

Victor Valley Wastewater Reclamation Authority
California

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2020 and 2019



A Joint Powers Authority



Victor Valley Wastewater Reclamation Authority
California

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2020 and 2019



Prepared by:

Chieko Keagy, CPA, Controller

Xiwei Wang, CPA, Senior Accountant

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Victor Valley Wastewater Reclamation Authority
Comprehensive Annual Financial Report
For the Fiscal Years Ended June 30, 2020 and 2019

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Introduction Section



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

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

December 17, 2020

To the Board of Commissioners and Member Agencies,

It is our pleasure to present the Victor Valley Wastewater Reclamation Authority's (the Authority) Comprehensive Annual Financial Report for the years ended June 30, 2020 and 2019.

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 presentation 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 were audited by Fedak & Brown LLP, a firm of licensed Certified Public Accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the Authority for the years ended June 30, 2020 and 2019 are free from material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The auditors concluded, based on the audit, that there was a reasonable basis for rendering an unmodified opinion that the Authority's financial statements for the years ended June 30, 2020 and 2019 are fairly presented in conformity with GAAP. The independent auditor's 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). This letter of transmittal is to complement the MD&A and should be read in conjunction with the MD&A. You will see the MD&A immediately following the independent auditor's report in the financial section.

Reporting Entity and Its Services

History

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

The Authority is a Joint Power public agency of the State of California. Over the years, the Authority has completed treatment plant upgrades and several capacity increases, such as construction of two water reclamation plants (sub-regional plants), one in the Town of Apple Valley and the other in the City of Hesperia. The regional and sub-regional treatment plants will treat all flow to a tertiary level as recycled water for reuse. A majority of the recycled water is discharged into the Mojave River Basin and a smaller amount is currently used to irrigate landscaping at the treatment plant and the nearby Victorville power plant. In order to meet strong demands reflecting the service area population expansion, the agency has funded various capital projects that you can see in the AB1600 report posted on the VVWRA website.

Governance

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

VVWRA is committed to protecting public health and the environment in the Victor Valley by providing effective and fiscally responsible wastewater collection, treatment and recycling.

To build on the mission statement, the Authority has also established a set of three core values;

- Collaboration
- Dedication
- Integrity

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) non-payment of connection fees.

Local Economy

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

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

Non-payment of Connection Fees

A member agency has withheld some of its connection fee payments to the Authority. There is an outstanding balance on the audit report date.

Major Initiatives

The Authority has continued its performance test runs of the sub-regional plants during the year ended June 30, 2020 after completion of the construction during the 2018. These sub-regional plants not only reduce the overall load on the collection system but generate recycled water that is a valuable and increasingly important water resource to sustain the growth in the community, businesses and industries. The following pictures show the two sub-regional plants.



Apple Valley Sub-Regional Water Reclamation Plant



Hesperia Sub-Regional Water Reclamation Plant

Relevant Financial Policies

The Authority has formally adopted the following financial policies:

Reserve Policy

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

Investment Policy

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

Accounting

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

Internal Controls

The Authority operates based on a system of internal accounting controls designed 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 material 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, 2019. The Authority has won this prestigious award consecutively since June 30, 2010. In order to be awarded a Certificate of Achievement, a governmental agency must publish an easily readable and efficiently organized CAFR. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. The Certificate of Achievement is valid for a period of one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate for the year ended June 30, 2020.

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 for the effort to prepare the report. We also thank the members of the Board of Commissioners for their continued interest and support in the planning and implementation of the financial management.

Respectfully submitted,



Chieko Keagy, CPA
Controller

**Victor Valley Wastewater Reclamation Authority
Government Finance Officers Association Certificate of Achievement for Excellence in Financial
Reporting
For the Fiscal Years Ended June 30, 2019**



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, 2019

Christopher P. Morrill

Executive Director/CEO

Victor Valley Wastewater Reclamation Authority

Board of Commissioners and Management

As of June 30, 2020

Board of Commissioners 2020

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Member Agency</u>
Scott Nassif	Chair	Appointed	Town of Apple Valley
Debra Jones	Vice-Chair	Appointed	City of Victorville
Larry Bird	Secretary	Appointed	City of Hesperia
Robert Lovingood	Treasurer	Appointed	County of San Bernardino, Special Districts

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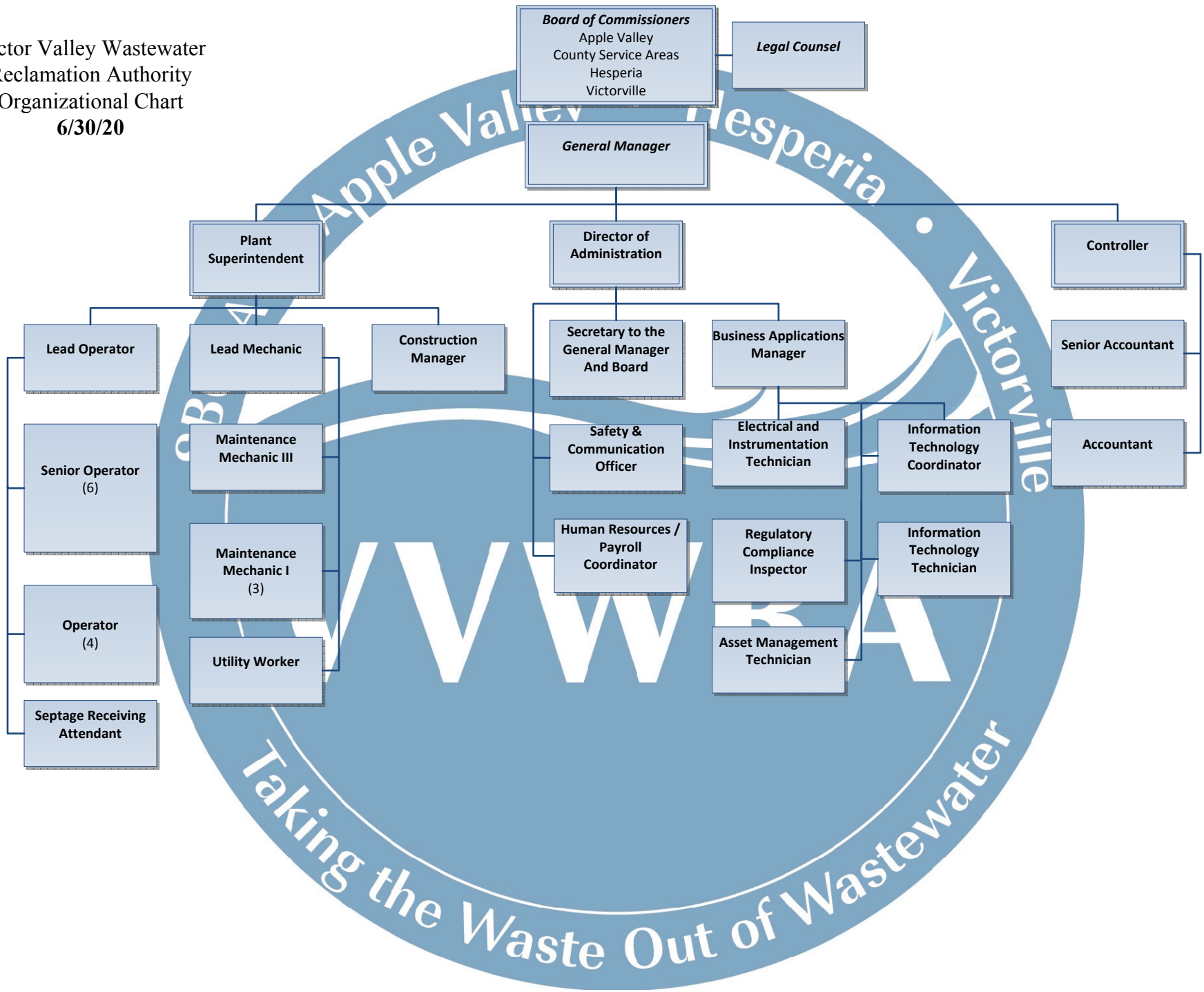
VWVRA's mission statement:

VWVRA is committed to protecting public health and the environment in the Victor Valley by providing effective and fiscally responsible wastewater collection, treatment, and recycling.

Our core values:

- *Collaboration...working together towards a common goal.*
 - *Dedication...devoting self to a particular purpose.*
- *Integrity...the quality of being honest and adhering to ethical values.*

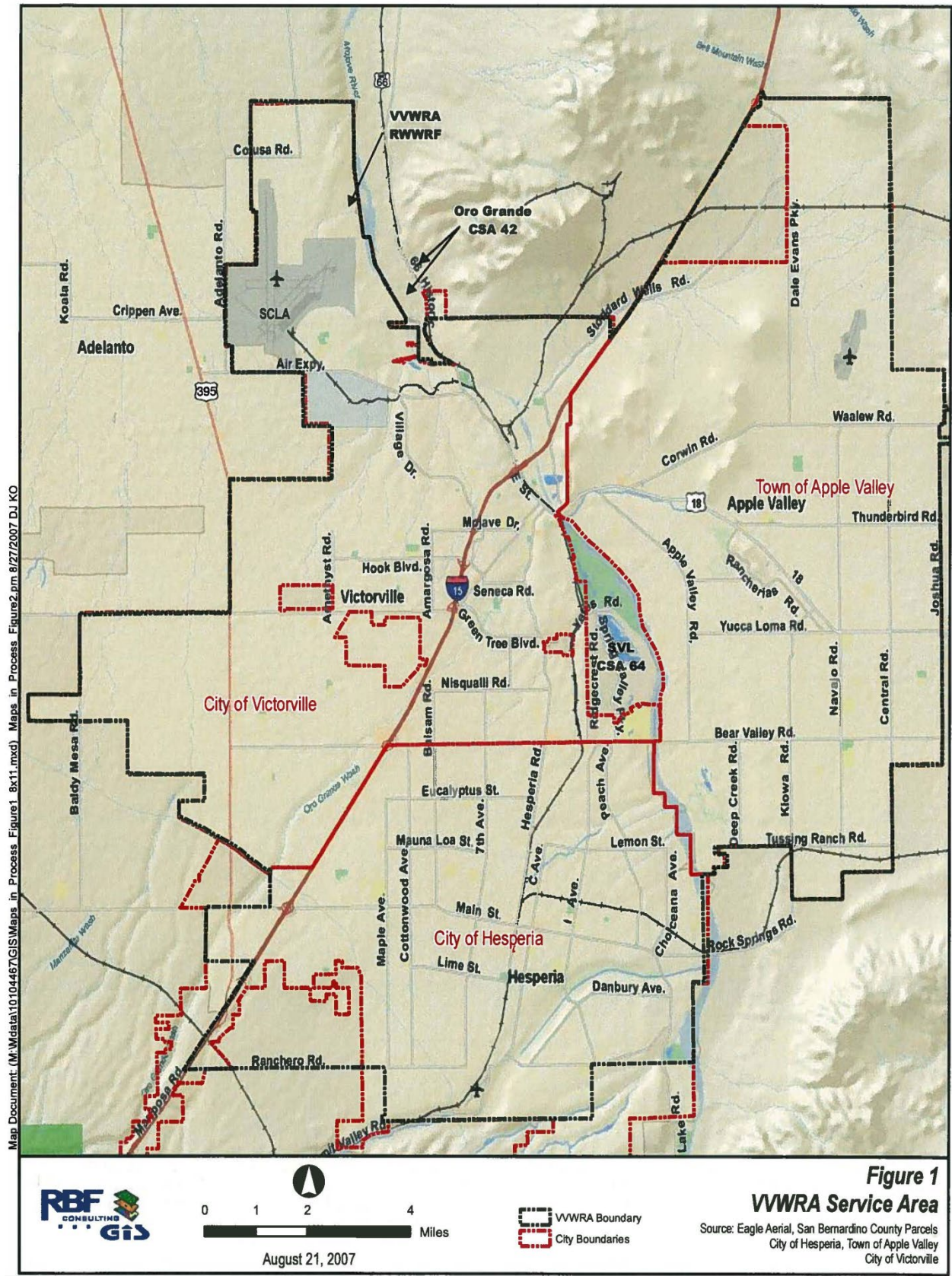
Victor Valley Wastewater
 Reclamation Authority
 Organizational Chart
 6/30/20



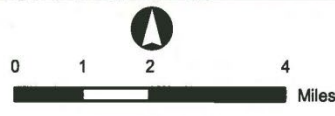
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Victor Valley Wastewater Reclamation Authority

Service Area Map



Map Document: (M:\data\10104467\GIS\Maps in Process Figure2.pm 8/27/2007 DJ KO



August 21, 2007



 VVRA Boundary
 City Boundaries

Figure 1
VVRA Service Area
 Source: Eagle Aerial, San Bernardino County Parcels
 City of Hesperia, Town of Apple Valley
 City of Victorville

A photograph of a body of water, possibly a reservoir or lake, with reeds in the foreground and hills in the background. The water is dark blue-green, and there are some white splashes in the foreground. The sky is a clear, light blue. The text "Financial Section" is overlaid in the center of the image in a white, serif font.

Financial Section



Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
Andy Beck, CPA

Fedak & Brown LLP

Certified Public Accountants

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Independent Auditor's Report

Board of Commissioners
Victor Valley Wastewater Reclamation Authority
Victorville, 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, 2020 and 2019, 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 an opinion 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 audits 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2020 and 2019, and the respective changes in net position, and cash flows thereof 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 and the required supplementary information 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matters

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. 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 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 17, 2020, 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.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
December 17, 2020

Victor Valley Wastewater Reclamation Authority
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2020 and 2019

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, 2020 and 2019. We encourage readers to consider the information presented here in conjunction with the preceding Independent Auditor's Report, the accompanying basic financial statements, and notes to the financial statements.

