Victor Valley Wastewater Reclamation Authority

Taking the Waste Out of Wastewater

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2016 and 2015

20111 Shay Rd.,Victorville, CA 92394

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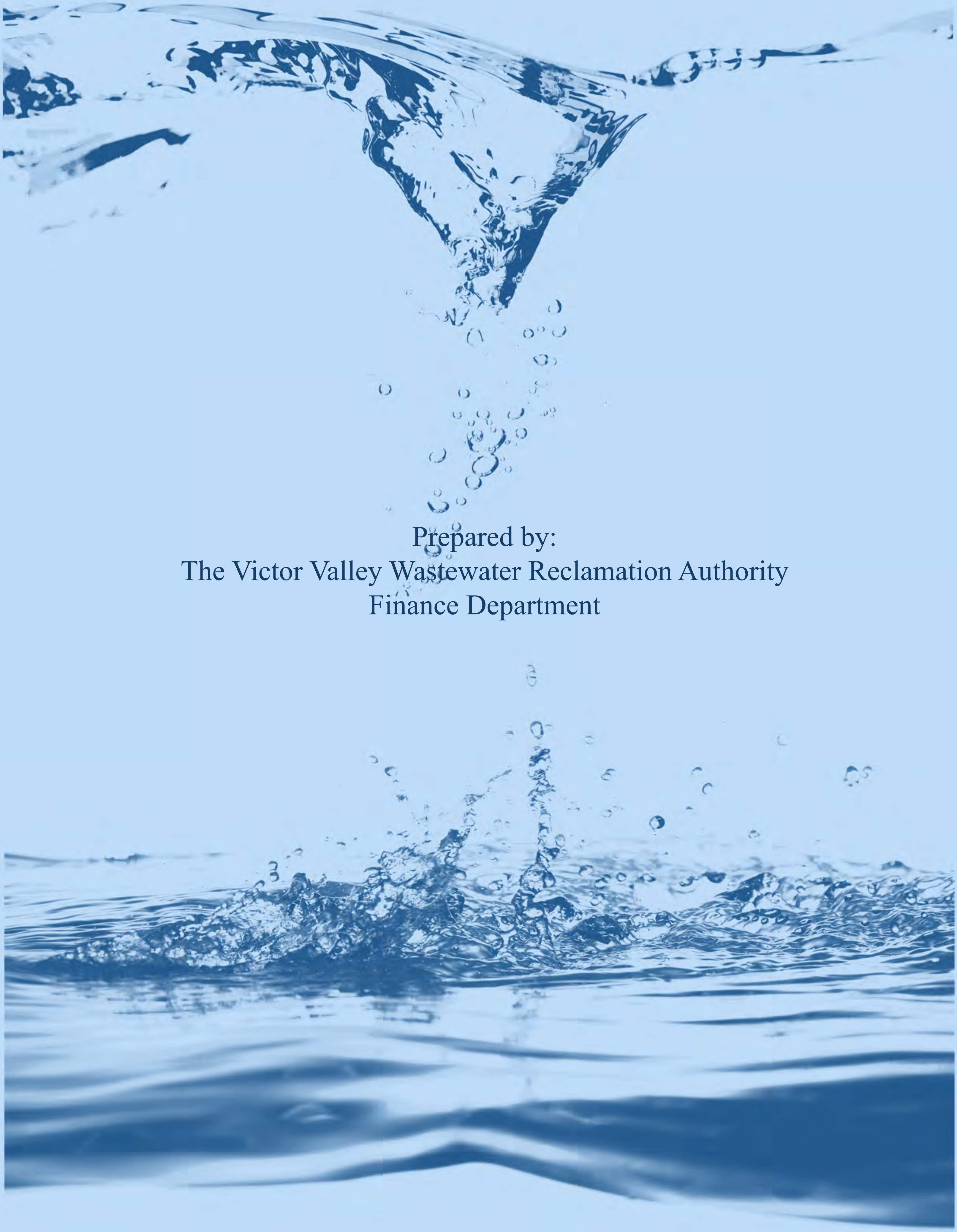

Prepared by:
The Victor Valley Wastewater Reclamation Authority
Finance Department

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Victor Valley Wastewater Reclamation Authority
Annual Financial Report
For the Fiscal Years Ended June 30, 2016 and 2015

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Victor Valley Wastewater Reclamation Authority
Annual Financial Report
For the Fiscal Years Ended June 30, 2016 and 2015

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Introductory Section

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Victor Valley Wastewater Reclamation Authority
A Joint Powers Authority and Public Agency of the State of California

20111 Shay Rd. Victorville, CA 92394
Telephone: (760) 246-8638
Fax: (760) 246-2898

December 8, 2016

To the Board of Commissioners and Member Agencies served by the Victor Valley Wastewater Reclamation Authority:

It is our pleasure to present the Victor Valley Wastewater Reclamation Authority's (the Authority) Comprehensive Annual Financial Report for the years ended June 30, 2016 and 2015.

The report was prepared by the Authority's Finance Department following guidelines recommended by the Governmental Accounting Standards Board and generally accepted accounting principles (GAAP). Responsibility for the accuracy of the data presented, completeness and fairness of the presentation, including disclosures, rests with the Authority. We believe the data, as presented, is accurate in all material respects and that it is presented in a manner to provide a fair representation of the financial position and results of operations of the Authority. We believe all disclosures are necessary to enhance your understanding of the financial condition of the Authority.

The Authority's financial statements have been audited by Fedak & Brown LLP, a firm of licensed Certified Public Accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the Authority for the years ended June 30, 2016 and 2015 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The auditors concluded, based on the audit, that there was a reasonable basis for rendering an unmodified opinion that the Authority's financial statements for the years ended June 30, 2016 and 2015 are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section on this report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). The letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Authority's MD&A can be found immediately following the report of the independent audit firm in the financial section.

Reporting Entity and Its Services

History

Operating since 1977, the Authority was originally formed by the Mojave Water Agency to help meet the requirements of the Federal Clean Water Act and provide wastewater treatment for the growing area. The original treatment plant, with supporting pipelines and infrastructure, began operating in 1981, providing tertiary level treatment for up to 4.5 million gallons per day.

The Authority is a Joint Power public agency of the State of California. Over the years, the Authority has completed treatment plant upgrades and several capacity increases. Such capacity increase is demonstrated by construction of two treatment plants, one in the Town of Apple Valley and the other in the City of Hesperia. The regional treatment plant is currently treating all flow to a tertiary level as recycled water for reuse. A majority of the highly recycled water is discharged into the Mojave River Basin and a smaller amount is currently used to irrigate landscaping at the treatment plant and the nearby Victorville power plant.

Blower pipeline installation completed

Governance

The Joint Power is a quasi-governmental agency of the State of California. The Public Utilities Commission does not regulate this agency but rather a Board of four Commissioners governs the agency. The Board members are publicly elected for a four-year term from each Member Agency. A joint powers agreement binds the Authority's affairs between the Authority and member local government agencies consisting of the City of Victorville, City of Hesperia, Town of Apple Valley and County of San Bernardino Special District, Service Areas No. 42 (Oro Grande) and No. 64 (Spring Valley Lake) for the purpose of construction, operation, and maintenance of sewer treatment facilities within the service areas. The General Manager is responsible for carrying out the policies and ordinances of the Board and for overseeing the day-to-day operations of the Authority.

Mission

The mission of the Victor Valley Wastewater Reclamation Authority is:

- To cost-effectively provide professional, competent wastewater treatment, reclamation, recycling, and reuse.
- To maintain the environment by providing clean effluent to the community.
- To provide service to our customers, and
- To keep the public informed.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when considered from the broader perspective of the specific environment within which the Authority operates. The major factors include (1) local economy and (2) flow diversion addressed by a member agency.

Local Economy

A significant portion of the local economy depends on affordable housing, which will entice commuters to the High Desert. Dwindling housing development has impacted new applications to connect to our sewer system that caused the reduction of connection fees.

In order to invite businesses and commuters to the High Desert, various projects have been under way. Notable projects include the industrial base at the Southern California Logistics Airport (SCLA), the I-15 corridor project for the City of Hesperia and the undeveloped industrial zone, the largest in California, in the Town of Apple Valley. These projects will require wastewater treatments. Our hope is that reclaimed water provided by the Authority will play a significant role in their creation and success.

Flow Diversion

During the current fiscal year, the Authority has experienced a flow diversion that one of its member entities announced on January 21, 2015. The flow diversion has resulted in a reduction of operating and capital income. In addition, growth in the region has not met the expectations of the adopted financial plan dated February 20, 2014.

Major Initiatives

The Authority is approaching the ending stage of significant capital expenditure projects to upgrade, rehabilitate and expand the interceptor sewer and construct the sub-regional water reclamation plants (sub-regionals).

The Authority projects the construction of two sub-regionals at the Town of Apple Valley and the City of Hesperia will complete in 2017. These sub-regionals will reduce the overall load on the collection system by creating recycled water, which is a valuable and increasingly important water source in the service region. In addition, these sub-regionals represent the first step in

Major Initiatives - continued

leading the community, businesses and industries to sustain the regional growth. The following pictures show the two sub-regionals at different construction progress stages.

Hesperia Sub-Regional Plant

Apple Valley Sub-Regional Plant

Relevant Financial Policies

The Authority has formally adopted the following financial policies:

Reserve Policy

The reserve policy requires the Authority have a minimum level of operating cash reserves throughout the year. That minimum level is set at a certain percentage of the approved fiscal year budget for operations and maintenance expenses. These reserves have been established to meet daily operation needs. The reserve policy guidelines enable restricted funds other than the operating fund set aside to deal with future infrastructure needs, replacement of aging facilities and various needs to cope with unexpected emergency occurrences. These reserves are critical to the Authority's financial strength.

Investment Policy

The Investment Policy establishes guidelines for the investment of available funds. The Investment Policy incorporates the Prudent Investor Standards. The primary objectives of the Authority's investment activities are, in a priority order: 1) safety, 2) liquidity, and 3) yield. The Authority's funds are invested in a variety of investments, in accordance with California government code as described in Note (2) of the Notes to the Financial Statements. The Authority minimizes interest rate risk by investing a greater portion of its funds in short term investments and minimizes credit risk by investing a majority of its funds in the highest rated investments or in diversified investment pools.

Accounting

The Finance Department is responsible for providing financial services for the Authority, including budgeting, financial accounting, reporting, payroll, accounts receivable and payable, custody and investment of funds, billing and collection of wastewater charges and permits. The Authority accounts for its activities as an enterprise fund and prepares its financial statements on the accrual basis of accounting, under which revenues are recognized when earned and expenses are recorded when incurred. It is the intent of the Board of Commissioners to manage the Authority's operations as a business, matching revenues against the costs of providing the services.

Internal Controls

The Authority operates within a system of internal accounting controls designed and continually reviewed by management to provide reasonable assurance that assets are adequately safeguarded and transactions are recorded in conformity with the Authority policies and procedures. The management implements and maintains the controls for which its value of the benefits exceeds the costs. Recent audits have not noted any weaknesses in internal controls. See pages 55 and 56 for the auditor's report.

Budgetary Controls

Although the Authority is not legally required to adopt and adhere to a budget, the Board of Commissioners has chosen to approve an annual budget as a management tool. The budget is developed with input from the various departments of the Authority and adopted prior to the start of each fiscal year.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Victor Valley Wastewater Reclamation Authority for its comprehensive annual financial report (CAFR) for the year ended June 30, 2015. The Authority has won this prestigious award consecutively since June 30, 2010. In order to be awarded a Certificate of Achievement, a governmental agency must publish an easily readable and efficiently organized CAFR. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. The Certificate of Achievement is valid for a period of one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate for the year ended June 30, 2016.

Preparation of this report was accomplished by the combined efforts of the Finance Department staff. We appreciate the dedicated efforts and professionalism that our staff members bring to the Authority and thank the independent accounting firm of Fedak & Brown LLP for their effort to prepare the report. We also thank the members of the Board of Commissioners for their continued interest and support in the planning and implementation of the financial management.

Respectfully submitted,

Logan Olds
General Manager

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Victor Valley Wastewater Reclamation Authority, California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2015

Jeffrey R. Emer

Executive Director/CEO

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Victor Valley Wastewater Reclamation Authority

Board of Commissioners and Management

As of June 30, 2016

Board of Commissioners 2016

Name	Title	Elected/ Appointed	Member Agency
Scott Nassif	Chair	Appointed	Town of Apple Valley
James Kennedy	Vice-Chair	Appointed	City of Victorville
Russ Blewett	Secretary	Appointed	City of Hesperia
Jeffrey Rigney	Treasurer	Appointed	County of San Bernardino, Special Districts

Management

Logan Olds, General Manager

20111 Shay Road
Victorville, California 92394
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The Mission of the
Victor Valley Wastewater Reclamation Authority
Is…

To cost-effectively provide professional, competent wastewater treatment, reclamation, recycling, and reuse,
To maintain the environment by providing clean effluent to the community,
To provide a service to our customers, and
To keep the public informed.

By…

Selecting quality employees,
Effectively communicating at all levels,
Providing effective training,
Encouraging participation in water and wastewater organizations,
Working together as a ‘TEAM’, and
Providing the budget for projects and personnel.

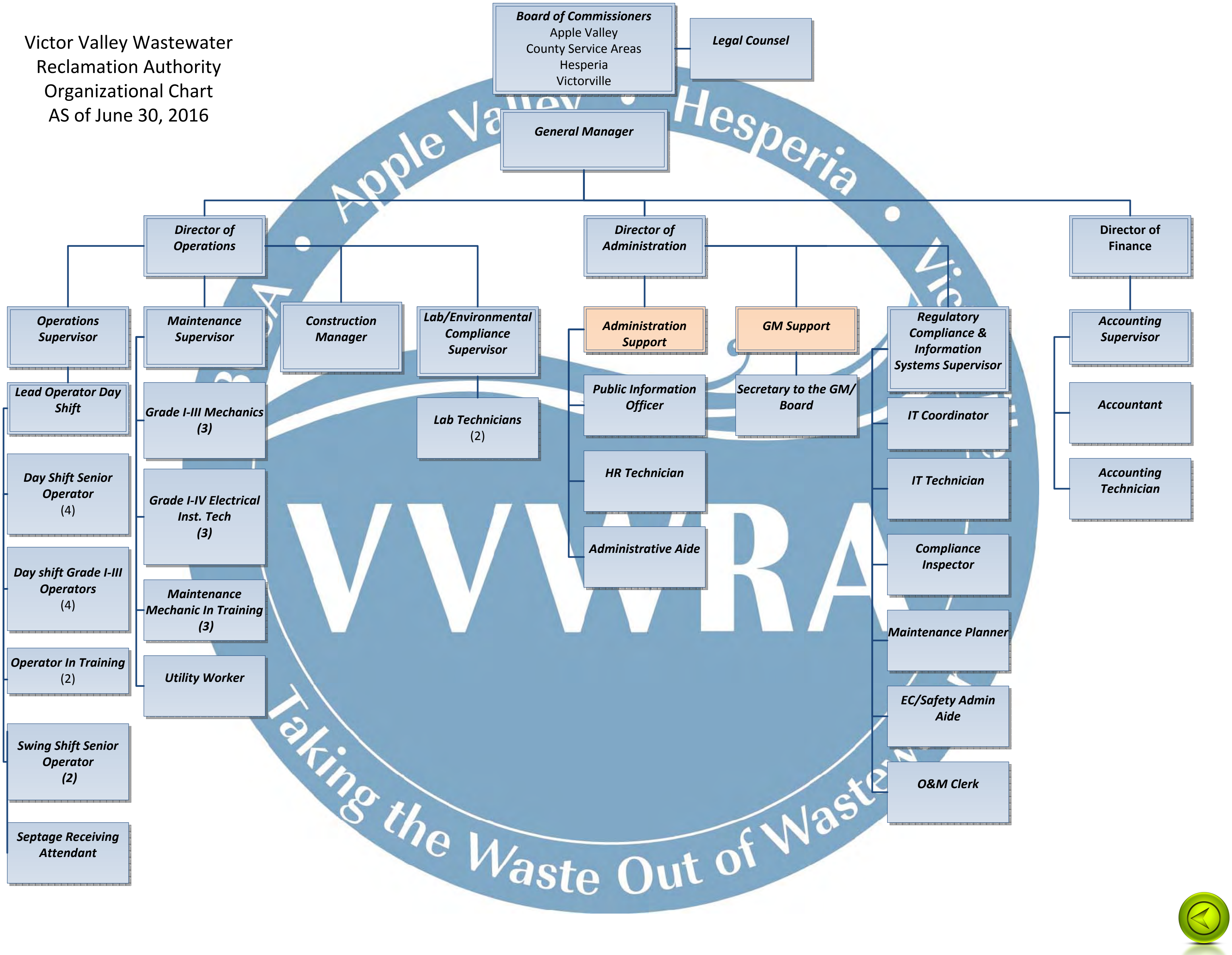
Motivated by…

Creating and maintaining a positive work environment,
Recognizing individual and group efforts, and
Providing competitive pay and benefits.

