	\$ 10,916,477
Service cost	494,095
Interest	404,923
Actual vs. expected experience	(1,985,311)
Change of assumptions	(509,085)
Benefit payments	<u>(199,802)</u>
Net Changes during 2017-2018 (Measurement Period)	<u>(1,795,180)</u>
Total OPEB Liability 6/30/2018 (Measurement Date)	<u>\$ 9,121,297</u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate - The following presents the total 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:

	<u>Discount Rate</u>		
	<u>1% Decrease (2.87%)</u>	<u>Current Rate (3.87%)</u>	<u>1% Increase (4.87%)</u>
Total OPEB Liability	\$ 10,790,723	\$ 9,121,297	\$ 7,800,234

Sensitivity of the Total OPEB Liability to Changes in 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 (Non-Medicare: 6.5% for 2020 decreasing to 3.0% in 2076; Medicare: 5.5% for 2020, decreasing to an ultimate rate of 3.0% in 2076) or one percentage point higher (Non-Medicare: 8.5% for 2020 decreasing to 5.0% in 2076; Medicare: 7.5% for 2020, decreasing to an ultimate rate of 5.0% in 2076) than the current rate:

	<u>Healthcare Trend Rate</u>		
	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 7,667,127	\$ 9,121,297	\$ 11,008,396

Recognition of Deferred Outflows and Deferred Inflows of Resources - Gains and losses related to changes in the 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 recognized in future OPEB expense.

**VICTORVILLE WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

---

**5. OTHER POST-EMPLOYMENT BENEFITS PLAN (CONTINUED)**

Recognition of Deferred Outflows and Deferred Inflows of Resources (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, 2018 measurement date)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB - For the fiscal year ended June 30, 2019, the District recognized OPEB expense of \$392,989. As of the fiscal year ended June 30, 2019, the District reported deferred outflows/inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Employer contributions subsequent to the measurement date	\$ 216,889	\$ -
Differences between expected and actual experience	-	(1,730,784)
Changes in assumptions	-	(1,523,978)
Total	<u>\$ 216,889</u>	<u>\$ (3,254,762)</u>

The \$216,889 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability during the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows/inflows 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>
2020	\$ (506,029)
2021	(506,029)
2022	(506,029)
2023	(506,029)
2024	(506,029)
Thereafter	(724,617)

Subsequent Events - There were no subsequent events that would materially affect the results of this disclosure.

Payable to the Pension Plan - At June 30, 2019, the District had no outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2019.



**VICTORVILLE WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

---

**6. NET INVESTMENT IN CAPITAL ASSETS**

The balance of net position that is invested in capital assets, net of related debt at June 30, 2019, consists of the following:

Capital assets, net	\$ 163,732,953
Capital debt proceeds not invested in capital assets	836,597
Certificates of participation	<u>(9,780,276)</u>
Net investment in capital assets	<u>\$ 154,789,274</u>

**7. PENSION PLAN**

General Information about the Pension Plans

**Plan Description**

All qualified permanent and probationary employees are eligible to participate in the City’s Miscellaneous Plan, agent multiple-employer defined benefit pension plans administered by the California Public Employees’ Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. The District’s share of the net pension liability is reported as a cost-sharing plan in these financial statements. 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.

**Benefits Provided**

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 to 62 with statutorily reduced benefits. For employees hired into a plan with the 1.5% at 65 formula, eligibility for service retirement is age 55 with at least 5 years of services. PEPRAs miscellaneous members become eligible for service retirement upon attainment of age 52 with at least 5 years of service. All members are eligible for non-duty disability benefits after 5 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

**VICTORVILLE WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

---

**7. PENSION PLAN (CONTINUED)**

General Information about the Pension Plans (Continued)

**Benefits Provided (Continued)**

The Plan's provisions and benefits in effect as of the measurement period ended June 30, 2018, are summarized as follows:

	<u>Miscellaneous</u>	
	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Hire date		
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%
Normal cost rate	9.44%	9.44%
Payment of unfunded liability	\$ 502,462	N/A

**Contributions**

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

**VICTORVILLE WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

---

**7. PENSION PLAN (CONTINUED)**

Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

**Actuarial Assumptions**

The total pension liability for the Miscellaneous Plan for the June 30, 2018 measurement period was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension liability to June 30, 2018. The total pension liability for the Miscellaneous Plan was based on the following assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	(1)
Mortality Rate Table	(2)
Post Retirement Benefit Income	(3)

(1) Varies by entry age and service.

