Victor Valley Wastewater
Reclamation Authority

Taking the Waste Out of Wastewater

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2013 and 2012

Administrative Office: 15776 Main St. Suite 3, Hesperia, CA 92345

Treatment Plant: 20111 Shay Rd., Victorville, CA 92394 www.vvwra.com

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Victor Valley Wastewater Reclamation Authority

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2013 and 2012

Prepared by:

The Victor Valley Wastewater Reclamation Authority
Finance Department

15776 Main Street, Suite 3, Hesperia, California 92345
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Victor Valley Wastewater Reclamation Authority
Annual Financial Report
For the Fiscal Years Ended June 30, 2013 and 2012

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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

15776 Main Street, Suite 3, Hesperia, CA 92345
Telephone: (760) 948-9849
Fax: (760) 948-9897

November 18, 2013

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 year ended June 30, 2013.

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 Charles Z. Fedak & Company, CPA's, 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 year ended June 30, 2013 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 year ended June 30, 2013 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.

Percolation Pond

The Authority is now a Joint Powers Authority and public agency of the State of California. Over the years, the Authority has completed treatment plant upgrades and several capacity increases.

The regional treatment plant is currently capable of treating a portion of the flow to a tertiary level and the remaining flow to a secondary level for percolation. A majority of the highly treated wastewater is discharged into the Mojave River Basin and a smaller amount is currently used to irrigate landscaping at the treatment plant and the nearby Westwinds Golf Course.

Governance

The Authority is a quasi-governmental agency called a Special District of the State of California. It is not regulated by the Public Utilities Commission but governed by a Board of four Commissioners who are publicly elected for a four-year term from each Member Agency. The Authority's affairs are bound by a joint powers agreement 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 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 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.
- 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) long-term financial planning.

Local Economy
A significant portion of the economy is dependent upon affordable housing enticing commuters to the High Desert. San Bernardino County is in the midst of a foreclosure cycle unlike anything the regional economy has previously experienced. The less active housing development has impacted new application of connections to our sewer systems.

It is the hope of many community leaders to entice businesses to the High Desert to lessen the impact when the economy faces a downturn. Notable projects include the industrial base being developed at the Southern California Logistics Airport (SCLA), the I-15 corridor project for the City of Hesperia and the largest undeveloped industrial zone in California located in the Town of Apple Valley. These projects will require water. It is hoped that reclaimed water provided by the Authority will play a significant role in their creation and success.

Long-Term Financial Planning
The future of the Authority and the Member Agencies is inexorably tied to providing reclaimed water as an inexpensive alternative to importing additional potable supplies. The Authority's staff remains committed to the creative process whereby the needs of the Member Agencies are fulfilled while responding to the concerns of the residents. Through this interactive approach it is hoped that consensus will be achieved allowing the Capital Improvement Plan to proceed while concurrently correcting the long term operational structural deficit.

Major Initiatives

The Authority is faced with significant capital expenditures over the next 20 years. It is estimated that over $200 million dollars will be required to upgrade, rehabilitate and expand the interceptor sewer and treatment plant during that time. Construction is underway to rehabilitate and expand the facility to provide nitrification and de-nitrification of the plant to meet strict nitrogen and disinfection by-product requirements.

The Phase III A UV System has been completed in August 2013.

Major Initiatives (continued)

The construction was completed at the end of August of 2013 to replace the chlorine disinfection system with ultraviolet light disinfection, utilizing a biogas scrubbing system, increasing tertiary treatment capacity in the traveling bridge filters.

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 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, in priority order, of the Authority's investment activities are: 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 Basic 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 financial accounting and 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.

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, 2012. 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 generally accepted accounting principles 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.

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 Charles Z. Fedak & Company, CPA's for their effort to prepare the report. We also thank the members of the Board of Commissioners, the Strategic Advisory and External Finance Committee 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, 2012

Jeffrey R. Emer

Executive Director/CEO

Victor Valley Wastewater Reclamation Authority

Board of Commissioners and Management

As of June 30, 2013

Board of Commissioners

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

Management

Logan Olds, General Manager

15776 Main Street, Suite 3
Hesperia, California 92345
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www.vvwra.com

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.

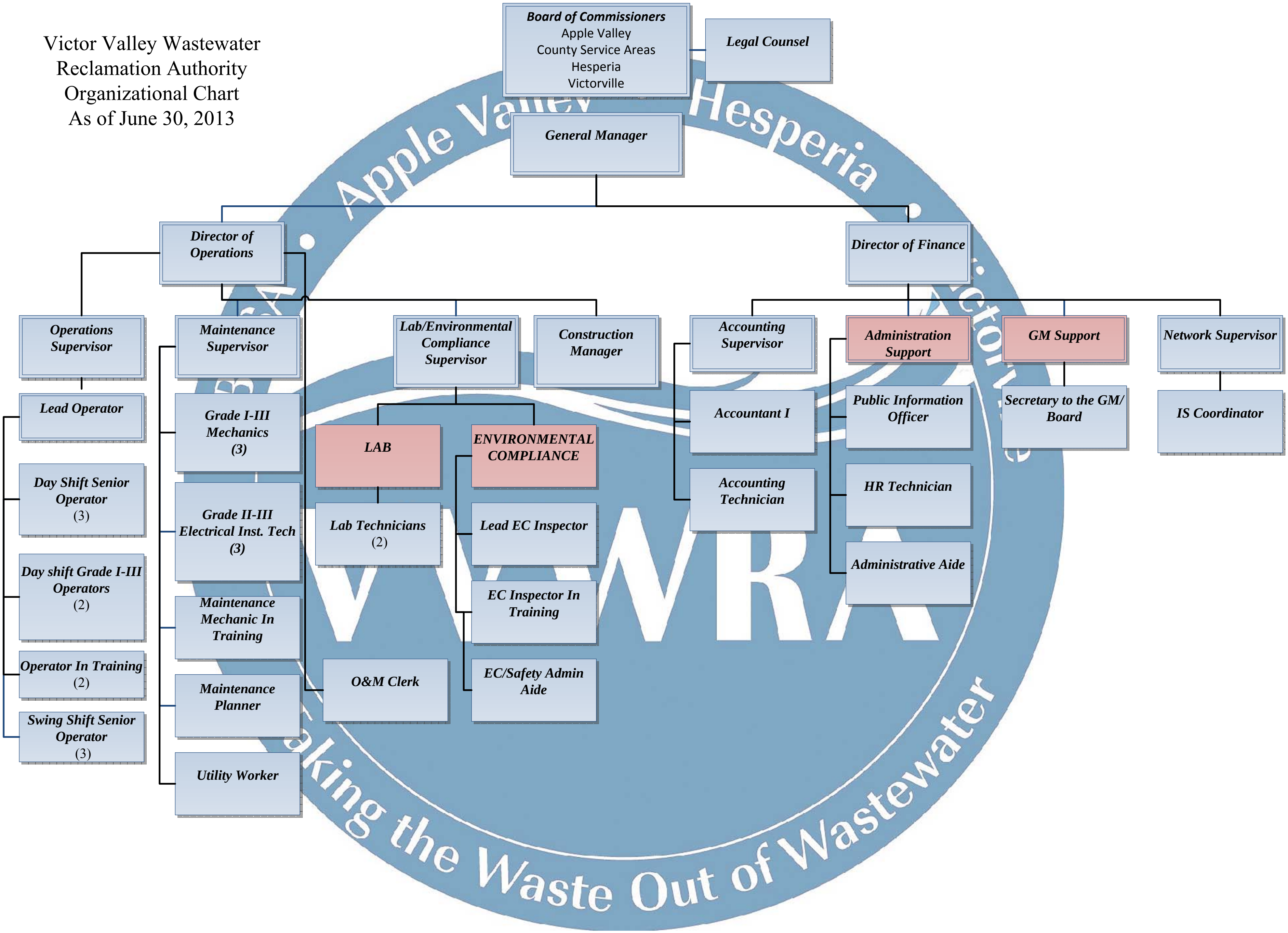
Motivated by…

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

Measured by…

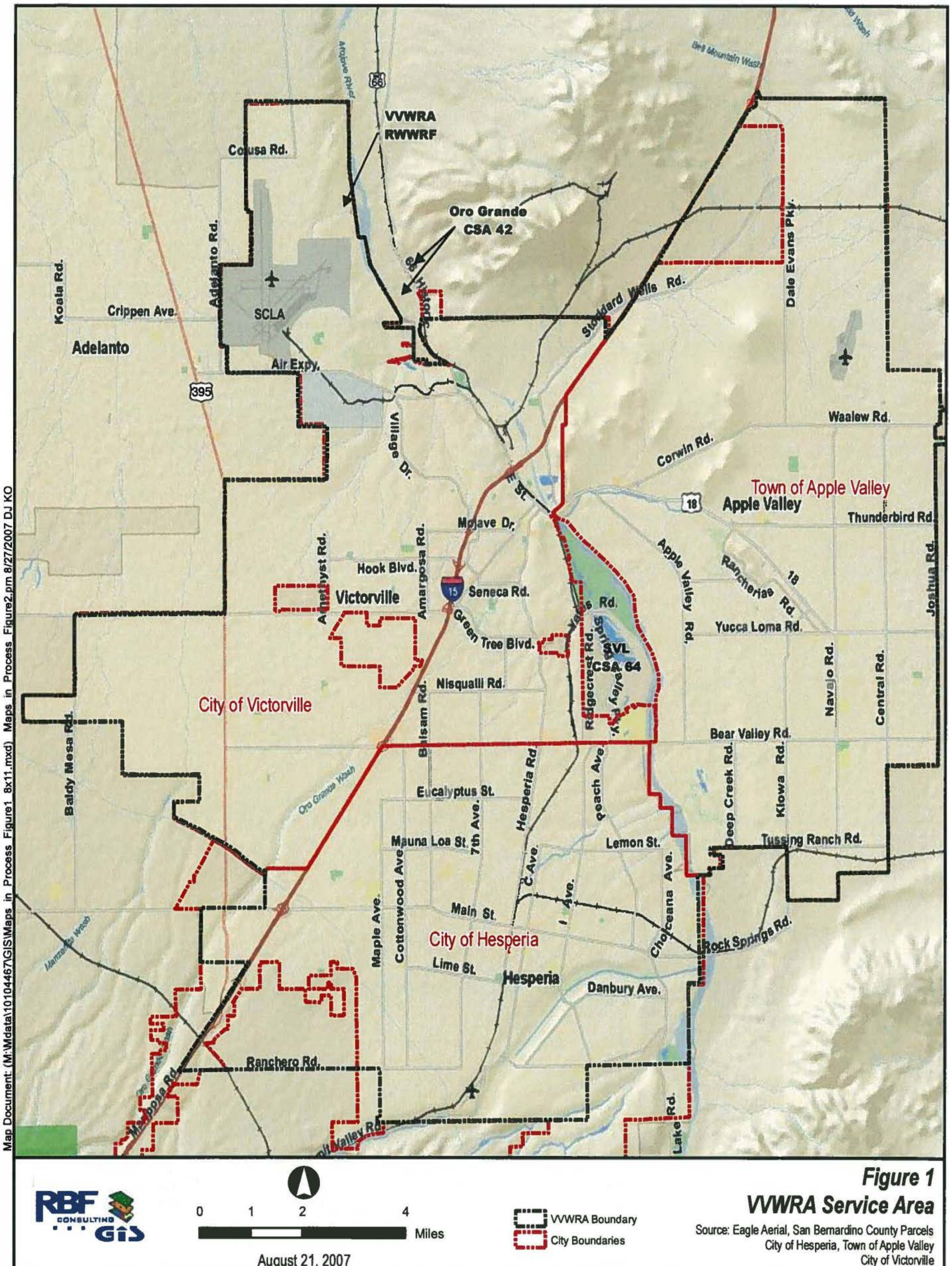
Meeting budgetary goals,
Meeting the standards for regulatory compliance,
The successful completion of projects,
Employee retention, and
A cooperative effort during emergencies.