Measured by…

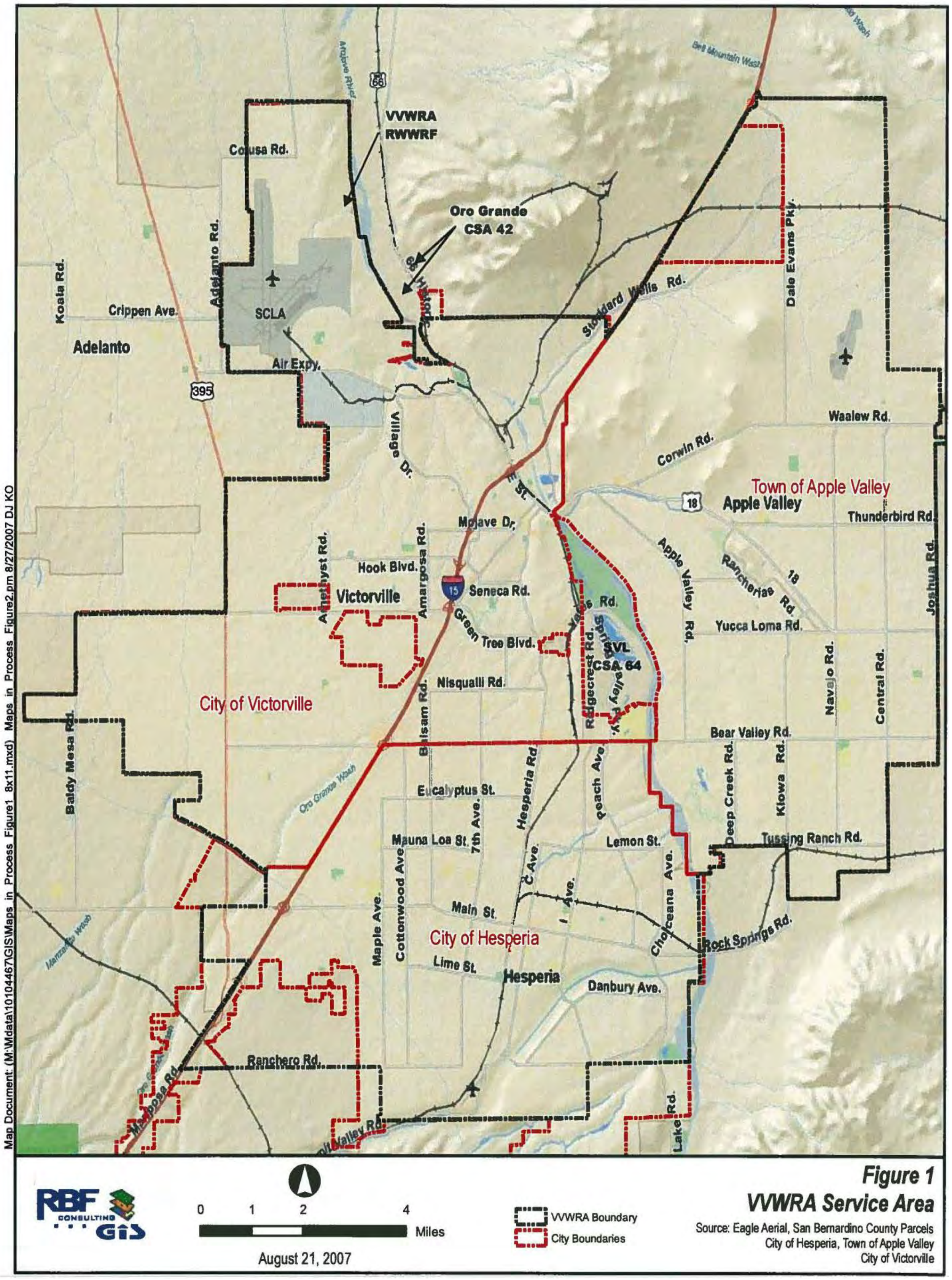
Meeting budgetary goals,
Meeting the standards for regulatory compliance,
The successful completion of projects,
Employee retention, and
A cooperative effort during emergencies.

Victor Valley Wastewater
Reclamation Authority
Organizational Chart
AS of June 30, 2016



Victor Valley Wastewater Reclamation Authority

Service Area Map



Financial Section

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Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
Jonathan P. Abadesco, CPA

Fedak & Brown LLP
Certified Public Accountants

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Independent Auditor's Report

Board of Commissioners
Victor Valley Wastewater Reclamation Authority
Hesperia, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Victor Valley Wastewater Reclamation Authority (Authority), which comprises the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audits. We conducted our audits 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; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Victor Valley Wastewater Reclamation Authority as of June 30, 2016 and 2015, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, Continued

Emphasis of a Matter

As described in note 1 to the financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72 – *Fair Value Measurement and Application* and early implementation of Statement No. 79 – *Certain External Investment Pools and Pool Participants*, for the year ended June 30, 2016; and GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions* and No. 71 – *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68,* for the year ended June 30, 2015. Our opinion is not modified with respect to these matters.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 9 and the required supplementary information on pages 49 through 51 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 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matters

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements as a whole. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information of combining schedules on pages 52 through 54 are presented for purposes of additional analysis and are not required parts of the basic financial statements. The supplementary information of combining schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Independent Auditor's Report, Continued

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 8, 2016, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Authority's internal control over financial reporting and compliance. This report can be found on pages 55 and 56.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
December 8, 2016

As management of Victor Valley Wastewater Reclamation Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended June 30, 2016 and 2015. We encourage readers to consider the information presented here in conjunction with the preceding Independent Auditor's Report, and the accompanying basic financial statements and notes to the financial statements.

Financial Highlights

- The Authority's net position increased 6.4% or $7,686,678 to $127,511,632 in fiscal year 2016, due primarily to capital contributions of $14,346,524 related to current construction projects offset by a $6,659,846 decrease related to on-going operations. In 2015, the Authority's net position increased 17.8% or $18,100,341 to $119,824,954, due primarily to capital contributions of $27,596,273 related to ongoing construction projects offset by decreases of $6,279,524 due to that year's operations and $3,216,408 related to the adoption of GASB 68. See note 13 for further information).
- The Authority's total revenues increased 3.5% or $417,474 in fiscal year 2016, due primarily to an increase of $454,598 in operating revenues, which were offset by a decrease of $37,124 in non-operating revenue. In 2015, the authority's total revenues increased 5.5% or $618,332, due primarily to an increase of $715,847 in operating revenues, which were offset by a decrease of $97,515 in non-operating revenues.
- The Authority's total expenses increased 4.4% or $797,796 in fiscal year 2016, due primarily to an increase of $1,061,439 in operating expenses which were offset by decreases of $142,949 in depreciation expenses, and $120,694 in non-operating expenses. In 2015, the authority's total expenses decreased 0.01% or $1,403, due primarily to a decrease of $199,851 in non-operating expenses, which were offset by increases of $176,126 in depreciation expense and $22,322 in operating expenses.

Required Financial Statements

This annual report consists of a series of financial statements. The Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows provide information about the activities and performance of the Authority using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the Authority's investments in resources (assets) and deferred outflows of resources and the obligations to creditors (liabilities) and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the Authority's operations over the past year and can be used to determine if the Authority has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the Authority's cash receipts and cash payments during the reporting period.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the Authority

One of the most important questions asked about the Authority's finances is, "Is the Authority better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority in a way that helps answer this question.

These statements include all assets, deferred outflows of resources, and liabilities, deferred inflows of resources, using the *accrual basis of accounting*, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Authority's *net position* and changes in them. One can think of the Authority's net position – the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources – as one way to measure the Authority's financial health, or *financial position*. Over time, *increases or decreases* in the Authority's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation or accounting standards, as well as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 15 through 48.

Statements of Net Position

Condensed Statements of Net Position

	2016	As Restated 2015	Change	As Restated 2014	Change
Assets:					
Current assets	$ 23,914,513	21,341,659	2,572,854	17,672,250	3,669,409
Non-current assets	126,488	47,259	79,229	47,314	(55)
Capital asset, net	172,691,426	140,863,424	31,828,002	115,184,209	25,679,215
Total assets	196,732,427	162,252,342	34,480,085	132,903,773	29,348,569
Deferred outflows of resources:	1,160,894	474,343	686,551	-	474,343
Liabilities:					
Current liabilities	13,119,610	8,936,391	4,183,219	4,860,154	4,076,237
Non-current liabilities	56,820,348	33,039,947	23,780,401	26,319,006	6,720,941
Total liabilities	69,939,958	41,976,338	27,963,620	31,179,160	10,797,178
Deferred inflows of resources:	441,731	925,393	(483,662)	-	925,393
Net position:					
Net investment in capital assets	119,848,757	110,982,384	8,866,373	89,340,144	21,642,240
Restricted	6,367,601	3,150,314	3,217,287	2,322,650	827,664
Unrestricted	1,295,274	5,692,256	(4,396,982)	10,061,819	(4,369,563)
Total net position	$ 127,511,632	119,824,954	7,686,678	101,724,613	18,100,341

As noted earlier, net position may serve over time as a useful indicator of an organization's financial position. The assets and deferred outflows of the Authority exceeded liabilities and deferred inflows by $127,511,632 and $119,824,954 as of June 30, 2016 and June 30, 2015, respectively.

By far the largest portion of the Authority's net position (94% and 93% as of June 30, 2016 and 2015, respectively) reflects the Authority's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services to customers within the Authority's service areas.

Statements of Net Position, Continued

At the end of fiscal year 2016 and 2015, the Authority showed a positive balance in its unrestricted net position of $1,295,274 and $5,692,256, respectively. See note 12 for further discussion.

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2016	As Restated 2015	Change	As Restated 2014	Change
Revenue:					
Operating revenues	$ 12,305,439	11,850,841	454,598	11,134,994	715,847
Non-operating revenues	69,906	107,030	(37,124)	204,545	(97,515)
Total revenue	12,375,345	11,957,871	417,474	11,339,539	618,332
Expense:					
Operating expenses	11,174,660	10,113,221	1,061,439	10,090,899	22,322
Depreciation	6,645,579	6,788,528	(142,949)	6,612,402	176,126
Non-operating expenses	1,214,952	1,335,646	(120,694)	1,535,497	(199,851)
Total expense	19,035,191	18,237,395	797,796	18,238,798	(1,403)
Net income before capital contributions	(6,659,846)	(6,279,524)	(380,322)	(6,899,259)	619,735
Capital contributions:					
Capital grants	13,200,435	26,209,098	(13,008,663)	6,362,382	19,846,716
Connection fees	1,146,089	1,387,175	(241,086)	1,524,577	(137,402)
Total capital contributions	14,346,524	27,596,273	(13,249,749)	7,886,959	19,709,314
Changes in net position	7,686,678	21,316,749	(13,630,071)	987,700	20,329,049
Net position, beginning of year	119,824,954	101,724,613	18,100,341	100,736,913	987,700
Prior period adjustment	-	(3,216,408)	3,216,408	-	(3,216,408)
Net position, beginning of year – as restated	119,824,954	98,508,205	21,316,749	100,736,913	(2,228,708)
Net position, end of year	$ 127,511,632	119,824,954	7,686,678	101,724,613	18,100,341

A closer examination of the sources of changes in net position reveals that:

The Authority's net position increased 6.4% or $7,686,678 to $127,511,632 in fiscal year 2016, due primarily to capital contributions of $14,346,524 related to current construction projects offset by a $6,659,846 decrease related to on-going operations. In 2015, the Authority's net position increased 17.8% or $18,100,341 to $119,824,954, due primarily to capital contributions of $27,596,273 related to ongoing construction projects offset by decreases of $6,279,524 due to that year's operations and $3,216,408 related to the adoption of GASB 68. See note 13 for further information).

The Authority's total revenue increased 3.5% or $417,474 in fiscal year 2016, due primarily to an increase of $454,598 in operating revenues, which were offset by a decrease of $37,124 in non-operating revenue. In 2015, the authority's total revenue increased 5.5% or $618,332, due primarily to an increase of $715,847 in operating revenues, which were offset by a decrease of $97,515 in non-operating revenues.

The Authority's total expense increased 4.4% or $797,796 in fiscal year 2016, due primarily to an increase of $1,061,439 in operating expenses which were offset by decreases of $142,949 in depreciation expenses, and $120,694 in non-operating expenses. In 2015, the authority's total expense decreased 0.01% or $1,403, due primarily to a decrease of $199,851 in non-operating expenses, which were offset by increases of $176,126 in depreciation expense and $22,322 in operating expenses.

Total Revenues

	2016	As Restated 2015	Change	As Restated 2014	Change
Operating revenues:					
Wastewater service charges	$ 11,645,881	11,260,317	385,564	10,695,640	564,677
Septage receiving facility fees	604,958	538,367	66,591	390,682	147,685
Pretreatment permit fees	54,600	52,157	2,443	48,672	3,485
Total operating revenues	12,305,439	11,850,841	454,598	11,134,994	715,847
Non-operating revenue:					
Investment earnings	32,096	25,627	6,469	34,881	(9,254)
Gain on disposal of capital assets	-	-	-	102,914	(102,914)
Other revenues	37,810	81,403	(43,593)	66,750	14,653
Total non-operating revenues	69,906	107,030	(37,124)	204,545	(97,515)
Capital contributions:					
Capital grants	13,200,435	26,209,098	(13,008,663)	6,362,382	19,846,716
Connection fees	1,146,089	1,387,175	(241,086)	1,524,577	(137,402)
Total capital contributions	14,346,524	27,596,273	(13,249,749)	7,886,959	19,709,314
Total revenues	$ 26,721,869	39,554,144	(12,832,275)	19,226,498	20,327,646

In 2016, total revenues decreased by 32.4% or $12,832,275. As previously noted, operating revenues increased 3.8% or $454,598 primarily due to increases of $385,564 in wastewater service charges and $66,591 in septage receiving facility fees. Non-operating revenues decreased 34.7%, or $37,124, primarily due to decreases of $43,593 in other income, which was offset by an increase of $6,469 in investment earnings from prior year. Capital contributions decreased 48.0% or $13,249,749, primarily due to decreases of $13,008,663 in capital grants and $241,086 in connection fees.

In 2015, total revenues increased by 105.7% or $20,327,646. Operating revenues increased 6.4% or $715,847, primarily due to increases of $564,677 in wastewater service charges and $147,685 in septage receiving facility fees. Non-operating revenues decreased 47.7%, or $97,515, primarily due to a decrease of $102,914 in gain on disposal of asset, which was offset by an increase of $14,653 in other income from prior year. Capital contributions increased by 249.9% or $19,709,314, primarily due to an increase of $19,846,716 in capital grants, which was offset by a decrease of $137,402 in connection fees.

Total Expenses

	2016	As Restated 2015	Change	As Restated 2014	Change
Operating expenses:					
Salaries and benefits	$ 5,090,845	4,610,511	480,334	4,475,438	135,073
Maintenance	1,892,127	1,902,719	(10,592)	1,647,896	254,823
Operations	2,359,892	1,865,289	494,603	2,183,544	(318,255)
General and administration	1,831,796	1,734,702	97,094	1,784,021	(49,319)
Depreciation	6,645,579	6,788,528	(142,949)	6,612,402	176,126
Total operating expense	17,820,239	16,901,749	918,490	16,703,301	198,448
Non-operating expenses:					
Interest expense	620,214	603,524	16,690	686,422	(82,898)
Settlement expense	-	-	-	25,009	(25,009)
Flood damage expense	594,738	732,122	(137,384)	824,066	(91,944)
Total non-operating expenses	1,214,952	1,335,646	(120,694)	1,535,497	(199,851)
Total expenses	$ 19,035,191	18,237,395	797,796	18,238,798	(1,403)

Total Expenses, Continued

In 2016, the Authority's total expenses increased by 4.4% or $797,796. The Authority's total operating expenses increased 5.4%, or $918,940, primarily due to increases of $494,603 in operations expenses, $480,334 in salaries and benefits expenses and $97,094 in general and administrative expenses, which were offset by decreases of $142,949 in depreciation expense and $10,592 in maintenance expenses.

In 2016, the Authority's non-operating expenses decreased 9.0%, or $120,694, primarily due to decreases of $137,384 in flood damage expense, which was offset by an increase of $16,690 in interest expense.

In 2015, the Authority's total expenses decreased by 0.01% or $1,403. The Authority's total operating expenses increased 1.2%, or $198,448, primarily due to increases of $254,823 in maintenance expenses, $176,126 in depreciation expense and $135,073 in salaries and benefits, which were offset by decreases of $318,255 in operations expenses and $49,319 in general and administrative expense.

In 2015, the Authority's non-operating expenses decreased 13.0%, or $199,851, primarily due to decreases of $82,898 in interest expense, $91,944 in flood damage expense and $25,009 in settlement expense.

Capital Asset Administration

At the end of fiscal years 2016 and 2015, the Authority's investment in capital assets amounted to $172,691,426 and $140,863,424 (net of accumulated depreciation), respectively. This investment in capital assets includes land improvements, sewer collection and pipeline system, buildings and structures, equipment, vehicles and construction in progress, etc. Major capital assets additions during the year included $209,428 to land improvements, and $642,992 to plant and building. Construction in progress increased by the amount of $38,291,431, related primarily to the ongoing project construction of the Upper Narrows Pipeline Replacement project, the sub-regional wastewater reclamation plants in Hesperia and Apple Valley, which will add treatment capacity and meet new regulatory requirements, and the Biogas project, which was completed and transferred to plant and building within depreciable assets. See note 6 for more details related to capital assets.

Changes in capital assets in 2016 were as follows:

	Balance 2015	Additions	Disposals/ Transfers	Balance 2016
Capital assets:				
Non-depreciable assets	$ 43,271,946	38,291,431	(906,642)	80,656,735
Depreciable assets	170,248,091	1,088,792	-	171,336,883
Accumulated depreciation	(72,656,613)	(6,645,579)	-	(79,302,192)
Total capital assets	$ 140,863,424	32,734,644	(906,642)	172,691,426

Changes in capital assets in 2015 were as follows:

	Balance 2014	Additions	Disposals/ Transfers	Balance 2015
Capital assets:				
Non-depreciable assets	$ 12,610,376	32,313,435	(1,651,865)	43,271,946
Depreciable assets	168,441,918	1,806,173	-	170,248,091
Accumulated depreciation	(65,868,085)	(6,788,528)	-	(72,656,613)
Total capital assets	$ 115,184,209	27,331,080	(1,651,865)	140,863,424

Debt Administration

Changes in long-term debt amounts for 2016 were as follows:

		Balance 2015	Additions	Principal Payments	Balance 2016
Long-term debt:					
Loans payable	$	29,881,040	24,602,498	(1,640,869)	52,842,669
Total loans payable	$	29,881,040	24,602,498	(1,640,869)	52,842,669

Changes in long-term debt amounts for 2015 were as follows:

		Balance 2014	Additions	Principal Payments	Balance 2015
Long-term debt:					
Loans payable	$	25,844,065	5,612,672	(1,575,697)	29,881,040
Total loans payable	$	25,844,065	5,612,672	(1,575,697)	29,881,040

The Authority has eight State Revolving Fund loans from the State Water Resources Control Board and two Southern California Edison loans. These loans are for the purpose of financing construction related costs for the 9.5 MGD Improvement Project, the 11 MGD Expansion Project, the North Apple Valley Interceptor, the Phase III-A facility, the Sub-Regional facility construction projects in Hesperia, and Apple Valley, the Upper Narrows Reach E004 construction project, the Nanticoke Gravity Interceptor construction project, and the Aeration Efficiency project. These low interest loans are payable in 20 annual payments maturing in fiscal years 2020 through 2047. Additional information regarding long-term debt is located in note 9 of the Notes to Financial Statements.

Conditions Affecting Current Financial Position

The Authority has been working closely with the four Member Agencies to complete a long-term financial plan which includes the Capital Improvement Plan and the associated funding. The financial plan includes debt financing as an element to upgrade the facilities that will benefit the residents of the communities served, thus allowing the Authority to continue its mission to maintain the environment and provide professional, competent wastewater treatment, reclamation, recycling, and reuse.

During the current fiscal year, the Authority experienced a flow diversion that one of its member entities announced on January 21, 2015. The flow diversion has resulted in a reduction of operating and capital income. In addition, growth in the region has not met the expectations of the adopted financial plan dated February 20, 2014.