Financial Highlights

- In fiscal year 2020, the Authority's net position decreased 7.7% or \$9,185,823 to \$110,636,886; primarily due to a loss of \$12,024,668 from ongoing operations (including the effect of \$11,565,945 in depreciation expense), offset by \$2,838,845 in capital contributions. In fiscal year 2019, the Authority's net position decreased 5.1% or \$6,443,257 to \$119,822,709; primarily due to a loss of \$9,827,024 from ongoing operations, offset by \$3,383,767 in capital contributions. The Authority also recognized restatements to net position. Please see further detail in note 14.
- In fiscal year 2020, the Authority's operating revenues increased 5.5% or \$808,375 to \$15,457,755. In fiscal year 2019, the Authority's operating revenues decreased 0.3% or \$47,157 to \$14,649,380.
- In fiscal year 2020, the Authority's operating expenses increased 12.3%, or \$1,468,566 to \$13,451,693. In fiscal year 2019, the Authority's operating expenses increased 7.7%, or \$854,034 to \$11,983,127.

Required Financial Statements

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

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

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

Financial Analysis of the Authority

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

Victor Valley Wastewater Reclamation Authority
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2020 and 2019

Financial Analysis of the Authority, continued

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 its changes. 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.

Statements of Net Position

	<u>2020</u>	<u>As Restated 2019</u>	<u>Change</u>	<u>As Restated 2018</u>	<u>Change</u>
Assets:					
Current assets	\$ 18,695,235	18,694,803	432	19,845,500	(1,150,697)
Non-current assets	192,516	200,174	(7,658)	207,756	(7,582)
Capital asset, net	<u>181,941,801</u>	<u>193,933,753</u>	<u>(11,991,952)</u>	<u>202,805,914</u>	<u>(8,872,161)</u>
Total assets	<u>200,829,552</u>	<u>212,828,730</u>	<u>(11,999,178)</u>	<u>222,859,170</u>	<u>(10,030,440)</u>
Deferred outflows of resources:	<u>2,403,785</u>	<u>2,014,827</u>	<u>388,958</u>	<u>1,742,472</u>	<u>272,355</u>
Liabilities:					
Current liabilities	6,216,861	5,942,064	274,797	5,863,899	78,165
Non-current liabilities	<u>86,216,968</u>	<u>88,990,158</u>	<u>(2,773,190)</u>	<u>92,382,340</u>	<u>(3,392,182)</u>
Total liabilities	<u>92,433,829</u>	<u>94,932,222</u>	<u>(2,498,393)</u>	<u>98,246,239</u>	<u>(3,314,017)</u>
Deferred inflows of resources:	<u>162,622</u>	<u>88,626</u>	<u>73,996</u>	<u>89,437</u>	<u>(811)</u>
Net position:					
Net investment in capital assets	101,957,712	109,818,767	(7,861,055)	114,620,595	(4,801,828)
Restricted	4,882,810	5,147,861	(265,051)	5,285,091	(137,230)
Unrestricted	<u>3,796,364</u>	<u>4,856,081</u>	<u>(1,059,717)</u>	<u>6,360,280</u>	<u>(1,504,199)</u>
Total net position	<u>\$ 110,636,886</u>	<u>119,822,709</u>	<u>(9,185,823)</u>	<u>126,265,966</u>	<u>(6,443,257)</u>

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 \$110,636,886 and \$119,822,709 as of June 30, 2020 and 2019, respectively.

By far the largest portion of the Authority's net position (92% as of June 30, 2020 and 2019, 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.

Victor Valley Wastewater Reclamation Authority
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2020 and 2019

Statements of Net Position, continued

At the end of fiscal year 2020 and 2019, the Authority showed a balance in its unrestricted net position of \$3,796,364 and \$4,856,081. See note 13 for further discussion.

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2020</u>	<u>As Restated 2019</u>	<u>Change</u>	<u>As Restated 2018</u>	<u>Change</u>
Revenue:					
Operating revenues	\$ 15,457,755	14,649,380	808,375	14,696,537	(47,157)
Non-operating revenues	271,102	281,620	(10,518)	67,532	214,088
Total revenue	<u>15,728,857</u>	<u>14,931,000</u>	<u>797,857</u>	<u>14,764,069</u>	<u>166,931</u>
Expense:					
Operating expenses	13,451,693	11,983,127	1,468,566	11,129,093	854,034
Depreciation	11,565,945	11,519,264	46,681	9,429,914	2,089,350
Non-operating expenses	2,735,887	1,255,633	1,480,254	1,937,435	(681,802)
Total expense	<u>27,753,525</u>	<u>24,758,024</u>	<u>2,995,501</u>	<u>22,496,442</u>	<u>2,261,582</u>
Net loss before capital contributions	<u>(12,024,668)</u>	<u>(9,827,024)</u>	<u>(2,197,644)</u>	<u>(7,732,373)</u>	<u>(2,094,651)</u>
Capital contributions:					
Capital grants	536,624	294,907	241,717	2,367,867	(2,072,960)
Connection fees	2,302,221	3,088,860	(786,639)	2,882,239	206,621
Total capital contributions	<u>2,838,845</u>	<u>3,383,767</u>	<u>(544,922)</u>	<u>5,250,106</u>	<u>(1,866,339)</u>
Changes in net position	<u>(9,185,823)</u>	<u>(6,443,257)</u>	<u>(2,742,566)</u>	<u>(2,482,267)</u>	<u>(3,960,990)</u>
Net position, beginning of year					
– as restated – (note 14)	<u>119,822,709</u>	<u>126,265,966</u>	<u>(6,443,257)</u>	<u>128,748,233</u>	<u>(2,482,267)</u>
Net position, end of year	<u>\$ 110,636,886</u>	<u>119,822,709</u>	<u>(9,185,823)</u>	<u>126,265,966</u>	<u>(6,443,257)</u>

The statement of revenues, expenses and changes in net position shows how the Authority's net position changed during the fiscal year. The Authority's net position decreased 7.7% or \$9,185,823 to \$110,636,886 in fiscal year 2020, due to a loss of \$12,024,668 from ongoing operations (including the effect of \$11,565,945 in depreciation expense), offset by \$2,838,845 in capital contributions. In 2019, the Authority's net position decreased 5.1% or \$6,443,257 to \$119,822,709 due to a loss of \$9,827,024 from ongoing operations, offset by \$3,383,767 in capital contributions. The Authority also recognized restatements to net position. Please see further detail in note 14.

The Authority's total revenues (before capital contributions) increased 5.3% or \$797,857 in fiscal year 2020, due primarily to an increase of \$808,375 in operating revenues, offset by a decrease of \$10,518 in non-operating revenue. In 2019, the Authority's revenues (before capital contributions) increased 1.1% or \$166,931, due primarily to an increase of \$214,088 in non-operating revenues, offset by a decrease of \$47,157 in operating revenue.

The Authority's total expenses increased 12.1% or \$2,995,501 in fiscal year 2020, due primarily to increases of \$1,468,566 in operating expenses, \$1,480,254 in non-operating expenses primarily due to the abandonment of the microgrid construction project, and \$46,681 in depreciation expense. In 2019, the Authority's total expenses increased 10.1% or \$2,261,582 due primarily to increases of \$2,089,350 in depreciation expense, \$854,034 in operating expenses, which were offset by a decrease of \$681,802 in non-operating expenses.

Victor Valley Wastewater Reclamation Authority
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2020 and 2019

Revenues

	<u>2020</u>	<u>As Restated 2019</u>	<u>Change</u>	<u>As Restated 2018</u>	<u>Change</u>
Operating revenues:					
Wastewater service charges	\$ 14,592,947	13,706,977	885,970	13,711,083	(4,106)
Septage receiving facility fees	633,420	614,617	18,803	621,154	(6,537)
ADM-FOG tipping fees	181,788	274,186	(92,398)	311,600	(37,414)
Pretreatment permit fees	49,600	53,600	(4,000)	52,700	900
Total operating revenues	<u>15,457,755</u>	<u>14,649,380</u>	<u>808,375</u>	<u>14,696,537</u>	<u>(47,157)</u>
Non-operating revenue:					
Investment earnings	271,102	281,620	(10,518)	65,808	215,812
Other revenues	-	-	-	1,724	(1,724)
Total non-operating revenue	<u>271,102</u>	<u>281,620</u>	<u>(10,518)</u>	<u>67,532</u>	<u>214,088</u>
Capital contributions:					
Capital grants	536,624	294,907	241,717	2,367,867	(2,072,960)
Connection fees	2,302,221	3,088,860	(786,639)	2,882,239	206,621
Total capital contributions	<u>2,838,845</u>	<u>3,383,767</u>	<u>(544,922)</u>	<u>5,250,106</u>	<u>(1,866,339)</u>
Total revenues	<u>\$ 18,567,702</u>	<u>18,314,767</u>	<u>252,935</u>	<u>20,014,175</u>	<u>(1,699,408)</u>

A closer examination of the Authority's revenues reveals that:

In 2020, the Authority's total revenues (including capital contributions) increased by 1.4% or \$252,935 to \$18,567,702. The Authority's operating revenues increased 5.5% or \$808,375 to \$15,457,755, due to increases of \$885,970 in wastewater service charges and \$18,803 in septage receiving facility fees, which were offset by decreases of \$92,398 in ADM-FOG tipping fees and \$4,000 in pretreatment permit fees.

In 2020, the Authority's non-operating revenues decreased 3.7%, or \$10,518 to \$271,102, due to a decrease in investment earnings as compared to the prior year.

In 2020, the Authority's capital contributions decreased 16.1% or \$544,922 to \$2,838,845, due to a decrease of \$786,639 in connection fees offset by an increase of \$241,717 in capital grants.

In 2019, the Authority's total revenues (including capital contributions) decreased by 8.5% or \$1,699,408 to \$18,314,767. The Authority's operating revenues decreased 0.3% or \$47,157 to \$14,649,380, due to decreases of \$37,414 in ADM-FOG tipping fees, \$6,537 in septage receiving facility fees, \$4,106 in wastewater service charges.

In 2019, the Authority's non-operating revenues increased 317.0%, or \$214,088 to \$281,620, due to an increase of \$215,812 in investment earnings offset by a decrease of \$1,724 in other revenues.

In 2019, the Authority's capital contributions decreased 35.5% or \$1,866,339 to \$3,383,767, due to a decrease of \$2,072,960 in capital grants offset by an increase of \$206,621 in connection fees.

Victor Valley Wastewater Reclamation Authority
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2020 and 2019

Expenses

	<u>2020</u>	<u>As Restated 2019</u>	<u>Change</u>	<u>As Restated 2018</u>	<u>Change</u>
Operating expenses:					
Salaries and benefits	\$ 5,988,422	5,011,708	976,714	4,813,879	197,829
Maintenance	1,808,505	1,880,448	(71,943)	1,654,791	225,657
Operations	3,176,174	2,928,704	247,470	2,877,169	51,535
General and administration	2,478,592	2,162,267	316,325	1,783,254	379,013
Depreciation	<u>11,565,945</u>	<u>11,519,264</u>	<u>46,681</u>	<u>9,429,914</u>	<u>2,089,350</u>
Total operating expense	<u>25,017,638</u>	<u>23,502,391</u>	<u>1,515,247</u>	<u>20,559,007</u>	<u>2,943,384</u>
Non-operating expenses:					
Interest expense	1,124,650	1,183,372	(58,722)	1,766,631	(583,259)
Loss on disposal of capital assets	1,610,035	-	1,610,035	-	-
Capital contribution to local government	-	71,132	(71,132)	170,804	(99,672)
Other expense	<u>1,202</u>	<u>1,129</u>	<u>73</u>	<u>-</u>	<u>1,129</u>
Total non-operating expenses	<u>2,735,887</u>	<u>1,255,633</u>	<u>1,480,254</u>	<u>1,937,435</u>	<u>(681,802)</u>
Total expenses	<u>\$ 27,753,525</u>	<u>24,758,024</u>	<u>2,995,501</u>	<u>22,496,442</u>	<u>2,261,582</u>

A closer examination of the Authority's expenses reveals that:

In 2020, the Authority's total expenses increased by 12.1% or \$2,995,501 to \$27,753,525. The Authority's operating expenses (including depreciation) increased by 6.4%, or \$1,564,942, primarily due to increases of \$976,714 in salaries and benefits expense, (primarily due to current year implementation of GASB 68 and GASB 75, four new added full-time positions, current year overtime and regular pay retroactive, step and cost-of-living increases during the year), \$316,325 in general and administrative expense, \$247,470 in operations expense, and \$46,681 in depreciation expense which were offset by a decrease of \$71,943 in maintenance expense as compared to the prior year.

In 2020, the Authority's non-operating expenses increased 117.9%, or \$1,480,252 to \$2,735,887, primarily due to an increase of \$1,610,035 in loss on disposal of capital assets related to the abandonment of the microgrid construction project, which was offset by decreases of \$71,132 in capital contribution to local government and \$58,722 in interest expense.

In 2019, the Authority's total expenses increased by 10.1% or \$2,261,582 to \$24,758,024. The Authority's operating expenses (including depreciation) increased by 14.3%, or \$2,943,384 to \$23,502,391, primarily due to increases of \$2,089,350 in depreciation expense, \$379,013 in general and administrative expense, \$225,657 in maintenance expense, \$197,829 in salaries and benefits expense, and \$51,535 in operations expense.

In 2019, the Authority's non-operating expenses decreased 35.2%, or \$681,802 to \$1,255,633, primarily due to decreases of \$583,259 in interest expense and \$99,672 in capital contribution to local government.

Victor Valley Wastewater Reclamation Authority
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2020 and 2019

Capital Asset Administration

Changes in capital asset amounts for 2020 were as follows:

	As Restated		Disposals/ Transfers	Balance
	Balance	Additions		2020
	2019			
Capital assets:				
Non-depreciable assets	\$ 3,375,430	1,157,818	(1,971,070)	2,562,178
Depreciable assets	299,379,396	387,245	-	299,766,641
Accumulated depreciation	<u>(108,821,073)</u>	<u>(11,565,945)</u>	<u>-</u>	<u>(120,387,018)</u>
Total capital assets	<u>\$ 193,933,753</u>	<u>(10,020,882)</u>	<u>(1,971,070)</u>	<u>181,941,801</u>

At the end of fiscal year 2020, the Authority's investment in capital assets amounted to \$181,941,801 (net of accumulated depreciation). This investment in capital assets includes land improvements, sewer collection and pipeline system, buildings and structures, equipment, vehicles and construction in progress, etc.