Victor Valley Wastewater
Reclamation Authority
Organizational Chart
As of June 30, 2013



Victor Valley Wastewater Reclamation Authority

Service Area Map



Financial Section

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Charles Z. Fedak & Company
Certified Public Accountants
An Accountancy Corporation

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Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA
Christopher J. Brown, CPA

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, 2013 and 2012, 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, 2013 and 2012, 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 9 and the required supplementary information on page 34 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 35 through 36 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 18, 2013, 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 37 and 38.

Chas Z Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs – An Accountancy Corporation
Cypress, California
November 18, 2013

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, 2013 and 2012. 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 .5%, or $485,853 to $100,702,112 in fiscal year 2013. In 2012, the Authority's net asset decreased 4.3%, or $4,456,740 to $100,216,259.
- The Authority's operating revenues increased 10.1%, or $1,056,714 in fiscal year 2013 primarily due to a $1,058,018 increase in wastewater service charges. In 2012, the Authority's operating revenues decreased 1.4%, or $147,512, primarily due to a $212,001 decrease in user charges that was partially offset by a $94,669 increase in high strength waste surcharges.
- The Authority's non-operating revenues decreased 26.0%, or $92,923, in fiscal year 2013 primarily due to decreases of $73,034 in other revenues, $12,462 in investment earnings, and $7,427 in septage receiving facility fees. In 2012, the Authority's non-operating revenues decreased 8.5%, or $33,068, primarily due to decreases of $59,140 in septage receiving facility fees and $54,846 in investment earnings, which were offset by an increase of $80,918 in other revenues.
- The Authority's operating expenses before depreciation decreased 17.2%, or 2,079,676 in fiscal year 2013, primarily due to decreases of $1,217,122 in maintenance expenses, $659,051 in operations expenses, $192,139 in general and administration expenses, and $11,364 in salaries and benefits expense. In fiscal year 2012, the Authority's operating expenses before depreciation increased 30.2%, or 2,797,822 in fiscal year 2012, primarily due to increases of $1,710,458 in maintenance expenses, $306,954 in operations expenses, $738,462 in general and administration expenses, and $41,948 in salaries and benefits expense due to maintain and restore operations and functionality as the result of damage caused by the 2011winter storm.
- The Authority's non-operating expenses decreased 43.2%, or $1,033,116 in fiscal year 2013, primarily due to decreases of $700,000 in settlement expense and $336,436 in flood damage expense, which were offset by an increase of $3,320 in interest expense. In 2012, the Authority's non-operating expenses increased 317.6%, or $1,817,603, primarily due to increases of $1,208,652 in flood damage expense and $700,000 in settlement expense, which were offset by a $91,049 decrease in interest expense.

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.

Required Financial Statements, Continued

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 14 through 33.

Statements of Net Position

Condensed Statements of Net Position

	2013	2012	Change	As Restated 2011	Change
Assets:					
Current assets	$ 13,110,007	15,210,469	(2,100,462)	16,210,769	(1,000,300)
Capital asset, net	116,035,642	117,685,992	(1,650,350)	106,293,162	11,392,830
Total assets	129,145,649	132,896,461	(3,750,812)	122,503,931	10,392,530
Liabilities:					
Current liabilities	3,655,262	5,431,005	(1,775,743)	3,156,740	2,274,265
Non-current liabilities	24,788,275	27,249,197	(2,460,922)	14,674,192	12,575,005
Total liabilities	28,443,537	32,680,202	(4,236,665)	17,830,932	14,849,270
Net position:					
Net investment in capital assets	92,011,190	92,132,472	(121,282)	92,316,194	(183,722)
Restricted	2,961,518	2,147,445	814,073	1,166,446	980,999
Unrestricted	5,729,404	5,936,342	(206,938)	11,190,359	(5,254,017)
Total net position	$ 100,702,112	100,216,259	485,853	104,672,999	(4,456,740)

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 $100,702,112 and $100,216,259 as of June 30, 2013, and June 30, 2012, respectively.

By far the largest portion of the Authority's net position (91% and 92% as of June 30, 2013, and 2012, 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.

At the end of fiscal year 2013 and 2012, the Authority showed a positive balance in its unrestricted net assets of $5,729,404 and $5,936,342, respectively. See note 11 for further discussion.

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2013	2012	Change	As Restated 2011	Change
Operations:					
Operating revenues	$ 11,526,052	10,469,338	1,056,714	10,616,850	(147,512)
Operating expenses	9,977,454	12,057,130	(2,079,676)	9,259,308	2,797,822
Net income (loss) from operations	1,548,598	(1,587,792)	3,136,390	1,357,542	(2,945,334)
Depreciation and amortization	(5,760,766)	(5,620,847)	(139,919)	(5,674,684)	53,837
Operating loss	(4,212,168)	(7,208,639)	2,996,471	(4,317,142)	(2,891,497)
Non-operating:					
Non-operating revenues	265,113	358,036	(92,923)	391,104	(33,068)
Non-operating expenses	(1,356,772)	(2,389,888)	1,033,116	(572,285)	(1,817,603)
Non-operating income (loss)	(1,091,659)	(2,031,852)	940,193	(181,181)	(1,850,671)
Net loss before capital contributions	(5,303,827)	(9,240,491)	3,936,664	(4,498,323)	(4,742,168)
Capital contributions:					
Capital grants	4,168,952	2,771,328	1,397,624	2,444,799	326,529
Connection fees	1,620,728	2,012,423	(391,695)	2,205,637	(193,214)
Total capital contributions	5,789,680	4,783,751	1,005,929	4,650,436	133,315
Changes in net position	485,853	(4,456,740)	4,942,593	152,113	(4,608,853)
Net position, beginning of year	100,216,259	104,672,999	(4,456,740)	104,520,886	152,113
Net position, end of year	$ 100,702,112	100,216,259	485,853	104,672,999	(4,456,740)

Statements of Revenues, Expenses and Changes in Net Position, Continued

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

The Authority's net position increased .5%, or $485,853 to $100,702,112, in fiscal year 2013. In 2012, the Authority's net asset decreased 4.3%, or $4,456,740 to $100,216,259.

The Authority's operating revenues increased 10.1%, or $1,056,714, in fiscal year 2013 primarily due to a $1,058,018 increase in wastewater service charges. In 2012, the Authority's operating revenues decreased 1.4%, or $147,512, primarily due to a $212,001 decrease in user charges that was partially offset by a $94,669 increase in high strength waste surcharges.

The Authority's non-operating revenues decreased 26.0%, or $92,923, in fiscal year 2013 primarily due to decreases of $73,034 in other revenues, $12,462 in investment earnings, and $7,427 in septage receiving facility fees. In 2012, the Authority's non-operating revenues decreased 8.5%, or $33,068, primarily due to decreases of $59,140 in septage receiving facility fees and $54,846 in investment earnings, which were offset by an increase of $80,918 in other revenues.

The Authority's operating expenses before depreciation decreased 17.2%, or 2,079,676 in fiscal year 2013, primarily due to decreases of $1,217,122 in maintenance expenses, $659,051 in operations expenses, $192,139 in general and administration expenses, and $11,364 in salaries and benefits expense. In fiscal year 2012, the Authority's operating expenses before depreciation increased 30.2%, or 2,797,822 in fiscal year 2012, primarily due to increases of $1,710,458 in maintenance expenses, $306,954 in operations expenses, $738,462 in general and administration expenses, and $41,948 in salaries and benefits expense due to maintain and restore operations and functionality as the result of damage caused by the 2011winter storm.

The Authority's non-operating expenses decreased 43.2%, or $1,033,116 in fiscal year 2013, primarily due to decreases of $700,000 in settlement expense and $336,436 in flood damage expense, which were offset by an increase of $3,320 in interest expense. In 2012, the Authority's non-operating expenses increased 317.6%, or $1,817,603, primarily due to increases of $1,208,652 in flood damage expense and $700,000 in settlement expense, which were offset by a $91,049 decrease in interest expense.

Total Revenues

	2013	2012	Change	As Restated 2011	Change
Operating revenues:					
Wastewater service charges	$ 11,480,756	10,422,738	1,058,018	10,570,050	(147,312)
Pretreatment permit fees	45,296	46,600	(1,304)	46,800	(200)
Total operating revenues	11,526,052	10,469,338	1,056,714	10,616,850	(147,512)
Non-operating revenue:					
Investment earnings	23,236	35,698	(12,462)	90,544	(54,846)
Septage receiving facility fees	190,261	197,688	(7,427)	256,828	(59,140)
Other revenues	51,616	124,650	(73,034)	43,732	80,918
Total non-operating revenues	265,113	358,036	(92,923)	391,104	(33,068)
Capital contributions:					
Capital grants	4,168,952	2,771,328	1,397,624	2,444,799	326,529
Connection fees	1,620,728	2,012,423	(391,695)	2,205,637	(193,214)
Total capital contributions	5,789,680	4,783,751	1,005,929	4,650,436	133,315
Total revenues	$ 17,580,845	15,611,125	1,969,720	15,658,390	(47,265)

In 2013, total revenues increased by $1,969,720. Operating revenues increased by $1,056,714, primarily due to an increase in wastewater service charges of $1,058,018. Non-operating revenues decreased by $92,923, due primarily to reductions in investment earnings of $12,462, septage receiving facility fees of $7,427, and other revenues of $73,034.

Total Revenues, Continued

In 2012, total revenues decreased by $47,265. Operating revenues decreased by $147,512, primarily due to a reduction in wastewater service charges of $147,312. Non-operating revenues decreased by $33,068, with reductions in investment earnings of $54,846 and septage receiving facility fees of $59,140 that was partially offset by an increase in other revenues of $80,918.

Total Expenses

	2013	2012	Change	As Restated 2011	Change
Operating expenses:					
Salaries and benefits	$ 4,386,713	4,398,077	(11,364)	4,356,129	41,948
Maintenance	1,377,024	2,594,146	(1,217,122)	883,688	1,710,458
Operations	2,169,317	2,828,368	(659,051)	2,521,414	306,954
General and administration	2,044,400	2,236,539	(192,139)	1,498,077	738,462
Total operating expense	9,977,454	12,057,130	(2,079,676)	9,259,308	2,797,822
Non-operating expenses:					
Interest expense	300,918	297,598	3,320	388,647	(91,049)
Settlement expense	-	700,000	(700,000)	-	700,000
Flood damage expense	1,055,854	1,392,290	(336,436)	183,638	1,208,652
Total non-operating expenses	1,356,772	2,389,888	(1,033,116)	572,285	1,817,603
Total expenses	$ 11,334,226	14,447,018	(3,112,792)	9,831,593	4,615,425

In 2013, the Authority's total expenses decreased by $3,112,792. As previously noted, the Authority's operating expenses decreased $2,079,676, primarily due to decreases of $1,217,122 in maintenance expenses, $659,051 in operations expenses, $192,139 in general and administration expenses, and $11,364 in salaries and benefits expense.

