

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

BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2017

VICTORVILLE WATER DISTRICT

Basic Financial Statements

Year ended June 30, 2017

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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, 2017, 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, 2017, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the District's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 22, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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

Other 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 February 12, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Irvine, California
February 12, 2018

VICTORVILLE WATER DISTRICT
Statement of Net Position
June 30, 2017
(with comparative data for June 30, 2016)

<u>Assets:</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and investments (note 2)	\$ 43,012,637	41,136,370
Cash and investments with fiscal agent (note 2)	978,955	3,132,518
Accounts receivable, net	4,683,907	2,969,149
Interest receivable	66,989	39,318
Due from other governments	31,718	26,278
Inventory	423,369	660,652
Total current assets	<u>49,197,575</u>	<u>47,964,285</u>
Noncurrent assets:		
Prepaid items	12,820	7,730
Advances to other funds (note 7)	31,713,214	33,044,118
Non-depreciable capital assets (note 3)	25,844,085	28,167,474
Depreciable capital assets, net (note 3)	142,025,624	144,773,124
Total noncurrent assets	<u>199,595,743</u>	<u>205,992,446</u>
Total assets	<u>248,793,318</u>	<u>253,956,731</u>
Deferred Outflow of Resources:		
Deferred outflow - pension contribution (note 9)	916,742	827,951
Deferred outflow - actuarial (note 9)	1,971,219	-
Deferred charge on refunding	-	95,313
Total deferred outflow of resources	<u>2,887,961</u>	<u>923,264</u>
Liabilities:		
Current liabilities:		
Accounts payable	3,648,501	2,035,305
Interest payable	198,981	233,210
Prepaid water connection fees	1,395,788	1,395,788
Deposits payable	1,678,348	1,663,028
Long-term liabilities, due within one year (note 4)	634,115	720,189
Total current liabilities	<u>7,555,733</u>	<u>6,047,520</u>
Noncurrent liabilities:		
Advances from other funds (note 7)	31,713,214	33,044,118
Net OPEB Liability (note 5)	3,286,280	2,423,280
Net pension liability (note 9)	9,777,304	7,425,085
Long-term liabilities, due in more than one year (note 4)	10,231,480	11,790,372
Total noncurrent liabilities	<u>55,008,278</u>	<u>54,682,855</u>
Total liabilities	<u>62,564,011</u>	<u>60,730,375</u>
Deferred Inflows of Resources:		
Deferred inflows - actuarial (note 9)	639,017	960,095
Total deferred outflows of resources	<u>639,017</u>	<u>960,095</u>
Net position:		
Net investment in capital assets	158,371,001	164,038,116
Restricted for capital asset construction	6,950,623	6,061,923
Restricted for debt service	5,030,319	3,807,520
Unrestricted	18,126,308	19,281,966
Total net position	<u>\$ 188,478,251</u>	<u>193,189,525</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, 2017
(with comparative data for June 30, 2016)

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Utility sales	\$ 18,867,209	14,879,655
Meter and service fees	6,331,129	8,112,025
Pass-thru charges	4,448,249	221,300
Fines and forfeitures	266,705	271,691
Other	<u>1,348,134</u>	<u>1,753,999</u>
Total operating revenues	<u>31,261,426</u>	<u>25,238,670</u>
Operating expenses:		
Personnel services	9,138,093	7,560,232
Maintenance and operations	12,832,157	11,308,714
Production costs	3,043,489	3,395,975
Pass-thru production costs	4,223,868	-
Depreciation	<u>9,893,980</u>	<u>10,175,996</u>
Total operating expenses	<u>39,131,587</u>	<u>32,440,917</u>
Operating income (loss)	<u>(7,870,161)</u>	<u>(7,202,247)</u>
Nonoperating revenues (expenses):		
Intergovernmental (noncapital)	811,445	247,618
Taxes	608,676	552,509
Investment income	326,368	806,896
Interest expense	(622,276)	(1,091,677)
Gain (loss) on disposition of assets	(106,651)	118,644
Arsenic surcharge	238,170	245,832
Other revenue (expenses)	<u>(324,755)</u>	<u>32,039</u>
Total nonoperating revenues (expenses)	<u>930,977</u>	<u>911,861</u>
Income (loss) before transfers and capital contributions	<u>(6,939,184)</u>	<u>(6,290,386)</u>
Capital contributions:		
Connection fees	1,013,963	1,756,469
Alternate water source fees	268,682	211,420
Capital restricted use fees	945,265	586,632
Contributions (to) from the City of Victorville (note 6)	<u>-</u>	<u>423,029</u>
Total capital contributions and transfers	<u>2,227,910</u>	<u>2,977,550</u>
Change in net position	(4,711,274)	(3,312,836)
Net position at beginning of year	<u>193,189,525</u>	<u>196,502,361</u>
Net position at end of year	<u>\$ 188,478,251</u>	<u>193,189,525</u>