At June 30, 2016, Management is unaware of any other conditions, beyond the aforementioned, which could have a significant impact on the Authority's current financial position, net assets or operating results based on past, present and future events.

Requests for Information

This financial report is designed to provide the Authority's funding sources, customers, stakeholders and other interested parties with an overview of the Authority's financial operations and financial condition. Questions concerning any of the information provided in the report or requests for additional information should be addressed to the Authority's Finance Department at 20111 Shay Road, Victorville, California 92394.

Basic Financial Statements

Victor Valley Wastewater Reclamation Authority
Statements of Net Position
For the Fiscal Years Ended June 30, 2016 and 2015

		2016	As Restated 2015
Current assets:			
Cash and equivalents (note 2)	$	3,927,378	4,971,381
Restricted – cash and equivalents (note 2)		5,872,240	3,013,791
Interest receivable		5,221	4,279
Accounts receivable, net		132,037	99,970
Accounts receivable – due from member agencies (note 3)		1,757,597	1,741,508
Accounts receivable – other (note 4)		25,160	39,880
Accounts receivable – loans (note 9)		6,427,418	5,495,373
Accounts receivable – grants		5,523,151	5,787,273
Note receivable, net (note 5)		5,853	-
Materials and supplies inventory		83,957	67,972
Prepaid expenses and other deposits		154,501	120,232
Total current assets		23,914,513	21,341,659
Non-current assets:			
Investment in common stock (note 2)		-	47,259
Note receivable, net (note 5)		126,488	-
Capital assets not being depreciated (note 6)		80,656,735	43,271,946
Capital assets being depreciated, net (note 6)		92,034,691	97,591,478
Total non-current assets		172,817,914	140,910,683
Total assets		196,732,427	162,252,342
Deferred outflows of resources:			
Pension related outflows (note 11)		1,160,894	474,343
Total deferred outflows of resources:	$	1,160,894	474,343

Continued on next page

See accompanying notes to the basic financial statements

Victor Valley Wastewater Reclamation Authority
Statements of Net Position, Continued
For the Fiscal Years Ended June 30, 2016 and 2015

		2016	As Restated 2015
Current liabilities:			
Accounts payable and accrued expenses	$	11,022,977	7,046,704
Accrued wages and related payables		167,430	133,120
Accrued interest on long-term debt		52,498	61,601
Long-term liabilities – due within one year:			
Compensated absences (note 7)		79,325	67,537
Other payables (note 8)		6,852	6,852
Loans payable (note 9)		1,790,528	1,620,577
Total current liabilities		13,119,610	8,936,391
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 7)		237,974	202,610
Other payables (note 8)		29,086	35,938
Loans payable (note 9)		51,052,141	28,260,463
Other post employment benefits payable (note 10)		1,332,084	1,217,620
Net pension liability (note 11)		4,169,063	3,323,316
Total non-current liabilities:		56,820,348	33,039,947
Total liabilities		69,939,958	41,976,338
Deferred inflows of resources:			
Pension related inflows (note 11)		441,731	925,393
Total deferred inflows of resources:		441,731	925,393
Net position: (note 12, 13)			
Net investment in capital assets		119,848,757	110,982,384
Restricted for capital projects		3,977,686	1,019,633
Restricted for debt service		2,389,915	2,130,681
Unrestricted		1,295,274	5,692,256
Total net position	$	127,511,632	119,824,954

See accompanying notes to the basic financial statements

Victor Valley Wastewater Reclamation Authority
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2016 and 2015

	2016	As Restated 2015
Operating revenues:		
Wastewater service charges	$ 11,645,881	11,260,317
Septage receiving facility fees	604,958	538,367
Pretreatment permit fees	54,600	52,157
Total operating revenues	12,305,439	11,850,841
Operating expenses:		
Salaries and benefits	5,090,845	4,610,511
Maintenance	1,892,127	1,902,719
Operations	2,359,892	1,865,289
General and administration	1,831,796	1,734,702
Total operating expense	11,174,660	10,113,221
Operating income (loss) before depreciation expense	1,130,779	1,737,620
Depreciation	(6,645,579)	(6,788,528)
Operating loss	(5,514,800)	(5,050,908)
Non-operating revenue (expense):		
Investment earnings	32,096	25,627
Interest expense	(620,214)	(603,524)
Other, net	37,810	81,403
Flood damage expense (note 14)	(594,738)	(732,122)
Total non-operating expense, net	(1,145,046)	(1,228,616)
Net loss before capital contributions	(6,659,846)	(6,279,524)
Capital contributions:		
Capital grants – Title 16	1,899,930	1,637,192
Capital grants – FEMA	1,917,208	19,635,860
Capital grants – State of California	7,668,645	4,908,965
Capital grants – Water Recycling Grant	1,714,652	27,081
Connection fees	1,146,089	1,387,175
Total contributed capital	14,346,524	27,596,273
Change in net position	7,686,678	21,316,749
Net position, beginning of year	119,824,954	101,724,613
Prior period adjustment (note 13)	-	(3,216,408)
Net position, beginning of year – as restated	119,824,954	98,508,205
Net position, end of year	$ 127,511,632	119,824,954

See accompanying notes to the basic financial statements

Victor Valley Wastewater Reclamation Authority
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2016 and 2015

	2016	As Restated 2015
Cash flows from operating activities:		
Cash receipts from customers	$ 12,288,092	11,868,418
Cash paid to employees for salaries and wages	(5,056,535)	(4,611,632)
Cash paid to vendors and suppliers for materials and services	(3,032,856)	(1,985,662)
Net cash provided by operating activities	4,198,701	5,271,124
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(38,474,526)	(32,467,930)
Proceeds from connection fees	1,146,089	1,387,175
Proceeds from grant funding	13,464,557	24,000,393
Proceeds from loans	23,670,453	3,353,831
Principal paid for long-term debt	(1,640,869)	(1,575,697)
Interest paid for long-term debt	(629,317)	(612,346)
Net cash used in capital and related financing activities	(2,463,613)	(5,914,574)
Cash flows from investing activities:		
Proceeds from sale of investments	47,259	-
Investment earnings	32,099	25,747
Net cash provided by investing activities	79,358	25,747
Net increase (decrease) in cash and cash equivalents	1,814,446	(617,703)
Cash and cash equivalents, beginning of year	7,985,172	8,602,875
Cash and cash equivalents, end of year	$ 9,799,618	7,985,172

	2016	2015
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash and cash equivalents	$ 3,927,378	4,971,381
Restricted cash and cash equivalents	5,872,240	3,013,791
Total cash and cash equivalents	$ 9,799,618	7,985,172

Continued on next page

See accompanying notes to the basic financial statements

Victor Valley Wastewater Reclamation Authority
Statements of Cash Flows, Continued
For the Fiscal Years Ended June 30, 2016 and 2015

		2016	As Restated 2015
Reconciliation of operating income to net cash provided by operating activities:			
Operating loss	$	(5,514,800)	(5,050,908)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation		6,645,579	6,788,528
Other non-operating revenues		37,810	81,403
Other non-operating expenses		(594,738)	(732,122)
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:			
(Increase) decrease in assets:			
Accounts receivable		(32,067)	46,573
Accounts receivable – other		14,720	(28,996)
Accounts receivable – due from member agencies		(16,089)	36,207
Note receivable, net		(132,341)	-
Materials and supplies inventory		(15,985)	29,964
Prepaid expenses and other deposits		(34,269)	(20,490)
Increase in deferred outflows of resources		(686,551)	(132,303)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		3,976,273	4,334,863
Accrued wages and related payables		34,310	(1,121)
Compensated absences		47,152	(33,894)
Other payables		(6,852)	(297,851)
Other post employment benefits payable		114,464	114,324
Net pension liability		845,747	(905,744)
(Decrease) Increase in deferred inflows of resources		(483,662)	925,393
Total adjustments		9,713,501	10,204,734
Net cash provided by operating activities	$	4,198,701	5,153,826
Non-cash investing, capital and financing transaction:			
Change in fair-market value of funds deposited with LAIF	$	939	57

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Victor Valley Wastewater Reclamation Authority (the Authority) was formed on December 13, 1977, under a joint powers agreement between local governments and special district consisting of the City of Victorville, the City of Hesperia, the Town of Apple Valley, and the County of San Bernardino Service Areas No. 42 (Oro Grande) and No. 64 (Spring Valley Lake) for the purpose of construction, operation, and maintenance of sewer collection, and treatment facilities within the service areas. The Authority is governed by a four-member Board of Commissioners.

B. Basis of Accounting and Measurement Focus

The Authority reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Authority is that the costs of providing wastewater services, collection and treatment for its service areas on a continuing basis be financed or recovered primarily through user charges (sewer service charges), 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 and expenses, such as sewer service charges, result from exchange transactions associated with the principal activity of the Authority. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

C. Financial Reporting

The financial statements of the Authority are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting including:

The Authority has adopted the following GASB pronouncements in the current year:

In February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application,* effective for financial statements for periods beginning after June 15, 2015. The objective of this Statement is to enhance comparability of financial statements among governments by measurement of certain assets and liabilities at their fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The definition of *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. This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value.

In June 2015, the GASB issued Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68,* effective for fiscal years beginning after June 15, 2015. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the Scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions.

(1) Reporting Entity and Summary of Significant Accounting Policies, Continued

C. Financial Reporting, Continued

In June 2015, the GASB issued Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* effective for financial statements for periods beginning after June 15, 2015. This Statement replaces the requirements of Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment is not specified within the source of authoritative GAAP.

In December 2015, the GASB issued Statement No. 79 – *Certain External Investment Pools and Pool Participants,* effective for financial statements for periods beginning after June 15, 2015. This Statement enhances comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share.

Prior Year Financial Data Presentation

In 2015, the Authority has determined to present the annual financial statements with prior year data for comparative purposes. The Authority has restated comparative prior year data for the adjustment to net position for the investment in common stock. The Authority has not restated comparative prior year data with regard to GASB 68 and 71, as all information available to restate prior year amounts was not readily available. Please see note 13 for further information.

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Substantially all of the Authority's cash is invested in interest bearing accounts. The Authority considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents.

3. Investments and Investment Policy

The Authority has adopted an investment policy directing the Director of Finance or the Accounting Supervisor to deposit funds in financial institutions.

Changes in fair value that occur during a fiscal year are recognized as unrealized gains or losses and reported for that fiscal year. Investment income comprises interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

(1) Reporting Entity and Summary of Significant Accounting Policies, Continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, Continued

4. Fair Value Measurements

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- **Level 1** – Valuation is based on quoted prices in active markets for identical assets.
- **Level 2** – Valuation is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3** – Valuation is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

5. Restricted Assets

Amounts shown as restricted assets are to be used for specified purposes, such as payments of state revolving fund debts and the construction of capital assets. Such assets have been restricted by loan agreement provisions, law or contractual obligations.

6. Accounts Receivable and Allowance for Uncollectible Accounts

The Authority extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the Authority uses the indirect write-off method as accounts become uncollectable.

7. Materials and Supplies Inventory

Materials and supplies inventory is valued at the lower of costs or market and accounted for on a specific identification basis.

8. Prepaids and other 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.

9. Capital Assets

Capital assets acquired and/or constructed are capitalized at a historical cost. Authority policy has set the capitalization threshold for reporting capital assets at $5,000. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

• Plant, buildings and interceptor lines	20 to 50 years
• Land Improvements	15 years
• Equipment and vehicle	5 to 7 years

(1) Reporting Entity and Summary of Significant Accounting Policies, Continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, Continued

10. Deferred Outflows of Resources

The statement of net position reports a separate section for deferred outflows of resources. This financial statement element, *deferred outflows of resources*, represents a consumption of resources applicable to future periods and therefore will *not* be recognized as an outflow of resources (expenditure) until that time. The Authority has four items which qualify for reporting in this category. The first item is a deferred outflow related to pensions. This amount is equal to the employer contributions made after the measurement date of the net pension liability. This amount will be amortized-in-full against the net pension liability in the next fiscal year. The second, third and fourth items are a deferred outflow related to pensions for the differences between expected and actual experience, differences between the actual employer contributions and the proportionate share of contributions and net changes in proportions. These amounts will be 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 determined as of the measurement date June 30, 2015, which is a 3.8 year period.

11. Compensated Absences

The Authority's policy is to permit an employee to accumulate earned vacation up to a total of 360 hours. An employee who has accumulated over 200 hours of unused sick leave may elect to receive the balance up to 40 hours of sick leave hours per a fiscal year. In addition, the employee may receive a cash payment for 20 or more hours of vacation during any pay period including the last full pay period in the fiscal year as long as the employee has 40 hours of vacation time remaining on the books.

12. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's California Public Employees' Retirement System (CalPERS) plans (Plans) and addition to/deduction from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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: June 30, 2014
- Measurement Date: June 30, 2015
- Measurement Period: July 1, 2014 to June 30, 2015

(1) Reporting Entity and Summary of Significant Accounting Policies, Continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, Continued

13. Deferred Inflows of Resources

The statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This financial statement element, *deferred inflows of resources*, represents an acquisition of resources applicable to future periods and therefore will *not* be recognized as an inflow of resources (revenue) until that time. The Authority has two items which qualify for reporting in this category. The first item is a deferred inflow related to pensions for the changes in assumptions. This inflow amount will be 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 determined as of the measurement date June 30, 2015, which is 3.8 year period. The second item is a deferred inflow related to pensions for the net difference in projected and actual earnings on investments of the pension plans fiduciary net position. This amount is amortized over a 5 year period.

14. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- *Net Investment in Capital Assets Component of Net Position*– This component of net position consists of capital assets, net of accumulated depreciation, and reduced by any debt outstanding against the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt is included in this component of net position

- *Restricted Component of Net Position* – This component of net position consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.

- *Unrestricted Component of Net Position* – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted component of net position.

15. Operating Revenues and Expenses

Operating revenues and expenses represent revenue earned and the related costs incurred to provide wastewater services to the Authority’s customers.

16. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the Authority by granting agencies or member agencies requesting services that require capital expenditures or connection to the Authority’s system.

(1) Reporting Entity and Summary of Significant Accounting Policies, Continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, Continued

17. Budgetary Policies

Prior to June 30th each fiscal year, the Authority adopts an annual appropriated budget for planning, control, and evaluation purposes. The budget includes proposed expenses and the means of financing them. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. The Board approves total budgeted appropriations and any amendments to the appropriations throughout the year. The Joint Powers Agreement requires the preparation of an annual budget, but the Authority is not legally required to report on the budget approved. Encumbrance accounting is not required to account for commitments related to unperformed contracts for construction and services.

18. Reclassification

The Authority has reclassified certain prior year information to conform with current year presentations.

(2) Cash and Investments

Cash and investments as of June 30, are classified in the Statements of Net Position as follows:

	2016	2015
Cash and cash equivalents	$ 3,927,378	4,971,381
Restricted – Cash and cash equivalents	5,872,240	3,013,791
Investment in common stock	-	47,259
Total cash and investments	$ 9,799,618	8,032,431

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

	2016	2015
Deposits with financial institutions	$ 1,758,921	3,425,658
Restricted cash with financial institutions	3,482,325	883,110
Investments:		
Deposits with California Local Agency Investment Fund (LAIF)	1,511,763	150,406
Investment in common stock – Principal Financial Group	-	47,259
Deposits with Money market savings account	6,648	506,573
Deposits with Cal Trust – Short Term Fund	3,039,961	3,019,425
Total investments	4,558,372	3,723,663
Total cash and investments	$ 9,799,618	8,032,431

As of June 30, the Authority's authorized deposits had the following maturities:

	2016	2015
Deposits held with California Local Agency Investment Fund (LAIF)	167 days	239 days
Deposits held with Cal Trust – Short Term Fund	387 days	489 days

(2) Cash and Investments, Continued

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

The table below identifies the investment types that are authorized by the Authority in accordance with the California Government Code (or the Authority's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Authority's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5 years	None	None
Federal agency securities	5 years	None	None
Banker's acceptances	180 days	40%	30%
Negotiable certificates of deposit	5 years	30%	None
Repurchase agreements	1 year	None	None
Medium-term notes	5 years	30%	None
Mutual funds	N/A	20%	10%
San Bernardino County Local Agency:			
Investment Fund (SBCLAIF)	N/A	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None
Investment Trust of California (CalTRUST)	N/A	None	None

Investment in State Investment Pool

The Authority 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 Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority'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, which are recorded on an amortized cost basis.

The Authority's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transactions processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of $5,000, in increments of a $1,000 dollars.
- Withdrawals of $10,000,000 or more require 24 hours advance.
- Prior to funds transfer, an authorized person must call LAIF to do a verbal transaction.

Investment in Investment Trust of California

CalTrust is organized as a Joint Powers Attorney. CalTrust is a program established by public agencies in California for the purpose of pooling and investing local agency funds – operating reserves as well as bond proceeds. Any California local agency may participate in the Trust and invest its funds, and in the case of counties, the funds of other local agencies that have invested with the County Treasurer's office. Funds from all participants are pooled in each of the accounts. Participants receive units in the Trust and designated shares for the particular account in which they invest. CalTrust invests in fixed income securities eligible for investment pursuant to California Government Code Sections 53601, et seq. and 53635, et seq. Investment guidelines adopted by the Board of Trustees may further restrict the types of investments held by the Trust. Leveraging within the Trust's portfolio is prohibited.

(2) Cash and Investments, Continued

Investment in Common Stock

In fiscal year 2015, the Authority determined that it held 918 shares in common stock of Principal Financial Group (PFG). During the fiscal year ended June 30, 2016, the Authority liquidated its ownership in the investment in common stock.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority 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 California Government Code and the Authority's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, 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. Of the bank balances, up to $250,000 at June 30, 2016 and 2015 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the Authority's name.

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, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the Authority's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity of an investment has, the greater its fair value has sensitivity to changes in market interest rates. It is the policy of the Authority to invest public funds in a prudent manner which will provide in the following order: 1) the highest level of safety of funds, 2) liquidity of funds in order that daily cash flow demands are met, 3) the yield or investment return be maximized while conforming to all laws of the State of California regarding the investment of public funds. This policy provides guidelines for authorized investments and in accordance with Section 53646 of the California Government Code.

Custodial Credit Risk

Maturities of investments at June 30, 2016, were as follows:

			Remaining Maturity (in Months)	
Investment Type		**Total**	**12 Months Or Less**	**12 Months Or More**
California Local Agency Investment Fund (LAIF)	$	1,511,763	1,511,763	-
Money market savings account		6,648	6,648	-
Cal Trust – Short Term Fund		3,039,961	3,039,961	-
Total	$	4,558,372	4,558,372	-

(2) Cash and Investments, Continued

Custodial Credit Risk, Continued

Maturities of investments at June 30, 2015, were as follows:

Investment Type		Total	Remaining Maturity (in Months) 12 Months Or Less	12 Months Or More
California Local Agency Investment Fund (LAIF)	$	150,406	150,406	-
Common stock – Principal Financial Group		47,259	N/A	N/A
Money market savings account		506,573	506,573	-
Cal Trust – Short Term Fund		3,019,425	3,019,425	-
Total	$	3,723,663	3,676,404	-

Credit Risk

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.