In 2013, non-operating expenses decreased by $1,033,116, primarily due to the decrease in settlement expense of $700,000 and flood damage expenses of $336,436 from prior year.

In 2012, the Authority's total expenses increased by $4,615,425. As previously noted, the Authority's operating expenses increased $2,797,822, primarily due to increases of $1,710,458 in maintenance expenses, $306,954 in operations expenses, $738,462 in general and administration expenses, and $41,948 in salaries and benefits expense due to maintain and restore operations and functionality as the result of damage caused by the 2011winter storm.

In 2012, non-operating expenses increased by $1,817,603, as the Authority determined that approximately $1,392,290 of expenses related to the 2011 winter storm, and recorded in construction in progress would not provide future utility and did not meet the Authority's requirements for capitalization. Additionally, at June 30, 2012, the Authority recognized a $700,000 settlement claim occurring subsequent to the year-end.

Capital Asset Administration

At the end of fiscal years 2013 and 2012, the Authority's investment in capital assets amounted to $116,035,642 and $117,685,992 (net of accumulated depreciation), respectively. This investment in capital assets includes land, 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 $6,503,294 to plant and building, and $59,370 to office equipment. Construction in progress decreased by the amount of $6,258,169, related primarily to the partial capitalization of the Westside Water Reclamation Plant Phase III-A construction upgrade project, which is being built to expand the plant's treatment capacity and meet new regulatory requirements. See note 5 for more details related to capital assets.

Capital Asset Administration, Continued

Changes in capital assets in 2013 were as follows:

	Balance 2012	Additions	Disposals/ Transfers	Balance 2013
Capital assets:				
Non-depreciable assets	$ 28,999,336	3,805,921	(6,258,169)	26,547,088
Depreciable assets	142,205,778	6,562,664	-	148,768,442
Accumulated depreciation	(53,519,122)	(5,760,766)	-	(59,279,888)
Total capital assets	$ 117,685,992	4,607,819	(6,258,169)	116,035,642

Changes in capital assets in 2012 were as follows:

	Balance 2011	Additions	Disposals/ Transfers	Balance 2012
Capital assets:				
Non-depreciable assets	$ 15,780,772	18,179,662	(4,961,098)	28,999,336
Depreciable assets	138,875,766	3,896,169	(566,157)	142,205,778
Accumulated depreciation	(48,363,376)	(5,620,847)	465,101	(53,519,122)
Total capital assets	$ 106,293,162	16,454,984	(5,062,154)	117,685,992

Debt Administration

Changes in long-term debt amounts for 2013 were as follows:

	Balance 2012	Additions	Principal Payments	Balance 2013
Long-term debt:				
Loans payable	$ 25,553,520	2,820,169	(4,349,237)	24,024,452
	$ 25,553,520	2,820,169	(4,349,237)	24,024,452

Changes in long-term debt amounts for 2012 were as follows:

	Balance 2011	Additions	Principal Payments	Balance 2012
Long-term debt:				
Loans payable	$ 13,976,968	12,448,144	(871,592)	25,553,520
	$ 13,976,968	12,448,144	(871,592)	25,553,520

The Authority has four State Revolving Fund loans from the State Water Resources Control Board that were used to finance the 9.5 MGD Improvements Project, the 11 MGD Expansion Project, the North Apple Valley Interceptor, and the Phase III-A facility construction. These low interest loans are payable in 20 annual payments maturing in fiscal years 2020 through 2032. 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. At June 30, 2013, Management is unaware of any conditions 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 15776 Main Street, Suite 3, Hesperia, California 92345.

Basic Financial Statements

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Victor Valley Wastewater Reclamation Authority
Statements of Net Position
For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
Current assets:		
Cash and equivalents (note 2)	$ 6,326,113	7,018,167
Restricted – cash and equivalents (note 2)	2,961,518	2,147,445
Interest receivable	4,839	8,868
Accounts receivable, net	1,839,737	1,709,442
Accounts receivable – due from member agencies (note 3)	342,509	234,409
Accounts receivable – other (note 4)	5,244	5,338
Accounts receivable – loans (note 9)	795,506	1,807,133
Accounts receivable – grants	550,328	2,029,407
Materials and supplies inventory	159,773	159,534
Prepaid expenses and other deposits	124,440	90,726
Total current assets	13,110,007	15,210,469
Non-current assets:		
Capital assets not being depreciated (note 5)	26,547,088	28,999,336
Capital assets being depreciated, net (note 5)	89,488,554	88,686,656
Total non-current assets	116,035,642	117,685,992
Total assets	129,145,649	132,896,461
Current liabilities:		
Accounts payable and accrued expenses	1,569,466	4,012,844
Accrued wages and related payables	105,764	80,844
Accrued interest on long-term debt	79,221	87,542
Long-term liabilities – due within one year:		
Compensated absences (note 6)	53,895	50,437
Other payables (note 7)	286,852	286,852
Pension related debt (note 8)	25,847	21,975
Loans payable (note 9)	1,534,217	890,511
Total current liabilities	3,655,262	5,431,005
Non-current liabilities:		
Long-term liabilities - due in more than one year:		
Compensated absences (note 6)	274,514	256,899
Other payables (note 7)	49,642	56,494
Other post employment benefits payable (note 10)	985,915	876,336
Settlement payable (note 18)	317,357	700,000
Pension related debt (note 8)	670,612	696,459
Loans payable (note 9)	22,490,235	24,663,009
Total non-current liabilities:	24,788,275	27,249,197
Total liabilities	28,443,537	32,680,202
Net position: (note 11)		
Net investment in capital assets	92,011,190	92,132,472
Restricted for debt service	2,961,518	2,147,445
Unrestricted	5,729,404	5,936,342
Total net position	$ 100,702,112	100,216,259

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, 2013 and 2012

	2013	2012
Operating revenues:		
Wastewater service charges	$ 11,480,756	10,422,738
Pretreatment permit fees	45,296	46,600
Total operating revenues	11,526,052	10,469,338
Operating expenses:		
Salaries and benefits	4,386,713	4,398,077
Maintenance	1,377,024	2,594,146
Operations	2,169,317	2,828,368
General and administration	2,044,400	2,236,539
Total operating expense	9,977,454	12,057,130
Operating income (loss) before depreciation expense	1,548,598	(1,587,792)
Depreciation	(5,760,766)	(5,620,847)
Operating loss	(4,212,168)	(7,208,639)
Non-operating revenue (expense):		
Investment earnings	23,236	35,698
Septage receiving facility fees	190,261	197,688
Interest expense	(300,918)	(297,598)
Other, net	51,616	124,650
Settlement expense (note 13)	-	(700,000)
Flood damage expense (note 14)	(1,055,854)	(1,392,290)
Total non-operating expense, net	(1,091,659)	(2,031,852)
Net loss before capital contributions	(5,303,827)	(9,240,491)
Capital contributions:		
Capital grants – Title 16	121,366	1,085,698
Capital grants – FEMA	866,996	1,348,504
Capital grants – State of California	180,590	337,126
Capital grants – State Revolving Fund loan forgiveness	3,000,000	-
Connection fees	1,620,728	2,012,423
Total contributed capital	5,789,680	4,783,751
Change in net position	485,853	(4,456,740)
Net position, beginning of year	100,216,259	104,672,999
Net position, end of year	$ 100,702,112	100,216,259

See accompanying notes to the basic financial statements

Victor Valley Wastewater Reclamation Authority
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash receipts from customers	$ 11,287,751	10,490,205
Cash paid to employees for salaries and wages	(4,361,793)	(4,527,199)
Cash paid to vendors and suppliers for materials and services	(8,758,249)	(5,896,414)
Net cash provided by (used in) operating activities	(1,832,291)	66,592
Cash flows from non-capital financing activities:		
Payments on CalPERS Side Fund	(21,975)	(16,591)
Interest paid on CalPERS Side Fund	(51,189)	(54,270)
Net cash used in non-capital financing activities	(73,164)	(70,861)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(4,283,218)	(17,081,845)
Proceeds from disposal of capital assets	-	21,535
Proceeds from connection fees	1,404,528	2,012,423
Proceeds from grant funding	2,648,031	3,186,720
Proceeds from loans	3,831,796	12,458,188
Principal paid for long-term debt	(1,327,262)	(871,592)
Interest paid for long-term debt	(258,050)	(251,638)
Net cash provided by (used in) capital and related financing activities	2,015,825	(526,209)
Cash flows from investing activities:		
Investment earnings	11,649	13,075
Net cash provided by investing activities	11,649	13,075
Net increase(decrease) in cash and cash equivalents	122,019	(517,403)
Cash and cash equivalents, beginning of year	9,165,612	9,683,015
Cash and cash equivalents, end of year	$ 9,287,631	9,165,612
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash and cash equivalents	$ 6,326,113	7,018,167
Restricted cash and cash equivalents	2,961,518	2,147,445
Total cash and cash equivalents	$ 9,287,631	9,165,612

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, 2013 and 2012

		2013	2012
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating loss	$	(4,212,168)	(7,208,639)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation and amortization		5,760,766	5,620,847
Septage receiving facility fees		190,261	197,688
Loss on disposal of capital assets, net		-	79,521
Other non-operating revenues		51,616	124,650
Other non-operating expenses		(1,055,854)	(1,392,290)
Changes in assets and liabilities:			
(Increase) decrease in assets:			
Accounts receivable		(130,295)	214,507
Accounts receivable – other		94	965
Accounts receivable – due from member agencies		(108,100)	(234,409)
Materials and supplies inventory		(239)	(6,472)
Prepaid expenses and other deposits		(33,714)	72,605
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		(2,443,378)	2,235,964
Accrued wages and related payables		24,920	15,888
Compensated absences		21,073	13,880
Other payables		(6,852)	(6,852)
Other post employment benefits payable		109,579	338,739
Total adjustments		2,379,877	7,275,231
Net cash provided by (used in) operating activities	$	(1,832,291)	66,592
Non-cash investing, capital and financing transaction:			
Change in fair-market value of funds deposited with LAIF	$	7,558	8,416

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 Authority's basic financial statements are prepared in accordance with Generally Accepted Accounting Principles 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 GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* effective for financial statements for periods beginning after December 15, 2011. The Authority implemented this new pronouncement in the current fiscal year ended June 30, 2013. The effect of the implementation of this statement to the Authority is limited to renaming of ***Net Assets*** to ***Net Position***.

D. Assets, Liabilities 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.

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

D. Assets, Liabilities and Net Position, continued

3. Investments and Investment Policy

The Authority has adopted an investment policy directing the Director of Finance 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.

4. Restricted Assets

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

5. 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.