See accompanying notes to the basic financial statements.

VICTORVILLE WATER DISTRICT
Statement of Cash Flows
Year ended June 30, 2017
(with comparative data for June 30, 2016)

	2017	2016
Cash flows from operating activities:		
Cash received from customers	\$ 29,556,898	28,205,600
Cash payments to employees for services	(8,283,727)	(7,308,093)
Cash payments to suppliers for goods and services	(16,219,801)	(13,753,228)
Net cash provided by (used for) operating activities	5,053,370	7,144,279
Cash flows from noncapital financing activities:		
Cash received from County of San Bernardino	608,676	552,509
Cash received from debt service assessments	811,445	247,618
Cash received from City of Victorville	-	423,029
Net cash provided by (used for) noncapital financing activities	1,420,121	1,223,156
Cash flows from capital and related financing activities:		
Cash received from the sale of capital assets	809	-
Cash payments to acquire capital assets	(4,823,900)	(4,840,482)
Principal paid on capital-related debt	(1,675,000)	(430,000)
Interest paid on capital-related debt	(551,393)	(1,091,901)
Net cash provided by (used for) capital and related financing activities	(7,049,484)	(6,362,383)
Cash flows from investing activities:		
Interest received on investments	298,697	787,923
Net cash provided by investing activities	298,697	787,923
Net increase in cash and cash equivalents	(277,296)	2,792,975
Cash and cash equivalents at beginning of year	44,268,888	41,475,913
Cash and cash equivalents at end of year	\$ 43,991,592	44,268,888
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (7,870,161)	(7,202,247)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	9,893,980	10,175,996
Arsenic surcharge	238,170	245,832
Nonoperating miscellaneous expense	1,796,504	2,586,560
(Increase) decrease in accounts receivable	(1,714,758)	371,804
(Increase) decrease in due from other governments	(5,440)	(7,111)
(Increase) decrease in inventory	237,283	(161,388)
(Increase) decrease in prepaid items	(5,090)	(6,330)
(Increase) decrease in deferred outflows	(2,060,010)	(118,165)
Increase (decrease) in accounts payable	1,613,196	842,089
Increase (decrease) in deposits payable	15,320	46,935
Increase (decrease) in OPEB obligation	863,000	699,350
Increase (decrease) in compensated absences	20,235	25,138
Increase (decrease) in net pension liability	2,352,219	670,279
Increase (decrease) in deferred inflows	(321,078)	(1,024,463)
Total adjustments	12,923,531	14,346,526
Net cash provided by (used for) operating activities	\$ 5,053,370	7,144,279
<u>Noncash capital, financing and investing activities</u>		
Gain (loss) on disposal of capital assets	\$ (106,651)	118,644

See accompanying notes to the basic financial statements.