(2) The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

(3) Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter.

**Long-term Expected Rate of Return**

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded 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 adjusted to account for assumed administrative expenses.

**VICTORVILLE WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

---

**7. PENSION PLAN (CONTINUED)**

Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

**Long-term Expected Rate of Return (Continued)**

The expected real rates of return by asset class are as follows:

Asset Class (a)	Assumed Asset Allocation	Real Return Years 1 - 10 (b)	Real Return Years 11+ (c)
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
	100.0%		

- (a) In the CalPERS CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities
- (b) An expected inflation of 2.0% used for this period
- (c) An expected inflation of 2.92% used for this period

**Discount Rate**

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Proportionate Share of Net Pension Liability - City's Miscellaneous Agent Multiple-Employer Plan Allocation to the District**

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2018, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the Miscellaneous Plan relative to the projected contributions of the City, actuarially determined.

**VICTORVILLE WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

**7. PENSION PLAN (CONTINUED)**

Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

**Proportionate Share of Net Pension Liability - City's Miscellaneous Agent Multiple-Employer Plan Allocation to the District (Continued)**

The District's proportionate share of the net pension liability for the Miscellaneous Plan as of the measurement date ended June 30, 2017 and 2018 was as follows:

	Increase (Decrease)			Proportionate Share
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)	
Balance at: 6/30/2017 (MD)	\$ 44,920,058	\$ 33,439,117	\$ 11,480,941	24.87%
Balance at: 6/30/2018 (MD)	47,336,024	35,809,590	11,526,434	24.95%
Net Changes during 2017-18	<u>\$ 2,415,966</u>	<u>\$ 2,370,473</u>	<u>\$ 45,493</u>	<u>0.08%</u>

**Pension Expense and Deferred Outflows and Inflows of Resources**

For the year ended June 30, 2019, the District recognized pension expense of \$2,089,881 for the Miscellaneous Plan. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for the Miscellaneous Plan:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,221,074	\$ -
Changes of assumptions	1,150,436	(415,364)
Differences between expected and actual experiences	298,917	(189,864)
Net difference between projected and actual earnings on pension plan investments	<u>108,602</u>	<u>-</u>
Total	<u>\$ 2,779,029</u>	<u>\$ (605,228)</u>

\$1,221,074 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Differences between projected and actual investment earnings are amortized on a five-year straight-line basis and all other amounts are amortized over the expected average remaining service lives of all members that are provided with benefits.

**VICTORVILLE WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

---

**7. PENSION PLAN (CONTINUED)**

Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

**Pension Expense and Deferred Outflows and Inflows of Resources (Continued)**

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Periods Ended June 30:	Deferred (Inflows) of Resources
2020	\$ 1,213,704
2021	175,769
2022	(344,822)
2023	(91,924)
2024	-
Thereafter	-

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

The following presents the District's proportionate share of the net pension liability for the Miscellaneous Plan, calculated using the discount rate of 7.15 percent, as well as what the District's proportionate share of 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% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
Net Pension Liability	\$ 18,308,000	\$ 11,526,434	\$ 5,969,344

**Pension Plan Fiduciary Net Position**

Detailed information about each pension plan's fiduciary net position is available in the separate issued CalPERS financial reports.

**Subsequent Events**

There were no subsequent events that would materially affect the results of this disclosure.

**Payable to the Pension Plan**

At June 30, 2019, the District had no outstanding amount of contributions to the Miscellaneous Plan required for the year ended June 30, 2019.

**VICTORVILLE WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

---

---

**8. PRIOR PERIOD ADJUSTMENTS**

The following schedule summarizes the effects of the prior period adjustment to the District's net position:

Beginning Net Position	\$ 180,692,042
Deferred Outflows (a)	503,035
Correct Capital Assets (b)	<u>(65,940)</u>
Ending Net Position	<u>\$ 181,129,137</u>

- (a) Correction of fiscal year 2017-2018 pension contributions subsequent to the measurement date for the unfunded liability lump sum payment.
- (b) Remove accumulated depreciation for specific land improvement capital assets that are inexhaustible and should not have depreciation of \$288,027. Remove intangible assets and corresponding intangible assets accumulated depreciation for capital assets that did not meet the capitalization requirements in the net amount of \$353,967.