In 2020, construction in progress increased by \$1,157,818, due primarily to the PLC replacement project and ongoing construction project on digester repairs. In 2020, the Authority abandoned the micro-grid battery project, forced by non-delivery of six battery storage boxes from the manufacturer.

In 2020, the Authority had no capital assets additions sourcing from construction in progress. Major additions outside of construction-in progress were \$387,244 to plant and building. See note 6 for more details related to capital assets.

Changes in capital asset amounts for 2019 were as follows:

	As Restated		Disposals/ Transfers	As Restated
	Balance	PY Adjustment/ Additions		Balance
	2018			2019
Capital assets:				
Non-depreciable assets	\$ 3,081,101	2,217,594	(1,923,265)	3,375,430
Depreciable assets	297,062,168	2,352,774	(35,546)	299,379,396
Accumulated depreciation	<u>(97,337,355)</u>	<u>(11,519,264)</u>	<u>35,546</u>	<u>(108,821,073)</u>
Total capital assets	<u>\$ 202,805,914</u>	<u>(6,948,896)</u>	<u>(1,923,265)</u>	<u>193,933,753</u>

At the end of fiscal year 2019, the Authority's investment in capital assets amounted to \$193,933,753 (net of accumulated depreciation). This investment in capital assets includes land improvements, sewer collection and pipeline system, buildings and structures, equipment, vehicles and construction in progress, etc.

In 2019, construction in progress increased by \$2,217,594, due primarily to the ongoing project construction of the micro-grid battery storage project, the Desert Knolls Wash project, the Lab-EC-IT construction project and the SCADA Ignition project.

In 2019, major capital assets additions during the year, sourcing from construction in progress, included \$1,656,492 to interceptor lines, and \$266,773 to office equipment. Major additions outside of construction-in progress were \$351,499 to plant and building, \$22,207 to office equipment and \$55,803 to trucks and autos. See note 6 for more details related to capital assets.

Victor Valley Wastewater Reclamation Authority
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2020 and 2019

Debt Administration

Changes in long-term debt amounts for 2020 were as follows:

	<u>Balance 2019</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2020</u>
Long-term debt:				
Lease payable	\$ 339,222	-	(92,834)	246,388
Loans payable	<u>83,775,764</u>	<u>-</u>	<u>(4,038,063)</u>	<u>79,737,701</u>
Total long-term debt	<u>\$ 84,114,986</u>	<u>-</u>	<u>(4,130,897)</u>	<u>79,984,089</u>

Changes in long-term debt amounts for 2019 were as follows:

	<u>Balance 2018</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2019</u>
Long-term debt:				
Lease payable	\$ 429,152	-	(89,930)	339,222
Loans payable	<u>87,756,167</u>	<u>-</u>	<u>(3,980,403)</u>	<u>83,775,764</u>
Total long-term debt	<u>\$ 88,185,319</u>	<u>-</u>	<u>(4,070,333)</u>	<u>84,114,986</u>

The Authority has seven State Revolving Fund loans from the State Water Resources Control Board, one Southern California Edison loan, and one lease payable. The loans are for the purpose of financing construction related costs for the 11 MGD Expansion Project, the North Apple Valley Interceptor, the Phase III-A Facility, the Subregional Wastewater Reclamation Plants in Hesperia, and Apple Valley, the Upper Narrows Pipeline Replacement Project, the Nanticoke Gravity Interceptor Project. The Authority has one lease which is for the financing of a Brown Bear tractor for use in day-to-day operations. These low interest loans and lease are payable in 6 to 30 annual payments maturing in fiscal years 2022 through 2047. In 2020, the 9.5 MGD Capital Improvements loan matured. Additional information regarding long-term debt is located in notes 9 & 10 of the Notes to Financial Statements.

Conditions Affecting Current Financial Position

The Authority is continuing to work closely with the four Member Agencies and has completed 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.

The COVID-19 pandemic in the United States has caused business disruption through mandated and voluntary closings of businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. However, the related financial impact on the Authority and the duration cannot be estimated at this time.

At June 30, 2020, Management is unaware of any other conditions, beyond the aforementioned, which could have a significant impact on the Authority's current financial position, net position or operating results based on past, present and future events.

Victor Valley Wastewater Reclamation Authority
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2020 and 2019

Requests for Information

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

Basic Financial Statements

Victor Valley Wastewater Reclamation Authority
Statements of Net Position
For the Fiscal Years Ended June 30, 2020 and 2019

	2020	As Restated 2019
Current assets:		
Cash and equivalents (note 2)	\$ 6,143,025	6,234,588
Restricted – cash and equivalents (note 2)	4,882,810	5,147,861
Interest receivable	5,131	17,464
Accounts receivable, net	192,529	176,137
Accounts receivable – due from member agencies (note 3)	4,137,705	2,630,915
Accounts receivable – other (note 4)	12,798	8,061
Accounts receivable – grants	3,110,307	4,231,352
Notes receivable, net (note 5)	9,712	9,636
Materials and supplies inventory	95,478	85,674
Prepaid expenses and other deposits	105,740	153,115
	18,695,235	18,694,803
Non-current assets:		
Notes receivable, net (note 5)	192,516	200,174
Capital assets not being depreciated (note 6)	2,562,178	3,375,430
Capital assets being depreciated, net (note 6)	179,379,623	190,558,323
	182,134,317	194,133,927
	200,829,552	212,828,730
Deferred outflows of resources:		
Other post-employment benefits related outflows (note 11)	1,130,711	751,459
Pension related outflows (note 12)	1,273,074	1,263,368
	2,403,785	2,014,827

Continued on next page

See accompanying notes to the basic financial statements

Victor Valley Wastewater Reclamation Authority
Statements of Net Position, continued
For the Fiscal Years Ended June 30, 2020 and 2019

	2020	As Restated 2019
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,620,279	1,268,195
Construction retention payable	-	49,800
Accrued wages and related payables	319,018	158,930
Accrued interest on long-term debt	242,383	261,723
Long-term liabilities – due within one year:		
Compensated absences (note 7)	90,991	65,509
Other payables (note 8)	6,852	6,852
Lease payable (note 9)	95,833	92,834
Loans payable (note 10)	3,841,505	4,038,221
	6,216,861	5,942,064
Total current liabilities		
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 7)	272,974	196,526
Other payables (note 8)	1,678	8,530
Lease payable (note 9)	150,555	246,388
Loans payable (note 10)	75,896,196	79,737,543
Total other post-employment benefits liability (note 11)	3,840,737	3,159,843
Net pension liability (note 12)	6,054,828	5,641,328
	86,216,968	88,990,158
Total non-current liabilities:		
	92,433,829	94,932,222
Total liabilities		
Deferred inflows of resources:		
Pension related inflows (note 12)	162,622	88,626
	162,622	88,626
Total deferred inflows of resources:		
Net position: (note 13)		
Net investment in capital assets	101,957,712	109,818,767
Restricted for debt service	4,882,810	5,147,861
Unrestricted	3,796,364	4,856,081
	110,636,886	119,822,709
Total net position		

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, 2020 and 2019

	2020	As Restated 2019
Operating revenues:		
Wastewater service charges	\$ 14,592,947	13,706,977
Septage receiving facility fees	633,420	614,617
ADM-FOG tipping fees	181,788	274,186
Pretreatment permit fees	49,600	53,600
Total operating revenues	15,457,755	14,649,380
Operating expenses:		
Salaries and benefits	5,988,422	5,011,708
Maintenance	1,808,505	1,880,448
Operations	3,176,174	2,928,704
General and administration	2,478,592	2,162,267
Total operating expense	13,451,693	11,983,127
Operating income before depreciation expense	2,006,062	2,666,253
Depreciation	(11,565,945)	(11,519,264)
Operating loss	(9,559,883)	(8,853,011)
Non-operating revenue (expense):		
Investment earnings	271,102	281,620
Interest expense	(1,124,650)	(1,183,372)
Loss on disposal of capital assets	(1,610,035)	-
Other, net	(1,202)	(1,129)
Capital contribution to local government	-	(71,132)
Total non-operating expense, net	(2,464,785)	(974,013)
Net loss before capital contributions	(12,024,668)	(9,827,024)
Capital contributions:		
Capital grants – FEMA	536,624	-
Capital grants – Other agency	-	294,907
Connection fees	2,302,221	3,088,860
Total contributed capital	2,838,845	3,383,767
Change in net position	(9,185,823)	(6,443,257)
Net position, beginning of year – (note 14)	119,822,709	126,265,966
Net position, end of year	\$ 110,636,886	119,822,709

See accompanying notes to the basic financial statements

Victor Valley Wastewater Reclamation Authority
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2020 and 2019

	2020	As Restated 2019
Cash flows from operating activities:		
Cash receipts from customers	\$ 15,436,626	14,661,113
Cash paid to employees for salaries and wages	(6,148,510)	(5,013,012)
Cash paid to vendors and suppliers for materials and services	(7,429,140)	(3,943,968)
Net cash provided by operating activities	1,858,976	5,704,133
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,212,544)	(2,092,112)
Proceeds from connection fees	2,742,594	3,088,860
Proceeds from grant funding	1,265,073	223,775
Proceeds from loans	-	82,946
Principal paid for capital lease	(92,834)	(89,930)
Principal paid for long-term debt	(4,044,915)	(3,987,255)
Interest paid for long-term debt	(1,143,990)	(1,196,692)
Net cash used in capital and related financing activities	(2,486,616)	(3,970,408)
Cash flows from investing activities:		
Investment earnings	271,026	281,546
Net cash provided by investing activities	271,026	281,546
Net (decrease) increase in cash and cash equivalents	(356,614)	2,015,271
Cash and cash equivalents, beginning of year	11,382,449	9,367,178
Cash and cash equivalents, end of year	\$ 11,025,835	11,382,449
 Reconciliation of cash and cash equivalents to the statements of net position:		
Cash and cash equivalents	\$ 6,143,025	6,234,588
Restricted cash and cash equivalents	4,882,810	5,147,861
Total cash and cash equivalents	\$ 11,025,835	11,382,449

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, 2020 and 2019

	2020	As Restated 2019
Reconciliation of operating income to net cash provided by operating activities:		
Operating loss	\$ <u>(9,559,883)</u>	<u>(8,853,011)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	11,565,945	11,519,264
Other non-operating expenses	(1,202)	(72,261)
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
(Increase) decrease in assets:		
Accounts receivable	(16,392)	10,663
Accounts receivable – due from member agencies	(1,506,790)	2,628,410
Accounts receivable – other	(4,737)	1,070
Note receivable, net	7,582	7,508
Materials and supplies inventory	(9,804)	(2,570)
Prepaid expenses and other deposits	47,375	(31,410)
Increase in deferred outflows of resources	(388,958)	(272,355)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	352,084	(11,253)
Construction retention payable	(49,800)	49,800
Accrued wages and related payables	160,088	(1,304)
Compensated absences	101,930	(25,984)
Other payables	(6,852)	(6,852)
Total other post-employment benefits liability	680,894	874,475
Net pension liability	413,500	(109,246)
Increase (decrease) in deferred inflows of resources	<u>73,996</u>	<u>(811)</u>
Total adjustments	<u>11,418,859</u>	<u>14,557,144</u>
Net cash provided by operating activities	<u>\$ 1,858,976</u>	<u>5,704,133</u>
Non-cash investing, capital and financing transactions:		
Change in fair value of funds deposited with LAIF	\$ <u>6,913</u>	<u>4,866</u>
Change in capital contribution's – grants	\$ <u>1,121,045</u>	<u>487,086</u>

See accompanying notes to the basic financial statements

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2020 and 2019

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

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

B. Basis of Accounting and Measurement Focus

The Authority reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Authority is that the costs of providing wastewater services, collection and treatment for its service areas on a continuing basis be financed or recovered primarily through user charges (sewer service charges), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as sewer service charges, result from exchange transactions associated with the principal activity of the Authority. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

C. Financial Reporting

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

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

Governmental Accounting Standards Board Statement No. 95

In May 2020, the GASB issued Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

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

1. Use of Estimates

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

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2020 and 2019

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

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

2. Uncertainty

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. However, the related financial impact on Authority and the duration cannot be estimated at this time.

3. 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.

4. Investments and Investment Policy

The Authority has adopted an investment policy directing the General Manager and Controller 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.

5. Fair Value Measurements

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

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

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques attempt to maximize the use of observable inputs and minimize the use of unobservable inputs.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Authority believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurement at the reporting date.

6. Restricted Assets

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

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2020 and 2019

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

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

7. 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 uncollectible.

8. Federal Capital and Operating Grants

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a federal capital or operating grant receivable on the statement of net position and as capital grant contribution or operating grant revenue, as appropriate, on the statement of revenues, expenses and changes in net position.

9. Material and Supply Inventory

Material and supply inventory is valued at historical cost and accounted for on a specific identification basis.

10. Prepaids and Other Deposits

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

11. 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. Contributed capital assets are recorded at acquisition value. 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:

Land improvements	15 years
Plant and building	20 years
Subsurface and interceptor lines	20-50 years
Office equipment	5 years
Trucks and autos	5 years

12. Deferred Outflows of Resources

The statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of resources applicable to future periods and therefore will *not* be recognized as an outflow of resources (expenditure) until that time. The Authority has the following items that qualify for reporting in this category:

Post-Employment Benefits Other Than Pensions (OPEB)

- Deferred outflow for the net differences between the actual and expected experience which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with post-employment benefits through the Plan.

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

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

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

12. Deferred Outflows of Resources, continued

Post-Employment Benefits Other Than Pensions (OPEB)

- Deferred outflow for the net changes in assumptions which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with post-employment benefits through the Plan.

Pensions

- Deferred outflow for the employer contributions made after the measurement date of the net pension liability. This amount will be amortized in full against the net pension liability in the next fiscal year.
- Deferred outflow for the net differences between the actual and expected experience which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.
- Deferred outflow for the net changes in assumptions which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.

13. 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 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.