VICTORVILLE WATER DISTRICT
Statement of Fiduciary Net Position
Fiduciary Fund (Agency Fund Type)
June 30, 2017
(with comparative data for June 30, 2016)

	2017	2016
<u>Assets:</u>		
Cash and investments (note 2)	\$ -	303,447
Due from City of Victorville	-	8,076
Total assets	\$ -	311,523
 <u>Liabilities:</u>		
Deposits payable	\$ -	311,523
Total liabilities	\$ -	311,523

See accompanying notes to the basic financial statements.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2017

(1) Summary of Significant Accounting Policies

(a) Description of the Reporting Entity

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

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

Basic Financial Statements

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

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

The District reports its activities as an enterprise fund (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. Operating expenses for the District include the cost of purchased water, cost of sales and services, administration expenses, and depreciation on capital assets. All expenses not meeting this definition are reported as non-operating expenses.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2017

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

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

Additionally, the District reports the following agency fund:

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

(c) Cash and Investments

Investments are reported in the accompanying balance sheet at fair value. Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

(d) Cash Equivalents

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

(e) Accounts Receivable, Net

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

(f) 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, 2017

(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. Telemetry equipment	5 years
6. Furniture and equipment	3-7 years
7. Vehicles	8-15 years

(h) Materials and Supplies

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

(i) Prepaid Expenses

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

(j) Deferred Outflows and Deferred Inflows of Resources

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

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

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2017

(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, 2017

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

(m) 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.

(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.

(o) 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.

(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 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, 2017

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

(p) Pensions, (Continued)

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD)	June 30, 2015
Measurement Date (MD)	June 30, 2016
Measurement Period (MP)	June 30, 2015 to June 30, 2016

(q) 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.”

(r) Prior Year Data

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

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2017

(2) Cash and Investments

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

Statement of Net Position:

Cash and investments	\$ 43,012,637
Cash and investments with fiscal agent	978,955
Total cash and investments	<u>\$ 43,991,592</u>

Cash and investments as of June 30, 2017, consist of the following:

Deposits with financial institutions	\$ 14,076,440
Investments	<u>29,915,152</u>
Total cash and investments	<u>\$ 43,991,592</u>

Investments Authorized by Debt Agreements

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

<u>Authorized Investment Type</u>	<u>Maximum Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Investment In One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	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, 2017

(2) Cash and Investments, (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturing (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
State investment pool	\$ 29,058,807	29,058,807	-	-	-
Held by bond trustee:					
Guaranteed investment contract *	816,500	-	-	-	816,500
Money market funds	39,845	39,845	-	-	-
Total	<u>\$ 29,915,152</u>	<u>29,098,652</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, 2017, FSA was not in default and the value of the collateral met the requirements.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2017

(2) Cash and Investments, (Continued)

Disclosures Relating to Credit Risk

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

Investment Type	Total	Minimum Legal Rating	Rating as of Year End	
			AAA	Not Rated
State investment pool	\$ 29,058,807	N/A	-	29,058,807
Held by bond trustee:				
Guaranteed investment contract	816,500	N/A	-	816,500
Money market funds	39,845	A	39,845	-
Total	<u>\$ 29,915,152</u>		<u>39,845</u>	<u>29,875,307</u>

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.

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.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2017

(2) Cash and Investments, (Continued)

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, 2017

(3) Capital Assets

Capital asset activity for the year ended June 30, 2017 is as follows:

	Balance at 7/1/2016	Additions	Deletions	Balance at 6/30/2017
Non-depreciable assets:				
Land	\$ 8,702,652	-	-	8,702,652
Intangibles - easements	232,978	-	-	232,978
Intangibles - water rights	12,678,475	-	-	12,678,475
Idle Assets	3,017,958	-	-	3,017,958
Construction in progress	3,535,411	654,176	(2,977,565)	1,212,022
Total non-depreciable assets	28,167,474	654,176	(2,977,565)	25,844,085
Depreciable assets:				
Buildings and improvements	27,284,379	507,894	-	27,792,273
Computer and communication	609,902	185,006	-	794,908
Furniture and equipment	34,833,245	1,206,383	(31,698)	36,007,930
Infrastructure	183,939,770	4,986,688	-	188,926,458
Intangibles - water related	2,022,685	97,000	(33,700)	2,085,985
Intangibles - software	1,388,907	-	-	1,388,907
Land improvements	542,570	-	-	542,570
Vehicles	3,267,988	164,783	(51,530)	3,381,241
Total depreciable assets	253,889,446	7,147,754	(116,928)	260,920,272
Less accumulated depreciation:				
Buildings and improvements	(7,204,699)	(846,494)	-	(8,051,193)
Computer and communication	(539,485)	(71,105)	-	(610,590)
Furniture and equipment	(20,830,046)	(3,296,417)	30,424	(24,096,039)
Infrastructure	(75,813,400)	(4,926,441)	-	(80,739,841)
Intangibles - water related	(1,113,757)	(284,522)	33,700	(1,364,579)
Intangibles - software	(1,099,849)	(261,670)	-	(1,361,519)
Land improvements	(179,514)	(54,257)	-	(233,771)
Vehicles	(2,335,572)	(153,074)	51,530	(2,437,116)
Total accumulated depreciation	(109,116,322)	(9,893,980)	115,654	(118,894,648)
Total depreciable assets, net	144,773,124	(2,746,226)	(1,274)	142,025,624
Capital assets, net	\$ 172,940,598	(2,092,050)	(2,978,839)	167,869,709