6. 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.

7. Prepaid expenses 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.

8. 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

9. 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.

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

D. Assets, Liabilities and Net Position, continued

10. 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.

11. 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.

12. 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.

13. 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.

E. Accounting Pronouncements

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:

Governmental Accounting Standards Board Statement No. 60 – *Accounting and Financial Reporting for Service Concession Arrangement*s. This standard addresses how to account for and report service concession arrangements, a type of public-private or public-public partnership that state and local governments are increasingly entering into.

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

E. Accounting Pronouncements, continued

Governmental Accounting Standards Board Statement No. 61 – *The Financial Reporting Entity, Omnibus.* This Statement is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity,* and GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and local Governments*.

Governmental Accounting Standards Board Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989, FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989, FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

Governmental Accounting Standards Board Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This Statement is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

Governmental Accounting Standards Board Statement No. 65 – *Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

(2) Cash and Investments

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

		2013	2012
Cash and cash equivalents	$	6,326,113	7,018,167
Restricted - Cash and cash equivalents (note 11)		2,961,518	2,147,445
Total cash and investments	$	9,287,631	9,165,612

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

		2013	2012
Cash on hand	$	100	100
Deposits with financial institutions		473,377	953,763
Restricted cash with financial institutions		830,838	-
Investments		7,983,316	8,211,749
Total cash and investments	$	9,287,631	9,165,612

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

	2013	2012
Deposits held with the California Local Agency Investment Fund	278 days	268 days

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.

(2) Cash and Investments, Continued

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, 2013 and 2012 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.

Maturities of investments at June 30, 2013, were as follows:

Investment Type		Total	Remaining Maturity (in Months) 12 Months Or Less
Local Agency Investment Fund	$	7,427,355	7,427,355
Money Market Account		555,961	555,961
Total	$	7,983,316	7,983,316

Maturities of investments at June 30, 2012, were as follows:

Investment Type		Total	Remaining Maturity (in Months) 12 Months Or Less
Local Agency Investment Fund	$	6,908,663	6,908,663
Money Market Account		303,086	303,086
Certificates-of deposit		1,000,000	1,000,000
Total	$	8,211,749	8,211,749

(2) Cash and Investments, Continued

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, 2013, were as follows:

Investment Types		Total	Minimum Legal Rating	Exempt From Disclosure	Rating AAA	Not Rated
Local Agency Investment Fund	$	7,427,355	N/A	-	-	7,427,355
Money Market Account		555,961	AAA	-	555,961	-
Total	$	7,983,316		-	555,961	7,427,355

Credit ratings of investments as of June 30, 2012, were as follows:

Investment Types		Total	Minimum Legal Rating	Exempt From Disclosure	Rating AAA	Not Rated
Local Agency Investment Fund	$	6,908,663	N/A	-		6,908,663
Money Market Account		303,086	AAA	-	303,086	-
Certificates-of deposit		1,000,000	N/A	1,000,000	-	-
Total	$	8,211,749		1,000,000	303,086	6,908,663

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, 2013 and 2012, respectively.

(3) Accounts Receivable – Due from Member Agencies

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

		2013	2012
Connection Fees Receivable:			
City of Hesperia	$	4,500	-
City of Apple Valley		107,063	-
City of Victorville		230,946	234,409
Total due from member agencies:	$	342,509	234,409

(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:

		2013	2012
Flexible health savings account	$	5,244	5,338

(5) Capital Assets

Changes in capital assets for 2013 were as follows:

	Balance 2012	Additions	Disposals/ Transfers	Balance 2013
Capital assets not being depreciated:				
Land	$ 650,136	-	-	650,136
Construction in progress	28,349,200	3,805,921	(6,258,169)	25,896,952
Total capital assets not being depreciated	28,999,336	3,805,921	(6,258,169)	26,547,088
Capital assets being depreciated:				
Land improvements	7,757,640	-	-	7,757,640
Plant and building	105,576,501	6,503,294	-	112,079,795
Interceptor lines	27,606,672	-	-	27,606,672
Office equipment	406,239	59,370	-	465,609
Trucks and autos	858,726	-	-	858,726
Total capital assets being depreciated	142,205,778	6,562,664	-	148,768,442
Less accumulated depreciation:				
Land improvements	(1,915,490)	(516,660)	-	(2,432,150)
Plant and building	(40,124,060)	(4,517,769)	-	(44,641,829)
Interceptor lines	(10,469,536)	(615,621)	-	(11,085,157)
Office equipment	(384,663)	(19,614)	-	(404,277)
Trucks and autos	(625,373)	(91,102)	-	(716,475)
Total accumulated depreciation	(53,519,122)	(5,760,766)	-	(59,279,888)
Total capital assets being depreciated, net	88,686,656	801,898	-	89,488,554
Total capital assets	$ 117,685,992	4,607,819	(6,258,169)	116,035,642

Changes in capital assets not being depreciated include additions to construction in progress of $3,805,921 related to ongoing projects. Construction in progress decreased overall related to transfers of plant and building assets of $6,258,169.

Changes in capital assets being depreciated include additions of $6,503,294 in plant and building, primarily due to the transfers from construction in progress of $6,258,169 and $59,370 of additions to office equipment.

(5) Capital Assets, Continued

Changes in capital assets for 2012 were as follows:

	Balance 2011	Additions	Disposals/ Transfers	Balance 2012
Capital assets not being depreciated:				
Land	$ 650,136	-	-	650,136
Construction in progress	15,130,636	18,179,662	(4,961,098)	28,349,200
Total capital assets not being depreciated	15,780,772	18,179,662	(4,961,098)	28,999,336
Capital assets being depreciated:				
Land improvements	7,757,640	-	-	7,757,640
Plant and building	105,387,194	478,779	(289,472)	105,576,501
Interceptor lines	24,510,412	3,372,945	(276,685)	27,606,672
Office equipment	406,239	-	-	406,239
Trucks and autos	814,281	44,445	-	858,726
Total capital assets being depreciated	138,875,766	3,896,169	(566,157)	142,205,778
Less accumulated depreciation:				
Land improvements	(1,398,830)	(516,660)	-	(1,915,490)
Plant and building	(36,075,048)	(4,338,483)	289,471	(40,124,060)
Interceptor lines	(9,989,967)	(655,199)	175,630	(10,469,536)
Office equipment	(360,764)	(23,899)	-	(384,663)
Trucks and autos	(538,767)	(86,606)	-	(625,373)
Total accumulated depreciation	(48,363,376)	(5,620,847)	465,101	(53,519,122)
Total capital assets being depreciated, net	90,512,390	(1,724,678)	(101,056)	88,686,656
Total capital assets	$ 106,293,162	16,454,984	(5,062,154)	117,685,992

Changes in capital assets not being depreciated include additions to construction in progress of $18,179,662 related to ongoing projects, while construction in progress decreases were primarily related to transfers of $3,372,945 in interceptor lines assets. Of the $4,961,098 transferred out of construction in progress, $1,392,290 related to the 2011 winter storm and $195,863 for various project engineering services which were expensed as these costs either did not meet capitalization criteria.

Changes in capital assets being depreciated include additions of $3,372,945 in interceptor lines primarily due to the transfers from construction in progress, $478,779 in plant and building equipment, and $44,445 to trucks and autos. Decreases in capital assets being depreciated include $289,472 in plant and building and $276,685 in interceptor lines which were disposed of in relation to the additions to both categories as noted above.

(5) 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 2013 were as follows:

Projects		2011	2012	2013
CIP Financing and Bond	$	195,863	-	-
Westside WRP Phase III		8,221,170	22,509,832	19,008,937
Hesperia WRP		2,011,493	2,695,264	3,051,047
Apple Valley WRP		1,456,558	2,027,128	2,334,177
Nanitake Gravity Interceptor		328,814	340,024	342,397
SAFARI Sewer		339,872	-	-
S Apple Valley Interceptor		42,352	46,377	46,377
Biosolids Facility		-	25,441	25,441
Lab-EC-IT-Constr. Bldg (Butler Bldg)		-	149,173	149,173
Upper Narrows Emergency Temporay Pipeline		2,420,808	-	-
Upper Narrows Emergency Permanent Pipeline		-	555,961	712,397
Various other minor projects > $50,000		113,706	-	227,006
Total	$	15,130,636	28,349,200	25,896,952

(6) Compensated Absences

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

	Balance 2012	Additions	Deletions	Balance 2013	Due Within One Year	Due in More Than One Year
$	307,336	197,558	(176,485)	328,409	53,895	274,514

	Balance 2011	Additions	Deletions	Balance 2012	Due Within One Year	Due in More Than One Year
$	293,456	171,344	(157,464)	307,336	50,437	256,899

(7) Other Payables

Other payables include $280,000 of reimbursable expenses due to the City of Victorville with regard to the costs associated with the construction of a pipeline, and $56,494 related to a legal settlement with a former employee.

(8) Pension Related Debt – CalPERS Side-Fund

As of June 30, 2003, CalPERS implemented risk-pooling for the Authority's agent multiple-employer public employee defined benefit pension plan. As a result, the Authority's defined benefit pension plan with CalPERS converted from an agent multiple-employer plan to a cost sharing multiple-employer plan. This change in the type of the plan created the CalPERS Side-Fund, which CalPERS financed at a 7.75% interest rate (for fiscal year 2011 and beyond CalPERS reduced the rate to 7.50%). CalPERS actuarially calculated the amount needed to bring the Authority into the cost sharing multiple-employer plan on an equal basis with other governmental agencies that all had less than 100 active and retired employees combined.

The reason that CalPERS switched these governmental agencies into the cost sharing multiple-employer plan was to smooth the annual costs related to the pension benefit over a longer period of time resulting in a lower cost of service to the governmental agencies.