Credit ratings of investments as of June 30, 2016 were as follows:

Investment Types		Total	Minimum Legal Rating	Exempt From Disclosure	Rating AAA	Not Rated
California Local Agency Investment Fund (LAIF)	$	1,511,763	N/A	-	-	1,511,763
Money market savings account		6,648	AAA	-	6,648	-
Cal Trust – Short Term Fund		3,039,961	AAA	-	3,039,961	-
Total	$	4,558,372		-	3,046,609	1,511,763

Credit ratings of investments as of June 30, 2015 were as follows:

Investment Types		Total	Minimum Legal Rating	Exempt From Disclosure	Rating AAA	Not Rated
California Local Agency Investment Fund (LAIF)	$	150,406	N/A	-		150,406
Principal Financial Group common stock		47,259	N/A	-	-	47,259
Money market savings account		506,573	AAA	-	506,573	-
Cal Trust – Short Term Fund		3,019,425	AAA	-	3,019,425	-
Total	$	3,723,663		-	3,525,998	197,665

Concentration of Credit Risk

The Authority's investment policy contains the maximum amount and percentage that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer that represent 5% or more of total Authority's investments at June 30, 2016 and 2015, respectively.

(2) Cash and Investments, Continued

Fair Value Measurements

Investments measured at fair value on a recurring and non-recurring basis, are as follows:

At June 30, 2016, the Authority held no investments which required fair value measurement.

At June 30, 2015, the Authority's investments requiring fair value measurement were:

Investments at June 30, 2015:

Investment Type		Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Principal Financial Group common stock	$	47,259	47,259	-	-
Total investments measured at fair value	$	47,259	47,259	-	-

(3) Accounts Receivable – Due from Member Agencies

Accounts receivable – due from member agencies at June 30, were as follows:

		2016	2015
User Charge Receivable:			
City of Hesperia	$	341,736	298,247
Town of Apple Valley		153,319	139,894
City of Victorville		1,141,252	1,115,316
County of San Bernardino Special Districts		52,515	100,451
Total user charge receivable:		1,688,822	1,653,908
Connection Fees Receivable:			
City of Hesperia		5,575	16,400
Town of Apple Valley		52,600	71,200
County of San Bernardino Special Districts		10,600	-
Total connection fees receivable:		68,775	87,600
Total due from member agencies	$	1,757,597	1,741,508

(4) Accounts Receivable - Other

Other receivables include amounts related to a Flexible Health Savings Account established by the Authority for qualified employees. Terms of the program provide that the Authority fund each participating employee's flexible health savings amount at the beginning of each year. Funds are reimbursed to the Authority through payroll deductions.

Accounts receivable – other at June 30, were as follows:

		2016	2015
Flexible health savings account	$	25,160	39,880

(5) Note Receivable, Net

Apple Valley Ranchos Water Company (dba Liberty Utilities)

On November 10, 2015, Apple Valley Ranchos Water Company (dba Liberty Utilities) entered into a loan agreement with the Authority, for the construction of water main extension facilities in the amount of $234,142. Terms of the agreement call for annual principal only payments in the amount of $5,853 at a rate of zero percent commencing November 2017, maturing November 2056. The Authority is imputing interest at the rate of 2.3% per annum.

Fiscal Year		Principal	Amortized Discount	Total
2017	$	5,853	(2,545)	3,308
2018		5,854	(2,545)	3,309
2019		5,853	(2,545)	3,308
2020		5,854	(2,545)	3,309
2021		5,853	(2,545)	3,308
2022-2026		29,268	(12,725)	16,543
2027-2031		29,268	(12,725)	16,543
2032-2036		29,268	(12,725)	16,543
2037-2041		29,268	(12,725)	16,543
2042-2046		29,268	(12,725)	16,543
2047-2051		29,268	(12,725)	16,543
2052-2056		29,267	(12,726)	16,541
Total		234,142	(101,801)	132,341
Less current		(5,853)		
Less Unamortized discount		(101,801)		
Total non-current	$	126,488		

(6) Capital Assets

Changes in capital assets for 2016 were as follows:

	Balance 2015	Additions	Disposals/ Transfers	Balance 2016
Capital assets not being depreciated:				
Land	$ 779,136	-	-	779,136
Construction in progress	42,492,810	38,371,994	(987,205)	79,877,599
Total capital assets not being depreciated	43,271,946	38,371,994	(987,205)	80,656,735
Capital assets being depreciated:				
Land improvements	9,421,375	209,428	-	9,630,803
Plant and building	131,778,715	642,992	-	132,421,707
Interceptor lines	27,606,672	-	-	27,606,672
Office equipment	530,213	236,372	-	766,585
Trucks and autos	911,116	-	-	911,116
Total capital assets being depreciated	170,248,091	1,088,792	-	171,336,883
Less accumulated depreciation:				
Land improvements	(3,483,297)	(606,623)	-	(4,089,920)
Plant and building	(55,572,887)	(5,346,474)	-	(60,919,361)
Interceptor lines	(12,296,903)	(599,840)	-	(12,896,743)
Office equipment	(455,836)	(66,252)	-	(522,088)
Trucks and autos	(847,690)	(26,390)	-	(874,080)
Total accumulated depreciation	(72,656,613)	(6,645,579)	-	(79,302,192)
Total capital assets being depreciated, net	97,591,478	(5,556,787)	-	92,034,691
Total capital assets	$ 140,863,424	32,815,207	(987,205)	172,691,426

Changes in capital assets not being depreciated consists of additions to construction in progress of $38,371,994 related to ongoing projects. Decreases in construction in progress related to transfers of plant and building of $257,826, office equipment of $191,842 and a reduction for invalid invoices of $537,537.

Changes in capital assets being depreciated consists of additions of $257,826 to plant and building and $191,842 to office equipment sourcing from transfers from construction in progress, and $209,429 of additions to land improvement assets, $385,163 of additions to plant and building and $44,530 of additions to office equipment.

(6) Capital Assets, Continued

Changes in capital assets for 2015 were as follows:

	Balance 2014	Additions	Disposals/ Transfers	Balance 2015
Capital assets not being depreciated:				
Land	$ 650,136	129,000	-	779,136
Construction in progress	11,960,240	32,184,435	(1,651,865)	42,492,810
Total capital assets not being depreciated	12,610,376	32,313,435	(1,651,865)	43,271,946
Capital assets being depreciated:				
Land improvements	7,792,390	1,628,985	-	9,421,375
Plant and building	131,601,527	177,188	-	131,778,715
Interceptor lines	27,606,672	-	-	27,606,672
Office equipment	530,213	-	-	530,213
Trucks and autos	911,116	-	-	911,116
Total capital assets being depreciated	168,441,918	1,806,173	-	170,248,091
Less accumulated depreciation:				
Land improvements	(2,948,799)	(534,498)	-	(3,483,297)
Plant and building	(49,994,694)	(5,578,193)	-	(55,572,887)
Interceptor lines	(11,691,030)	(605,873)	-	(12,296,903)
Office equipment	(431,019)	(24,817)	-	(455,836)
Trucks and autos	(802,543)	(45,147)	-	(847,690)
Total accumulated depreciation	(65,868,085)	(6,788,528)	-	(72,656,613)
Total capital assets being depreciated, net	102,573,833	(4,982,355)	-	97,591,478
Total capital assets	$ 115,184,209	27,331,080	(1,651,865)	140,863,424

Changes in capital assets not being depreciated consists of additions to land of $129,000 related to the acquisition of land for the sub-regional wastewater reclamation plant in Hesperia and construction in progress of $32,184,435 related to ongoing projects. Decreases in construction in progress related to transfers of land improvement assets of $1,628,985 and plant equipment of $22,880.

Changes in capital assets being depreciated consists of additions of $1,628,985 to land improvements sourcing from transfers from construction in progress, and $177,188 of additions to plant and building assets $22,880 of which sourced from construction in progress.

(6) Capital Assets, Continued

Construction In Process

The Authority is involved in various construction projects throughout the year. Once completed, projects are capitalized and depreciated over the life of the asset.

Construction in progress for June 30, 2014, 2015 and 2016 was as follows:

Projects	2014	2015	2016
Hesperia WRP	3,362,116	7,125,070	23,884,229
Apple Valley WRP	2,533,498	3,994,615	20,315,274
Eastside WRP	-	-	7,150
Nanticoke Gravity Interceptor	342,397	342,397	667,319
S Apple Valley Interceptor	46,377	164,017	164,017
Biosolids Facility	64,365	257,826	-
Lab-EC-IT-Constr. Bldg (Butler Bldg)	216,065	269,669	274,810
Oro Grande Inteceptor Project	218,489	264,014	265,119
Upper Narrows Emergency Permanent Pipeline	5,090,249	29,702,583	33,122,161
Yates Road Relocation	-	112,008	107,321
Aeration Efficiency Project	-	-	986,554
Various other minor projects > $50,000	86,684	260,611	83,645
Total	$ 11,960,240	42,492,810	79,877,599

(7) Compensated Absences

The changes to compensated absences balance at June 30, were as follows:

Balance 2015	Additions	Deletions	Balance 2016	Due Within One Year	Due in More Than One Year
$ 270,147	350,676	(303,524)	317,299	79,325	237,974

Balance 2014	Additions	Deletions	Balance 2015	Due Within One Year	Due in More Than One Year
$ 304,041	296,473	(330,367)	270,147	67,537	202,610

(8) Other Payables

At June 30 2016 and 2015, other payables include $35,938 and $42,790, respectively, related to a legal settlement with a former employee.

Other payable future payments to maturity are as follows:

Fiscal Year	Total
2017	$ 6,852
2018	6,852
2019	6,852
2020	6,852
2021	6,852
2022	1,678
Total	35,938
Less current	(6,852)
Total non-current	$ 29,086

(9) Long-Term Debt

Loans payable at June 30, were as follows:

	2015	Additions	Payments	2016
State Revolving Fund Loans (SRF):				
9.5 MGD improvements project	$ 1,227,838	-	(233,126)	994,712
11 MGD expansion project	3,776,615	-	(510,003)	3,266,612
North Apple Valley Interceptor	2,057,687	-	(206,708)	1,850,979
Phase III-A	13,862,320	-	(653,327)	13,208,993
Sub-Regional – Hesperia	5,365,455	13,475,278	-	18,840,733
Sub-Regional – Apple Valley	2,267,558	9,470,392	-	11,737,950
Upper Narrows Pipeline Replacement	1,216,191	1,222,056	-	2,438,247
Nanticoke loan	-	281,381	-	281,381
Southern California Edison Loans:				
So. Cal. Edison loan 2015	107,376	-	(15,961)	91,415
So. Cal. Edison loan 2016	-	153,391	(21,744)	131,647
Total	29,881,040	24,602,498	(1,640,869)	52,842,669
Less current	(1,619,126)			(1,790,528)
Total non-current	$ 28,261,914			51,052,141

Loans payable at June 30, were as follows:

	2014	Additions	Payments	2015
State Revolving Fund Loans (SRF):				
9.5 MGD improvements project	$ 1,455,056	-	(227,218)	1,227,838
11 MGD expansion project	4,277,354	-	(500,739)	3,776,615
North Apple Valley Interceptor	2,259,354	-	(201,667)	2,057,687
Phase III-A	14,498,471	-	(636,151)	13,862,320
Sub-Regional – Hesperia	1,972,724	3,392,731	-	5,365,455
Sub-Regional – Apple Valley	1,381,106	886,452	-	2,267,558
Upper Narrows Pipeline Replacement	-	1,216,191	-	1,216,191
Southern California Edison Loan:				
So. Cal. Edison loan 2015	-	117,298	(9,922)	107,376
Total	25,844,065	5,612,672	(1,575,697)	29,881,040
Less current	(1,575,696)			(1,619,126)
Total non-current	$ 24,268,369			28,261,914

(9) Long-Term Debt, Continued

SRF – 9.5 MGD Improvements Projects

In October 1999, the Authority obtained a $4,069,859 loan from the State Revolving Fund to provide funds for the 9.5 MGD Improvements Projects. Terms of the agreement call for annual principal and interest payments due on September 15th at the rate of 2.600%, maturing in fiscal year 2020.

Future long-term debt service requirements to maturity are as follows:

Fiscal Year		Principal	Interest	Total
2017	$	239,187	25,863	265,050
2018		245,406	19,644	265,050
2019		251,786	13,263	265,049
2020		258,333	6,717	265,050
Total		994,712	65,487	1,060,199
Less current		(239,187)		
Total non-current	$	755,525		

SRF – 11.0 MGD Expansion Project

In December 2001, the Authority obtained an $11,430,726 loan at a zero percent interest rate from the State Revolving Fund to provide funds for the 11.0 MGD Expansion Project. Terms of the agreement call for annual payments due on April 3rd, maturing in fiscal year 2022. The Authority is imputing interest expense at the rate of 1.850% per annum.

Future long-term debt service requirements to maturity are as follows:

Fiscal Year		Principal	Interest	Total
2017	$	519,438	60,432	579,870
2018		529,047	50,823	579,870
2019		538,835	41,035	579,870
2020		548,803	31,067	579,870
2021		558,956	20,914	579,870
2022		571,533	8,336	579,869
Total		3,266,612	212,607	3,479,219
Less current		(519,438)		
Total non-current	$	2,747,174		

(9) Long-Term Debt, Continued

SRF Loan Payable – North Apple Valley Interceptor

In September 2004, the Authority obtained a $4,084,688 loan from the State Revolving Fund to provide funds for the North Apple Valley Interceptor. Terms of the agreement call for annual principal and interest payments due on February 13th at the rate of 2.500%, maturing in fiscal year 2024.

Future long-term debt service requirements to maturity are as follows:

Fiscal Year		Principal	Interest	Total
2017	$	211,877	27,765	239,642
2018		217,174	24,587	241,761
2019		222,603	21,329	243,932
2020		228,168	17,990	246,158
2021		233,872	14,567	248,439
2022-2024		737,285	22,301	759,586
Total		1,850,979	128,539	1,979,518
Less current		(211,877)		
Total non-current	$	1,639,102		

SRF Loan Payable – Phase III-A

On October 11, 2010, the Authority entered into a loan agreement to receive up to $18,581,561 from the California State Water Resources Control Board to construct a water treatment facility at the Authority's plant site in the City of Victorville. The total loan amount is $18,581,561 with a contingent principal forgiveness of $3,000,000. During the fiscal year ended June 30, 2013, the Authority received the principal forgiveness of $3,000,000. Terms of the agreement call for annual principal and interest payments due on June 30th at the rate of 2.700%, maturing in fiscal year 2032.

Future long-term debt service requirements to maturity are as follows:

Fiscal Year		Principal	Interest	Total
2017	$	670,967	356,643	1,027,610
2018		689,083	338,527	1,027,610
2019		707,688	319,922	1,027,610
2020		726,796	300,814	1,027,610
2021		746,419	281,190	1,027,609
2022-2026		4,045,502	1,092,547	5,138,049
2027-2031		4,621,944	516,106	5,138,050
2032		1,000,594	27,016	1,027,610
Total		13,208,993	3,232,765	16,441,758
Less current		(670,967)		
Total non-current	$	12,538,026		

(9) Long-Term Debt, Continued

SRF Loan Payable – Subregional Wastewater Reclamation Plant – City of Hesperia

On May 20, 2014, the Authority entered into a loan agreement to receive up to $33,508,015 from the California State Water Resources Control Board (SWRCB) to construct a subregional wastewater reclamation plant in the City of Hesperia. The agreement amount was estimated prior to obtain bid proposals from potential contractors. Terms of the agreement call for annual principal and interest payments to commence beginning on November 30, 2017, at the rate of 1.000%, maturing in fiscal year 2047. At June 30, 2016 and 2015, the Authority had annual claims of $13,475,278 and $3,392,731, respectively, of the total loan amount during the construction phase and initial project planning phase, respectively.

On June 16, 2015, the SWRCB and the Authority amended the loan agreement from $33,508,015 to $40,549,955, after the Authority Board of Commissioners awarded the project to the contractor with the winning bid proposal. The amendment also revised the construction completion date which resulted in revising the annual principal and interest payments to commence beginning on June 30, 2018.

On June 8, 2016, the SWRCB and the Authority amended the loan agreement from $40,549,955 to $40,658,810 due to capitalizing the construction period interest. The amendment also revised the construction start and completion date which resulted in revising the maturity of the loan from fiscal year 2047 to fiscal year 2048 with payments to commence beginning on February 28, 2019.

SRF Loan Payable – Subregional Wastewater Reclamation Plant – Town of Apple Valley

On May 22, 2014, the Authority entered into a loan agreement to receive up to $24,656,757 from the California State Water Resources Control Board to construct a subregional wastewater reclamation plant in the Town of Apple Valley. The agreement amount was estimated prior to obtain bid proposals from potential contractors. Terms of the agreement call for annual principal and interest payments to commence beginning on November 30, 2017, at the rate of 1.000%, maturing in fiscal year 2047. At June 30, 2016 and 2015, the Authority had annual claims of $9,470,392 and $886,452, respectively, of the total loan amount during the construction phase and initial project planning phases, respectively.

On June 12, 2015, the SWRCB and the Authority amended the loan agreement from $24,656,757 to $36,254,600, after the Authority Board of Commissioners awarded the project to the contractor with the winning bid proposal. The amendment also revised the construction completion date which resulted in revising the annual principal and interest payments to commence beginning on June 30, 2018.

On September 9, 2015, the SWRCB and the Authority amended the loan agreement to include a Proposition One Program Grant in the amount of $9,181,841. This effectively reduced the loan contract from $36,254,600 to $27,085,611.

On June 8, 2016, the SWRCB and the Authority amended the loan agreement from $27,085,611 to $27,129,023 due to capitalizing the construction period interest. The amendment also revised the construction completion date which resulted in revising the maturity of the loan from fiscal year 2047 to fiscal year 2048 with payments to commence beginning on February 28, 2019.

SRF Loan Payable – Upper Narrows Pipeline Replacement

On September 30, 2013, the Authority entered into a loan agreement to receive up to $4,000,000 from the California State Water Resources Control Board to construct the Upper Narrows Pipeline Replacement. Terms of the agreement call for annual principal and interest payments to commence beginning on November 29, 2015, at the rate of 1.900%, maturing in fiscal year 2035. At June 30, 2016 and 2015, the Authority had annual claims of $1,222,056 and $1,216,191, respectively, of the total loan amount during the project planning and construction phase.