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2017

(4) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2017, is noted below:

	Balance at July 1, 2016	Additions	Retirements	Balance at June 30, 2017	Due Within One Year
Compensated Absences	\$ 367,698	398,463	(378,229)	387,932	292,922
Certificates of Participation (COP):					
1998 Certificate of Participator	1,355,000	-	(1,355,000)	-	-
2006 Certificate of Participator	10,680,000	-	(320,000)	10,360,000	335,000
COP Subtotals	12,035,000	-	(1,675,000)	10,360,000	335,000
Unamortized Discounts/Premiums	107,863	9,800	-	117,663	6,193
Total	\$ 12,510,561	408,263	(2,053,229)	10,865,595	634,115

Certificates of Participation:

1998 Certificates of Participation

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

The Certificates of Participation had a stated interest rates ranging from 4.10% to 5.00%. The annual debt service is a special limited obligation of the District payable from and secured by a pledge of and lien on the net revenues of the District. Principal and interest payments are due each August 1 and interest only payments are due each February 1. The Certificates of Participation were paid off as of June 30, 2017.

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, 2017 is \$10,360,000.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2017

(4) Long-Term Liabilities, (Continued)

The annual requirements to amortize outstanding debt of the District as of June 30, 2017, are as follows for each fiscal year ending June 30:

Year Ending June 30	Certificates of Participation	
	Principal	Interest
2018	\$ 335,000	471,023
2019	350,000	457,490
2020	365,000	443,190
2021	380,000	428,195
2022	395,000	412,403
2023-27	2,230,000	1,787,278
2028-32	2,775,000	1,229,700
2033-37	3,530,000	458,250
Subtotal	10,360,000	5,687,529
Discounts / Premiums	117,663	
Total	<u>\$ 10,477,663</u>	

(5) Other Post-Employment Benefits Plan

Plan Descriptions. 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.

Funding Policy. The contribution requirements of plan members and the District are established and may be amended by City Council. The contribution required to be made under City Council and labor agreement requirements is based on a pay-as-you-go basis (i.e., as medical insurance premiums become due). For the fiscal year ended June 30, 2017, the District contributed \$186,000 to the plan. The District has not established a trust that is administered by the District for the purpose of holding assets accumulated for plan benefits.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2017

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

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

	District Plan
Annual required contribution	\$ 1,119,000
Interest on net OPEB obligation	87,000
Adjustment to annual required contribution	(157,000)
Annual OPEB cost (expense)	1,049,000
Contributions made	(156,000)
Implied subsidy	(30,000)
Increase in net OPEB cost (expense)	863,000
Net OPEB obligation - beginning of year	2,423,280
Net OPEB obligation - end of year	\$ 3,286,280

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

Year Ended	Annual OPEB Cost	Actual Contribution	Percentage Contributed
6/30/2015	\$ 768,000	115,204	15.00%
6/30/2016	808,000	108,650	13.45%
6/30/2017	1,049,000	186,000	17.73%

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

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2017

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

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

The actuarial cost method used for this valuation is the Entry Age Normal (EAN) cost method. Under the EAN cost method, the Normal Cost for each participant is determined as a level percent of payroll throughout the participant's working lifetime. The Unfunded Actuarial Accrued Liability was amortized over a fixed 30-year period as a level percentage of payroll beginning with the 2009/10 fiscal year. The District has selected the discount rate (4.00%) and healthcare is assumed to increase between 7.5% and 5.5% per year for Non-Medicare plans and between 7.8% and 5.5% per year for Medicare plans for 5 years and 5.0% thereafter.