(8) Pension Related Debt – CalPERS Side-Fund, Continued

A portion of the Authority's annual required contribution to CalPERS are actuarially determined and shared by all governmental agencies within the cost sharing risk pool. Also, the Authority is required to make systematic payments to pay-down the CalPERS Side-Fund, as well. The responsibility for paying-down the Authority's CalPERS Side-Fund is specific to the Authority and is not shared by all governmental agencies within the cost sharing risk pool. Therefore, the CalPERS Side-Fund falls under the definition of pension-related debt, as described in GASB Statement No. 27. The following long-term debt has been recorded on the Authority's financial statements as the Authority is making systematic payments to CalPERS each payroll period. The annualized repayment schedule is as follows:

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

Fiscal Year	Principal	Interest	Total
2014	$ 25,847	49,461	75,308
2015	30,127	47,440	77,567
2016	34,799	45,095	79,894
2017	39,894	42,397	82,291
2018	45,446	39,313	84,759
2019-2023	329,207	134,291	463,498
2024-2025	191,139	14,311	205,450
Total	696,459	372,308	1,068,767
Less current	(25,847)		
Total non-current	$ 670,612		

(9) Long-Term Debt

Loans payable at June 30, were as follows:

	2012	Additions	Payments	2013
State Revolving Fund Loans (SRF):				
9.5 MGD improvements project	$ 1,892,364	-	(215,848)	1,676,516
11 MGD expansion project	5,251,710	-	(482,713)	4,768,997
North Apple Valley Interceptor	2,648,053	-	(191,950)	2,456,103
Phase III-A	15,761,393	2,820,169	(3,458,726)	15,122,836
Total	25,553,520	2,820,169	(4,349,237)	24,024,452
Less current	(890,511)			(1,534,217)
Total non-current	$ 24,663,009			22,490,235

Loans payable at June 30, were as follows:

	2011	Additions	Payments	2012
State Revolving Fund Loans (SRF):				
9.5 MGD improvements project	$ 2,102,743	-	(210,379)	1,892,364
11 MGD expansion project	5,725,656	-	(473,946)	5,251,710
North Apple Valley Interceptor	2,835,320	-	(187,267)	2,648,053
Phase III-A	3,313,249	12,448,144	-	15,761,393
Total	13,976,968	12,448,144	(871,592)	25,553,520
Less current	(871,591)			(890,511)
Total non-current	$ 13,105,377			24,663,009

(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
2014	$	221,460	43,589	265,049
2015		227,218	37,831	265,049
2016		233,126	31,923	265,049
2017		239,187	25,862	265,049
2018		245,406	19,643	265,049
2019-2020		510,119	19,982	530,101
Total		1,676,516	178,830	1,855,346
Less current		(221,460)		
Total non-current	$	1,455,056		

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
2014	$	491,644	88,226	579,870
2015		500,739	79,131	579,870
2016		510,003	69,867	579,870
2017		519,438	60,432	579,870
2018		529,047	50,823	579,870
2019-2022		2,218,126	101,352	2,319,478
Total		4,768,997	449,831	5,218,828
Less current		(491,644)		
Total non-current	$	4,277,353		

(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
2014	$	196,748	61,403	258,151
2015		201,667	56,484	258,151
2016		206,709	51,442	258,151
2017		211,877	46,274	258,151
2018		217,174	40,977	258,151
2019-2023		1,170,074	120,681	1,290,755
2024		251,854	6,297	258,151
Total		2,456,103	383,558	2,839,661
Less current		(196,748)		
Total non-current	$	2,259,355		

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 loan call for annual principal and interest payments of $1,027,610, based on the net loan amount of $15,581,561, commencing on June 30, 2013, at the rate of 2.70%, maturing June 30, 2032.

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

Fiscal Year		Principal	Interest	Total
2014	$	624,365	403,245	1,027,610
2015		636,151	391,459	1,027,610
2016		653,327	374,283	1,027,610
2017		670,967	356,643	1,027,610
2018		689,083	338,527	1,027,610
2019-2023		3,734,746	1,403,304	5,138,050
2024-2028		4,266,909	871,141	5,138,050
2029-2032		3,847,288	263,151	4,110,439
Total		15,122,836	4,401,753	19,524,589
Less current		(624,365)		
Total non-current	$	14,498,471		

(10) 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:

	2013	2012	2011
Active plan members	32	38	38
Retirees and beneficiaries receiving benefits	13	11	11
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	45	49	49

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 14.306% 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.

Annual Cost

For the years ended June 30, 2013 and 2012, the Authority's annual ARC cost after adjustments was $176,384 and $387,967, respectively, based on a 20 year amortization of the unfunded actuarial liability. The Authority's net other post-employment benefits payable obligation amounted to $985,915 and $876,336 for the years ended June 30, 2013 and 2012, respectively. The Authority contributed $66,805 and $49,228 in age adjusted contributions for medical insurance benefits for the retirees and their dependents for the years ended June 30, 2013 and 2012, respectively.

The balance at June 30, consisted of the following:

		2013	2012	2011
Annual OPEB cost:				
Annual required contribution (ARC)	$	132,567	367,807	339,349
Interest on net OPEB obligation		43,817	20,160	-
Adjustment to annual required contribution		-	-	7,579
Total annual OPEB cost		176,384	387,967	346,928
Change in net OPEB payable obligation				
Medical premium contributions		(66,805)	(49,228)	(73,888)
Total change in net OPEB payable obligation		109,579	338,739	273,040
OPEB payable – beginning of year		876,336	537,597	264,557
OPEB payable – end of year	$	985,915	876,336	537,597

(10) Post-Employment Benefits Payable, Continued

Annual Cost, Continued

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 2012 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
2013	$	176,384	66,805	37.87%	985,915
2012		387,967	49,228	12.69%	876,336
2011		346,928	73,888	21.30%	537,597

Funded Status and Funding Progress of the Plan

The most recent valuation (dated January 1, 2013) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of $2,062,620. 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 $3,182,659. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 64.81%.

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	January 1, 2013
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) Net Position

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

		2013	2012
Net investment in capital assets:			
Capital assets - not being depreciated	$	26,547,088	28,999,336
Capital assets, net - being depreciated		89,488,554	88,686,656
Loans payable		(24,024,452)	(25,553,520)
Total net investment in capital assets		92,011,190	92,132,472
Restricted net position:			
Restricted for debt service		2,961,518	2,147,445
Unrestricted net position:			
Non-spendable net position:			
Materials and supplies inventory		159,773	159,534
Prepaid expenses and deposits		124,440	90,726
Total non-spendable net position		284,213	250,260
Spendable net position are designated as follows:			
Undesignated net position reserve		5,445,191	5,686,082
Total spendable net position		5,445,191	5,686,082
Total unrestricted net position		5,729,404	5,936,342
Total net position	$	100,702,112	100,216,259

(12) Defined Benefit Pension Plan

Plan Description

The Authority contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multi-employer defined benefit pension plan. CalPERS provides retirement benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the Agency. Copies of CalPERS annual financial report may be obtained from their Headquarters at: Lincoln Plaza East, 400 Q Street, Room 1820, Sacramento, CA 95811.

Funding Policy

The contribution rate for plan members in the CalPERS, 2.5% at 55 Risk Pool Retirement Plan is 8% of their annual covered salary and is paid by the Authority. The Authority makes these contributions required of Authority employees on their behalf and for their account. Also, the Authority is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members.

The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2013, 2012, and 2011 as noted below. The contribution requirements of the plan members are established by State statute. The employer contribution rate is established and may be amended by CalPERS. For Fiscal years 2013, 2012, and 2011, the Authority's annual contributions for the CalPERS plan were equal to the Authority's required and actual contributions for each fiscal year as follows:

(12) Defined Benefit Pension Plan, Continued

Three Year Trend Information:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	APC Percentage of Payroll
2013	505,648	100.00%	15.558%
2012	506,523	100.00%	14.823%
2011	545,510	100.00%	11.691%

(13) Settlement Claim Expense

At June 30, 2012, the Authority settled a claim with the Regional Water Quality Board with regard to effluent spills, including discharges into the Mojave River caused by December 2010 storms. Terms of the settlement call for the Authority to pay $377,394 to the Regional Water Quality Board, and contribute $322,606 to a supplemental environmental plan, with the objective of developing a Salt/Nutrient Management Plan to identify and manage salts and nutrients from sources within the region for the purpose of maintaining regional water quality objectives and supporting beneficial uses. As a result of the settlement, the Authority recorded a settlement liability and corresponding expense in the amount of $700,000 at June 30, 2012. There was no further liability or expense for June 30, 2013.

(14) Winter Storm Damage

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, 2013 and 2012, the Authority determined that a portion of those cost would not provide future utility and would not be considered for capitalization. As a result, the Authority has reclassified $1,055,854 and $1,392,290, respectively, from construction in progress to non-operating expense.

(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, 2013, 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 $15,000,000 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.

(15) Risk Management, Continued

- 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 to the above, the Authority also has the following insurance coverage:

- Employee dishonesty coverage up to $100,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage with a deductible of $1,000 per claim.
- Special form property coverage up to $110,442,381, with a deductible of $10,000 per claim.
- Public entity physical damage coverage up to $989,327, 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 a deductible of either $50,000 per claim of $500,000, or a deductible of $100,000 per claim of $1,000,000.
- Cyber liability coverage up to $20,000,000 for outside party claims and up to $2,000,000 coverage for claims involving the Authority, subject to a $5,000 deductible, respectively.

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, 2013, 2012, and 2011. 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, 2013, 2012, and 2011.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2013, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 66

In March 2012, the GASB issued Statement No. 66 – *Technical Corrections*—2012—an amendment of GASB Statements No. 10 and No. 62. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The impact of the implementation of this Statement to the Authority's financial statements has not been assessed at this time.

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

Governmental Accounting Standards Board Statement No. 68

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions*—an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. 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. 69

In January 2013, the GASB issued Statement No. 69 – *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. 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. 70

In April 2013, the GASB issued Statement No. 70 – *Accounting and Financial Reporting for Non-exchange Guarantees*. Provisions of this Statement require that governments that extend non-exchange financial guarantees to recognize a liability when qualitative factors and historic data, if any, indicate that it is more likely than not that the government will be required to make a payments on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

(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 $845,991 of open construction contracts as of June 30, 2013.

(17) Commitments and Contingencies, Continued

Litigation

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

(18) Subsequent Events

Management is not aware of events or transactions, including estimates, that provide additional evidence about conditions that existed at June 30, 2013, or arose subsequent to that date and are considered inherent in the process of preparing these financial statements.

Required Supplementary Information

Victor Valley Wastewater Reclamation Authority
Schedule of Funding Status – Other Post-Employment Benefits Obligation
For the Fiscal Years Ended June 30, 2013 and 2012

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)
1/1/13	-	$ 2,062,620	2,062,620	0.00%	3,182,659	64.81%
6/30/10	-	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 2014, based on the year ending June 30, 2013.

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Supplemental Information

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Victor Valley Wastewater Reclamation Authority
Schedule of Operating Expenses
For the Years Ended June 30, 2013 and 2012

		2013	2012
Salaries and benefits:			
Salaries	$	3,181,704	3,033,898
Employee benefits		1,205,009	1,364,179
Total salaries and benefits		4,386,713	4,398,077
Maintenance:			
Equipment and supplies		778,658	1,716,533
Instrumentation		171,265	175,607
Tools		38,064	42,512
Ground repairs and maintenance		131,972	110,585
Vehicle repairs and maintenance		63,123	78,556
Sewer repairs and maintenance		116,055	438,385
Repairs and maintenance		1,947	2,492
Other		75,940	29,476
Total Maintenance		1,377,024	2,594,146
Operations:			
Process chemicals		426,703	684,634
Utilities		1,004,359	890,361
Trash and sludge disposal		106,919	105,625
Fuel and lubricants		186,596	193,624
Lab supplies and services		251,582	247,352
Safety equipment		30,567	48,846
Custodial		43,973	46,995
Equipment rental		22,472	53,667
Uniforms		33,211	24,899
Security		16,198	334,287
Sewer location services		38,359	94,556
Other		8,378	103,522
Total operations	$	2,169,317	2,828,368

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Victor Valley Wastewater Reclamation Authority
Schedule of Operating Expenses, Continued
For the Years Ended June 30, 2013 and 2012

		2013	2012
Administration:			
Telephone and communications	$	104,680	116,225
Computers and office equipment		109,424	120,506
Computer and office supplies		14,881	18,469
Printing and advertising		11,977	32,392
Postage and freight		7,491	7,889
Travel and education		180,902	101,067
Membership and commissioner fees		56,144	28,016
Books and periodicals		18,301	23,420
Professional services		539,161	664,685
Legal services		393,219	286,861
Temporary labor		79,090	573,661
Insurance		172,923	145,944
Permit fees		139,135	48,861
Rent		58,754	59,262
Bad debt		66,771	-
Construction services		82,111	-
Other		9,436	9,281
Total administration		2,044,400	2,236,539
Depreciation		5,760,766	5,620,847
Total operating expense	$	15,738,220	17,677,977

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, 2013 and 2012 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 18, 2013.