14. Post-Employment Benefits Other Than Pensions (OPEB)

For purposes of measuring the total OPEB liability and deferred outflows or inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Authority's OPEB plan (Plan) and additions to or deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

GASB 75 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation Dates: June 30, 2020 and 2019
- Measurement Dates: June 30, 2020 and 2019
- Measurement Periods: July 1, 2019 to June 30, 2020 and July 1, 2018 to June 30, 2019

15. Pensions

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

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

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

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

15. Pensions, continued

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

- Valuation Dates: June 30, 2018 and 2017
- Measurement Dates: June 30, 2019 and 2018
- Measurement Periods: July 1, 2018 to June 30, 2019 and July 1, 2017 to June 30, 2018

16. Deferred Inflows of Resources

The statement of net position will sometimes report a separate section for deferred inflows of resources. This financial statement element, deferred inflows of resources, represents an acquisition of resources applicable to future periods and therefore will not be recognized as an inflow of resources (revenue) until that time. The Authority has the following items that qualify for reporting in this category:

Pensions

- Deferred inflow for the net difference in projected and actual earnings on investments of the pension plans fiduciary net position. This amount is amortized over a 5 year period.
- Deferred inflow for the net difference in actual and proportionate share of employer contribution and net changes in proportion which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.
- Deferred inflow for the net changes due to differences in the changes in proportions of the net pension liability which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.

17. 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.

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

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

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

18. 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.

19. 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.

20. 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.

(2) Cash and Investments

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 6,143,025	6,234,588
Restricted – Cash and cash equivalents	<u>4,882,810</u>	<u>5,147,861</u>
Total cash and investments	<u>\$ 11,025,835</u>	<u>11,382,449</u>

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

	<u>2020</u>	<u>2019</u>
Deposits with financial institutions	\$ <u>3,083,274</u>	<u>2,218,620</u>
Investments:		
Deposits with California Local Agency Investment Fund (LAIF)	1,413,992	2,847,700
Deposits with Cal Trust – Short Term Fund	3,251,145	3,120,990
Deposits with Cal Trust – Medium Term Fund	<u>3,277,424</u>	<u>3,195,139</u>
Total investments	<u>7,942,561</u>	<u>9,163,829</u>
Total cash and investments	<u>\$ 11,025,835</u>	<u>11,382,449</u>

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(2) Cash and Investments, continued

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

	<u>2020</u>	<u>2019</u>
Deposits held with California Local Agency Investment Fund (LAIF)	191 days	173 days
Deposits held with Cal Trust – Short Term Fund	234 days	332 days
Deposits held with Cal Trust – Medium Term Fund	<u>642 days</u>	<u>788 days</u>

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.

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

Investment in State Investment Pool

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. LAIF does not have any legally binding guarantees of share values. LAIF does not impose liquidity fees or redemption gates on participant withdrawals.

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(2) Cash and Investments, continued

Investment in Investment Trust of California

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

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 Authority’s investment policy limits the LAIF investment up to \$40 million to limit the exposure to custodial credit risk 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 fair 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, 2020 and 2019, 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, respectively.

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.

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(2) Cash and Investments, continued

Interest Rate Risk, continued

Maturities of investments at June 30, 2020, were as follows:

Investment Type	Total	Remaining Maturity (in Months) 12 Months Or Less	12 Months Or More
California Local Agency Investment Fund (LAIF)	\$ 1,413,992	1,413,992	-
Cal Trust – Short Term Fund	3,251,145	3,251,145	-
Cal Trust – Medium Term Fund	3,277,424	-	3,277,424
Total	\$ 7,942,561	4,665,137	3,277,424

Maturities of investments at June 30, 2019, were as follows:

Investment Type	Total	Remaining Maturity (in Months) 12 Months Or Less	12 Months Or More
California Local Agency Investment Fund (LAIF)	\$ 2,847,700	2,847,700	-
Cal Trust – Short Term Fund	3,120,990	3,120,990	-
Cal Trust – Medium Term Fund	3,195,139	-	3,195,139
Total	\$ 9,163,829	5,968,690	3,195,139

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, 2020, consisted of the following:

Investment Types	Total	Minimum Legal Rating	Rating AAA	Not Rated
California Local Agency Investment Fund (LAIF)	\$ 1,413,992	N/A	-	1,413,992
Cal Trust – Short Term Fund	3,251,145	AAA	3,251,145	-
Cal Trust – Medium Term Fund	3,277,424	AAA	3,277,424	-
Total	\$ 7,942,561		6,528,569	1,413,992

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(2) Cash and Investments, continued

Credit Risk, continued

Credit ratings of investments as of June 30, 2019, consisted of the following:

<u>Investment Types</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Rating AAA</u>	<u>Not Rated</u>
California Local Agency Investment Fund (LAIF)	\$ 2,847,700	N/A	-	2,847,700
Cal Trust – Short Term Fund	3,120,990	AAA	3,120,990	-
Cal Trust – Medium Term Fund	<u>3,195,139</u>	AAA	3,195,139	-
Total	<u>\$ 9,163,829</u>		<u>6,316,129</u>	<u>2,847,700</u>

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, 2020 and 2019, respectively.

Fair Value Measurements

At June 30, 2020 and 2019, the Authority held no investments which required fair value measurement, respectively.

(3) Accounts Receivable – Due from Member Agencies

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

	<u>2020</u>	<u>2019</u>
User Charge Receivable:		
City of Hesperia	\$ 461,349	411,931
Town of Apple Valley	194,615	374,569
City of Victorville	1,518,599	662,722
County of San Bernardino Special Districts	<u>66,624</u>	<u>62,425</u>
Total user charge receivable	<u>2,241,187</u>	<u>1,511,647</u>
Connection Fees Receivable:		
City of Hesperia	1,775,785	1,025,785
Town of Apple Valley	59,826	15,000
City of Victorville	27,606	78,483
County of San Bernardino Special Districts	<u>33,301</u>	<u>-</u>
Total connection fees receivable	<u>1,896,518</u>	<u>1,119,268</u>
Total due from member agencies	<u>\$ 4,137,705</u>	<u>2,630,915</u>

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(4) Accounts Receivable – Other

Other receivables include amounts related to a Flexible Spending Account established by the Authority for qualified employees. Terms of the program provide that the Authority fund each participating employee’s flexible spending 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:

	2020	2019
Flexible spending account	\$ 12,798	8,061

(5) Notes Receivable

Changes in notes receivable amounts for 2020 were as follows:

	Balance 2019	Additions	Payments	Balance 2020
Notes receivable:				
AVRWC (dba Liberty Utilities)	\$ 216,561	-	(5,853)	210,708
AVRWC (dba Liberty Utilities) – Discount	(75,980)	-	2,054	(73,926)
Subtotal AVRWC	140,581	-	(3,799)	136,782
Biogas Power Systems – Mojave LLC	69,229	-	(3,783)	65,446
Total	209,810	-	(7,582)	202,228
Less current	(9,636)			(9,712)
Total non-current	\$ 200,174			192,516

Changes in notes receivable amounts for 2019 were as follows:

	Balance 2018	Additions	Payments	Balance 2019
Notes receivable:				
AVRWC (dba Liberty Utilities)	\$ 222,414	-	(5,853)	216,561
AVRWC (dba Liberty Utilities) – Discount	(78,034)	-	2,054	(75,980)
Subtotal AVRWC	144,380	-	(3,799)	140,581
Biogas Power Systems – Mojave LLC	72,938	-	(3,709)	69,229
Total	217,318	-	(7,508)	209,810
Less current	(9,562)			(9,636)
Total non-current	\$ 207,756			200,174

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(5) Notes Receivable, continued

Apple Valley Ranchos Water Company (AVRWC) – (dba Liberty Utilities)

On November 10, 2015, Apple Valley Ranchos Water Company (dba Liberty Utilities) entered into a loan agreement with the Authority, for the construction of water main extension facilities in the amount of \$234,120. Terms of the agreement call for annual principal only payments in the amount of \$5,853 at a rate of zero percent commencing November 2017, maturing November 2056. The Authority is imputing interest at the rate of 2.3% per annum.

As of June 30, the amount receivable under the contract is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Amortized Discount</u>	<u>Total</u>
2021	\$ 5,853	(2,054)	3,799
2022	5,853	(2,053)	3,800
2023	5,853	(2,054)	3,799
2024	5,853	(2,053)	3,800
2025	5,853	(2,054)	3,799
2026-2030	29,265	(10,267)	18,998
2031-2035	29,265	(10,268)	18,997
2036-2040	29,265	(10,267)	18,998
2041-2045	29,265	(10,268)	18,997
2046-2050	29,265	(10,267)	18,998
2051-2055	29,265	(10,268)	18,997
2056	<u>5,853</u>	<u>(2,053)</u>	<u>3,800</u>
Total	210,708	<u>(73,926)</u>	<u>136,782</u>
Less current	(5,853)		
Less Unamortized discount	<u>(73,926)</u>		
Total non-current	\$ <u><u>130,929</u></u>		

Biogas Power Systems – Mojave LLC

On October 5, 2017, Biogas Power Systems – Mojave LLC entered into a loan agreement with the Authority, for an adjustment to the cost of modifications in the First Amendment to Biogas Power Generation Service Agreement in the amount of \$75,320. Terms of the agreement call for monthly payments in the amount of \$426.73 at a rate of 1.65 percent commencing November 30, 2017, maturing November 2035.

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(5) Notes Receivable, continued

Biogas Power Systems – Mojave LLC

As of June 30, the amount receivable under the contract is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 3,859	1,262	5,121
2022	3,936	1,185	5,121
2023	4,014	1,106	5,120
2024	4,095	1,026	5,121
2025	4,177	944	5,121
2026-2030	22,170	3,434	25,604
2031-2035	<u>23,195</u>	<u>1,128</u>	<u>24,323</u>
Total	65,446	<u>10,085</u>	<u>75,531</u>
Less current	<u>(3,859)</u>		
Total non-current	<u>\$ 61,587</u>		

(6) Capital Assets

Changes in capital assets for 2020 were as follows:

	<u>As Restated Balance 2019</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 2020</u>
Non-depreciable assets:				
Land	\$ 779,136	-	(160,133)	619,003
Construction in progress	<u>2,596,294</u>	<u>1,157,818</u>	<u>(1,810,937)</u>	<u>1,943,175</u>
Total non-depreciable assets	<u>3,375,430</u>	<u>1,157,818</u>	<u>(1,971,070)</u>	<u>2,562,178</u>
Depreciable assets:				
Land improvements	9,738,124	-	-	9,738,124
Plant and building	218,514,351	387,245	-	218,901,596
Interceptor and subsurface lines	69,200,504	-	-	69,200,504
Office equipment	1,064,592	-	-	1,064,592
Trucks and autos	<u>861,825</u>	<u>-</u>	<u>-</u>	<u>861,825</u>
Total depreciable assets	<u>299,379,396</u>	<u>387,245</u>	<u>-</u>	<u>299,766,641</u>
Less accumulated depreciation:				
Land improvements	(5,877,183)	(589,044)	-	(6,466,227)
Plant and building	(81,850,016)	(9,358,855)	-	(91,208,871)
Interceptor and subsurface lines	(19,560,663)	(1,501,513)	-	(21,062,176)
Office equipment	(725,563)	(100,145)	-	(825,708)
Trucks and autos	<u>(807,648)</u>	<u>(16,388)</u>	<u>-</u>	<u>(824,036)</u>
Total accumulated depreciation	<u>(108,821,073)</u>	<u>(11,565,945)</u>	<u>-</u>	<u>(120,387,018)</u>
Total depreciable assets, net	<u>190,558,323</u>	<u>(11,178,700)</u>	<u>-</u>	<u>179,379,623</u>
Total capital assets, net	<u>\$ 193,933,753</u>	<u>(10,020,882)</u>	<u>(1,971,070)</u>	<u>181,941,801</u>

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(6) Capital Assets, continued

Changes in capital assets not being depreciated consists of additions to construction in progress of \$1,157,818 related to ongoing projects. Decreases in capital asset not being depreciated include a land disposal of \$160,133 and construction in progress related to the abandonment of the micro-grid project of \$1,810,937.

Changes in capital assets being depreciated also consists of additions outside of construction-in-progress of \$387,244 to plant and building.

Changes in capital assets for 2019 were as follows:

	As Restated Balance 2018	Additions	Disposals/ Transfers	As Restated Balance 2019
Non-depreciable assets:				
Land	\$ 779,136	-	-	779,136
Construction in progress	<u>2,301,965</u>	<u>2,217,594</u>	<u>(1,923,265)</u>	<u>2,596,294</u>
Total non-depreciable assets	<u>3,081,101</u>	<u>2,217,594</u>	<u>(1,923,265)</u>	<u>3,375,430</u>
Depreciable assets:				
Land improvements	9,738,124	-	-	9,738,124
Plant and building	218,162,852	351,499	-	218,514,351
Interceptor and subsurface lines	67,544,012	1,656,492	-	69,200,504
Office equipment	775,612	288,980	-	1,064,592
Trucks and autos	<u>841,568</u>	<u>55,803</u>	<u>(35,546)</u>	<u>861,825</u>
Total depreciable assets	<u>297,062,168</u>	<u>2,352,774</u>	<u>(35,546)</u>	<u>299,379,396</u>
Less accumulated depreciation:				
Land improvements	(5,289,774)	(587,409)	-	(5,877,183)
Plant and building	(72,479,239)	(9,370,777)	-	(81,850,016)
Interceptor and subsurface lines	(18,093,912)	(1,466,751)	-	(19,560,663)
Office equipment	(645,254)	(80,309)	-	(725,563)
Trucks and autos	<u>(829,176)</u>	<u>(14,018)</u>	<u>35,546</u>	<u>(807,648)</u>
Total accumulated depreciation	<u>(97,337,355)</u>	<u>(11,519,264)</u>	<u>35,546</u>	<u>(108,821,073)</u>
Total depreciable assets, net	<u>199,724,813</u>	<u>(9,166,490)</u>	<u>-</u>	<u>190,558,323</u>
Total capital assets, net	<u>\$ 202,805,914</u>	<u>(6,948,896)</u>	<u>(1,923,265)</u>	<u>193,933,753</u>

Changes in capital assets not being depreciated consists of additions to construction in progress of \$2,217,594 related to ongoing projects. Decreases in construction in progress related to transfers of interceptor lines of \$1,656,492 and office equipment of \$266,773.