(9) Long-Term Debt, Continued

SRF Loan Payable – Upper Narrows Pipeline Replacement, Continued

On February 20, 2015, the SWRCB and the Authority amended the loan agreement from $4,000,000 to $5,000,000 for an expected increase project construction cost funding. The amendment also revised the construction completion date which resulted in revising the maturity of the loan from fiscal year 2035 to fiscal year 2036 with payments to commence beginning on September 30, 2016.

On June 30, 2015, the SWRCB and the Authority amended the loan agreement from $5,000,000 to $4,286,380 for an expected decrease in project construction cost funding. The amendment also revised the construction completion date which resulted in revising the annual principal and interest payments to commence beginning on December 31, 2016.

SRF Loan Payable – Nanticoke Loan

On August 14, 2014, the Authority entered into a loan agreement to receive up to $5,700,000 from the California State Water Resources Control Board to construct the Nanticoke Pump Station Bypass Sewer project. Terms of the agreement call for annual principal and interest payments to commence beginning on December 31, 2016, at the rate of 1.900%, maturing in fiscal year 2036. At June 30, 2016, the Authority had annual claims of $281,381 of the total loan amount during the project planning and construction phase.

On June 14, 2016, the SWRCB and the Authority amended the loan agreement from $5,700,000 to $4,459,190 for an expected decrease project construction cost funding. The amendment also revised the construction completion date which resulted in revising the maturity of the loan from fiscal year 2036 to fiscal year 2037 with payments to commence beginning on June 30, 2018.

Southern California Edison Loan 2015

On September 9, 2014, the Authority entered into an Energy Management Solutions loan agreement as an incentive to encourage the Authority to develop an energy saving project. The loan agreement with Southern California Edison includes a zero-percent interest loan in the amount of $117,298 to provide funds for the acquisition of energy efficient equipment used in the Aeration Efficiency project. Terms of the agreement call for monthly principal payments with an expected maturity in fiscal year 2022.

Future long-term debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2017	$ 17,412	-	17,412
2018	17,412	-	17,412
2019	17,412	-	17,412
2020	17,412	-	17,412
2021	17,412	-	17,412
2022	4,355	-	15,964
Total	91,415	-	103,024
Less current	(17,412)		
Total non-current	$ 74,003		

(9) Long-Term Debt, Continued

Southern California Edison Loan 2016

On January 25, 2016, the Authority entered into an Energy Management Solutions loan agreement as an incentive to encourage the Authority to develop an energy saving project. The loan agreement with Southern California Edison loan includes a zero-percent interest loan in the amount of $153,392 to provide funds for the acquisition of energy efficient equipment used for the Aeration Efficiency project. Terms of the agreement call for monthly principal payments with an expected maturity in fiscal year 2017.

Future long-term debt service requirements to maturity are as follows:

Fiscal Year		Principal	Interest	Total
2017	$	131,647	-	131,647
Total		131,647	-	131,647
Less current		(131,647)		
Total non-current	$	-		

(10) Other Post-Employment Benefits Payable

Plan Description – Eligibility

The Authority pays a portion of the cost of health insurance for retirees, subject to certain restrictions as determined by the Authority. The Plan is open to qualified employees who have attained age 50, retired from and were employed by the Authority at least five years.

Membership in the OPEB plan consisted of the following members as of June 30:

	2016	**2015**	**2014**
Active plan members	47	41	41
Retirees and beneficiaries receiving benefits	14	15	15
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	61	56	56

Plan Description – Benefits

The Authority pays a flat premium for health benefits to retirees. The additional benefits are paid to qualified retirees who satisfy certain requirements. The maximum plan benefits are limited to $571 per month per retiree. Upon reaching eligibility for Medicare, the maximum benefit amounts are limited to those legally established amounts.

Funding Policy

The Authority is required to contribute the *Annual Required Contribution (ARC) of the Employer*, 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 normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed twenty years. The current ARC rate is 6.252% of the annual covered payroll. The Authority funds the plan on a pay-as-you-go basis and maintains reserves (and records a liability) for the difference between pay-as-you-go and the actuarially determined ARC cost.

(10) Other Post-Employment Benefits Payable, Continued

Annual Cost

For the years ended June 30, 2016 and 2015, the Authority's annual ARC cost after adjustments was $179,478 and $179,493, respectively, based on a 20 year amortization of the unfunded actuarial liability. The Authority's net other post-employment benefits payable obligation amounted to $1,332,084 and $1,217,620 for the years ended June 30, 2016 and 2015, respectively. The Authority contributed $65,014 and $65,169 in age adjusted contributions for medical insurance benefits for the retirees and their dependents for the years ended June 30, 2016 and 2015, respectively.

The balance at June 30, consisted of the following:

	2016	2015	2014
Annual OPEB cost:			
Annual required contribution (ARC)	$ 217,354	209,305	191,340
Interest on net OPEB obligation	54,793	49,648	49,296
Adjustment to annual required contribution	(92,669)	(79,460)	(64,136)
Total annual OPEB cost	179,478	179,493	176,500
Change in net OPEB payable obligation			
Medical premium contributions	(65,014)	(65,169)	(59,119)
Total change in net OPEB payable obligation	114,464	114,324	117,381
OPEB payable – beginning of year	1,217,620	1,103,296	985,915
OPEB payable – end of year	$ 1,332,084	1,217,620	1,103,296

The Authority's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2016 and the two preceding years were as follows:

Three-Year History of Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Medical Premium Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable
2016	$ 179,478	65,014	36.22%	$ 1,332,084
2015	179,493	65,169	36.31%	1,217,620
2014	176,500	59,119	33.50%	1,103,296

Funded Status and Funding Progress of the Plan

The most recent valuation (dated January 1, 2013) includes an Actuarial Accrued Liability of $2,078,082 and Unfunded Actuarial Accrued Liability of $2,432,530. There are no plan assets because the Authority funds on a pay-as-you-go basis. The covered payroll (annual payroll of active employees covered by the plan) was $3,476,694. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 69.97%. See page 51 for the Schedule of Funding Status for the postemployment defined benefit plan, which presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

(10) Other Post-Employment Benefits Payable, Continued

Actuarial Methods and Assumptions on Other Post-Employment Benefits

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	July 1, 2015
Actuarial cost method	Entry age normal cost method
Amortization method	Level dollar amortization
Amortization period	20 year closed period
Remaining amortization period	30 year open period
Asset valuation method	Not applicable
Actuarial assumptions:	
Investment rate of return	5.00% per year
Inflation – discount rate	3.00% per year
Projected salary increase	3.00% per year
Healthcare cost trend rates	4.00% per year
Termination rate	6.00% - 0.00%

(11) Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Authority's separate Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). 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 or may be obtained from their executive office: 400 P Street, Sacramento, CA, 95814.

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 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 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.

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the Authority's CalPERS 2.5% at 55 Risk Pool Retirement Plan to new employee entrants, not previously employed by an agency under CalPERS, effective December 31, 2013. All employees hired after January 1, 2013 are eligible for the Authority's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

(11) Defined Benefit Pension Plan, Continued

The Plans' provision and benefits in effect at June 30, 2016 are summarized as follows:

	Miscellaneous Plan	
	Tier 1	Tier 2
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.5% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8.00%	6.25%
Required employer contribution rates	16.733%	6.237%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates, for all public employers, be determined on an annual basis by the actuary and shall be effective on July 1 following notice of the change in rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. 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.

As of the fiscal year ended June 30, the contributions recognized as part of pension expense for the Authority's Plan was as follows:

	Miscellaneous Plan	
	2016	2015
Contributions – employer	$ 308,670	471,793
Contributions – employee (paid by employer)	151,019	199,163
Total employer paid contributions	$ 459,689	670,956

Net Pension Liability

As of the fiscal year ended June 30, the Authority reported a net pension liability for its proportionate share of the net pension liability of the Plan was as follows:

	Proportionate Share of Net Pension Liability	
	2016	2015
Miscellaneous Plan	$ 4,169,063	3,323,316

(11) Defined Benefit Pension Plan, Continued

Net Pension Liability, continued

The Authority's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015 and 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 and 2013, rolled forward to June 30, 2015 and 2014, using standard update procedures. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The Authority's proportionate share of the pension liability for the Authority's Plan as of the measurement date, June 30, 2015, was as follows:

	Miscellaneous Plan
Proportion – June 30, 2014	0.05341%
Proportion – June 30, 2015	0.06074%
Change – Increase (Decrease)	0.00733%

The Authority's proportionate share of the pension liability for the Authority's Plan as of the measurement date, June 30, 2014, was as follows:

	Miscellaneous Plan
Proportion – June 30, 2013	0.05246%
Proportion – June 30, 2014	0.05341%
Change – Increase (Decrease)	0.00095%

As of June 30, 2016 and 2015, the Authority recognized pension expense of $178,709 and $359,139, respectively.

(11) Defined Benefit Pension Plan, Continued

Deferred Pension Outflows (Inflows) of Resources

As of the fiscal year ended June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description		Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$	503,175	-
Differences between actual and expected experience		31,099	-
Changes in assumptions		-	(294,230)
Net differences between projected and actual earnings on plan investments		-	(147,501)
Differences between actual contribution and proportionate share of contribution		51,759	-
Net adjustment due to differences in proportions of net pension liability		574,861	-
Total	$	1,160,894	(441,731)

As of the fiscal year ended June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description		Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$	471,793	-
Net differences between projected and actual earnings on plan investments		-	(925,393)
Net adjustment due to differences in proportions of net pension liability		2,550	-
Total	$	474,343	(925,393)

As of June 30 2016 and 2015, employer pension contributions of $503,175 and $471,793, respectively, reported as deferred outflows of resources related to contributions subsequent to the measurement date were and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017 and 2016, respectively.

(11) Defined Benefit Pension Plan, Continued

Deferred Pension Outflows (Inflows) of Resources

At June 30, 2016, the Authority recognized other amounts reported by the Plan actuarial as deferred outflows of resources and deferred inflows of resources related to the pension liability. Pension related amounts will be recognized as pension expense as follows.

Fiscal Year Ending June 30:	Deferred Outflows/(Inflows) of Resources
2017	$ (236,498)
2018	(236,498)
2019	(232,641)
2020	(217,206)
2021	-
Thereafter	-

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation report was determined using the following actuarial assumptions:

The following is a summary of the actuarial assumptions and methods:

Valuation date	June 30, 2014 and 2013
Measurement date	June 30, 2015 and 2014
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.50% Net of Administrative Expenses for 2015 and 2014
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment Rate of Return	7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

* 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. Further details of the Experience Study can be found on the CalPERS website.

(11) Defined Benefit Pension Plan, Continued

Discount Rate

The Discount rate used to measure the total pension liability was 7.50% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the 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, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% will be applied to all plans in the Public Employees' Retirement Fund (PERF). The stress test results are presented in a detailed report which can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS confirmed the materiality threshold for the difference in the calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the Discount rate will require CalPERS Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the fiscal year ended 2017-2018. CalPERS will continue to check the materiality of the difference in the calculation until such time as it has changed its methodology.

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, 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 returns were calculates 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 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.

(11) Defined Benefit Pension Plan, Continued

Discount Rate, continued

The table below reflects the 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.

Asset Class	New Strategic Allocation	Real Return Years 1–10*	Real Return Year 11+**
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)
Total	100.0%		

* An expected inflation of 2.5% used for this period
** An expected inflation of 3.0% used for this period

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

The following table presents the Authority's proportionate share of the net position liability for the Plan, calculated using the discount rate, as well as what the Authority's proportional share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

At June 30, 2016, the discount rate comparison was the following:

	Discount Rate – 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Authority's Net Pension Liability	$ 7,189,914	4,169,063	1,890,857

At June 30, 2015, the discount rate comparison was the following:

	Discount Rate – 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
Authority's Net Pension Liability	$ 5,442,200	3,323,316	1,564,843

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 49 through 50 for the Required Supplementary Schedules.

Payable to the Pension Plan

At June 30, 2016 and 2015, the Authority reported no payables for the outstanding amount of contribution to the pension plan.

(12) Net Position

Calculation of net position as of June 30, was as follows:

		2016	2015
Net investment in capital assets:			
Capital assets – not being depreciated	$	80,656,735	43,271,946
Capital assets, net – being depreciated		92,034,691	97,591,478
Loans payable		(52,842,669)	(29,881,040)
Total net investment in capital assets		119,848,757	110,982,384
Restricted net position:			
Restricted for capital projects		3,977,686	1,019,633
Restricted for debt service		2,389,915	2,130,681
Total restricted net position		6,367,601	3,150,314
Unrestricted net position:			
Non-spendable net position:			
Materials and supplies inventory		83,957	67,972
Prepaid expenses and deposits		154,501	120,232
Total non-spendable net position		238,458	188,204
Spendable net position are designated as follows:			
Undesignated net position reserve		1,056,816	5,504,052
Total spendable net position		1,056,816	5,504,052
Total unrestricted net position		1,295,274	5,692,256
Total net position	$	127,511,632	119,824,954

(13) Adjustment to Net Position

At June 30, 2016, adjustments to net position consisted of the following:

Net position at July 1, 2014, as previously stated	$	98,508,205
Effect of adjustment to record SCE loan		(117,298)
Effect of adjustment to record principal payments on SCE loan		9,922
Change in net position at June 30, 2015, as previously stated		21,424,125
Net position at June 30, 2015, as restated	$	119,824,954

Southern California Edison Loan 2015

In fiscal year 2016, the Authority determined it had not recorded a long-term debt obligation to provide funds for the acquisition of energy efficient equipment used in the Aeration Efficiency project in the amount of $117,298. Terms of the zero-interest Energy Management Solutions loan agreement dated September 9, 2014, call for principal payments due monthly and is expected to mature in fiscal year 2022. As a result, the Authority has recorded an $117,298 prior period adjustment to net position at June 30, 2015. Of the prior period adjustment recorded, $9,922 represents the principal paid during the fiscal year ended at June 30, 2015.

(13) Adjustment to Net Position, Continued

At June 30, 2015, adjustments to net position consisted of the following:

Net position at June 30, 2012, as previously stated	$ 100,216,259
Effect of adjustment to record investment in common stock	34,801
Change in net position at June 30, 2013, as previously stated	485,853
Net position at June 30, 2013, as restated	100,736,913
Effect of adjustment to record unrealized gain on investment in common stock	12,513
Change in net position at June 30, 2014, as previously stated	975,187
Net position at June 30, 2014, as restated	101,724,613
Effect of adjustment to record net pension liability	(4,229,060)
Effect of adjustment to record deferred pension outflows	342,040
Effect of adjustment to remove pension side fund	670,612
Total adjustment to net position	(3,216,408)
Net position at July 1, 2014, as restated	$ 98,508,205

Investment in Common Stock

In fiscal year 2015, the Authority determined that it held 918 shares in common stock of Principal Financial Group (PFG). Therefore the Authority recorded a prior period adjustment, an increase to net position, of $47,214. Of the prior period adjustment recorded, $34,802 represents the balance at June 30, 2013, shown as a restatement to net position to the 2013 fiscal year, while $12,512 represents the unrealized gain on investment during the fiscal year ended June 30, 2014, shown as a restatement to the 2014 fiscal year.

Pension Related Debt – Side Fund – GASB 68 Implementation

In fiscal year 2015, the Authority implemented GASB pronouncements 68 and 71 to recognize its proportionate share of the net pension liability. As a result of the implementation, the Authority identified that CalPERS has determined that employer obligations identified as “side funds” do not conform to circumstances requiring separately recognized liabilities. Therefore the Authority recorded a prior period adjustment, increase to net position, of $670,612 at July 1, 2014.

Net Pension Liability – GASB 68 Implementation

In fiscal year 2015, the Authority implemented GASB pronouncements 68 and 71 to recognize its proportionate share of the net pension liability. As a result of the implementation, the Authority recognized the pension liability and recorded a prior period adjustment, a (decrease) to net position, of $4,229,060 at July 1, 2014. The Authority recorded a prior period adjustment, increase to net position, to reclassify from expense to deferred outflows of resources, the prior year’s proportionate share of employer pension contributions of $342,040 at July 1, 2014.

(14) Flood Damage Expense

In 2011, the Authority’s wastewater treatment system suffered significant damage as the result of winter storm flooding. Portions of the Upper and Lower Narrows pipelines required extensive emergency repair and partial diversion by means of a temporary pipeline. At June 30, 2016 and 2015, the Authority determined that a portion of those cost would not provide future utility and would not be considered for capitalization. During the years ended June 30, 2016 and 2015, the Authority incurred flood damage expense of $594,738 and $732,122, respectively.

(15) Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is a member of the California Sanitation Risk Management Authority (CSRMA), an intergovernmental risk sharing joint powers authority currently operating as a common risk management and loss prevention program for 60 California Sanitation Authorities. The Authority pays an annual premium to CSRMA for its public liability and workers compensation risk coverage. The Agreement for formation of the CSRMA provides that CSRMA will be self-sustaining through member premiums and will provide specific excess insurance through commercial companies. The CSRMA is allowed to make additional assessments to its members based on a retrospective premium adjustment process.

At June 30, 2016, the Authority participated in the self-insurance programs of the CSRMA as follows:

- General and automotive liability, including errors and omissions and employment practices liability (EPL): The Authority is self-insured through the CSRMA. Coverage includes excess liability applicable to the general and automobile liability section, excess layer of $10,000,000 over the $15,500,000 excess of the first $500,000 self-insured layer with a $5,000 deductible, $2,500 deductible for errors and omissions, a $25,000 deductible for EPL per occurrence, and a sewer backup deductible of $10,000. Re-insurance is purchased above the $500,000 self-insured layer to $15,000,000 through CSRMA.

- Workers' compensation and employer's liability: The Authority is self-insured through the CSRMA up to $750,000 with a deductible of $0 per claim. The Authority purchased through CSRMA, additional excess workers' compensation coverage and excess employer's liability coverage of $1,000,000 excess of the first $750,000.

In addition, the Authority also has the following insurance coverage:

- Employee dishonesty coverage up to $2,000,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage with a deductible of $2,500 per claim.

- Special form property coverage up to $92,349,981, with a deductible of $10,000 per claim.

- Public entity physical damage coverage up to $499,783, subject to a deductible of $1,000 per claim and $2,000 in total.

- Pollution and remediation legal liability coverage up to $5,000,000 subject to a deductible of $25,000 per claim.

- Public pollution liability coverage up to $25,000,000, subject to $2,000,000 per pollution condition, $75,000 per pollution condition retention.

- Cyber liability coverage up to $2,000,000, subject to $2,000,000 per computer security, $750,000 per pollution condition retention.

- Identity theft coverage up to $25,000 with a $0 deductible.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the Authority's insurance coverage during the years ending June 30, 2016, 2015, and 2014. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2016, 2015, and 2014.