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*.

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.

Charles Z. Fedak & Company, CPAs – An Accountancy Corporation
Cypress, California
November 18, 2013

Statistical Section

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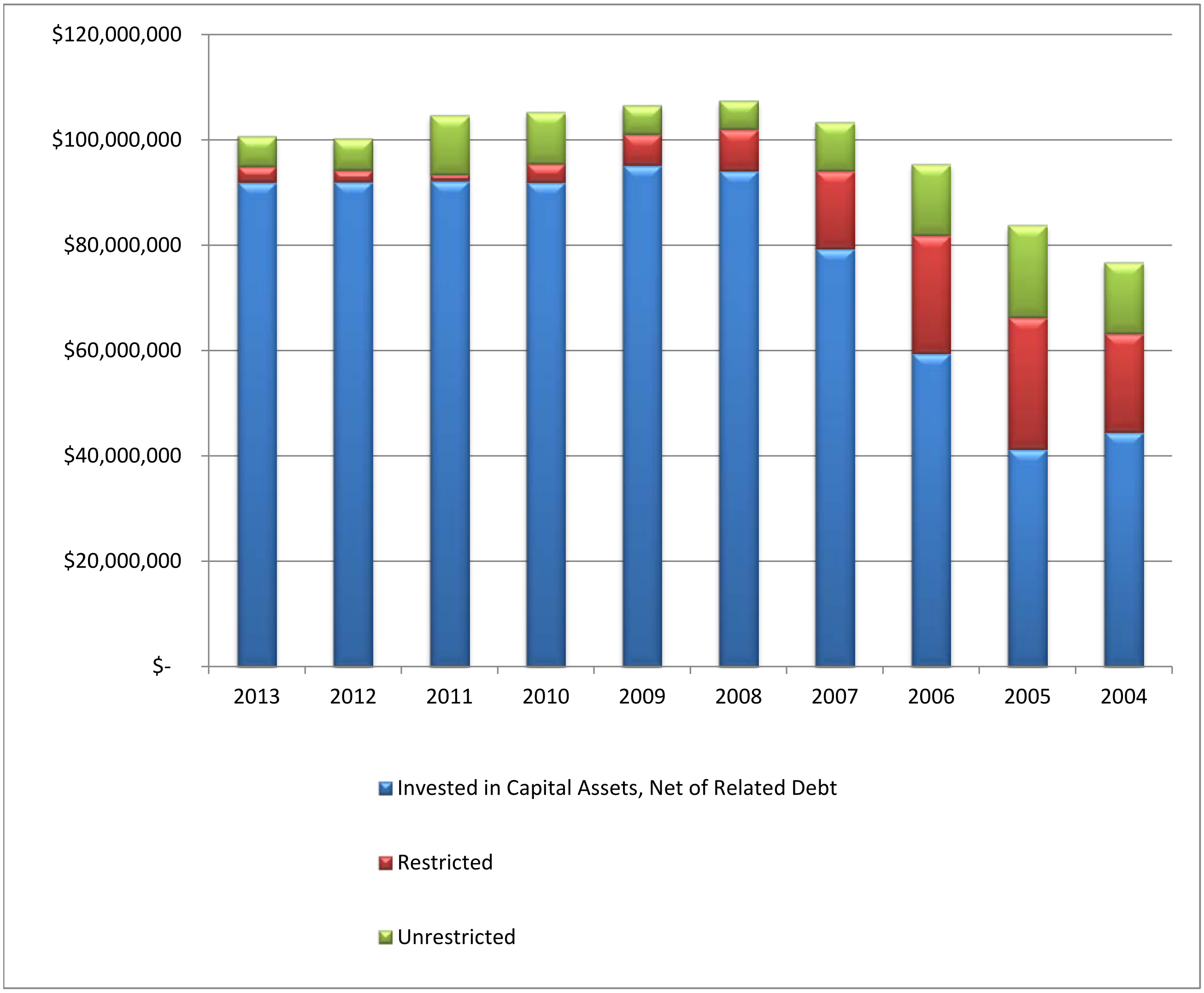
Victor Valley Wastewater Reclamation Authority

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

	2013	2012	2011	2010	2009
Invested in Capital Assets, Net of Related Debt	$ 92,011,190	$ 92,132,472	$ 92,316,194	$ 92,011,371	$ 95,268,279
Restricted	2,961,518	2,147,445	1,166,446	3,455,773	5,791,448
Unrestricted	5,729,404	5,936,342	11,190,359	9,802,016	5,465,649
Total Net Position	$ 100,702,112	$ 100,216,259	$ 104,672,999	$ 105,269,160	$ 106,525,376



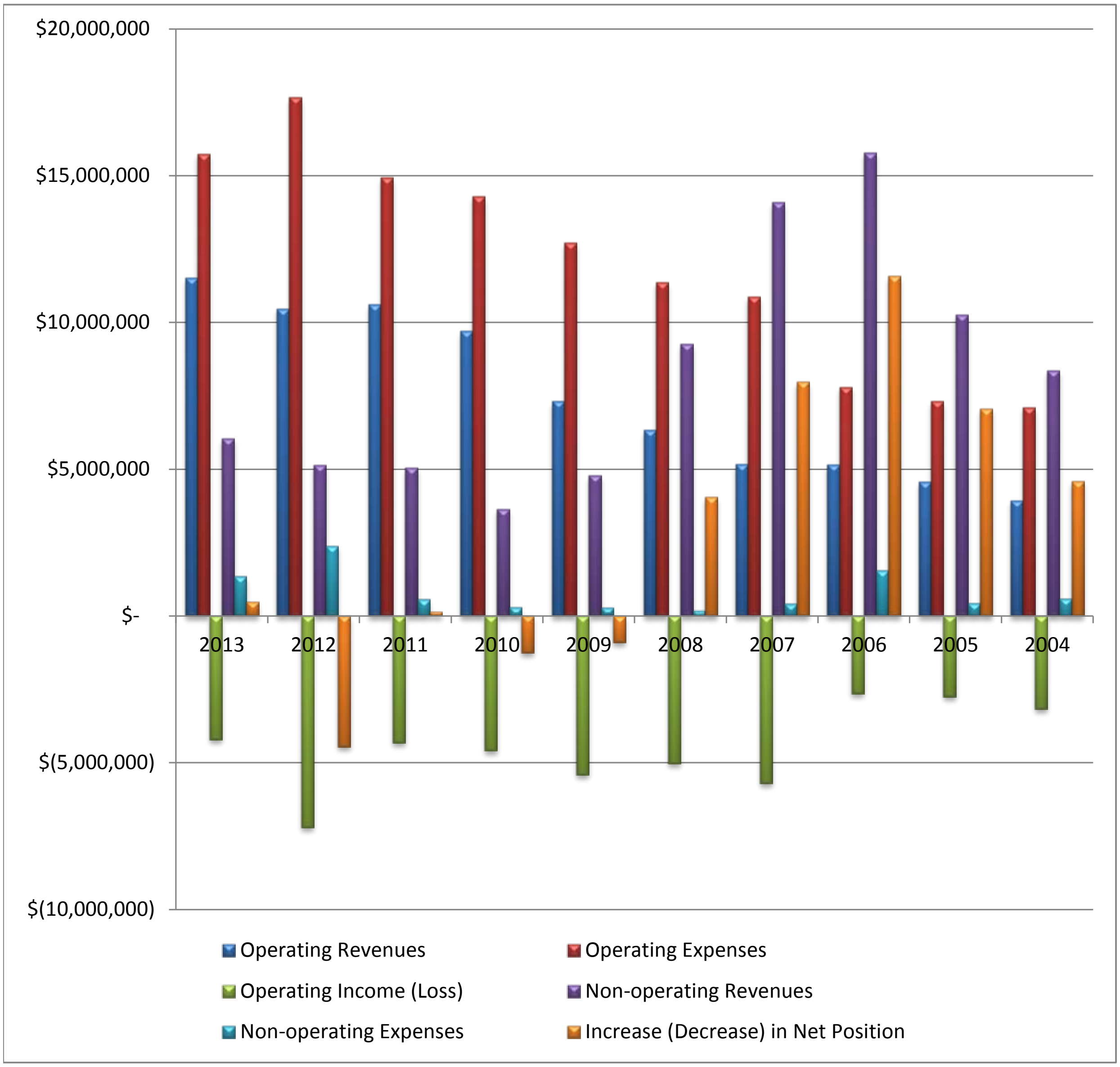
Source: Victor Valley Wastewater Reclamation Authority

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

2008	2007	2006	2005	2004	
$ 94,172,989	$ 79,382,844	$ 59,569,288	$ 41,280,688	$ 44,523,470	Invested in Capital Assets, Net of Related Debt
7,869,303	14,769,409	22,387,481	25,061,600	18,766,530	Restricted
5,385,879	9,219,122	13,440,211	17,466,510	13,450,055	Unrestricted
$ 107,428,171	$ 103,371,375	$ 95,396,980	$ 83,808,798	$ 76,740,055	Total Net Position

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

	2013	2012	2011	2010	2009
Operating Revenues	$ 11,526,052	$ 10,469,338	$ 10,616,850	$ 9,715,020	$ 7,313,826
Operating Expenses	15,738,220	17,677,977	14,933,992	14,302,713	12,725,823
Operating Income (Loss)	(4,212,168)	(7,208,639)	(4,317,142)	(4,587,693)	(5,411,997)
Non-operating Revenues	6,054,793	5,141,787	5,041,540	3,636,256	4,787,060
Non-operating Expenses	1,356,772	2,389,888	572,285	304,779	277,858
Increase (Decrease) in Net Position	$ 485,853	$ (4,456,740)	$ 152,113	$ (1,256,216)	$ (902,795)