Schedule of Funding Progress

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

Actuarial Date	Actuarial Assets	Actuarial Accrued Liability Entry Age	Unfunded AAL (UAAL)	Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2012	\$ -	3,649,000	3,649,000	-	1,036,000	352.22%
6/30/2014	-	7,645,000	7,645,000	-	942,000	811.57%
6/30/2016	-	9,952,000	9,952,000	-	4,608,000	215.97%

(6) Contributions to/from the City of Victorville

During the year the District received transfers of \$311,522 from other governments. The District received \$311,522 from the City of Victorville in order to provide the District its portion of revenue generated by the Waste Water Treatment Facility recorded in the Sanitary District fund. The District also contributed \$322,367 of capital assets to the City of Victorville.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2017

(7) Interfund Receivables, Payables and Transfers

The composition of interfund balances as of June 30, 2017 is as follows:

Advances to/from other funds:

Fund Reporting Receivable	Fund Reporting Payable	Amount
Water Fund	Wastewater Reclamation Facility	\$ 31,713,214

(8) Net Investment in Capital Assets

The balance of net position that is invested in capital assets, net of related debt at June 30, 2017, consists of the following:

Capital assets, net	\$ 167,869,709
Capital debt not invested in capital assets	978,955
Certificates of participation	<u>(10,477,663)</u>
Net investment in capital assets	<u>\$ 158,371,001</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, 2017

(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, 2017, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date	January 1, 2013	January 1, 2013
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%

Actuarial Methods and Assumptions used to determine Total Pension Liability

For the measurement period ending June 30, 2016 (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	7.65%
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

¹ 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, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at the CalPERS website under Forms and Publications.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2017

(9) Pension Plan, (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.65 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 7.65 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 7.65 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.

Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. 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 (11-60 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 fund. 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 equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2017

(9) Pension Plan, (Continued)

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	51.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

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.

- (1) In determining a cost-sharing employer's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date. The risk pool's FNP subtracted from its total pension liability (TPL) determines the net pension liability (NPL) at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date. Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date.

Note: for purposes of FNP in this step (2) and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2014 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period.

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2017

(9) Pension Plan, (Continued)

- (3) The individual employer’s TPL, FNP and NPL are also calculated at the valuation date.
- (4) Two ratios are created by dividing the employer’s individual TPL and FNP from (3) by the amounts in step (1), the risk pool’s total TPL and FNP, respectively.
- (5) The employer’s TPL as of the measurement date is equal to the TPL generated in (2) multiplied by the TPL ratio generated in (4).

The employer’s FNP as of the measurement date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

- (6) The employer’s NPL at the measurement date is the difference between the TPL and FNP calculated in (5).

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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2015 (MD)	\$ 37,347,821	29,922,736	7,425,085
Balance at: 6/30/2016 (MD)	<u>39,845,189</u>	<u>30,067,885</u>	<u>9,777,304</u>
Net Changes during 2015-16	<u>\$ 2,497,368</u>	<u>145,149</u>	<u>2,352,219</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 7.65 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 (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate.

	Discount Rate - 1% 6.65%	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan’s Net Pension Liability	\$ 17,004,686	10,708,539	\$ 5,559,521

VICTORVILLE WATER DISTRICT

Notes to the Basic Financial Statements

Year ended June 30, 2017

(9) Pension Plan, (Continued)

Changes in Net Pension Liability

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

	Net Pension Liability
Balance at: 6/30/2016	\$ 7,425,085
Net Changes during 2016-2017	2,352,219
Balance at: 6/30/2017	\$ 9,777,304

For the measurement period ending June 30, 2016 (the measurement date), the District recognized a pension expense of \$887,872 for the Plan.