(16) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2016, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 74

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50, *Pension Disclosures*.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. The impact of the implementation of this Statement to the Authority's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 75

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The impact of the implementation of this Statement to the Authority's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 77

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. This Statement is effective for financial statements for periods beginning after December 15, 2015. It is believed that the implementation of this Statement will not have a material effect to the Authority's financial statements.

(16) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

Governmental Accounting Standards Board Statement No. 80

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement is effective for financial statements for periods beginning after June 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the Authority's financial statements.

Governmental Accounting Standards Board Statement No. 81

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement is effective for financial statements for periods beginning after December 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the Authority's financial statements.

Governmental Accounting Standards Board Statement No. 82

In March 2016, the GASB issued Statement No. 82 – *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No.73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for financial statements for periods beginning after June 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the Authority's financial statements.

(17) Commitments and Contingencies

Grant Awards

Grant funds received by the Authority are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the Authority believes that such disallowances, if any, would not be significant.

Construction Contracts

The Authority has a variety of agreements with developers and private parties relating to the installation, improvement or modification of facilities and distribution systems within its service areas. The financing of such improvements is provided primarily from loans for construction and the Authority's capital replacement reserve. The Authority has committed to approximately $47,444,459 of open construction contracts as of June 30, 2016.

(17) Commitments and Contingencies, Continued

Litigation

In the ordinary course of operations, the Authority is subject to claims and litigation from outside parties.

Other Items

During the year ended June 30, 2016, the Office of Inspector General, Office of Emergency Management Oversight, U.S. Department of Homeland Security, conducted an audit on funding provided by the Federal Emergency Management Agency (FEMA). The findings mentioned in its draft report have been under review by FEMA and the California Office of Emergency Services. Management predicts that the outcome of the review will not materially affect the Authority's net position.

In April of 2016, the City of Victorville informed the Authority of their intent to withdraw from the Service Agreement per the 30-year notice requirement.

The Board of Commissioners has engaged a judicial review on the issue of member entity flow diversion for the purpose of rendering a non-binding opinion.

(18) Subsequent Events

Management is not aware of any events or transactions, including estimates that provide additional evidence about conditions that existed at June 30, 2016, or arose subsequent to that date and are considered inherent in the process of preparing these financial statements.

Required Supplementary Information

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Victor Valley Wastewater Reclamation Authority
Schedule of the Authority's Proportionate Share of the Net Pension Liability
As of June 30, 2016 and 2015
Last Ten Years*

Description		Measurement Date 6/30/2015	Measurement Date 6/30/2014
Authority's Proportion of the Net Pension Liability		0.06074%	0.05341%
Authority's Proportionate Share of the Net Pension Liability	$	4,169,063	3,323,316
Authority's Covered-Employee Payroll	$	3,124,841	2,945,462
Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll		133.42%	112.83%
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability		75.01%	79.19%

Notes:

* Fiscal Year 2015 was the first year of implementation, therefore only two years are shown.

Victor Valley Wastewater Reclamation Authority
Schedule of Pension Plan Contributions
As of June 30, 2016 and 2015
Last Ten Years*

Schedule of Pension Plan Contributions:		Fiscal Year 2014-2015		Fiscal Year 2013-2014
Actuarially Determined Contribution	$	507,931	$	464,069
Contribution's in Relation to the Actuarially Determined Contribution		(471,793)		(464,069)
Contribution Deficiency (Excess)	$	36,138	$	-
Covered Payroll	$	3,124,841	$	2,945,462
Contribution's as a percentage of Covered-employee Payroll		16.25%		15.76%

Notes:

* Fiscal Year 2015 was the first year of implementation, therefore only two years are shown.

Victor Valley Wastewater Reclamation Authority
Schedule of Funding Status – Other Post-Employment Benefits Obligation
For the Fiscal Years Ended June 30, 2016 and 2015

Funded Status and Funding Progress of the Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/15	(354,448)	$ 2,078,082	2,432,530	-14.57%	3,476,694	69.97%
01/01/13	-	2,062,620	2,062,620	0.00%	3,182,659	64.81%
06/30/10	-	2,570,974	2,570,974	0.00%	2,718,942	94.56%

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually, if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2017, based on the year ending June 30, 2017.

Supplemental Information

Victor Valley Wastewater Reclamation Authority
Schedule of Operating Expenses
For the Years Ended June 30, 2016 and 2015

		2016	As Restated 2015
Salaries and benefits:			
Salaries	$	3,954,893	3,452,846
Employee benefits		1,135,952	1,157,665
Total salaries and benefits		5,090,845	4,610,511
Maintenance:			
Equipment and supplies		829,552	1,241,594
Instrumentation		193,496	180,278
Tools		47,586	23,825
Ground repairs and maintenance		89,347	76,755
Vehicle repairs and maintenance		90,802	66,497
Sewer repairs and maintenance		431,611	230,098
Repairs and maintenance		161	1,380
Other		209,572	82,292
Total Maintenance		1,892,127	1,902,719
Operations:			
Process chemicals		338,078	213,805
Utilities		1,363,908	978,281
Trash and sludge disposal		106,532	100,431
Fuel and lubricants		75,853	66,560
Lab supplies and services		300,482	269,791
Safety equipment		53,907	28,004
Custodial		37,156	38,897
Equipment rental		25,561	75,211
Uniforms		22,243	20,231
Security		6,893	12,424
Sewer location services		24,942	45,909
Other		4,337	15,745
Total operations	$	2,359,892	1,865,289

Continued on next page

Victor Valley Wastewater Reclamation Authority
Schedule of Operating Expenses, Continued
For the Years Ended June 30, 2016 and 2015

		2016	As Restated 2015
Administration:			
Telephone and communications	$	86,382	82,762
Computers and office equipment		124,917	111,094
Computer and office supplies		7,995	15,401
Printing and advertising		27,109	23,577
Postage and freight		12,896	9,207
Travel and education		193,825	178,011
Membership and commissioner fees		56,695	63,035
Books and periodicals		13,713	14,187
Professional services		291,583	292,258
Legal services		602,798	416,848
Temporary labor		10,337	109,439
Insurance		184,894	127,861
Permit fees		119,512	121,037
Rent		35,586	47,650
Construction services		59,189	105,067
Other		4,365	17,268
Total administration		1,831,796	1,734,702
Depreciation		6,645,579	6,788,528
Total operating expense including depreciation expense	$	17,820,239	16,901,749

Victor Valley Wastewater Reclamation Authority
Combining Schedule of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016

	Operations and Maintenance	Repairs and Replacements	Capital Outlay	Total
Operating revenues:				
Wastewater service charges	$ 11,645,881	-	-	11,645,881
Septage receiving facility fees	604,958	-	-	604,958
Pretreatment permit fees	54,600	-	-	54,600
Total operating revenues	12,305,439	-	-	12,305,439
Operating expenses:				
Salaries and benefits	5,090,845	-	-	5,090,845
Maintenance	1,598,923	293,204	-	1,892,127
Operations	2,343,233	16,659	-	2,359,892
General and administration	949,170	41,996	840,630	1,831,796
Total operating expense	9,982,171	351,859	840,630	11,174,660
Operating income (loss) before depreciation expense	2,323,268	(351,859)	(840,630)	1,130,779
Depreciation	6,645,579	-	-	6,645,579
Operating loss	(4,322,311)	(351,859)	(840,630)	(5,514,800)
Non-operating revenue (expense):				
Investment earnings	(3,677)	-	35,773	32,096
Interest expense	-	-	(620,214)	(620,214)
Other, net	37,810	-	-	37,810
Flood damage expense	(516,057)	(12,173)	(66,508)	(594,738)
Total non-operating expense, net	(481,924)	(12,173)	(650,949)	(1,145,046)
Net loss before capital contributions	(4,804,235)	(364,032)	(1,491,579)	(6,659,846)
Capital contributions:				
Capital grants – Title 16	-	-	1,899,930	1,899,930
Capital grants – FEMA	-	-	2,150,334	2,150,334
Capital grants – State of California	246,176	-	7,189,343	7,435,519
Capital grants – Water Recycling Grant	-	-	1,714,652	1,714,652
Connection fees	-	-	1,146,089	1,146,089
Total contributed capital	246,176	-	14,100,348	14,346,524
Change in net position	(4,558,059)	(364,032)	12,608,769	7,686,678
Net position, beginning of year – as restated	(11,987,900)	(1,826,987)	133,639,841	119,824,954
Net position, end of year	$ (16,545,959)	(2,191,019)	146,248,610	127,511,632

Report on Internal Controls and Compliance

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Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Commissioners
Victor Valley Wastewater Reclamation Authority
Hesperia, California

We have audited, in accordance with the 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, the financial statements of the Victor Valley Wastewater Reclamation Authority (Authority) as of and for the years ended June 30, 2016 and 2015 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 8, 2016.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Independent Auditor's Report on Internal Controls Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards, (continued)*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
December 8, 2016

Statistical Section

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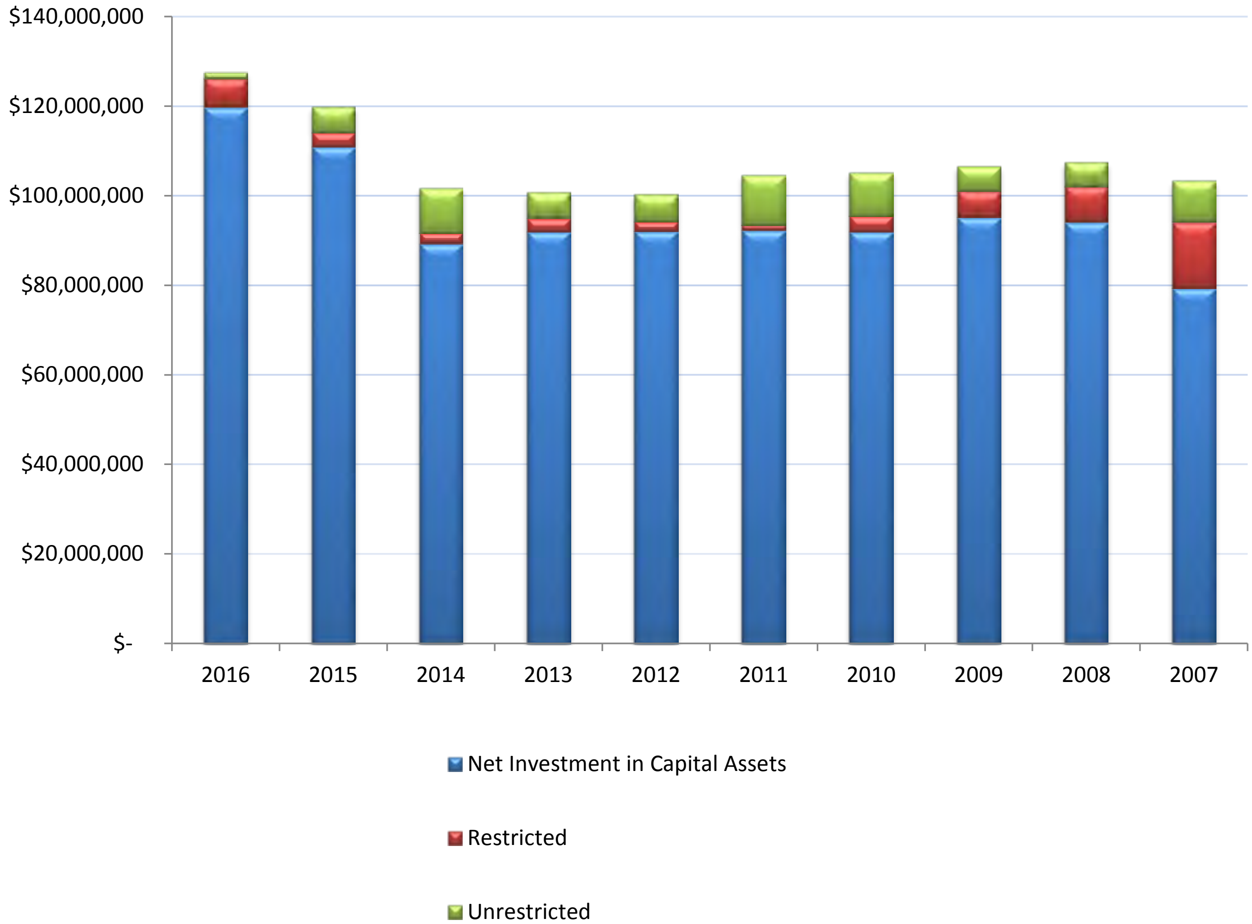
Victor Valley Wastewater Reclamation Authority

Statistical Section Table of Contents

This part of Authority's comprehensive annual financial report presents detailed information as a context for understanding what the information in the accompanying financial statements and notes to the financial statements say about the Authority's overall financial health.

Victor Valley Wastewater Reclamation Authority
Net Position by Component
Last Ten Fiscal Years

	2016	2015	2014	2013	2012
Net Investment in Capital Assets	$ 119,848,757	$ 110,982,384	$ 89,340,144	$ 92,011,190	$ 92,132,472
Restricted	6,367,601	3,150,314	2,322,650	2,961,518	2,147,445
Unrestricted	1,295,274	5,692,256	10,061,819	5,729,404	5,936,342
Total Net Position	$ 127,511,632	$ 119,824,954	$ 101,724,613	$ 100,702,112	$ 100,216,259



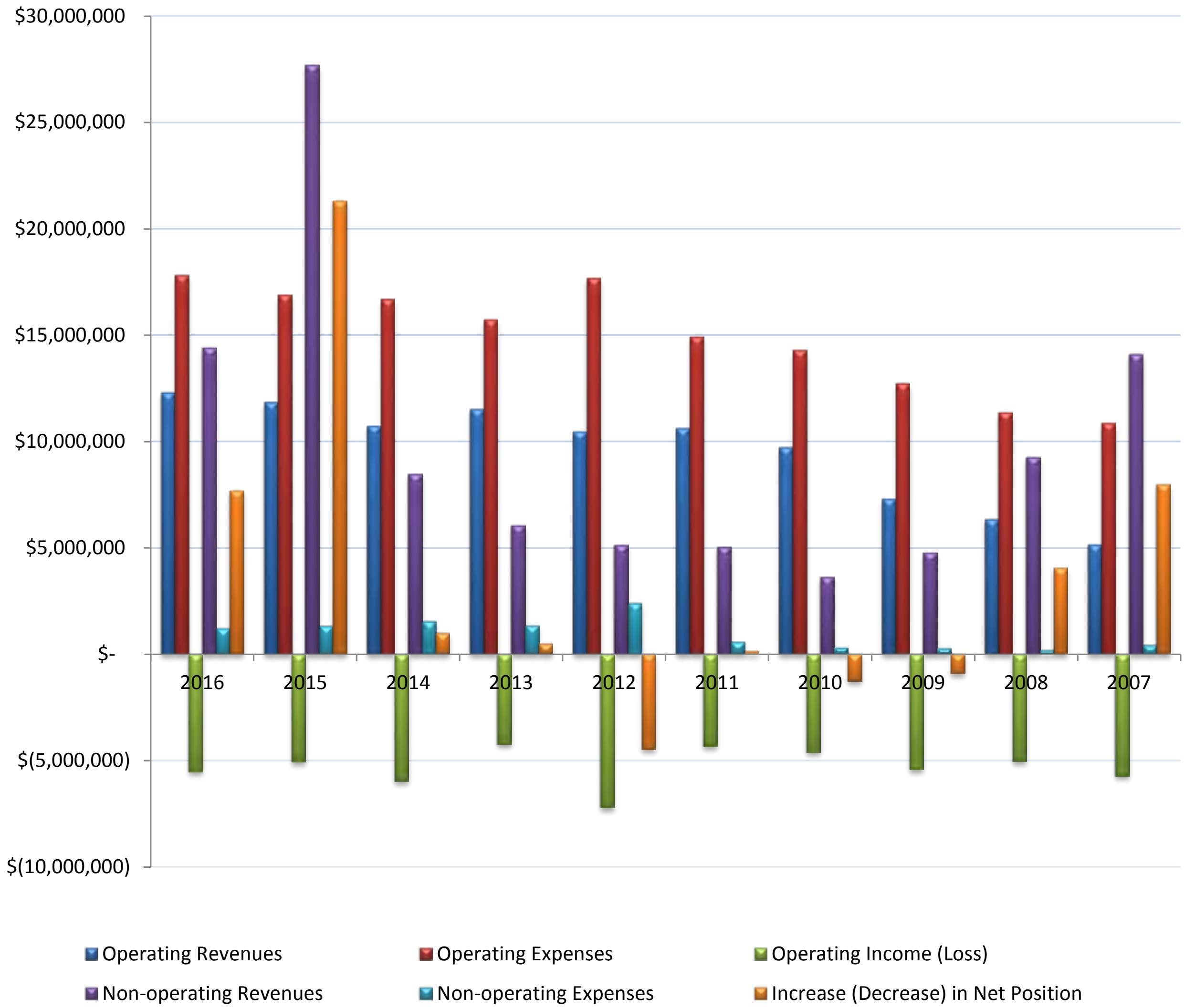
Source: Victor Valley Wastewater Reclamation Authority

Victor Valley Wastewater Reclamation Authority
Net Position by Component
Last Ten Fiscal Years

2011	2010	2009	2008	2007	
$ 92,316,194	$ 92,011,371	$ 95,268,279	$ 94,172,989	$ 79,382,844	Net Investment in Capital Assets
1,166,446	3,455,773	5,791,448	7,869,303	14,769,409	Restricted
11,190,359	9,802,016	5,465,649	5,385,879	9,219,122	Unrestricted
$ 104,672,999	$ 105,269,160	$ 106,525,376	$ 107,428,171	$ 103,371,375	Total Net Position

Victor Valley Wastewater Reclamation Authority
Changes in Net Position
Last Ten Fiscal Years

	2016	2015	2014	2013	2012
Operating Revenues	$ 12,305,439	$ 11,850,841	$ 10,744,312	$ 11,526,052	$ 10,469,338
Operating Expenses	17,820,239	16,901,749	16,703,301	15,738,220	17,677,977
Operating Income (Loss)	(5,514,800)	(5,050,908)	(5,958,989)	(4,212,168)	(7,208,639)
Non-operating Revenues	14,416,430	27,703,303	8,482,186	6,054,793	5,141,787
Non-operating Expenses	1,214,952	1,335,646	1,535,497	1,356,772	2,389,888
Increase (Decrease) in Net Position	$ 7,686,678	$ 21,316,749	$ 987,700	$ 485,853	$ (4,456,740)



Source: Victor Valley Wastewater Reclamation Authority

Victor Valley Wastewater Reclamation Authority
Changes in Net Position
Last Ten Fiscal Years