Source: Victor Valley Wastewater Reclamation Authority

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

2008	2007	2006	2005	2004	
$ 6,339,380	$ 5,169,936	$ 5,157,242	$4,569,449	$ 3,927,936	Operating Revenues
11,371,846	10,879,437	7,803,709	7,317,983	7,103,522	Operating Expenses
(5,032,466)	(5,709,501)	(2,646,467)	(2,748,534)	(3,175,586)	Operating Income (Loss)
9,268,289	14,106,774	15,794,897	10,254,336	8,356,081	Non-operating Revenues
179,027	422,878	1,560,248	437,059	583,966	Non-operating Expenses
$ 4,056,796	$ 7,974,395	$ 11,588,182	$7,068,743	$ 4,596,529	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	Pretreatment Permit Fees	Total Operating Revenues	Investment Income	Connection Fees	Septage Receiving Facility Fees	Other Non-Operating Revenues	FEMA Reimbursement*	Title 16 Grant	Loan Forgiveness	Total Non-Operating Revenues	
2013	$ 11,480,756	$ 45,296	$ 11,526,052	$ 23,236	$ 1,620,728	$ 190,261	$ 51,616	$ 1,047,586	$ 121,366	$ 3,000,000	$ 6,054,793	$ 17,580,845
2012	10,422,738	46,600	10,469,338	35,698	2,012,423	197,688	124,650	1,685,630	1,085,698	$ -	5,141,787	15,611,125
2011	10,570,050	46,800	10,616,850	90,544	2,205,637	256,828	43,732	2,444,799	-	-	5,041,540	15,658,390
2010	9,665,620	49,400	9,715,020	122,022	3,166,772	279,947	67,515	-	-	-	3,636,256	13,351,276
2009	7,265,926	47,900	7,313,826	324,526	4,138,678	221,227	102,629	-	-	-	4,787,060	12,100,886
2008	6,284,859	54,521	6,339,380	866,983	8,120,414	229,457	51,435	-	-	-	9,268,289	15,607,669
2007	5,112,839	57,097	5,169,936	1,571,494	12,220,994	263,572	50,714	-	-	-	14,106,774	19,276,710
2006	5,105,367	51,875	5,157,242	1,617,405	13,622,486	436,854	118,152	-	-	-	15,794,897	20,952,139
2005	4,517,949	51,500	4,569,449	1,097,235	8,663,218	476,753	17,130	-	-	-	10,254,336	14,823,785
2004	3,881,636	46,300	3,927,936	696,858	7,098,418	400,642	160,163	-	-	-	8,356,081	12,284,017

*VVWRA will be reimbused 93.75% of the extraordinary expenses incurred during FY 12-13 through FEMA and Cal EMA.
Source: Victor Valley Wastewater Reclamation Authority's Statement 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		
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
2006	3,175,511	488,872 *	498,017 *	1,107,183	2,534,126	7,803,709	1,560,248 *	9,363,957
2005	2,724,695	398,195	1,090,446	603,048	2,501,599	7,317,983	437,059	7,755,042
2004	2,465,901	502,690	978,799	772,988	2,383,144	7,103,522	583,966	7,687,488

*Per prior year adjustment

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

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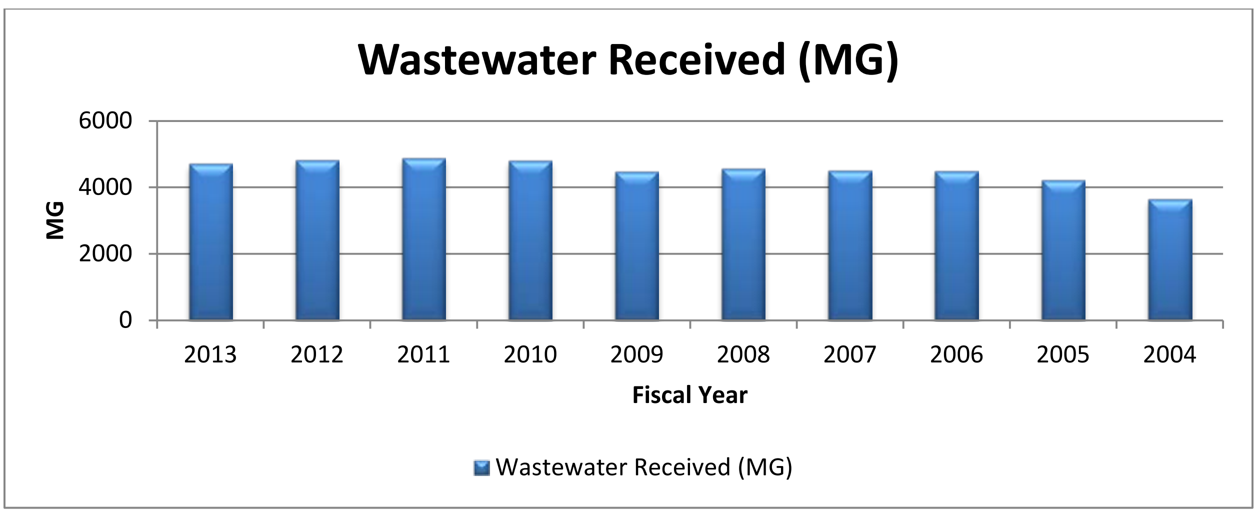
Victor Valley Wastewater Reclamation Authority

Revenue Base

Last Ten Fiscal Years

Fiscal Year	Wastewater Received (MG)*
2013	4,704
2012	4,821
2011	4,881
2010	4,805
2009	4,465
2008	4,568
2007	4,502
2006	4,500
2005	4,218
2004	3,640
2003	3,314

*MG = Million Gallons



Source: Victor Valley Wastewater Reclamation Authority

Victor Valley Wastewater Reclamation Authority

Principal Customers

Last Ten Fiscal Years

	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	95.5%	4,821	100.0%	4,881	100.0%

	2010		2009		2008	
	Wastewater Received (MG)	Percentage of Total	Wastewater Received (MG)	Percentage of Total	Wastewater Received (MG)	Percentage of Total
San Bernardino County	292	6.3%	280	6.3%	269	5.9%
Apple Valley	674	15.6%	698	15.6%	724	15.8%
Hesperia	659	13.2%	588	13.2%	622	13.6%
Victorville	2,982	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%

Victor Valley Wastewater Reclamation Authority

Principal Customers

Last Ten Fiscal Years

	2007		2006		2005	
	Wastewater Received (MG)	Percentage of Total	Wastewater Received (MG)	Percentage of Total	Wastewater Received (MG)	Percentage of Total
San Bernardino County	327	7.3%	283	6.3%	294	7.0%
Apple Valley	620	13.8%	718	16.0%	747	17.7%
Hesperia	621	13.7%	556	12.4%	514	12.2%
Victorville	2,934	65.2%	2,943	65.3%	2,663	63.1%
Principal Customers Total	4,502	100.0%	4,500	100.0%	4,218	100.0%
Total Water Received	4,502	100.0%	4,500	100.0%	4,218	100.0%

	2004	
	Wastewater Received (MG)	Percentage of Total
San Bernardino County	294	8.1%
Apple Valley	505	13.9%
Hesperia	499	13.7%
Victorville	2,342	64.3%
Principal Customers Total	3,640	100.0%
Total Water Received	3,640	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)**
2013	$2,528	$3,750
2012	2,528	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
04/2006-06/2006	1,065	3,215
07/2005-04/2006	1,065	1,500
2005	1,065	1,500
2004	1,065	1,500

*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**
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
2006	0.1419	0.0785	1.0963
02/2005-06/2005	0.1221	0.0717	1.0841
07/2004-01/2005	0.1174	0.0558	1.1349
2004	0.1174	0.0558	1.1349

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	Cal PERS Side Fund	Total Debt	Debt Per Capita	As a Share of Personal Income
2013	$ 24,024,452	$ -	$ 696,459	$ 24,720,911	*	*
2012	25,553,520	-	718,434	26,271,954	$93.10	*
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	49.3	0.23%
2008	13,169,331	-	-	13,169,331	49.31	0.16%
2007	13,969,565	-	-	13,969,565	53.00	0.18%
2006	14,752,863	-	-	14,752,863	57.31	0.20%
2005	16,982,273	-	-	16,982,273	70.14	0.26%
2004	12,621,062	-	-	12,621,062	55.83	0.21%
2003	13,288,943	-	-	13,288,943	63.35	0.25%
2002	13,954,297	-	-	13,954,297	69.85	0.29%

* 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 2013 Fiscal Year

2012-13 Assessed Valuation: $16,438,791,341

OVERLAPPING TAX AND ASSESSMENT DEBT:	Total Debt 6/30/13	% Applicable (1)	Authority's Share of Debt 6/30/13
Victor Valley Joint Community College District	$134,469,774	70.506%	$ 94,809,259
Apple Valley Unified School District	30,858,758	83.786	25,855,319
Victor Valley Union High School District	120,061,772	72.057	86,512,911
Adelanto School District	10,583,652	44.607	4,721,050
Oro Grande School District	481,300	68.713	330,716
Victor School District	50,906,120	97.729	49,750,042
Mojave Water Agency	15,530,000	59.846	9,294,084
City Community Facilities Districts	27,964,508	100.	27,964,508
School District Community Facilities Districts	62,920,000	100.	62,920,000
City and Special District 1915 Act Bonds	4,640,000	100.	4,640,000
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			$366,797,889
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
San Bernardino County General Fund Obligations	$573,875,000	10.054%	$ 57,697,393
San Bernardino County Pension Obligations	519,745,214	10.054	52,255,184
San Bernardino County Flood Control District General Fund Obligations	104,705,000	10.054	10,527,041
Victor Valley Union High School District Certificates of Participation	5,740,000	72.057	4,136,072
Apple Valley Unified School District Certificates of Participation	4,215,000	83.786	3,531,580
Hesperia Unified School District Certificates of Participation	105,150,000	91.473	96,183,860
Snowline Joint Unified School District Certificates of Participation	60,605,000	16.248	9,847,100
Oro Grande School District Certificates of Participation	41,675,000	68.713	28,636,143
Adelanto School District Certificates of Participation	9,325,000	44.607	4,159,603
Victor School District Certificates of Participation	5,885,000	97.729	5,751,352
Town of Apple Valley General Fund Obligations	12,795,000	100.	12,795,000
City of Hesperia Certificates of Participation	39,435,000	100.	39,435,000
City of Victorville General Fund Obligations	82,570,000	100.	82,570,000
Victor Valley Wastewater Reclamation Authority	**0**	**100.**	**0**
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT			$407,525,328
OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):	$566,184,924	87.737-100. %	$526,886,680
TOTAL DIRECT DEBT			**$0**
TOTAL OVERLAPPING DEBT			$1,301,209,897
COMBINED TOTAL DEBT			$1,301,209,897 (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 2012-13 Assessed Valuation:

Total Overlapping Tax and Assessment Debt.. 2.23%
Total Direct Debt.. 0.00%
Combined Total Debt 7.92%

Ratios to Redevelopment Successor Agencies Incremental Valuation ($6,061,465,104):

Total Overlapping Tax Increment Debt... 8.69%

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]
2013	*	*	*	*
2012	282,204	*	*	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%
2006	257,415	7,366	28,615	4.80%
2005	242,088	6,653	27,481	5.20%
2004	226,024	5,975	26,435	5.80%
2003	209,754	5,301	25,274	6.30%

* Data Not Available

Service Area Population by Cities

Calendar Year	Apple Valley [1]	Victorville [1]	Hesperia [1]
2013	*	*	*
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
2006	69,941	102,044	85,430
2005	67,276	94,831	79,981
2004	63,738	86,323	75,963
2003	61,464	77,843	70,447

* 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 2013 Fiscal Year

Employer	Business Category	Member Entity
St. Mary Medical Center	Health	Apple Valley
Apple Valley Unified School District	Education	Apple Valley
Wal-Mart Distribution Center	Distribution	Apple Valley
Target Stores, Inc (2 stores)	Retail	Apple Valley
Stater Bros. (2 stores)	Grocery	Apple Valley
Wal-Mart 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

Source: Victor Valley Economic Development Authority

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

	2013	2012	2011	2010	2009
Land	$ 650,136	$ 650,136	$ 650,136	$ 650,136	$ 650,136
Land Improvements	7,757,640	7,757,640	7,757,640	7,564,164	7,538,664
Plant Buildings	112,079,795	105,576,501	105,387,194	104,419,502	104,016,298
Interceptor Lines	27,606,672	27,606,672	24,510,412	23,619,909	23,333,909
Office	465,609	406,239	406,239	406,239	373,633
Trucks/Auto	858,726	858,726	814,281	708,755	684,364
Construction in Progress (1)	25,896,952	28,349,200	15,130,636	11,567,209	8,283,392
Accumulated Depreciation	(59,279,888)	(53,519,122)	(48,363,376)	(42,688,692)	(37,029,082)
Total	$ 116,035,642	$ 117,685,992	$ 106,293,162	$ 106,247,222	$ 107,851,314

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.