As of June 30, 2017, the District reports other amounts for the Plan as deferred outflows and deferred inflows of resources related to pension as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 916,742	-
Changes of Assumptions	-	(405,440)
Differences between Expected and Actual Experiences	-	(233,577)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	1,971,219	-
Total	\$ 2,887,961	(639,017)

Employer contributions subsequent to the measurement date reported as deferred outflows of resources in the amount of \$916,742 will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measure Period Ended June 30:	Deferred (Inflows) of Resources
2017	\$ 499,639
2018	119,107
2019	453,417
2020	260,039
2021	-
Thereafter	-

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

VICTORVILLE WATER DISTRICT
Combining Schedule of Net Position
June 30, 2017
(with comparative data for June 30, 2016)

	Victorville Wastewater Reclamation			2017	2016
	Water	Facility	Reclaimed Water		
Assets:					
Current assets:					
Cash and investments	\$ 41,856,018	(890,040)	2,046,659	43,012,637	41,136,370
Cash and investments with fiscal agent	978,955	-	-	978,955	3,132,518
Accounts receivable, net	3,971,452	724,751	(12,296)	4,683,907	2,969,149
Interest receivable	66,989	-	-	66,989	39,318
Due from other governments	31,718	-	-	31,718	26,278
Inventory	423,369	-	-	423,369	660,652
Total current assets	<u>47,328,501</u>	<u>(165,289)</u>	<u>2,034,363</u>	<u>49,197,575</u>	<u>47,964,285</u>
Noncurrent assets:					
Prepaid items	12,527	293	-	12,820	7,730
Advances to other funds	31,713,214	-	-	31,713,214	33,044,118
Non-depreciable capital assets	25,794,815	49,270	-	25,844,085	28,167,474
Depreciable capital assets, net	120,746,033	16,064,370	5,215,221	142,025,624	144,773,124
Total noncurrent assets	<u>178,266,589</u>	<u>16,113,933</u>	<u>5,215,221</u>	<u>199,595,743</u>	<u>205,992,446</u>
Total assets	<u>225,595,090</u>	<u>15,948,644</u>	<u>7,249,584</u>	<u>248,793,318</u>	<u>253,956,731</u>
Deferred Outflow of Resources:					
Deferred outflow - pension contribution	898,407	18,335	-	916,742	827,951
Deferred outflow - pension actuarial	1,934,655	36,564	-	1,971,219	-
Deferred charge on refunding	-	-	-	-	95,313
Total deferred outflow of resources	<u>2,833,062</u>	<u>54,899</u>	<u>-</u>	<u>2,887,961</u>	<u>923,264</u>
Liabilities:					
Current liabilities:					
Accounts payable	3,072,418	562,405	13,678	3,648,501	2,035,305
Interest payable	198,981	-	-	198,981	233,210
Prepaid water connection fees	1,395,788	-	-	1,395,788	1,395,788
Deposits payable	1,678,348	-	-	1,678,348	1,663,028
Long-term liabilities, due within one year	634,115	-	-	634,115	720,189
Total current liabilities	<u>6,979,650</u>	<u>562,405</u>	<u>13,678</u>	<u>7,555,733</u>	<u>6,047,520</u>
Noncurrent liabilities:					
Advances to other funds	-	31,713,214	-	31,713,214	33,044,118
Net OPEB Liability	3,286,280	-	-	3,286,280	2,423,280
Net pension liability	9,705,078	72,226	-	9,777,304	7,425,085
Long-term liabilities, due in more than one year	10,231,480	-	-	10,231,480	11,790,372
Total noncurrent liabilities	<u>23,222,838</u>	<u>31,785,440</u>	<u>-</u>	<u>55,008,278</u>	<u>54,682,855</u>
Total liabilities	<u>30,202,488</u>	<u>32,347,845</u>	<u>13,678</u>	<u>62,564,011</u>	<u>60,730,375</u>
Deferred Inflows of Resources:					
Deferred inflows - pension actuarial	626,381	12,636	-	639,017	960,095
Total deferred outflows of resources	<u>626,381</u>	<u>12,636</u>	<u>-</u>	<u>639,017</u>	<u>960,095</u>
Net position:					
Net investment in capital assets	137,042,140	16,113,640	5,215,221	158,371,001	164,038,116
Restricted for capital asset construction	4,606,207	-	2,344,416	6,950,623	5,227,435
Restricted for debt service	5,030,319	-	-	5,030,319	3,807,520
Unrestricted	50,920,617	(32,470,578)	(323,731)	18,126,308	20,116,454
Total net position	<u>\$ 197,599,283</u>	<u>(16,356,938)</u>	<u>7,235,906</u>	<u>188,478,251</u>	<u>193,189,525</u>

See accompanying notes to the basic financial statements.