Changes in capital assets being depreciated also consists of additions outside of construction-in-progress of \$351,499 to plant and building, \$288,980 to office equipment and \$55,803 to trucks and autos and disposals of \$35,546 from trucks and autos.

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(6) Capital Assets, continued

Construction In Process

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

Construction in progress at June 30 consists of the following projects:

<u>Projects</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Desert Knolls Wash	\$ 353,845	-	-
Lab-EC-IT-Constr. Bldg (Butler Bldg)	277,506	280,166	280,166
Oro Grande Inteceptor Project	268,849	282,116	285,315
Micro-grid / Battery Storage Project	1,173,574	1,478,417	-
Digester Repairs	-	469,104	557,266
SCADA Ignition Project	150,000	-	-
PLC Replacement Project	-	-	704,550
Various other minor projects > \$50,000	78,191	86,491	115,878
Total	\$ 2,301,965	2,596,294	1,943,175

(7) Compensated Absences

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

<u>Balance</u> <u>2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2020</u>	<u>Due Within</u> <u>One Year</u>	<u>Due in More</u> <u>Than One Year</u>
\$ 262,035	400,912	(298,982)	363,965	90,991	272,974
<u>Balance</u> <u>2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2020</u>	<u>Due Within</u> <u>One Year</u>	<u>Due in More</u> <u>Than One Year</u>
\$ 288,019	340,916	(366,900)	262,035	65,509	196,526

(8) Other Payables

At June 30 2020, other payables are related to a legal settlement with a former employee.

Other payable future payments to maturity are as follows:

<u>Fiscal Year</u>	<u>Total</u>
2021	\$ 6,852
2022	1,678
Total	8,530
Less current	(6,852)
Total non-current	\$ 1,678

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(9) Lease Payable

Lease payable for 2020 was as follows:

	<u>2019</u>	<u>Additions</u>	<u>Payments</u>	<u>2020</u>
Lease payable:				
KS State Bank	\$ 339,222	-	(92,834)	246,388
Less current	(92,834)			(95,833)
Total non-current	\$ 246,388			150,555

Lease payable for 2019 was as follows:

	<u>2018</u>	<u>Additions</u>	<u>Payments</u>	<u>2019</u>
Lease payable:				
KS State Bank	\$ 429,152	-	(89,930)	339,222
Less current	(89,930)			(92,834)
Total non-current	\$ 339,222			246,388

KS State Bank – Brown Bear Tractor

On August 1, 2017, the Authority entered into a lease purchase option agreement with KS State Bank for the purchase acquisition of a Brown Bear Tractor in the amount of \$532,943. Terms of the agreement call for annual principal and interest payments, at the rate of 9.159%, with an expected maturity in August 2022.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 95,833	7,958	103,791
2022	98,928	4,863	103,791
2023	51,627	1,668	53,295
Total	246,388	14,489	260,877
Less current	(95,833)		
Total non-current	\$ 150,555		

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(10) Loans Payable

Loans payable at June 30, were as follows:

	<u>2019</u>	<u>Additions</u>	<u>Payments</u>	<u>2020</u>
State Revolving Fund Loans (SRF):				
9.5 MGD Improvements Project	\$ 258,333	-	(258,333)	-
11 MGD Expansion Project	1,679,292	-	(548,803)	1,130,489
North Apple Valley Interceptor	1,199,325	-	(228,168)	971,157
Phase III-A Facility	11,141,255	-	(726,796)	10,414,459
Upper Narrows Pipeline Replacement	2,990,766	-	(200,921)	2,789,845
Sub-Regional – Hesperia	36,667,492	-	(1,096,176)	35,571,316
Sub-Regional – Apple Valley	25,691,198	-	(768,039)	24,923,159
Nanticoke Gravity Interceptor	4,108,359	-	(193,574)	3,914,785
Southern California Edison Loans:				
So. Cal. Edison loan 2015	39,744	-	(17,253)	22,491
Total	<u>83,775,764</u>	<u>-</u>	<u>(4,038,063)</u>	<u>79,737,701</u>
Less current	<u>(4,038,221)</u>			<u>(3,841,505)</u>
Total non-current	<u>\$ 79,737,543</u>			<u>75,896,196</u>

Loans payable at June 30, were as follows:

	<u>2018</u>	<u>Additions</u>	<u>Payments</u>	<u>2019</u>
State Revolving Fund Loans (SRF):				
9.5 MGD improvements project	\$ 510,119	-	(251,786)	258,333
11 MGD expansion project	2,218,127	-	(538,835)	1,679,292
North Apple Valley Interceptor	1,421,928	-	(222,603)	1,199,325
Phase III-A	11,848,943	-	(707,688)	11,141,255
Upper Narrows Pipeline Replacement	3,187,941	-	(197,175)	2,990,766
Sub-Regional – Hesperia	37,758,385	-	(1,090,893)	36,667,492
Sub-Regional – Apple Valley	26,455,229	-	(764,031)	25,691,198
Nanticoke loan	4,298,324	-	(189,965)	4,108,359
Southern California Edison Loan:				
So. Cal. Edison loan 2015	57,171	-	(17,427)	39,744
Total	<u>87,756,167</u>	<u>-</u>	<u>(3,980,403)</u>	<u>83,775,764</u>
Less current	<u>(3,980,387)</u>			<u>(4,038,221)</u>
Total non-current	<u>\$ 83,775,780</u>			<u>79,737,543</u>

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(10) Loans Payable, continued

SRF – 9.5 MGD Improvements Project

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. At June 30, 2020 the loan was paid in full.

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:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 558,956	20,914	579,870
2022	571,533	8,336	579,869
Total	1,130,489	<u>29,250</u>	<u>1,159,739</u>
Less current	<u>(558,956)</u>		
Total non-current	<u>\$ 571,533</u>		

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:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest*</u>	<u>Total</u>
2021	\$ 233,872	24,279	258,151
2022	239,719	18,432	258,151
2023	245,712	12,439	258,151
2024	251,854	6,297	258,151
Total	971,157	<u>61,447</u>	<u>1,032,604</u>
Less current	<u>(233,872)</u>		
Total non-current	<u>\$ 737,285</u>		

* Includes annual service charge.

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(10) Loans Payable, continued

SRF Loan Payable – Phase III-A Facility

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 which includes a contingent principal forgiveness of \$3,000,000 received during the fiscal year ended June 30, 2013. Terms of the agreement call for annual principal and interest payments due on June 30th at the rate of 2.700%, maturing in fiscal year 2032.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 746,419	281,191	1,027,610
2022	766,573	261,037	1,027,610
2023	787,270	240,340	1,027,610
2024	808,527	219,084	1,027,611
2025	830,357	197,253	1,027,610
2026-2030	4,500,432	637,617	5,138,049
2031-2032	<u>1,974,881</u>	<u>80,338</u>	<u>2,055,219</u>
Total	10,414,459	<u>1,916,860</u>	<u>12,331,319</u>
Less current	<u>(746,419)</u>		
Total non-current	\$ <u>9,668,040</u>		

SRF Loan Payable – Upper Narrows Pipeline Replacement

On September 30, 2013, the Authority entered into a loan agreement to receive up to \$4,286,380 from the California State Water Resources Control Board to construct the Upper Narrows Pipeline Replacement. Terms of the agreement call for annual principal and interest payments due on December 31st at the rate of 1.900%, maturing in fiscal year 2033.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 204,738	53,007	257,745
2022	208,628	49,117	257,745
2023	212,592	45,153	257,745
2024	216,632	41,114	257,746
2025	220,748	36,998	257,746
2026-2030	1,168,268	120,459	1,288,727
2031-2033	<u>558,239</u>	<u>17,644</u>	<u>575,883</u>
Total	2,789,845	<u>363,492</u>	<u>3,153,337</u>
Less current	<u>(204,738)</u>		
Total non-current	\$ <u>2,585,107</u>		

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(10) Loans Payable, continued

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

On May 20, 2014, the Authority entered into a loan agreement with the California State Water Resources Control Board to construct a subregional wastewater reclamation plant in the City of Hesperia. The final amended agreement totaled \$37,758,385 which included construction costs and construction period interest. Terms of the agreement call for annual principal and interest payments due on February 28th, at the rate of 1.000%, maturing in fiscal year 2048.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 1,107,137	355,713	1,462,850
2022	1,118,209	344,642	1,462,850
2023	1,129,391	333,460	1,462,850
2024	1,140,685	322,166	1,462,851
2025	1,152,091	310,759	1,462,851
2026-2030	5,935,592	1,378,660	7,314,252
2031-2035	6,238,367	1,075,885	7,314,252
2036-2040	6,556,586	757,665	7,314,252
2041-2045	6,891,038	423,213	7,314,252
2046-2048	4,302,220	86,330	7,314,252
Total	35,571,316	<u>5,388,493</u>	<u>43,885,511</u>
Less current	<u>(1,107,137)</u>		
Total non-current	\$ <u>34,464,179</u>		

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

On May 22, 2014, the Authority entered into a loan agreement with the California State Water Resources Control Board to construct a subregional wastewater reclamation plant in the Town of Apple Valley. The final amended loan agreement totaled \$26,455,229 which included construction costs and construction period interest. Terms of the agreement call for annual principal and interest payments due on February 28th, at the rate of 1.000%, maturing in fiscal year 2048.

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(10) Loans Payable, continued

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

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 775,719	249,232	1,024,951
2022	783,476	241,474	1,024,951
2023	791,311	233,640	1,024,951
2024	799,224	225,727	1,024,951
2025	807,217	217,734	1,024,951
2026-2030	4,158,792	965,962	5,124,754
2031-2035	4,370,932	753,822	5,124,754
2036-2040	4,593,894	530,861	5,124,754
2041-2045	4,828,228	296,526	5,124,754
2046-2048	3,014,366	60,487	5,124,754
Total	24,923,159	<u>3,775,465</u>	<u>30,748,525</u>
Less current	<u>(775,719)</u>		
Total non-current	\$ <u>24,147,440</u>		

SRF Loan Payable – Nanticoke Gravity Interceptor

On August 14, 2014, the Authority entered into a loan agreement with the California State Water Resources Control Board to construct the Nanticoke Pump Station Bypass Sewer project. The final amended loan agreement totaled \$4,495,213 which included construction costs and construction period interest. Terms of the agreement call for annual principal and interest payments due on June 30th, at the rate of 1.900%, maturing in fiscal year 2037.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 197,252	74,381	271,633
2022	201,000	70,633	271,633
2023	204,819	66,814	271,633
2024	208,710	62,923	271,633
2025	212,676	58,957	271,633
2026-2030	1,125,548	232,615	1,358,163
2031-2035	1,236,616	121,547	1,358,163
2036-2037	528,164	15,100	543,264
Total	3,914,785	<u>702,970</u>	<u>4,617,755</u>
Less current	<u>(197,252)</u>		
Total non-current	\$ <u>3,717,533</u>		

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(10) Loans Payable, continued

Southern California Edison Loan 2015

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

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

Fiscal Year	Principal	Interest	Total
2021	\$ 17,412	-	17,412
2022	5,079	-	5,079
Total	22,491	-	22,491
Less current	(17,412)		
Total non-current	\$ 5,079		

(11) Other Post-employment Benefits (OPEB) Plan

General Information about the OPEB Plan

Plan Description

The Authority offers post-employment medical benefits to retired employees who satisfy the eligibility rules, subject to certain restrictions as determined by the Authority. Retirees can apply the monthly maximum allowance of \$571 toward covering their family. If the family coverage exceeds the \$571, the retirees pay the premium above the limit. Retirees may enroll in any plan available through the Authority's CalPERS Medical Program.

The Plan is a single-employer defined benefit OPEB plan administered by the Authority. The Authority's Board has the authority to establish and amend the benefit terms and financing requirements of the Plan. The Authority does not have an OPEB trust established and no assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided

The Authority's Plan is open to qualified employees who have attained age 50, retired from and were employed by the Authority at least five years.

Employees Covered by Benefit Terms

At June 30, the following employees were covered by the benefit terms:

	2020	2019
Inactive employees or beneficiaries currently receiving benefit payments	17	17
Inactive employees entitled to but not receiving benefit payments	7	7
Active employees	32	32
Total Plan membership	56	56

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(11) Other Post-employment Benefits (OPEB) Plan, continued

Contributions

The Plan and its contribution requirements for eligible retired employees of the Authority are established and may be amended by the Board of Commissioners. The Authority pays 100% of the cost of health insurance for retirees under any group plan offered by CalPERS, subject to certain restrictions as determined by the Authority. The Authority's cap is \$571 per month which is in compliance with California Government Code Section 22892.

As of the fiscal year ended June 30, the contributions were as follows:

	2020	2019
Contributions – employer	\$ 111,208	114,948

As of June 30 2020 and 2019, employer contributions of \$111,208 and \$114,948 were recognized as a reduction of the total OPEB liability in the fiscal year ended June 30, 2020 and 2019, respectively.

Total OPEB Liability

The Authority's total OPEB liability was measured as of June 30, 2020 and 2019, and the total OPEB liability was determined by an actuarial valuation as of June 30, 2020 and 2019, respectively. Standard actuarial update procedures were used to project and discount from valuation to measurement dates.

Actuarial Assumptions

As of the June 30, 2020 and 2019, the total OPEB liability was determined using the following actuarial assumptions and applied to all periods included in the measurement, unless otherwise specified:

Funding method	Entry Age Normal Cost, level percent of pay
Asset valuation method	Fair value of assets (\$0; plan is not yet funded)
Municipal bond index	Bond Buyer General Obligation 20-Bond Municipal Bond Index
Inflation	2.75 percent per year
Salary increases	3.25 percent per year; since benefits do not depend on pay, this is used only to allocate the cost of benefits between service years.
Discount rate	2.21 percent as of June 30, 2020 3.51 percent as of June 30, 2019
Healthcare cost trend rates	7.00 and 4.00 percent per year
Participants valued	Only current active employees and retired participants and covered dependents are valued. No future entrants are considered in this valuation.