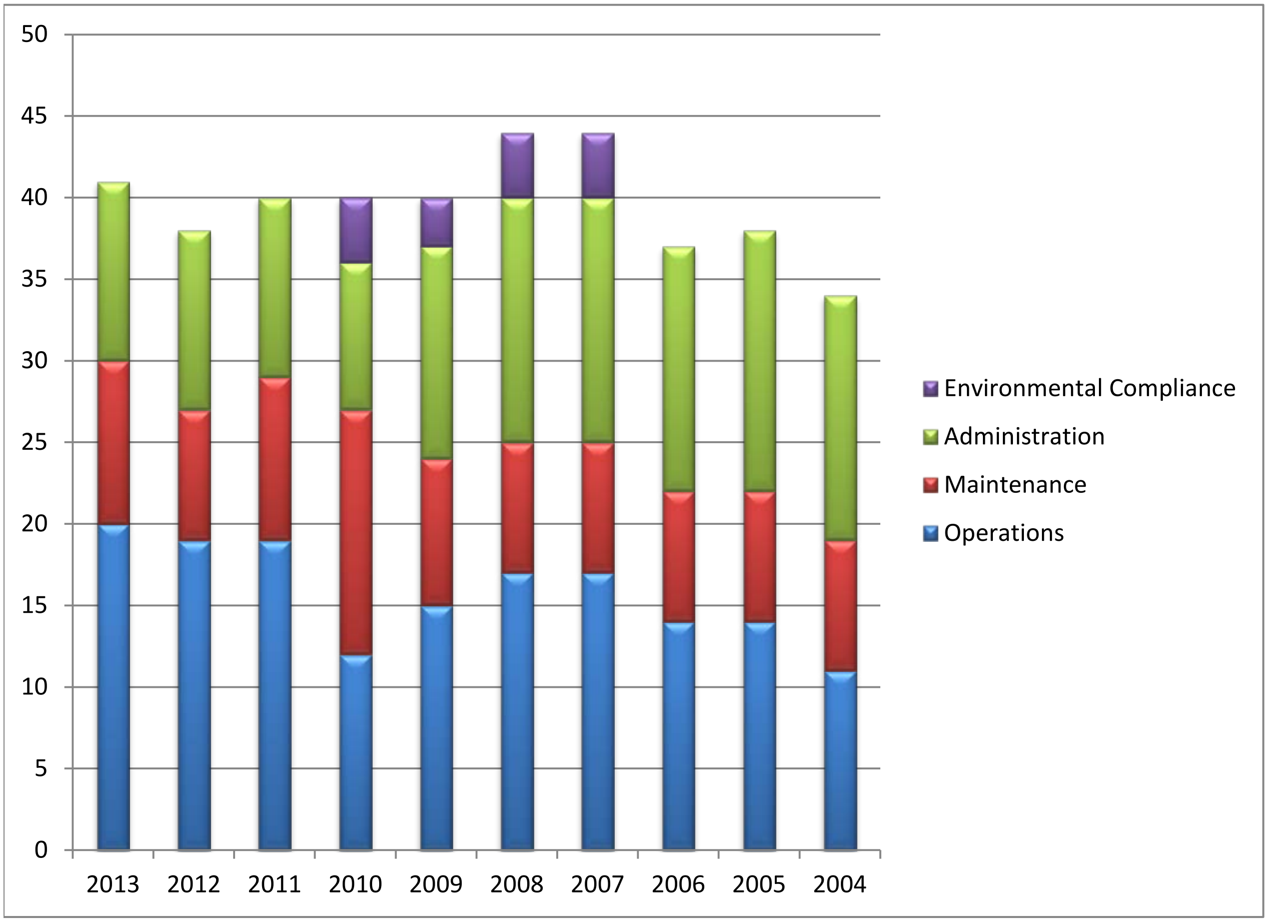
Source: Victor Valley Wastewater Reclamation Authority

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

2008	2007	2006	2005	2004	
$ 650,136	$ 650,136	$ 650,136	$ 650,136	$ 613,975	Land
377,023	365,523	365,523	365,523	354,061	Land Improvements
61,318,022	58,685,778	57,911,865	57,652,331	56,040,782	Plant Buildings
23,351,353	21,860,479	20,439,676	20,379,354	19,770,342	Interceptor Lines
481,875	368,392	283,509	227,375	235,726	Office
798,709	764,640	492,956	352,201	328,339	Trucks/Auto
54,403,063	42,301,930	24,449,830	5,407,184	4,095,922	Construction in Progress (1)
(34,037,861)	(31,644,469)	(28,963,634)	(26,771,143)	(24,275,188)	Accumulated Depreciation
$107,342,320	$ 93,352,409	$75,629,861	$ 58,262,961	$57,163,959	Total

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

	2013	2012	2011	2010	2009	2008
Operations	20	19	19	12	15	17
Maintenance	10	8	10	15	9	8
Administration	11	11	11	9	13	15
Environmental Compliance	0	0	0	4	3	4
Total	41	38	40	40	40	44



Source: Victor Valley Wastewater Reclamation Authority
Note: Environmental Compliance Department was combined with Operations Department for the year ended 6/30/2012.

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

2007	2006	2005	2004	
17	14	14	11	Operations
8	8	8	8	Maintenance
15	15	16	15	Administration
4	0	0	0	Environmental Compliance
44	37	38	34	Total

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Victor Valley Wastewater Reclamation Authority
Operating and Capital Indicators (Facts and Figures)
June 30, 2013

Throughout the last three years Victor Valley Wastewater Reclamation Authority (VVWRA) has identified areas in which to improve our 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: 2006 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. In 2012 the CPI-U increased by 1.7% and 3.0% for 2011. These CPI-U's were used because the AWWA Benchmarking Analysis reflects national trends in wastewater performance efficiency.

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 2012-2013

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

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 2012-2013

    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, 2013

A Pump Operator at work

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 2012-2013

    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, 2013, pages 11

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

    a. Reporting Period, Fiscal Year 2012-2013

    b. Source: VVWRA Audited Financial Statements June 30, 2013, page 10

The performance indicators are analyzed, comparing to nationwide, West States Region IV, and 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 consist 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 12/13**
Sewer Overflow Rate	4.16	7.48	14.33	**14.3**

West States Region IV

	Top Quartile	Median	Bottom Quartile	**VVWRA FY 12/13**
Sewer Overflow Rate	0.8	2.5	4.9	**14.3**

Population 100,001-500,000

	Top Quartile	Median	Bottom Quartile	**VVWRA FY 12/13**
Sewer Overflow Rate	1.7	3.2	9.7	**14.3**

Sewer Overflow Rate, Value 14.3: VVWRA had 6 reported spills at the Upper Narrows Emergency Bypass Sites during fiscal year 2013. VVWRA will construct 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 has completed the construction of the Santa Fe interceptor to relieve the capacity issue to cope with the effect from heavy rains not only at the "I" Avenue interceptor but also the surrounding Victor Valley areas. The Capital Improvement Plan requires a multi-million dollar funding to address those issues.

Coping with sewer overflow at Upper Narrows

Million Gallons per Day of Wastewater Processed per Employee

Nationwide

	Top Quartile	Median	Bottom Quartile	**VVWRA FY 12/13**
MGD Wastewater processed per employee	0.35	0.22	0.15	**0.31**

West States Region IV

	Top Quartile	Median	Bottom Quartile	**VVWRA FY 12/13**
MGD Wastewater processed per employee	0.28	0.21	0.16	**0.31**

Population 100,001-500,000

	Top Quartile	Median	Bottom Quartile	**VVWRA FY 12/13**
MGD Wastewater processed per employee	0.32	0.21	0.14	**0.31**

VVWRA places between the median and top quartiles of the Nationwide and population categories, while it surpasses the top quartile of the West States.

Operations and Maintenance Cost per Million Gallons Processed

Nationwide

	Top Quartile	Median	Bottom Quartile	**VVWRA FY 12/13**
O&M Cost per MG Processed	$916	$1,796	$2,066	**$2,121**

West States Region IV

	Top Quartile	Median	Bottom Quartile	**VVWRA FY 12/13**
O&M Cost per MG Processed	$1,695	$2,993	$5,410	**$2,121**

Population 100,001-500,000

	Top Quartile	Median	Bottom Quartile	**VVWRA FY 12/13**
O&M Cost per MG Processed	$1,222	$1,560	$2,021	**$2,121**

VVWRA is performing between the median and the top quartile in the West States however below the bottom quartile nationally. The population comparison also places VVWRA below the bottom quartile. 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 12/13**
Debt Ratio (%)	9.2	21.8	31.2	**22.0**

West States Region IV

	Top Quartile	Median	Bottom Quartile	**VVWRA FY 12/13**
Debt Ratio (%)	18.8	28.9	41.3	**22.0**

Population 100,001-500,000

	Top Quartile	Median	Bottom Quartile	**VVWRA FY 12/13**
Debt Ratio (%)	20.3	27.9	44.6	**22.0**

VVWRA surpassed the median quartile for the West States and for serving a population of 100,001 – 500,000. The Authority is between the median and the bottom quartiles when compared nationally to other wastewater agencies nationwide.

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 $106,993 showing that VVWRA's personnel cost was the lowest. See next page.

Victor Valley Wastewater Reclamation Authority
Operating and Capital Indicators (Facts and Figures)
June 30, 2013
(Continued)

Financial and Statistical summary of Selected Wastewater Agencies – Year Ended June 30, 2013							
Wastewater Agencies	Arrowhead	VVWRA	Inland Empire	Encina WA	Big Bear RWA	Leucadia WD	Orange County San. Dist.
Cost of Services	$6,206,452	**$4,386,713**	$35,200,000	$8,997,381	$1,834,931	$2,526,104	$94,305,170
Positions	53.75	**41**	323	65	14.5	18	627.75
Average personnel cost per position	$115,469	**$106,993**	$108,978	$138,421	$126,547	$140,339	$150,227

Sources: VVWRA's cost of services and personnel cost are **actual** for the fiscal year ended June 30, 2013, while data for other agencies are from their **budgets** for June 30, 2013.

Discussion

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 subregional 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:

UV System Phase III A Upgrade

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.

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.

The water quality has been improved profoundly in wastewater treatment discharges.

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.