2011	2010	2009	2008	2007	
$ 10,616,850	$ 9,715,020	$ 7,313,826	$ 6,339,380	$ 5,169,936	Operating Revenues
14,933,992	14,302,713	12,725,823	11,371,846	10,879,437	Operating Expenses
(4,317,142)	(4,587,693)	(5,411,997)	(5,032,466)	(5,709,501)	Operating Income (Loss)
5,041,540	3,636,256	4,787,060	9,268,289	14,106,774	Non-operating Revenues
572,285	304,779	277,858	179,027	422,878	Non-operating Expenses
$ 152,113	$ (1,256,216)	$ (902,795)	$ 4,056,796	$ 7,974,395	Increase (Decrease) in Net Position

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY
Revenues by Source
Last Ten Fiscal Years

	Operating Revenues				Non-Operating Revenues										Combined Revenues
Fiscal Year	Service Charges	Septage Receiving Facility Fees	Pretreatment Permit Fees	Total Operating Revenues	Investment Income	Connection Fees	Other Non-Operating Revenues	FEMA Reimbursement*	Title 16 Grant	Proposition 1 Grant	Proposition 84 Grant	Water Recycling Grant	Loan Forgiveness	Total Non-Operating Revenues	
2016	$ 11,645,881	$ 604,958	$ 54,600	$ 12,305,439	$ 32,096	$ 1,146,089	$ 37,810	$ 2,396,510	$ 1,899,930	$ 4,189,343	$ 3,000,000	$ 1,714,652	$ -	$ 14,416,430	$ 26,721,869
2015	11,260,317	538,367	52,157	11,850,841	25,627	1,387,175	81,403	24,544,825	1,637,192	-	-	27,081	-	27,703,303	39,554,144
2014	10,695,640	390,682	48,672	11,134,994	34,881	1,524,577	169,664	6,256,569	105,813	-	-	-	-	8,091,504	19,226,498
2013	11,480,756	190,261	45,296	11,716,313	23,236	1,620,728	51,616	1,047,586	121,366	-	-	-	3,000,000	5,864,532	17,580,845
2012	10,422,738	197,688	46,600	10,667,026	35,698	2,012,423	124,650	1,685,630	1,085,698	-	-	-	-	4,944,099	15,611,125
2011	10,570,050	256,828	46,800	10,873,678	90,544	2,205,637	43,732	2,444,799	-	-	-	-	-	4,784,712	15,658,390
2010	9,665,620	279,947	49,400	9,994,967	122,022	3,166,772	67,515	-	-	-	-	-	-	3,356,309	13,351,276
2009	7,265,926	221,227	47,900	7,535,053	324,526	4,138,678	102,629	-	-	-	-	-	-	4,565,833	12,100,886
2008	6,284,859	229,457	54,521	6,568,837	866,983	8,120,414	51,435	-	-	-	-	-	-	9,038,832	15,607,669
2007	5,112,839	263,572	57,097	5,433,508	1,571,494	12,220,994	50,714	-	-	-	-	-	-	13,843,202	19,276,710

*VVWRA will be reimbused 93.75% of the extraordinary expenses incurred during FY 15-16 through FEMA and Cal EMA.
Source: Victor Valley Wastewater Reclamation Authority's Statements of Revenues, Expenses and Changes in Net Position

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY
Expenses by Function
Last Ten Fiscal Years

	Operating Expenses						Total Non-Operating Expenses	Combined Expenses
Fiscal Year	Personnel	Maintenance	Operations	Administration	Depreciation	Total Operating Expenses		
2016	$ 5,090,845	$ 1,892,127	$ 2,359,892	$ 1,831,796	$ 6,645,579	$ 17,820,239	$ 1,214,952	$ 19,035,191
2015	4,610,511	1,902,719	1,865,289	1,734,702	6,788,528	16,901,749	1,335,646 *	18,237,395
2014	4,475,438	1,647,896	2,183,544	1,784,021	6,612,402	16,703,301	1,535,497 *	18,238,798
2013	4,386,713	1,377,024	2,169,317	2,044,400	5,760,766	15,738,220	1,356,772	17,094,992
2012	4,398,077	3,041,988	2,828,368	1,788,697	5,620,847	17,677,977	2,389,888	20,067,865
2011	4,356,129	883,688	2,521,414	1,498,077	5,674,684	14,933,992	572,285	15,506,277
2010	4,596,477	652,862	2,023,628	1,365,467	5,664,279	14,302,713	304,779	14,607,492
2009	4,474,015	732,973	1,875,436	1,181,150	4,462,249	12,725,823	277,858	13,003,681
2008	4,419,337	784,284	2,272,964 *	1,367,791	2,527,470	11,371,846	179,027 *	11,550,873
2007	3,918,181	790,971	1,984,220 *	1,505,230	2,680,835	10,879,437	422,878 *	11,302,315

*Per prior year adjustment

Source: Victor Valley Wastewater Reclamation Authority’s Statements of Revenues, Expenses and Changes in Net Position

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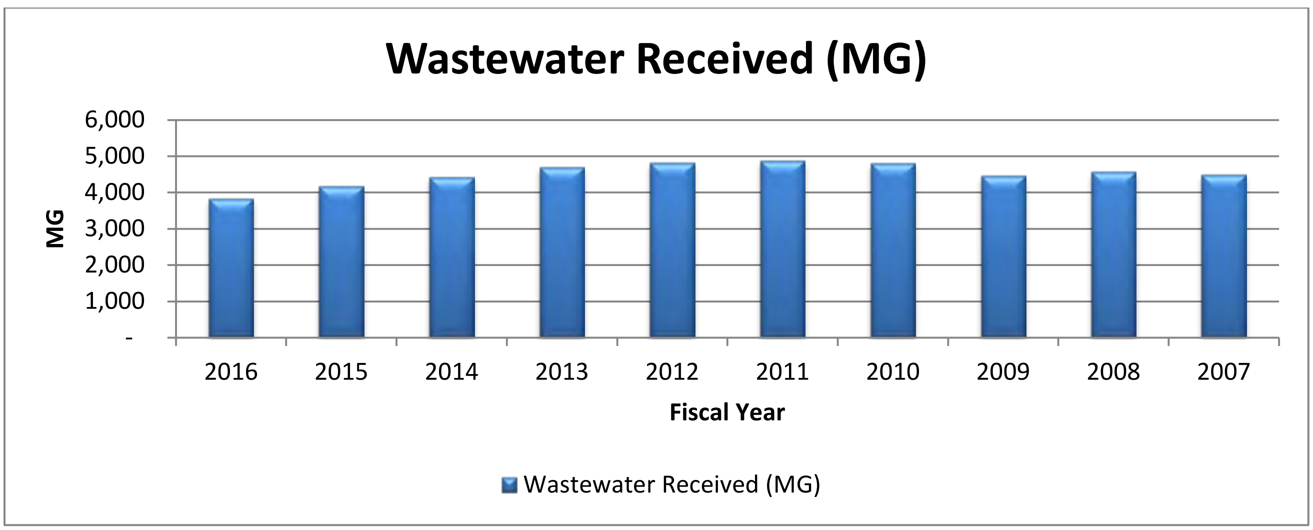
Victor Valley Wastewater Reclamation Authority

Revenue Base

Last Ten Fiscal Years

Fiscal Year	Wastewater Received (MG)*
2016	3,834
2015	4,171
2014	4,423
2013	4,704
2012	4,821
2011	4,881
2010	4,805
2009	4,465
2008	4,568
2007	4,502

*MG = Million Gallons



Source: Victor Valley Wastewater Reclamation Authority

Victor Valley Wastewater Reclamation Authority

Principal Customers

Last Ten Fiscal Years

	2016		2015		2014	
	Wastewater Received (MG)*	Percentage of Total	Wastewater Received (MG)	Percentage of Total	Wastewater Received (MG)	Percentage of Total
San Bernardino County	219	5.7%	233	5.6%	287	6.5%
Apple Valley	644	16.8%	672	16.1%	611	13.8%
Hesperia	694	18.1%	697	16.7%	752	17.0%
Victorville	2,277	59.4%	2,569	61.6%	2,576	58.2%
Principal Customers Total	3834	100.0%	4,171	100.0%	4,226	95.5%
Total Water Received	3834	100.0%	4,171	100.0%	4,423	100.0%

	2013		2012		2011	
	Wastewater Received (MG)	Percentage of Total	Wastewater Received (MG)	Percentage of Total	Wastewater Received (MG)	Percentage of Total
San Bernardino County	306	6.5%	528	11.0%	322	6.6%
Apple Valley	650	13.8%	666	13.8%	692	14.2%
Hesperia	799	17.0%	819	17.0%	818	16.8%
Victorville	2,739	58.2%	2,808	58.2%	3,049	62.4%
Principal Customers Total	4,494	95.5%	4,821	100.0%	4,881	100.0%
Total Water Received	4,704	100.0%	4,821	100.0%	4,881	100.0%

Victor Valley Wastewater Reclamation Authority

Principal Customers

Last Ten Fiscal Years

	2010		2009		2008	
	Wastewater Received (MG)	Percentage of Total	Wastewater Received (MG)	Percentage of Total	Wastewater Received (MG)	Percentage of Total
San Bernardino County	290	6.3%	280	6.3%	269	5.9%
Apple Valley	719	15.6%	698	15.6%	724	15.8%
Hesperia	608	13.2%	588	13.2%	622	13.6%
Victorville	2,990	64.9%	2,899	64.9%	2,953	64.7%
Principal Customers Total	4,607	100.0%	4,465	100.0%	4,568	100.0%
Total Water Received	4,805	95.9%	4,465	100.0%	4,568	100.0%

	2007		2006	
	Wastewater Received (MG)	Percentage of Total	Wastewater Received (MG)	Percentage of Total
San Bernardino County	327	7.3%	283	6.3%
Apple Valley	620	13.8%	718	16.0%
Hesperia	621	13.7%	556	12.4%
Victorville	2,934	65.2%	2,943	65.3%
Principal Customers Total	4,502	100.0%	4,500	100.0%
Total Water Received	4,502	100.0%	4,500	100.0%

*MG=Million Gallons

Source: Victor Valley Wastewater Reclamation Authority

Victor Valley Wastewater Reclamation Authority

Revenue Rate

Last Ten Fiscal Years

Fiscal Year	Service Charges ($/MG)*	Connection Fees ($/EDU)**
2016	$3,004	$4,000
2015	2,756	4,000
2014	2,528	3,750
2013	2,528	3,750
2012	2,200	3,750
2011	2,200	3,750
2010	2,100	3,750
2009	1,614	3,215
2008	1,353	3,215
2007	1,065	3,215

*MG = Million Gallons

**EDU = Equivalent Dwelling Unit (245 gallons/day or 20 fixture units)

Source: Victor Valley Wastewater Reclamation Authority

	High Strength Surcharge Rates ($/LB)		
Fiscal Year	**BOD**	**TSS**	**NH3**
2016	$0.2701	$0.2333	$2.6887
2015	0.2989	0.2336	2.9252
2014	0.2318	0.2057	2.9118
2013	0.3231	0.1842	3.2876
2012	0.2812	0.1603	2.8611
2011	0.2671	0.1520	3.0159
2010	0.1419	0.0785	1.0963
2009	0.1419	0.0785	1.0963
2008	0.1419	0.0785	1.0963
2007	0.1419	0.0785	1.0963

Source: Victor Valley Wastewater Reclamation Authority

Victor Valley Wastewater Reclamation Authority
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	State Revolving Fund Loans	Advances from Member Agencies	California Edison	Cal PERS Side Fund	Total Debt	Debt Per Capita	As a Share of Personal Income
2016	$ 52,619,607	$ -	$ 223,062	$ -	$ 52,842,669	*	*
2015	29,773,664	-	107,376	-	29,881,040	*	*
2014	25,844,065	-		670,612	26,514,677	93.12	0.28%
2013	24,024,452	-		696,459	24,720,911	87.40	0.28%
2012	25,553,520	-		718,434	26,271,954	93.10	0.29%
2011	13,976,968	-		735,025	14,711,993	52.52	0.18%
2010	11,516,803	2,719,048		748,274	14,984,125	54.45	0.18%
2009	12,351,783	231,252		758,489	13,341,524	49.30	0.23%
2008	13,169,331	-		-	13,169,331	49.31	0.16%
2007	13,969,565	-		-	13,969,565	53.00	0.18%

* Data not Available

Source: Victor Valley Wastewater Reclamation Authority
California Department of Finance
State of California Employment Development Department

Victor Valley Wastewater Reclamation Authority
Direct and Overlapping Bonded Debts
For the Fiscal Year Ended June 30, 2016

2015-16 Assessed Valuation: $18,957,274,600

	Total Debt 6/30/16	% Applicable (1)	Authority's Share of Debt 6/30/16	
OVERLAPPING TAX AND ASSESSMENT DEBT:				
Victor Valley Joint Community College District	$138,214,490	71.321%	$ 98,575,956	
Apple Valley Unified School District	27,748,758	84.442	23,431,606	
Victor Valley Union High School District	115,824,205	72.607	84,096,481	
Adelanto School District	8,027,159	43.878	3,522,157	
Oro Grande School District	207,900	68.384	142,170	
Victor School District	57,361,905	97.598	55,984,072	
Mojave Water Agency	10,405,000	61.370	6,385,549	
City Community Facilities Districts	24,555,000	100.	24,555,000	
School District Community Facilities Districts	67,605,000	100.	67,605,000	
Town of Apple Valley 1915 Act Bonds	1,465,000	100.	1,465,000	
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			$365,762,991	
DIRECT AND OVERLAPPING GENERAL FUND DEBT:				
San Bernardino County General Fund Obligations	$435,550,000	10.101%	$ 43,994,906	
San Bernardino County Pension Obligation Bonds	419,370,824	10.101	42,360,647	
San Bernardino County Flood Control District General Fund Obligations	78,165,000	10.101	7,895,447	
Victor Valley Union High School District Certificates of Participation	26,895,000	72.607	19,527,653	
Apple Valley Unified School District Certificates of Participation	2,970,000	84.442	2,507,927	
Hesperia Unified School District Certificates of Participation	96,945,000	91.684	88,883,054	
Snowline Joint Unified School District Certificates of Participation	66,300,000	16.352	10,841,376	
Oro Grande School District Certificates of Participation	39,665,000	68.384	27,124,514	
Adelanto School District Certificates of Participation	8,920,000	43.878	3,913,918	
Victor School District Certificates of Participation	2,710,000	97.598	2,644,906	
Town of Apple Valley General Fund Obligations	9,460,000	100.	9,460,000	
City of Hesperia Certificates of Participation	37,140,000	100.	37,140,000	
Victor Valley Wastewater Reclamation Authority	**0**	**100.**	**0**	
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT			$296,294,348	
OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):	$536,314,925	86.710-100. %	$495,249,499	
TOTAL AGENCY DEBT			**$0**	
TOTAL OVERLAPPING DEBT			$1,157,306,838	
COMBINED TOTAL DEBT			$1,157,306,838	(2)

(1) Percentage of overlapping debt applicable to the authority is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed values within the boundaries of the authority divided by the district's total taxable assessed value..

(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Ratios to 2015-16 Assessed Valuation:
Total Overlapping Tax and Assessment Debt.. 1.93%
Total Direct Debt.. 0.00%
Combined Total Debt 6.10%

Ratios to Redevelopment Successor Agencies Incremental Valuation ($7,477,413,896):
Total Overlapping Tax Increment Debt... 6.62%

AB:($425)

Victor Valley Wastewater Reclamation Authority

Demographic and Economic Statistics

Last Ten Calendar Years

Calendar Year	Population in Service Area[1]	Personal Income (In Millions)	Personal Income Per Capita [2]	Unemployment Rate [2]
2015	291,392	*	*	5.7%
2014	284,741	$9,366	$32,892	8.10%
2013	282,851	$8,962	$31,683	10.10%
2012	282,204	$9,051	$32,072	12.00%
2011	280,125	$8,466	$29,998	13.20%
2010	275,211	$8,148	$29,609	14.20%
2009	270,616	$5,897	$21,792	13.00%
2008	267,057	$8,109	$30,363	8.00%
2007	263,558	$7,845	$29,764	5.60%

* Data Not Available per

Service Area Population by Cities

Calendar Year	Apple Valley [1]	Victorville [1]	Hesperia [1]
2015	74,656	123,510	93,226
2014	71,396	121,168	92,177
2013	70,755	120,590	91,506
2012	70,436	120,368	91,400
2011	70,033	119,059	91,033
2010	69,135	115,903	90,173
2009	70,040	112,097	88,479
2008	69,748	109,268	88,041
2007	69,622	106,716	87,220

* Data Not Available

Note 1: VVWRA also serves County of San Bernardino, No. 42 (Oro Grande), No. 64 (Spring Valley Lake), and Mojave Narrows. The population in service area represents most of the population in the area that VVWRA serves.

Note 2: Personal income for the service area is calculated by multiplying the population in the service area by Personal Income Per Capita.

[1] California Department of Finance and U.S. Census Bureau
[2] State of California Employment Development Department (Data shown is for the County)

Victor Valley Wastewater Reclamation Authority

Principal Employers

For the Fiscal Year Ended June 30, 2016

Employer	Business Category	Member Entity
St. Mary Medical Center	Health	Apple Valley
Apple Valley Unified School District	Education	Apple Valley
Walmart Distribution Center	Distribution	Apple Valley
Target Stores, Inc (2 stores)	Retail	Apple Valley
Stater Bros. (2 stores)	Grocery	Apple Valley
Walmart Store	Retail	Apple Valley
WinCo Foods	Grocery	Apple Valley
Lowe’s Home Improvement Warehouse	Distribution	Apple Valley
Town of Apple Valley	Government	Apple Valley
The Home Depot	Retail	Apple Valley
Hesperia Unified School District	Education	Hesperia
County of San Bernardino	Government	Hesperia
Stater Bros. Markets (3 stores)	Grocery	Hesperia
Super Target	Retail	Hesperia
City of Hesperia	Government	Hesperia
Arizona Pipeline Company	Pipe Fabricator	Hesperia
Robar Enterprises	Cement/Steel	Hesperia
Hesperia Recreation and Park District	Government	Hesperia
Double Eagle Transportation	Trucking / Repairs	Hesperia
In-N-Out (2 locations)	Restaurant	Hesperia
K-Mart	Retail	Hesperia
Walmart Store	Retail	Hesperia
Wood Grill Buffett	Restaurant	Hesperia
TXI Cement	Cement	CSA No. 42 – Oro Grande
Victor Valley College	Education	Victorville
Desert Valley Hospital / Medical Group	Health	Victorville
Verizon	Utility – telephone	Victorville
Victor Valley Union High School District	Education	Victorville
Victor Elementary School District	Education	Victorville
Federal Correction Complex Victorville	Prison	Victorville
Victor Valley Community Hospital	Health	Victorville
City of Victorville	Government	Victorville
Victorville Aerospace	Aviation	Victorville
Newell Rubbermaid	Distribution	Victorville
Goodyear	Distribution	Victorville
Southern California Aviation	Aviation	Victorville
Leading Edge	Aviation	Victorville
Nutro Foods	Pet Food Processing	Victorville

Note: Total number of employees for each employer is unavailable.