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(11) Other Post-employment Benefits (OPEB) Plan, continued

Discount Rate

As of June 30, 2020 and 2019, the discount rate used to measure the total OPEB liability was 3.51 and 3.80 percent, respectively. The projection of cash flows used to determine the discount rate assumed that Authority contributions will be made at rates equal to the actuarially determined contribution rates.

Changes in the Total OPEB Liability

	Total OPEB Liability 2019-2020	Total OPEB Liability 2018-2019
Balance at beginning of year	\$ 3,159,843	2,285,368
Changes for the year:		
Service cost	113,200	38,990
Interest	112,932	86,142
Changes in benefit terms	-	-
Differences between expected and actual experience	-	85,165
Changes in assumptions	565,970	779,126
Benefit payments	<u>(111,208)</u>	<u>(114,948)</u>
Net changes	<u>680,894</u>	<u>874,475</u>
Balance at end of year	<u>\$ 3,840,737</u>	<u>3,159,843</u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.80 percent) or 1-percentage-point higher (4.80 percent) than the current discount rate:

At June 30, 2020, the discount rate comparison was the following:

	Discount Rate - 1% (1.21%)	Prior Year Discount Rate (2.21%)	Discount Rate + 1% (3.21%)
Authority's total OPEB liability	\$ <u>4,389,430</u>	<u>3,840,737</u>	<u>3,392,704</u>

At June 30, 2019, the discount rate comparison was the following:

	Discount Rate - 1% (2.51%)	Current Discount Rate (3.51%)	Discount Rate + 1% (4.51%)
Authority's total OPEB liability	\$ <u>3,574,867</u>	<u>3,159,843</u>	<u>2,818,864</u>

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(11) Other Post-employment Benefits (OPEB) Plan, continued

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (3.00 percent decreasing to 2.00 percent) or 1-percentage-point higher (5.00 percent decreasing to 4.00 percent) than the current healthcare cost trend rates:

At June 30, 2020, the healthcare cost trend rate comparison was the following:

	Current Healthcare Cost Trend Rates -1%	Current Healthcare Cost Trend Rates	Current Healthcare Cost Trend Rates +1%
Authority's total OPEB liability	\$ 3,637,164	3,840,737	4,258,077

At June 30, 2019, the discount rate comparison was the following:

	Current Healthcare Cost Trend Rates -1%	Current Healthcare Cost Trend Rates	Current Healthcare Cost Trend Rates +1%
Authority's total OPEB liability	\$ 2,992,360	3,159,843	3,503,196

For the year ended June 30, 2020 and 2019, the Authority recognized OPEB expense of \$301,642 and \$150,016, respectively.

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

At June 30, 2020, the Authority reported the following deferred outflows of resources or deferred inflows of resources related to OPEB.

Description	June 30, 2020		June 30, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net differences between expected and actual experience	\$ 62,929	-	74,047	-
Net changes in assumptions	1,067,782	-	677,412	-
Total	\$ 1,130,711	-	751,459	-

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(11) Other Post-employment Benefits (OPEB) Plan, continued

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

At June 30, 2020, the Authority recognized other amounts reported by the Plan actuarial as deferred outflows of resources and deferred inflows of resources related to the total OPEB liability. OPEB related amounts will be recognized as pension expense as follows.

<u>Fiscal Year</u>	<u>Deferred</u>	<u>Outflows or (Inflows)</u>
<u>Ending June 30:</u>		<u>of Resources</u>
2021	\$	186,718
2022		186,718
2023		186,718
2024		186,718
2025		186,718
Thereafter		197,121

Schedule of Changes in the Authority's Total OPEB Liability and Related Ratios

See the Required Supplementary Schedule.

(12) Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Authority's separate Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website or may be obtained from their executive office: 400 P Street, Sacramento, CA, 95814.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: The Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

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

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(12) Defined Benefit Pension Plan, continued

Benefits Provided, continued

The Plans' provision and benefits in effect at June 30, 2020, are summarized as follows:

	Miscellaneous Plan	
	Tier 1	Tier 2
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.5% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8.000%	6.750%
Required employer contribution rates	10.823%	6.985%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates, for all public employers, be determined on an annual basis by the actuary and shall be effective on July 1st, of each fiscal year following notice of the change in rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Authority is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

As of the fiscal year ended June 30, the contributions to the Authority's Plan were as follows:

	Miscellaneous Plan	
	2020	2019
Contributions – employer	\$ 698,749	607,170
Total employer paid contributions	\$ 698,749	607,170

Net Pension Liability

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

	Proportionate Share of Net Pension Liability	
	2020	2019
Miscellaneous Plan	\$ 6,054,828	5,641,328

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(12) Defined Benefit Pension Plan, continued

Net Pension Liability, continued

The Authority's net pension liability for the Plan is measured as the proportionate share of the net pension liability of the Plan. The net pension liability of the Plan is measured as of June 30, 2019 and 2018, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30 2018, rolled forward to June 30, 2019 and June 30, 2017, rolled forward to June 30, 2018, respectively, using standard update procedures. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The Authority's change in the proportionate share of the pension liability for the Plan as of the measurement date: June 30, 2019, was as follows:

<u>Proportion at Measurement Date</u>	<u>Miscellaneous Plan</u>
Proportion – June 30, 2018	0.05854%
Proportion – June 30, 2019	<u>0.05909%</u>
Change – Increase (Decrease)	<u><u>0.00055%</u></u>

The Authority's change in the proportionate share of the pension liability for the Plan as of the measurement date: June 30, 2019, was as follows:

<u>Proportion at Measurement Date</u>	<u>Miscellaneous Plan</u>
Proportion – June 30, 2017	0.05799%
Proportion – June 30, 2018	<u>0.05854%</u>
Change – Increase (Decrease)	<u><u>0.00055%</u></u>

As of June 30, 2020 and 2019, the Authority recognized pension expense of \$1,176,539 and \$976,217, respectively.

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(12) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources

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

<u>Description</u>	<u>June 30, 2020</u>		<u>June 30, 2019</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to the measurement date	\$ 698,749	-	607,170	-
Net differences between actual and expected experience	387,952	-	142,793	-
Net changes in assumptions	186,373	-	485,515	-
Net differences between projected and actual earnings on plan investments	-	(105,857)	27,890	-
Net differences between actual contribution and proportionate share of contribution	-	(48,075)	-	(27,310)
Net adjustment due to differences in proportions of net pension liability	-	(8,690)	-	(61,316)
Total	<u>\$ 1,273,074</u>	<u>(162,622)</u>	<u>1,263,368</u>	<u>(88,626)</u>

As of June 30, 2020 and 2019, employer pension contributions of \$698,749 and \$607,160, reported as deferred outflows of resources related to contributions subsequent to the measurement date were and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2021 and 2020, respectively.

At June 30, 2020, the Authority recognized other amounts reported by the Plan actuarial as deferred outflows of resources and deferred inflows of resources related to the pension liability. Pension related amounts will be recognized as pension expense as follows.

<u>Fiscal Year</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
<u>Ending June 30:</u>	
2021	\$ 409,137
2022	(61,191)
2023	51,547
2024	12,210
2025	-
Thereafter	-

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(12) Defined Benefit Pension Plan, continued

Actuarial Assumptions

The total pension liability in the June 30, 2019 and 2018 actuarial valuation reports were determined using the following actuarial assumptions:

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

Valuation dates	June 30, 2018 and 2017
Measurement dates	June 30, 2019 and 2018
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68

Actuarial assumptions:

Discount rate	7.15%
Inflation	2019 and 2018 – 2.50%
Salary increases	Varies by Entry Age and Service
Investment Rate of Return	7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Period upon which actuarial Experience Survey assumptions were based	2019 and 2018 – 1997–2015
Post Retirement Benefit	2018 – Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

* The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 Experience Study report. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.15% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, the amortization and smoothing periods recently adopted by CalPERS were utilized. The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan.

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

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(12) Defined Benefit Pension Plan, continued

Discount Rate, continued

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

At June 30, 2020, the long-term expected real rate of return by asset class was as follows:

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10*</u>	<u>Real Return Year 11+**</u>
Global Equity	50.00%	4.80%	5.98%
Global Fixed Income	28.00%	1.00%	2.62%
Inflation Sensitive	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	<u>100.00%</u>		

* An expected inflation of 2.5% used for this period

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

At June 30, 2019, the long-term expected real rate of return by asset class was as follows:

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10*</u>	<u>Real Return Year 11+**</u>
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
Total	<u>100.00%</u>		

* An expected inflation of 2.5% used for this period

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

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(12) Defined Benefit Pension Plan, continued

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

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

At June 30, 2020, the discount rate comparison was the following:

	Discount Rate – 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Authority's			
Net pension liability	\$ 8,967,460	6,054,828	3,650,657

At June 30, 2019, the discount rate comparison was the following:

	Discount Rate – 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Authority's			
Net pension liability	\$ 8,371,767	5,641,328	3,387,395

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

At June 30, 2020 and 2019, the Authority reported no payables for the outstanding amount of contribution to the pension plan.

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(13) Net Position

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

	2020	2019
Net investment in capital assets:		
Capital assets – not being depreciated	\$ 2,562,178	3,375,430
Capital assets, net – being depreciated	179,379,623	190,558,323
Lease payable	(246,388)	(339,222)
Loans payable	(79,737,701)	(83,775,764)
Total net investment in capital assets	101,957,712	109,818,767
Restricted net position:		
Restricted for debt service	4,882,810	5,147,861
Total restricted net position	4,882,810	5,147,861
Unrestricted net position:		
Non-spendable net position:		
Material and supply inventory	95,478	85,674
Prepaid expenses and deposits	105,740	153,115
Total non-spendable net position	201,218	238,789
Spendable net position are designated as follows:		
Undesignated net position reserve	3,595,146	4,617,292
Total spendable net position	3,595,146	4,617,292
Total unrestricted net position	3,796,364	4,856,081
Total net position	\$ 110,636,886	119,822,709

(14) Adjustment to Net Position

Capital Assets – Missing Depreciation

During the fiscal year ended June 30, 2020, the Authority identified certain pipeline and plant and building assets which due to partial disposal in prior years, automatic depreciation had stopped calculating in the fixed assets module. The Authority identified that this missed depreciation expense affected June 30, 2013 through June 30, 2019. Accordingly, the Authority has adjusted net position and accumulated depreciation for the affected periods.

Capital Assets – Revaluation of Depreciation

During the fiscal year ended June 30, 2020, the Authority identified certain pipeline assets should have useful lives of 50 years due to a policy change that was adopted on September 20, 2018. Because of this change, the Authority determined it should have revalued and adjusted depreciation expense during the fiscal year ending June 30, 2019. Accordingly, the Authority has adjusted net position and accumulated depreciation for the affected period.

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(14) Adjustment to Net Position, continued

The adjustment to net position is as follows:

Net position at June 30, 2017, as previously stated	\$ <u>130,604,896</u>
Effect of adjustment to record total other post-employment benefits liability	(2,257,004)
Effect of adjustment to remove other post-employment benefits liability under GASB 45	1,419,041
Effect of adjustment to record missing depreciation on pipeline assets for fiscal year 2013 through 2017	<u>(1,018,700)</u>
Subtotal adjustments to net position	(1,856,663)
Net position at June 30, 2017, as restated	\$ <u>128,748,233</u>
Effect of adjustment to record missing depreciation on pipeline assets for fiscal year 2018	(203,740)
Change in net position at June 30, 2018, as previously stated	<u>(2,278,527)</u>
Net position at June 30, 2018, as restated	\$ <u>126,265,966</u>
Effect of adjustment to record missing depreciation on pipeline assets for fiscal year 2019	(203,740)
Effect of adjustment to record asset life revalue on pipeline assets for fiscal year 2019	1,152,579
Change in net position at June 30, 2019, as previously stated	<u>(7,392,096)</u>
Net position at June 30, 2019, as restated	\$ <u>119,822,709</u>

(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, 2020, the Authority participated in the CSRMA programs as follows:

- General and automotive liability, including errors and omissions and employment practices liability (EPL): The Authority is insured through the CSRMA. Coverage includes excess liability applicable to the general and automobile liability section, excess layer of \$10,000,000 over the \$15,500,000 excess of the first \$500,000 insured layer with a \$1,000/\$2,000 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 layer to \$15,000,000 through CSRMA.

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(15) Risk Management, continued

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

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

- Master Crime Policy up to \$2,000,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage with a deductible of \$2,500 per claim.
- Special form property coverage up to \$193,085,220, with a deductible of \$10,000 per claim.
- Mobile Vehicle Program coverage up to \$1,012,252, 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 entity pollution liability coverage up to \$25,000,000, subject to \$2,000,000 per pollution condition, \$100,000 per pollution condition retention.
- Cyber liability coverage up to \$2,000,000, subject to \$2,000,000 per computer security, \$50,000 per pollution condition retention.
- Fraud Master Policy identity theft coverage up to \$25,000 with a \$0 deductible.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the Authority's insurance coverage during the years ending June 30, 2020, 2019, and 2018. 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, 2020, 2019, and 2018.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2020, that has effective dates that may impact future financial presentations.

The following pronouncement implementation dates have been delayed due to the COVID-19 pandemic.

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

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

Governmental Accounting Standards Board Statement No. 84, continued

The requirements of this Statement were effective for reporting periods beginning after December 15, 2018; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2019; however, in light of the COVID-19 pandemic, the effective date has been postponed by 18 months. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 90

In August 2018, the GASB issued Statement No. 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements (cash flows) of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

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

Governmental Accounting Standards Board Statement No. 90, continued

The requirements of this Statement were effective for reporting periods beginning after December 15, 2018; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Governmental Accounting Standards Board Statement No. 91

In May 2019, the GASB issued Statement No. 91 – *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 92

In January 2020, the GASB issued Statement No. 92 – *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

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

Governmental Accounting Standards Board Statement No. 92, continued

The requirements of this Statement were as follows: (1) The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance; (2) The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020; (3) The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020; and (4) The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged and is permitted by topic.