**9. SUBSEQUENT EVENTS**

In preparing these financial statements, the District has evaluated events and transactions for potential recognition and disclosure through February 5, 2020, the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**



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

Fiscal Year Ended Measurement Date	<u>6/30/2019</u> <u>6/30/2018</u>	<u>6/30/2018</u> <u>6/30/2017</u>	<u>6/30/2017</u> <u>6/30/2016</u>	<u>6/30/2016</u> <u>6/30/2015</u>	<u>6/30/2015</u> <u>6/30/2014</u>
Plan's Proportion of the Net Pension Liability	24.95%	24.87%	24.63%	24.40%	24.28%
Plan's Proportionate Share of the Net Pension Liability	\$ 11,526,434	\$ 11,480,941	\$9,777,304	\$7,425,085	\$6,754,806
Plan's Covered Payroll	5,598,545	5,506,946	4,860,190	4,824,221	4,707,026
Plan's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	205.88%	208.48%	201.17%	153.91%	143.50%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	18.88%	18.52%	18.59%	19.55%	19.73%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 1,026,643	\$ 916,742	\$ 827,951	\$ 709,786	\$ 662,598

**Notes to Schedule:**

**Benefit Changes:**

There were no changes in benefits.

**Changes in Assumptions:**

From fiscal year June 30, 2015 to June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:

The discount rate was reduced from 7.65% to 7.15%.

From fiscal year June 30, 2018 to June 30, 2019:

There were no significant changes in assumptions.

\*Fiscal year 2015 was the 1st year of implementation, therefore only five years are shown.

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

Fiscal Year	<u>2018-2019</u>	<u>2017-2018</u>	<u>2016-2017</u>	<u>2015-2016</u>	<u>2014-2015</u>
Actuarially Determined Contribution	\$ 1,221,074	\$ 1,026,643	\$ 916,742	\$ 827,951	\$ 709,786
Contributions in relation to the Actuarially Determined Contribution	<u>(1,221,074)</u>	<u>(1,026,643)</u>	<u>(916,742)</u>	<u>(827,951)</u>	<u>(709,786)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 5,546,115	\$ 5,598,545	\$ 5,506,946	\$ 4,860,190	\$ 4,824,221
Contributions as a Percentage of Covered Payroll	22.02%	18.34%	16.65%	17.04%	14.71%

**Notes to Schedule:**

Valuation Date	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012
----------------	-----------	-----------	-----------	-----------	-----------

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age
Amortization method	(1)	(1)	(1)	(1)	(1)
Asset valuation method	Market Value	Market Value	Market Value	Market Value	15 Year Smoothed Market Method
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%
Salary increases	(2)	(2)	(2)	(2)	(2)
Investment rate of return	7.375% (3)	7.50% (3)	7.50% (3)	7.50% (3)	7.50% (3)
Mortality	(4)	(4)	(4)	(4)	(4)

- (1) Level percentage of payroll, closed
- (2) Depending on age, service, and type of employment
- (3) Net of pension plan investment expense, including inflation
- (4) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

\*Fiscal year 2015 was the 1st year of implementation, therefore only five years are shown.

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

Fiscal Year Ended	<u>6/30/2019</u>	<u>6/30/2018</u>
Measurement Date	<u>6/30/2018</u>	<u>6/30/2017</u>
Total OPEB Liability:		
Service cost	\$ 494,095	\$ 583,831
Interest on the total OPEB liability	404,923	345,325
Changes of assumptions	(509,085)	(1,452,630)
Differences between expected and actual experience	(1,985,311)	-
Benefit payments, including refunds and the implied subsidy benefit payments	<u>(199,802)</u>	<u>(185,817)</u>
Net change in total OPEB liability	(1,795,180)	(709,291)
Total OPEB liability - beginning	<u>10,916,477</u>	<u>11,625,768</u>
Total OPEB liability - ending (a)	<u><u>\$ 9,121,297</u></u>	<u><u>\$ 10,916,477</u></u>
Covered-employee payroll	\$ 6,818,328	\$ 4,577,527
Total OPEB liability as a percentage of covered-employee payroll	133.78%	238.48%

**Notes to Schedule:**

Changes in assumptions: The discount rate was changed from 2.85% to 3.58% for the measurement period ended June 30, 2017.

The discount rate was changed from 3.58% to 3.87% for the measurement period ended June 30, 2018.

The mortality, retirement, disability, and termination rates for the measurement periods ended June 30, 2017 and 2018 were based on the CalPERS 1997-2011 Experience Study and CalPERS 1997-2015 Experience Study, respectively.

The mortality improvement rates for the measurement periods ended June 30, 2017 and 2018 were based on the Scale MP-2016 and Scale-2018, respectively.