Source: Victor Valley Economic Development Authority

Victor Valley Wastewater Reclamation Authority
Investment In Capital Assets
Last Ten Fiscal Years

	2016	2015	2014	2013
Land	$ 779,136	$ 779,136	$ 650,136	$ 650,136
Land Improvements	9,630,803	9,421,375	7,792,390	7,757,640
Plant Buildings	132,421,707	131,778,715	131,601,527	112,079,795
Interceptor Lines	27,606,672	27,606,672	27,606,672	27,606,672
Office	766,585	530,213	530,213	465,609
Trucks/Auto	911,116	911,116	911,116	858,726
Construction in Progress (1)	79,877,599	42,492,810	11,960,240	25,896,952
Accumulated Depreciation	(79,302,192)	(72,656,613)	(65,868,085)	(59,279,888)
Total	$ 172,691,426	$ 140,863,424	$ 115,184,209	$ 116,035,642

Notes:

(1) Construction in progress significantly decreased in Fiscal Years 2009 due to project completion of 14 .5 MGD expansion and 18 MGD Plant. These projects were completed on July 2008 and April 2009.

(1) Construction in progress significantly increased in Fiscal Years 2015 and 2016 due to the construction of Upper Narrows Pipeline and Subregional Water Reclamation Plants in Hesperia and Apple Valley.

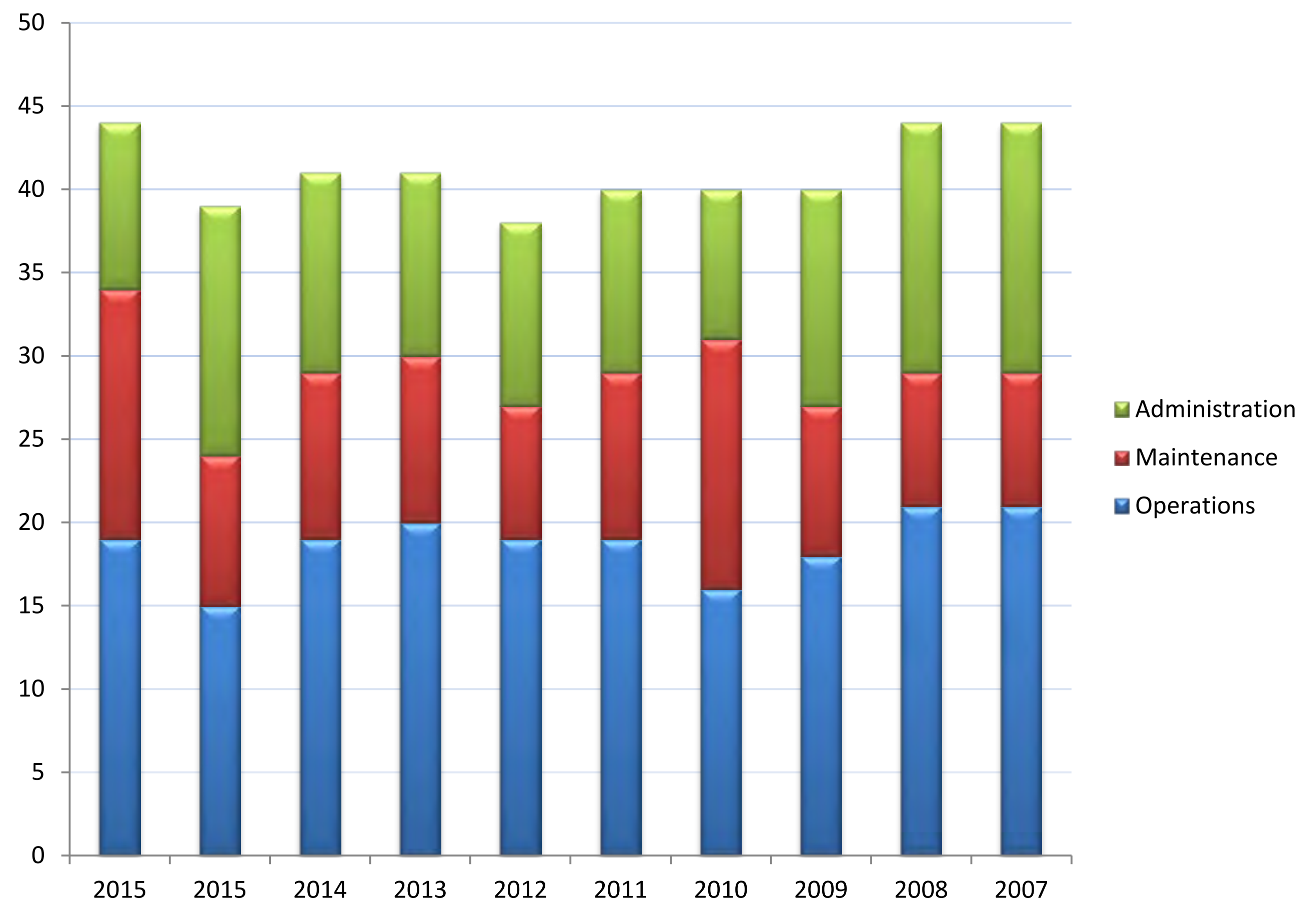
Source: Victor Valley Wastewater Reclamation Authority

Victor Valley Wastewater Reclamation Authority
Investment In Capital Assets
Last Ten Fiscal Years

2012	2011	2010	2009	2008	2007	
$ 650,136	$ 650,136	$ 650,136	$ 650,136	$ 650,136	$ 650,136	Land
7,757,640	7,757,640	7,564,164	7,538,664	377,023	365,523	Land Improvements
105,576,501	105,387,194	104,419,502	104,016,298	61,318,022	58,685,778	Plant Buildings
27,606,672	24,510,412	23,619,909	23,333,909	23,351,353	21,860,479	Interceptor Lines
406,239	406,239	406,239	373,633	481,875	368,392	Office
858,726	814,281	708,755	684,364	798,709	764,640	Trucks/Auto
28,349,200	15,130,636	11,567,209	8,283,392	54,403,063	42,301,930	Construction in Progress (1)
(53,519,122)	(48,363,376)	(42,688,692)	(37,029,082)	(34,037,861)	(31,644,469)	Accumulated Depreciation
$ 117,685,992	$ 106,293,162	$ 106,247,222	$ 107,851,314	$107,342,320	$93,352,409	Total

Victor Valley Wastewater Reclamation Authority
Full-Time Equivalent Employees by Function
Last Ten Fiscal Years

	2015	2015	2014	2013	2012	2011
Operations	19	15	19	20	19	19
Maintenance	15	9	10	10	8	10
Administration	10	15	12	11	11	11
Total	44	39	41	41	38	40



Source: Victor Valley Wastewater Reclamation Authority

Victor Valley Wastewater Reclamation Authority
Full-Time Equivalent Employees by Function
Last Ten Fiscal Years

2010	2009	2008	2007	
16	18	21	21	Operations
15	9	8	8	Maintenance
9	13	15	15	Administration
40	40	44	44	Total

Throughout the last three years Victor Valley Wastewater Reclamation Authority (VVWRA) has identified areas in which to improve its operational reliability and efficiency, financial policies and procedures and capital improvement plans. Part of our ongoing effort is to track those improvements and make sure that when change occurs that it is incorporated in to our organizational structure. Benchmarking is a measurement tool used to track the Authority's progress towards achieving its goals. The process encourages transparency, innovation and accountability. Not surprisingly, the Authority has received numerous awards at both local and state levels recognizing its achievements in wastewater treatment and financial reporting. These analyses are included in the Authority's Comprehensive Annual Financial Report and used for financial planning purposes related to budget and evaluating financing options.

Benchmarking is akin to a self evaluation. It is an excellent tool to build credibility, but it is also important given VVWRA's increasing role as a part of the broader water solution locally and statewide. The California Water Plan Update 2005 sets forth statewide goals and provides that sustainability of our water supplies to 2030 will require three actions:

1. Use water efficiently
2. Protect water quality
3. Manage water in ways that protect and restore the environment

VVWRA is actively pursuing these three goals within its service areas and within its organizational culture. To attain these goals, the Capital Improvement Plan (CIP) includes three elements in each project to improve and meet (1) the capacity, (2) performance efficiency and (3) regulatory needs for wastewater treatment for its Member Agencies.

As any good steward of our limited resources would do, we have conducted a benchmarking analysis to identify areas where VVWRA could improve its operation. The primary objective is to create a performance measurement system to evaluate and improve the Authority's operational efficiency. The manual "Benchmarking, Performance Indicators for Water and Wastewater Utilities: 2012 Annual Survey Data and Analysis Report" was utilized as an industry standard reference. The manual is published by the American Water Works Association (AWWA), a national organization dedicated to promoting sound water policy.

Due to the variety of agencies and governing structures utilized across the state and nation to perform wastewater treatment, several indices are used to evaluate performance objectively. Where a dollar value is attributed to an index, the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers (CPI-U) has been used to adjust for inflation. The CPI-U is 0.7% for 2015 and 0.8% for 2014. We have adjusted the AWWA wastewater performance data with 2015 CPI-U.

Four indices were chosen which provide a broad perspective on the operational efficiency of VVWRA, these include:

1. **Sewer Overflow Rate**: the purpose of this indicator is to provide "…a measure of collection system piping condition and the effectiveness of routine maintenance by quantifying the number of sewer overflows per 100 miles of collection piping."

a. Reporting period: Fiscal Year 2015-2016

b. Source: State Water Resources Control Board, California Integrated Water Quality System Project (CIWQS)

VVWRA Mascot: Mr. Dingle

2. **<u>Million Gallons per Day (mgd) of Wastewater Processed per Employee</u>**: This is a measure of employee productivity and includes <u>all</u> staff.

    a. Reporting Period: Fiscal Year 2015-2016

    b. Source: Actual inflow data measured by VVWRA and data provided by Member Agencies and other users.

    c. Source: based on actual employee numbers as of June 30, 2016

3. **<u>Operations and Maintenance Cost per Million Gallons Processed</u>**:

    This represents the total operations and maintenance costs (without depreciation) divided by the volume processed during the year.

    a. Reporting Period: Fiscal Year 2015-2016

    b. Source: Actual inflow data measured by VVWRA and data provided by Member Agencies and other users.

    c. Source: VVWRA Audited Financial Statements June 30, 2016, pages 12

4. **<u>Debt Ratio</u>**: It quantifies the utilities level of indebtedness.

    a. Reporting Period: Fiscal Year 2015-2016

    b. Source: VVWRA Audited Financial Statements June 30, 2016, page 11

The performance indicators are analyzed, comparing to wastewater facilities that are nationwide, West States Region IV, and serving a population size of 100,001 to 500,000.

There are significant regional variations due to population, regulatory complexity and the cost of living associated with wastewater treatment. West States Region IV consists of Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, New Mexico, Nevada, Oregon, Utah, Washington, and Wyoming.

Sewer Overflow Rate

Nationwide

	Top Quartile	Median	Bottom Quartile	**VVWRA FY 15/16**
Sewer Overflow Rate	0.7	2.2	3.3	**11.1**

West States Region IV

	Top Quartile	Median	Bottom Quartile	**VVWRA FY 15/16**
Sewer Overflow Rate	*Data Not Available*	0.7	2.4	**11.1**

Population 100,001-500,000

	Top Quartile	Median	Bottom Quartile	**VVWRA FY 15/16**
Sewer Overflow Rate	0.6	1.6	4.4	**11.1**

VVWRA's Sewer Overflow Rate is 11.1. VVWRA had five reported spill at the Upper Narrows Emergency Bypass Site during fiscal year 2016. VVWRA is nearly finishing the construction of a permanent interceptor to replace the temporary bypass line that was constructed in fiscal year 2011 to divert the wastewater flow from a damaged interceptor. In addition, VWRA is in the process of contracting the Sub-regional wastewater treatment plants in Apple Valley and Hesperia. The Capital Improvement Plan requires a multi-million dollar funding to address the construction needs.

Upper Narrows replacement interceptor construction in progress

Million Gallons per Day of Wastewater Processed per Employee

Nationwide

	Top Quartile	Median	Bottom Quartile	**VVWRA FY 15/16**
MGD Wastewater processed per employee	0.39	0.23	0.20	**0.24**

West States Region IV

	Top Quartile	Median	Bottom Quartile	**VVWRA FY 15/16**
MGD Wastewater processed per employee	0.31	0.23	0.14	**0.24**

Population 100,001-500,000

	Top Quartile	Median	Bottom Quartile	**VVWRA FY 15/16**
MGD Wastewater processed per employee	0.29	0.22	0.18	**0.24**

VVWRA places between the top and median quartiles of the Nationwide, West States categories, and the population category.

Operations and Maintenance Cost per Million Gallons Processed

Nationwide

	Top Quartile	Median	Bottom Quartile	**VVWRA FY 15/16**
O&M Cost per MG Processed	*Data Not Available*	$2,472	*Data Not Available*	**$2,914**

West States Region IV

	Top Quartile	Median	Bottom Quartile	**VVWRA FY 15/16**
O&M Cost per MG Processed	$1,723	$4,050	$5,889	**$2,914**

Population 100,001-500,000

	Top Quartile	Median	Bottom Quartile	**VVWRA FY 15/16**
O&M Cost per MG Processed	$1,819	$3,001	$4,388	**$2,914**

VVWRA is performing between the median and the top quartile in the West States and the population categories however better than the median quartile nationally. Unfortunately the numbers generated as indices in the AWWA Benchmarking analysis did not differentiate basis upon level of treatment or regulatory requirements. There were also significant differences in personnel costs in the Midwest and South which may have skewed the National Results.

Debt Ratio

Nationwide

	Top Quartile	Median	Bottom Quartile	**VVWRA FY 15/16**
Debt Ratio (%)	*Data Not Available*	22	*Data Not Available*	**36**

West States Region IV

	Top Quartile	Median	Bottom Quartile	**VVWRA FY 15/16**
Debt Ratio (%)	18	33	56	**36**

Population 100,001-500,000

	Top Quartile	Median	Bottom Quartile	**VVWRA FY 15/16**
Debt Ratio (%)	23	32	44	**36**

The Authority's debt ratio is below the median quartile when compared to all categories.

Average Cost per Employee

A final analysis is needed to determine how VVWRA's personnel cost compares to southern California agencies. The results indicate that the VVWRA's median per employee cost was approximately $115,701, showing that VVWRA's personnel cost was one of the lowest. See next page.

Victor Valley Wastewater Reclamation Authority
Operating and Capital Indicators (Facts and Figures)
June 30, 2016

Financial and Statistical summary of Selected Wastewater Agencies – Year Ended June 30, 2015							
Wastewater Agencies	Arrowhead	**VVWRA**	Big Bear RWA	Inland Empire	Encina WA	Leucadia WD	Orange County San. Dist.
Cost of Services	$6,063,334	**$5,090,845**	$1,954,560	$40,610,000	$9,939,460	$2,711,943	$100,413,600
Positions	54.25	**44**	16	328	74	19	626
Average personnel cost per position	$111,767	**$115,701**	$122,160	$123,811	$134,317	$142,734	$160,405

Sources: VVWRA's cost of services and personnel cost are **actual** for the fiscal year ended June 30, 2016, while data for other agencies are from their **budgets** for June 30, 2016.

Discussion

Operations at the plant

As the data above indicates, VVWRA's performance seems to be at average or better. There is always room for improvement which is why VVWRA routinely evaluates its performance efficiency to reduce costs and considers alternatives to costly upgrades to address regulatory requirements. The Authority has an approved CIP which is designed to address capacity issues within the interceptor system. These projects include Sub-regional facilities and interceptor upgrades. The Authority is also uniquely positioned in the High Desert to address potable water shortages through improved use of reclaimed water. VVWRA is not unique in this respect, the Little Hoover Commission produced a report in January 2009 dealing with the California water situation and organizational challenges. The report states, in pertinent part:

And while implementation of the Federal Clean Water Act and the state's Porter-Cologne Water Quality Control Act, the two key laws governing water quality, have made profound improvements in wastewater treatment discharges, wastewater remains a critical statewide problem. Local governments, representing small, poor communities as well as larger, richer urban areas, are struggling to pay for upgrades needed to protect the state's waters and ensure they are safe to swim in, fish in or drink. An EPA report noted that California would need to spend more than $18 billion to properly upgrade and expand wastewater treatment.

Wastewater Treatment Plant at night

VVWRA is aggressively pursuing funds to meet the needs of the Member Agencies and the State Regulatory Agencies and to ensure that the communities it serves continue to have reliable wastewater treatment and a source of reclaimed water. The first key step is obvious: to manage the assets the Authority currently operates as efficiently as possible. The second step is to incorporate elements of sustainable land use planning which are exemplified within the Ahwahnee Water Principles, specifically Water Principle 7-Water Recycling. The reuse of "waste" water is an opportunity for the community to diversify their water portfolios and create a drought proof supply of water to meet landscape irrigation, industrial and commercial needs. Furthermore, since reuse began in 1929 in California, not one single health problem has been reported. VVWRA will continue to partner with the Member Agencies to promote the local reuse of wastewater while actively seeking the resources to provide reliable wastewater treatment services.

In addition to this benchmarking analysis, VVWRA will be preparing itself for the future through a strategic planning and continuous improvement process. All managerial staff has reviewed a book entitled, "Managing the Water and Wastewater Utility" with the goal of producing a Business Plan to help guide the Authority as issues arise. The purpose is to continuously create an organization which proactively recognizes problems and addresses them early rather than reacting to them once they have occurred and responding to the fallout. The book states the goals of this process will be to:

1. Respond to external threats to the utility;
2. Seize opportunities presented by technological, financial, or political change to the advantage of the customers we serve;
3. Maximize the quality of customer service within available resources;
4. Cut costs, while providing excellent customer service;
5. Maintain or improve the safety and quality of employee work life; and
6. Create an organization that will continuously improve and revitalize itself in response to an ever-changing world.

Through a process of self evaluation and creative problem solving, VVWRA intends to meet the needs of the Member Agencies while serving the broader community. It would assist VVWRA in this process if any of the Member Agencies conduct their own benchmarking analysis and they would be willing to share it with us in confidence. This approach would ensure that our effort mirrors theirs such that comparable results are generated. The ultimate goal is to plan and create an organization capable of responding to our local issues and needs while keeping in mind the broader policy issues which may impact our ability to execute our goals locally.