VICTORVILLE WATER DISTRICT
Combining Schedule of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2017
(with comparative data for June 30, 2016)

	Victorville Wastewater Reclamation			Total	
	Water	Facility	Reclaimed Water	2017	2016
Operating revenues:					
Utility sales	\$ 15,129,926	3,603,271	134,012	18,867,209	14,879,655
Meter and service fees	6,331,129	-	-	6,331,129	8,112,025
Pass-thru charges	4,448,249	-	-	4,448,249	221,300
Fines and forfeitures	266,705	-	-	266,705	271,691
Other	1,348,134	-	-	1,348,134	1,753,999
Total operating revenues	<u>27,524,143</u>	<u>3,603,271</u>	<u>134,012</u>	<u>31,261,426</u>	<u>25,238,670</u>
Operating expenses:					
Personnel services	8,913,683	148,489	75,921	9,138,093	7,560,232
Maintenance and operations	8,920,803	3,859,064	52,290	12,832,157	11,308,714
Production costs	3,015,653	-	27,836	3,043,489	3,395,975
Pass-thru production costs	4,223,868	-	-	4,223,868	-
Depreciation	6,601,066	3,123,725	169,189	9,893,980	10,175,996
Total operating expenses	<u>31,675,073</u>	<u>7,131,278</u>	<u>325,236</u>	<u>39,131,587</u>	<u>32,440,917</u>
Operating income (loss)	<u>(4,150,930)</u>	<u>(3,528,007)</u>	<u>(191,224)</u>	<u>(7,870,161)</u>	<u>(7,202,247)</u>
Nonoperating revenues (expenses):					
Intergovernmental (noncapital)	811,445	-	-	811,445	247,618
Taxes	608,676	-	-	608,676	552,509
Investment income	317,083	1,816	7,469	326,368	806,896
Interest expense	(558,099)	(64,177)	-	(622,276)	(1,091,677)
Arsenic surcharge	238,170	-	-	238,170	245,832
Gain (loss) on disposition of assets	(106,651)	-	-	(106,651)	118,644
Other revenue (expenses)	(270,384)	-	(54,371)	(324,755)	32,039
Total nonoperating revenues (expenses)	<u>1,040,240</u>	<u>(62,361)</u>	<u>(46,902)</u>	<u>930,977</u>	<u>911,861</u>
Income (loss) before transfers and capital contributions	(3,110,690)	(3,590,368)	(238,126)	(6,939,184)	(6,290,386)
Capital contributions:					
Connection fees	747,940	266,023	-	1,013,963	1,756,469
Alternate water source fees	-	-	268,682	268,682	211,420
Capital restricted use fees	311,522	633,743	-	945,265	586,632
Transfer in	-	-	-	-	-
Transfers out	-	-	-	-	-
Contributions (to) from the City of Victorville	-	-	-	-	423,029
Total capital contributions and transfers	<u>1,059,462</u>	<u>899,766</u>	<u>268,682</u>	<u>2,227,910</u>	<u>2,977,550</u>
Change in net position	(2,051,228)	(2,690,602)	30,556	(4,711,274)	(3,312,836)
Net position at beginning of year	<u>199,650,511</u>	<u>(13,666,336)</u>	<u>7,205,350</u>	<u>193,189,525</u>	<u>196,502,361</u>
Net position at end of year	<u>\$ 197,599,283</u>	<u>(16,356,938)</u>	<u>7,235,906</u>	<u>188,478,251</u>	<u>193,189,525</u>

See accompanying notes to the basic financial statements.