In the June 30, 2018 measurement period, the pre-65 waived retiree re-election was updated to be 10% after age 65.

\*Fiscal year 2018 was the 1st year of implementation, therefore only two years are shown.

**SUPPLEMENTARY INFORMATION**

**VICTORVILLE WATER DISTRICT**  
**Combining Schedule of Net Position**  
**June 30, 2019**  
**(with comparative data for June 30, 2018)**

	Water	Victorville	Reclaimed	Eliminations	Total	
		Wastewater Reclamation Facility			Water	2019
<b>ASSETS</b>						
Current Assets:						
Cash and investments	\$ 40,052,321	\$ 1,716,627	\$ 3,328,431	\$ -	\$ 45,097,379	\$ 44,529,833
Cash and investments with fiscal agent	836,597	-	-	-	836,597	916,634
Accounts receivable, net	2,878,550	1,179,088	21,312	-	4,078,950	4,304,616
Interest receivable	192,348	-	-	-	192,348	139,664
Due from other governments	12,856	-	-	-	12,856	22,839
Inventory	691,323	-	-	-	691,323	479,443
<b>Total Current Assets</b>	<b>44,663,995</b>	<b>2,895,715</b>	<b>3,349,743</b>	<b>-</b>	<b>50,909,453</b>	<b>50,393,029</b>
Noncurrent Assets:						
Prepaid deposits	25,557	512,349	-	-	537,906	642,576
Advances to other funds	33,585,050	-	-	(33,585,050)	-	-
Non-depreciable capital assets	26,988,708	1,595,639	15,688	-	28,600,035	29,932,627
Depreciable capital assets, net	115,846,954	14,406,864	4,879,100	-	135,132,918	137,192,319
<b>Total Noncurrent Assets</b>	<b>176,446,269</b>	<b>16,514,852</b>	<b>4,894,788</b>	<b>(33,585,050)</b>	<b>164,270,859</b>	<b>167,767,522</b>
<b>Total Assets</b>	<b>221,110,264</b>	<b>19,410,567</b>	<b>8,244,531</b>	<b>(33,585,050)</b>	<b>215,180,312</b>	<b>218,160,551</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred outflow - OPEB related	213,164	3,725	-	-	216,889	199,802
Deferred outflow - pension related	2,720,501	51,480	7,048	-	2,779,029	3,111,407
<b>Total Deferred Outflow of Resources</b>	<b>2,933,665</b>	<b>55,205</b>	<b>7,048</b>	<b>-</b>	<b>2,995,918</b>	<b>3,311,209</b>
<b>LIABILITIES</b>						
Current Liabilities:						
Accounts payable	1,934,308	655,990	5,481	-	2,595,779	2,562,768
Interest payable	187,704	-	-	-	187,704	193,538
Prepaid water connection fees	1,613,469	-	-	-	1,613,469	1,613,469
Deposits payable	1,790,809	-	-	-	1,790,809	1,710,104
Long-term liabilities, due within one year	695,450	-	-	-	695,450	698,788
<b>Total Current Liabilities</b>	<b>6,221,740</b>	<b>655,990</b>	<b>5,481</b>	<b>-</b>	<b>6,883,211</b>	<b>6,778,667</b>
Noncurrent Liabilities:						
Advances from other funds	-	33,585,050	-	(33,585,050)	-	-
Total OPEB liability	8,946,363	174,934	-	-	9,121,297	10,916,477
Net pension liability	11,420,129	106,305	-	-	11,526,434	11,480,941
Long-term liabilities, due in more than one year	9,506,405	-	-	-	9,506,405	9,842,433
<b>Total Noncurrent Liabilities</b>	<b>29,872,897</b>	<b>33,866,289</b>	<b>-</b>	<b>(33,585,050)</b>	<b>30,154,136</b>	<b>32,239,851</b>
<b>Total Liabilities</b>	<b>36,094,637</b>	<b>34,522,279</b>	<b>5,481</b>	<b>(33,585,050)</b>	<b>37,037,347</b>	<b>39,018,518</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred inflows - OPEB related	3,196,699	58,063	-	-	3,254,762	1,266,395
Deferred inflows - pension related	593,267	11,961	-	-	605,228	494,805
<b>Total Deferred Outflows of Resources</b>	<b>3,789,966</b>	<b>70,024</b>	<b>-</b>	<b>-</b>	<b>3,859,990</b>	<b>1,761,200</b>
<b>NET POSITION</b>						
Net investment in capital assets	133,891,983	16,002,503	4,894,788	-	154,789,274	157,905,111
Unrestricted	50,267,343	(31,129,034)	3,351,310	-	22,489,619	22,786,931
<b>Total Net Position</b>	<b>\$ 184,159,326</b>	<b>\$ (15,126,531)</b>	<b>\$ 8,246,098</b>	<b>\$ -</b>	<b>\$ 177,278,893</b>	<b>\$ 180,692,042</b>