Governmental Accounting Standards Board Statement No. 93

In March 2020, the GASB issued Statement No. 93 – *Replacement of Interbank Offered Rates*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by: (1) Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment; (2) Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate; (3) Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable; (4) Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap; (5) Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap; (6) Clarifying the definition of reference rate, as it is used in Statement 53, as amended; and (7) Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The requirements of this Statement were effective as follows: (1) The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021; and (2) All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020; however, in light of the COVID-19 pandemic, the effective dates have been postponed by one year. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 94

In March 2020, the GASB issued Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

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

Governmental Accounting Standards Board Statement No. 94, continued

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 96

In May 2020, the GASB issued Statement No. 96 – *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 97

In June 2020, the GASB issued Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 41 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

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

Governmental Accounting Standards Board Statement No. 97, continued

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.

(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. At June 30, 2020 and 2019, the Authority had no open construction contracts.

Biogas Power Generation and Services Agreement

On March 25, 2013, the Authority entered into an agreement with Anaergia Services, LLC to provide a biogas energy generation services facility at the Authority's wastewater treatment and reclamation plant facility. The purpose of the converted biogas is to provide electrical energy for use in plant operations. Anaergia has constructed the Biogas Facility and Ancillary Facilities at its sole cost and expense. Excess energy can be delivered by the Authority to the grid. The term of the agreement is 20 years from the operation date of July 1, 2015, and matures on June 30, 2035. The Authority will purchase all energy output from Anaergia at a fixed cost of \$734,000 per year, payable in monthly installments of \$61,167. At June 30, 2020 and 2019, the future minimum remaining commitment amounted to \$11,010,000 and \$11,744,000, respectively.

Litigation

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

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(17) Commitments and Contingencies, continued

Other Items

During the year ended June 30, 2016, the Office of Inspector General, Office of Emergency Management Oversight, U.S. Department of Homeland Security, conducted an audit on funding provided by the Federal Emergency Management Agency (FEMA) passed through the California Office of Emergency Services (Cal OES), for the replacement of the Upper Narrows pipeline which was lost during an historic flood. The Authority had two separate projects, 1) the Upper Narrows emergency pipeline project, a temporary pipeline created at the time of the emergency (PW1136) and the replacement pipeline project (PW828). In 2016, and then again in April 2017, the OIG, prepared two draft reports to FEMA regarding the funding of the projects. The OIG report issued in April 2017, questioned whether PW828 was a “replacement” or new construction. The OIG suggested that PW828 was not a replacement because the interceptor line, which had originally been located in the Mojave River, was now placed in a tunnel used to cross the Mojave River. The OIG concluded that tunneling was its reasoning for excessive costs. The OIG has suggested that FEMA claw back expended project costs exceeding \$33 million. The Authority has responded to the OIG draft report.

During June 30, 2020, the Authority has received approval by FEMA for the outstanding grant balance of \$1,275,864 for the Upper Narrows emergency pipeline project (PW1136). The Authority has received approval by FEMA regarding the payment of the outstanding grant balance for the replacement project (PW828). As of the date of this report, FEMA has approved all submitted claims. The Authority does not anticipate any further negative impact from the OIG draft report.

Funding Future Obligations

Management expects to resolve the issue of late payment of connection fees before June 30, 2021 based on the terms of the Joint Powers Agreement. At June 30, 2020, this issue remains outstanding.

COVID-19 Pandemic

In December 2019, a novel strain of coronavirus has spread around the world resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Authority could potentially be adversely affected by this global pandemic. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus. The Authority has not included any contingencies in the financial statements specific to this issue.

(18) Related Party

In April of 2016, a member agency (agency) informed the Authority of their intent to withdraw from the Service Agreement per the 30-year notice requirement.

The Board of Commissioners has engaged a judicial review on the issue of the member agency’s flow diversion for the purpose of rendering a non-binding opinion. The flow diversion and withholding of certain connection fees by the member agency has resulted in a dispute that is being resolved with the assistance of a retired judge who has issued an advisory, non-binding opinion. As a result of the dispute regarding the flow diversion, another member agency has retained a portion of its connections fees. After issue of the judge’s non-binding opinion, the Authority and its member entities have begun negotiating a settlement of both the flow diversion and the withholding of fees by the member agency. Management believes that although the flow diversion issue with a member agency has been solved, the withholding of connection fees by another member agency may or may not be addressed by a rate increase.

Victor Valley Wastewater Reclamation Authority
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(19) Subsequent Events

Flow Diversion Settlement Agreement

On October 29, 2020, the Authority's member agencies voted to finalize a flow diversion settlement agreement between the Authority and one of its member agencies in the amount of \$2,200,000. Payments will be made in five equal installments over five years, commencing on October 1, 2020 and on each anniversary of the initial payment date thereafter.

Management is not aware of any other events or transactions, including estimates that provide additional evidence about conditions that existed at June 30, 2020, 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
Schedules of Changes in the Total OPEB Liability and Related Ratios
As of June 30, 2020
Last Ten Years*

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
<u>Total OPEB Liability:</u>			
Service cost	\$ 113,200	38,990	37,946
Interest	112,932	86,142	84,676
Difference between expected and actual experience	-	85,165	-
Changes in assumptions	565,970	779,126	-
Employer contributions	<u>(111,208)</u>	<u>(114,948)</u>	<u>(94,258)</u>
Net change in total OPEB liability	680,894	874,475	28,364
Total OPEB liability – beginning	<u>3,159,843</u>	<u>2,285,368</u>	<u>2,257,004</u>
Total OPEB liability – ending	<u>\$ 3,840,737</u>	<u>3,159,843</u>	<u>2,285,368</u>
Covered payroll	<u>\$ 2,572,348</u>	<u>2,882,328</u>	<u>3,004,335</u>
Total OPEB liability as a percentage of covered payroll	<u>149.31%</u>	<u>109.63%</u>	<u>76.07%</u>

Summary of key assumptions:

	June 30, 2020	June 30, 2019	June 30, 2018
Valuation date	June 30, 2020	June 30, 2019	June 30, 2018
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Inflation	2.75%	2.75%	2.75%
Healthcare cost trend rates	7.00% in 2020, step down 0.50% each year to 5.00% in 2024	7.00% in 2020, step down 0.50% each year to 5.00% in 2024	4.00% per year
Salary increases	3.25%	3.25%	2.75%
Discount rate	3.51%	3.51%	3.80%
Retirement age	From 50 to 75	From 50 to 75	From 50 to 75
Mortality	CalPERS 2017 Experience Study; Projected with MW Scale	CalPERS 2017 Experience Study; Projected with MW Scale	CalPERS 2014 Experience Study

Notes:

* The Authority has presented information for those years for which information is available until a full 10-year trend is compiled.

Victor Valley Wastewater Reclamation Authority
Schedules of the Proportionate Share of the Net Pension Liability
As of June 30, 2020
Last Ten Years*

Description	Fiscal Year 6/30/2020	Fiscal Year 6/30/2019	Fiscal Year 6/30/2018	Fiscal Year 6/30/2017	Fiscal Year 6/30/2016	Fiscal Year 6/30/2015
Authority's Proportion of the Net Pension Liability	0.05909%	0.05854%	0.05799%	0.05792%	0.06074%	0.05341%
Authority's Proportionate Share of the Net Pension Liability	\$ 6,054,828	5,641,328	5,750,574	5,011,624	4,169,063	3,323,316
Authority's Covered Payroll	\$ 2,781,332	2,546,478	3,397,714	3,004,335	3,004,402	2,945,462
Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	217.70%	221.53%	169.25%	166.81%	138.77%	112.83%
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	72.04%	72.05%	71.18%	71.30%	75.01%	79.19%

Notes:

Changes in Benefit Terms – For the measurement date June 30, 2019, there were no changes in the benefit terms.

Changes of Assumptions – For the measurement dates June 30, 2019 and 2018, the discount rate was 7.15% percent.

* The Authority has presented information for those years for which information is available until a full 10-year trend is compiled.

Victor Valley Wastewater Reclamation Authority
Schedules of Pension Plan Contributions
As of June 30, 2020
Last Ten Years*

<u>Schedule of Pension Plan Contributions:</u>	Fiscal Year 6/30/2020	Fiscal Year 6/30/2019	Fiscal Year 6/30/2018	Fiscal Year 6/30/2017	Fiscal Year 6/30/2016	Fiscal Year 6/30/2015
Actuarially Determined Contribution	\$ 694,372	690,639	589,365	561,105	507,931	464,069
Contribution's in Relation to the Actuarially Determined Contribution	<u>(698,749)</u>	<u>(607,170)</u>	<u>(528,660)</u>	<u>(503,376)</u>	<u>(503,175)</u>	<u>(464,069)</u>
Contribution Deficiency (Excess)	\$ <u>(4,377)</u>	<u>83,469</u>	<u>60,705</u>	<u>57,729</u>	<u>4,756</u>	<u>-</u>
Covered Payroll	\$ <u>2,781,332</u>	<u>2,546,478</u>	<u>3,397,714</u>	<u>3,004,335</u>	<u>3,004,402</u>	<u>2,945,462</u>
Contribution's as a percentage of Covered Payroll	<u>24.97%</u>	<u>27.12%</u>	<u>17.35%</u>	<u>18.68%</u>	<u>16.91%</u>	<u>15.76%</u>

Notes:

* The Authority has presented information for those years for which information is available until a full 10-year trend is compiled.

Supplemental Information

Victor Valley Wastewater Reclamation Authority
Schedule of Operating Expenses
For the Years Ended June 30, 2020 and 2019

	2020	As Restated 2019
	<u> </u>	<u> </u>
Salaries and benefits:		
Salaries	\$ 3,941,089	3,322,889
Employee benefits	2,047,333	1,688,819
Total salaries and benefits	<u>5,988,422</u>	<u>5,011,708</u>
Maintenance:		
Equipment and supplies	692,574	773,793
Instrumentation	344,225	331,158
Tools	22,941	34,922
Ground repairs and maintenance	265,677	262,933
Vehicle repairs and maintenance	88,760	140,329
Sewer repairs and maintenance	127,533	140,828
Other	266,795	196,485
Total Maintenance	<u>1,808,505</u>	<u>1,880,448</u>
Operations:		
Process chemicals	353,656	262,336
Utilities	1,873,753	1,743,535
Trash and sludge disposal	86,645	135,839
Fuel and lubricants	101,906	102,712
Lab supplies and services	475,131	369,751
Safety equipment	88,941	149,555
Custodial	46,236	49,710
Equipment rental	78,544	48,909
Uniforms	29,039	27,078
Security	12,927	12,726
Sewer location services	29,396	26,507
Other	-	46
Total operations	<u>\$ 3,176,174</u>	<u>2,928,704</u>

Continued on next page

Victor Valley Wastewater Reclamation Authority
Schedule of Operating Expenses
For the Years Ended June 30, 2020 and 2019

	2020	As Restated 2019
	<u>2020</u>	<u>2019</u>
Administration:		
Telephone and communications	\$ 91,770	91,615
Computers and office equipment	128,672	108,401
Computer and office supplies	5,805	8,601
Printing and advertising	27,289	18,420
Postage and freight	10,076	12,007
Travel and education	43,993	105,976
Membership and commissioner fees	41,717	56,409
Books and periodicals	18,641	20,254
Professional services	725,365	903,281
Legal services	391,512	352,168
Temporary labor	5,530	82,748
Insurance	208,730	205,409
Permit fees	169,228	134,619
Rent	61,511	51,079
Construction services	544,799	9,783
Other	3,954	1,497
	<u>2,478,592</u>	<u>2,162,267</u>
Total administration	<u>2,478,592</u>	<u>2,162,267</u>
Total operating expenses	<u>13,451,693</u>	<u>11,983,127</u>
Depreciation	<u>11,565,945</u>	<u>11,519,264</u>
Total operating expense including depreciation expense	<u>\$ 25,017,638</u>	<u>23,502,391</u>

Victor Valley Wastewater Reclamation Authority
Combining Schedule of Revenues and Expenses
For the Year Ended June 30, 2020

	<u>Operations and Maintenance</u>	<u>Repairs and Replacements</u>	<u>Capital Outlay</u>	<u>Total</u>
Operating revenues:				
Wastewater service charges	\$ 14,592,947	-	-	14,592,947
Septage receiving facility fees	633,420	-	-	633,420
ADM-FOG tipping fees	181,788	-	-	181,788
Pretreatment permit fees	49,600	-	-	49,600
Total operating revenues	<u>15,457,755</u>	<u>-</u>	<u>-</u>	<u>15,457,755</u>
Operating expenses:				
Salaries and benefits	5,643,374	-	345,048	5,988,422
Maintenance	1,428,967	379,538	-	1,808,505
Operations	3,172,582	3,592	-	3,176,174
General and administration	1,970,361	498,431	9,800	2,478,592
Total operating expense	<u>12,215,284</u>	<u>881,561</u>	<u>354,848</u>	<u>13,451,693</u>
Operating income (loss) before depreciation expense	3,242,471	(881,561)	(354,848)	2,006,062
Depreciation	<u>(11,565,945)</u>	<u>-</u>	<u>-</u>	<u>(11,565,945)</u>
Operating loss	<u>(8,323,474)</u>	<u>(881,561)</u>	<u>(354,848)</u>	<u>(9,559,883)</u>
Non-operating revenue (expense):				
Investment earnings	663	-	270,439	271,102
Interest expense	(740,648)	-	(384,002)	(1,124,650)
Other, net	1,932	-	(3,134)	(1,202)
Total non-operating expense, net	<u>(2,348,088)</u>	<u>-</u>	<u>(116,697)</u>	<u>(2,464,785)</u>
Net loss before capital contributions	<u>(10,671,562)</u>	<u>(881,561)</u>	<u>(471,545)</u>	<u>(12,024,668)</u>
Capital contributions:				
Capital grants – FEMA	536,624	-	-	536,624
Connection fees	-	-	2,302,221	2,302,221
Total contributed capital	<u>536,624</u>	<u>-</u>	<u>2,302,221</u>	<u>2,838,845</u>
Change in net position	<u>\$ (10,134,938)</u>	<u>(881,561)</u>	<u>1,830,676</u>	<u>(9,185,823)</u>