**VICTORVILLE WATER DISTRICT**  
**Combining Schedule of Revenues, Expenses and Changes in Net Position**  
**Year ended June 30, 2019**  
**(with comparative data for the year ended June 30, 2018)**

	Water	Victorville	Reclaimed	Eliminations	Total	
		Wastewater Reclamation Facility			Water	2019
<b>Operating Revenues:</b>						
Utility sales	\$ 18,822,492	\$ 4,550,506	\$ 423,075	\$ -	\$ 23,796,073	\$ 21,389,682
Meter and service fees	6,873,891	-	-	-	6,873,891	6,623,891
Pass-thru charges	278,000	-	-	-	278,000	366,165
Fines and forfeitures	329,388	-	-	-	329,388	314,477
Arsenic surcharge	252,212	-	-	-	252,212	248,150
Other	123,713	166,409	-	-	290,122	2,068,429
<b>Total Operating Revenues</b>	<b>26,679,696</b>	<b>4,716,915</b>	<b>423,075</b>	<b>-</b>	<b>31,819,686</b>	<b>31,010,794</b>
<b>Operating Expenses:</b>						
Personnel services	9,941,101	172,537	93,774	-	10,207,412	10,483,762
Maintenance and operations	14,649,288	3,783,396	47,041	-	18,479,725	12,817,230
Production costs	4,001,553	-	4,423	-	4,005,976	3,364,110
Pass-thru production costs	278,000	-	-	-	278,000	366,165
Depreciation	5,942,205	1,228,219	175,562	-	7,345,986	7,414,827
<b>Total Operating Expenses</b>	<b>34,812,147</b>	<b>5,184,152</b>	<b>320,800</b>	<b>-</b>	<b>40,317,099</b>	<b>34,446,094</b>
<b>Operating Income (Loss)</b>	<b>(8,132,451)</b>	<b>(467,237)</b>	<b>102,275</b>	<b>-</b>	<b>(8,497,413)</b>	<b>(3,435,300)</b>
<b>Nonoperating Revenues (Expenses):</b>						
Taxes	851,723	-	-	-	851,723	850,520
Investment income	1,852,513	40,639	46,433	(833,568)	1,106,017	566,060
Interest expense	(445,464)	(833,568)	-	833,568	(445,464)	(459,386)
Loss on disposal of assets	-	-	-	-	-	(29,341)
Other nonoperating expenses	(132,750)	(214,552)	-	-	(347,302)	(2,438)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>2,126,022</b>	<b>(1,007,481)</b>	<b>46,433</b>	<b>-</b>	<b>1,164,974</b>	<b>925,415</b>
<b>Income (Loss) before Capital Contributions</b>	<b>(6,006,429)</b>	<b>(1,474,718)</b>	<b>148,708</b>	<b>-</b>	<b>(7,332,439)</b>	<b>(2,509,885)</b>
<b>Capital Contributions:</b>						
Connection fees	1,467,137	907,688	-	-	2,374,825	1,569,962
Alternate water source fees	-	-	520,738	-	520,738	432,388
Capital restricted use fees	-	586,632	-	-	586,632	635,518
Contributions from the City of Victorville	-	-	-	-	-	239,483
<b>Total Capital Contributions</b>	<b>1,467,137</b>	<b>1,494,320</b>	<b>520,738</b>	<b>-</b>	<b>3,482,195</b>	<b>2,877,351</b>
<b>Change in Net Position</b>	<b>(4,539,292)</b>	<b>19,602</b>	<b>669,446</b>	<b>-</b>	<b>(3,850,244)</b>	<b>367,466</b>
<b>Net Position at Beginning of Year, as Restated</b>	<b>188,698,618</b>	<b>(15,146,133)</b>	<b>7,576,652</b>	<b>-</b>	<b>181,129,137</b>	<b>180,324,576</b>
<b>Net Position at End of Year</b>	<b>\$ 184,159,326</b>	<b>\$ (15,126,531)</b>	<b>\$ 8,246,098</b>	<b>\$ -</b>	<b>\$ 177,278,893</b>	<b>\$ 180,692,042</b>