See accompanying notes to the basic financial statements

Victor Valley Wastewater Reclamation Authority
Combining Schedule of Revenues and Expenses
For the Year Ended June 30, 2019

	<u>Operations and Maintenance</u>	<u>Repairs and Replacements</u>	<u>Capital Outlay</u>	<u>Total</u>
Operating revenues:				
Wastewater service charges	\$ 13,706,977	-	-	13,706,977
Septage receiving facility fees	614,617	-	-	614,617
ADM-FOG tipping fees	274,186	-	-	274,186
Pretreatment permit fees	53,600	-	-	53,600
Total operating revenues	<u>14,649,380</u>	<u>-</u>	<u>-</u>	<u>14,649,380</u>
Operating expenses:				
Salaries and benefits	5,011,708	-	-	5,011,708
Maintenance	1,620,396	260,052	-	1,880,448
Operations	2,908,271	20,433	-	2,928,704
General and administration	2,075,818	73,001	13,448	2,162,267
Total operating expense	<u>11,616,193</u>	<u>353,486</u>	<u>13,448</u>	<u>11,983,127</u>
Operating income (loss) before depreciation expense	3,033,187	(353,486)	(13,448)	2,666,253
Depreciation	(11,519,264)	-	-	(11,519,264)
Operating (loss) income	<u>(8,486,077)</u>	<u>(353,486)</u>	<u>(13,448)</u>	<u>(8,853,011)</u>
Non-operating revenue (expense):				
Investment earnings	1,412	-	280,208	281,620
Interest expense	(762,250)	-	(421,122)	(1,183,372)
Other, net	(1,129)	-	-	(1,129)
Capital contribution to local government	(71,132)	-	-	(71,132)
Total non-operating expense, net	<u>(833,099)</u>	<u>-</u>	<u>(140,914)</u>	<u>(974,013)</u>
Net (loss) income before capital contributions	<u>(9,319,176)</u>	<u>(353,486)</u>	<u>(154,362)</u>	<u>(9,827,024)</u>
Capital contributions:				
Capital grants – Other agency	-	-	294,907	294,907
Connection fees	-	-	3,088,860	3,088,860
Total contributed capital	<u>-</u>	<u>-</u>	<u>3,383,767</u>	<u>3,383,767</u>
Change in net position	<u>\$ (9,319,176)</u>	<u>(353,486)</u>	<u>3,229,405</u>	<u>(6,443,257)</u>

See accompanying notes to the basic financial statements

A scenic view of a lake with reeds and hills in the background, with water splashing in the foreground. The text "Statistics Section" is overlaid in the center.

Statistics Section

Victor Valley Wastewater Reclamation Authority

Statistical Section Table of Contents

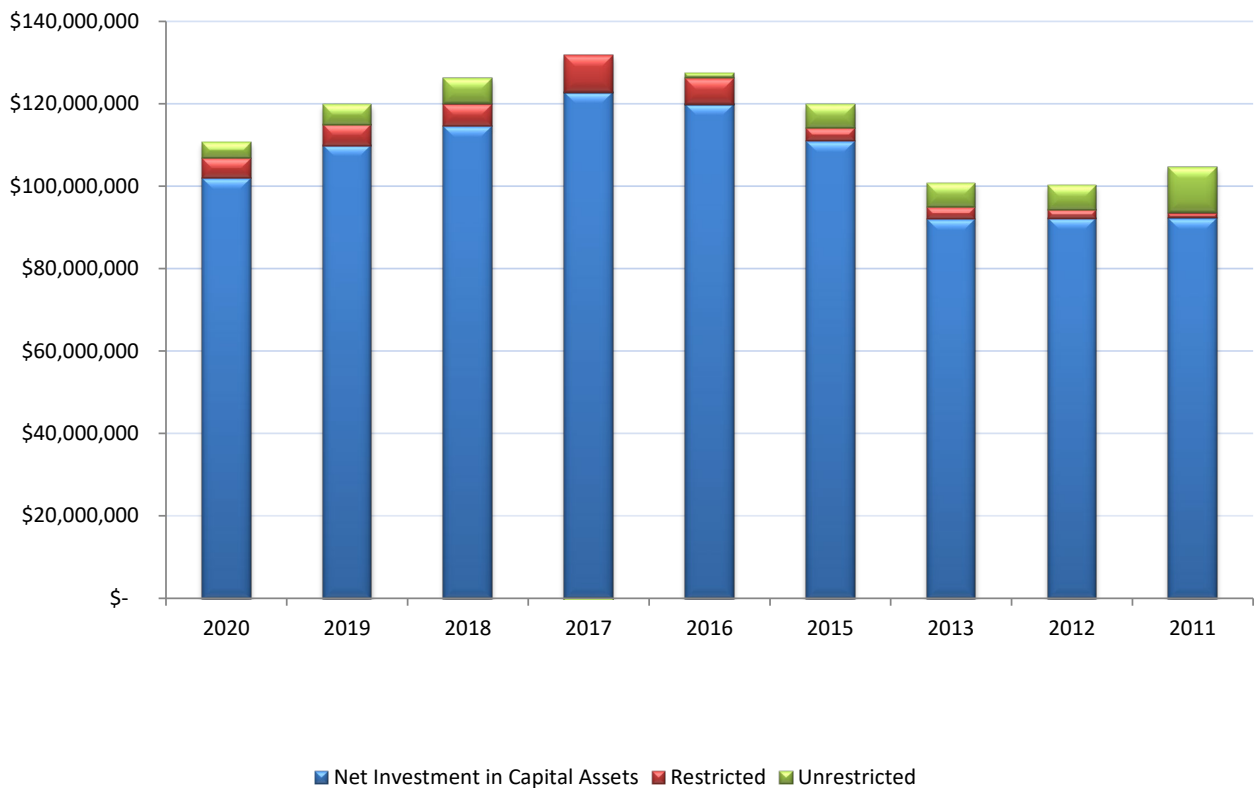
This part of Authority’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the accompanying financial statements and notes to the financial statements say about the Authority’s overall financial health.

	<u>Page No.</u>
Financial Trends These schedules contain information to help the reader understand how the Authority’s financial performance and well-being have changed over time.	66 – 67
Revenue Capacity These schedules contain information to help the reader assess the factors affecting the Authority’s ability to generate revenues.	68 – 73
Debt Capacity These schedules present information to help the reader assess the affordability of the Authority’s current levels of outstanding debt and the Authority’s ability to issue additional debts in the future.	74
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority’s financial activities take place and to help make comparisons over time and with other agencies.	75 – 78
Operating Information These schedules contain information about the Authority’s operations and resources to help the reader understand how the Authority’s financial information relates to the services the Authority provides and the activities it performs.	79 – 86

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

June 30	2020	2019	2018	2017	2016
Net Investment in Capital Assets	\$ 101,957,712	\$ 109,818,767	\$ 114,620,595	\$ 122,731,832	\$ 119,848,757
Restricted	4,882,810	5,147,861	5,285,091	9,004,801	6,367,601
Unrestricted	3,796,364	4,856,081	6,360,280	(1,131,737)	1,295,274
Total Net Position	\$ 110,636,886	\$ 119,822,709	\$ 126,265,966	\$ 130,604,896	\$ 127,511,632

June 30	2015	2014	2013	2012	2011
Net Investment in Capital Assets	\$ 110,982,384	\$ 89,340,144	\$ 92,011,190	\$ 92,132,472	\$ 92,316,194
Restricted	3,150,314	2,322,650	2,961,518	2,147,445	1,166,446
Unrestricted	5,692,256	10,061,819	5,729,404	5,936,342	11,190,359
Total Net Position	\$ 119,824,954	\$ 101,724,613	\$ 100,702,112	\$ 100,216,259	\$ 104,672,999

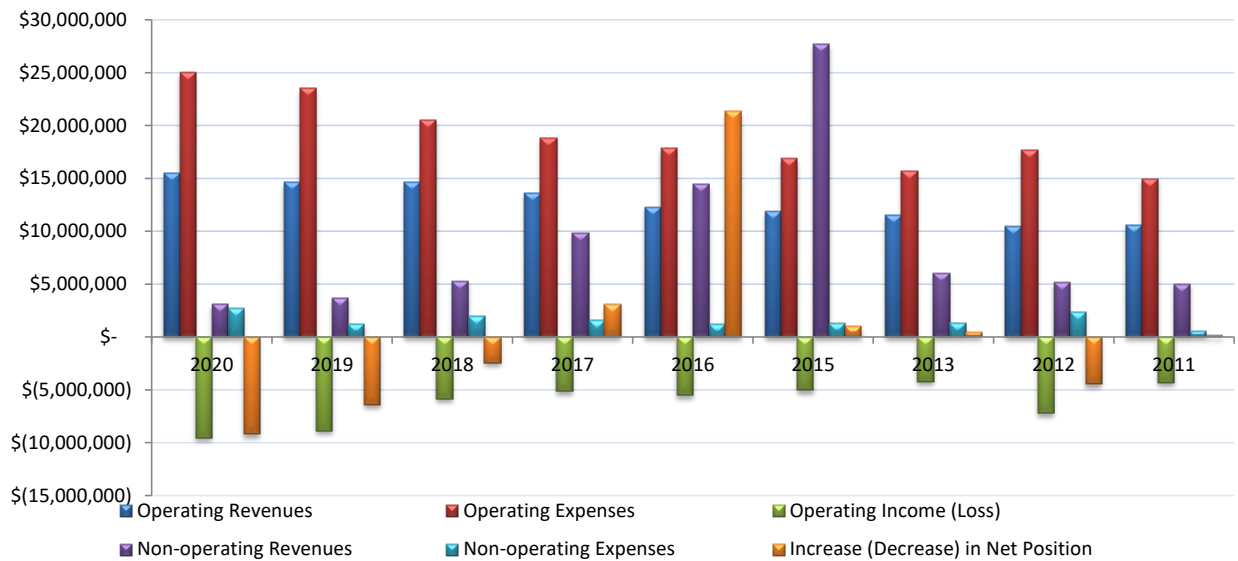


Source: Victor Valley Wastewater Reclamation Authority

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

June 30	2020	2019	2018	2017	2016
Operating Revenues	\$ 15,457,755	\$ 14,649,380	\$ 14,696,537	\$ 13,655,631	\$ 12,305,439
Operating Expenses	25,017,638	23,502,391	20,559,007	18,804,718	17,820,239
Operating Income (Loss)	(9,559,883)	(8,853,011)	(5,862,470)	(5,149,087)	(5,514,800)
Non-operating Revenues	3,109,947	3,665,387	5,317,638	9,797,819	14,416,430
Non-operating Expenses	2,735,887	1,255,633	1,937,435	1,555,468	1,214,952
Increase (Decrease) in Net Position	\$ (9,185,823)	\$ (6,443,257)	\$ (2,482,267)	\$ 3,093,264	\$ 21,316,749

June 30	2015	2014	2013	2012	2011
Operating Revenues	\$ 11,850,841	\$ 10,744,312	\$ 11,526,052	\$ 10,469,338	\$ 10,616,850
Operating Expenses	16,901,749	16,703,301	15,738,220	17,677,977	14,933,992
Operating Income (Loss)	(5,050,908)	(5,958,989)	(4,212,168)	(7,208,639)	(4,317,142)
Non-operating Revenues	27,703,303	8,482,186	6,054,793	5,141,787	5,041,540
Non-operating Expenses	1,335,646	1,535,497	1,356,772	2,389,888	572,285
Increase (Decrease) in Net Position	\$ 21,316,749	\$ 987,700	\$ 485,853	\$ (4,456,740)	\$ 152,113



Source: Victor Valley Wastewater Reclamation Authority

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

Operating Revenues					
June 30	Service Charges	Septage Receiving Facility Fees	ADM-FOG Tipping Fees	Pretreatment Permit Fees	Total Operating Revenues
2020	\$ 14,592,947	\$ 633,420	\$ 181,788	\$ 49,600	\$ 15,457,755
2019	13,706,977	614,617	274,186	53,600	14,649,380
2018	13,711,083	621,154	311,600	52,700	14,696,537
2017	12,719,827	649,362	234,160.00	52,282	13,655,631
2016	11,645,881	604,958	-	54,600	12,305,439
2015	11,260,317	538,367	-	52,157	11,850,841
2014	10,695,640	390,682	-	48,672	11,134,994
2013	11,480,756	190,261	-	45,296	11,716,313
2012	10,422,738	197,688	-	46,600	10,667,026
2011	10,570,050	256,828	-	46,800	10,873,678

Non-Operating Revenues										
June 30	Connection Fees	Other Non-Operating Revenues	FEMA Reimbursement*	Title 16 Grant	Proposition 1 Grant	Proposition 84 Grant	Water Recycling Grant	CEC Grant	Loan Forgiveness	Total Non-Operating Revenues
2020	\$ 2,302,221	\$ 271,102	\$ 536,624	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,109,947
2019	3,088,860	281,620	-	\$ -	\$ -	-	\$ -	294,907	-	3,665,387
2018	2,882,239	67,532	-	16,994	916,729	-	442,399	991,745	-	5,317,638
2017	2,951,667	78,595	978,766	-	3,844,476	-	1,808,434	135,881	-	9,797,819
2016	1,146,089	69,906	2,396,510	1,899,930	4,189,343	3,000,000	1,714,652	-	-	14,416,430
2015	1,387,175	107,030	24,544,825	1,637,192	-	-	27,081	-	-	27,703,303
2014	1,524,577	204,545	6,256,569	105,813	-	-	-	-	-	8,091,504
2013	1,620,728	74,852	1,047,586	121,366	-	-	-	-	3,000,000	2,864,532
2012	2,012,423	160,348	1,685,630	1,085,698	-	-	-	-	-	3,858,401
2011	2,205,637	134,276	2,444,799.00	-	-	-	-	-	-	4,784,712

Total Revenues			
June 30	Total Operating Revenues	Total Non-Operating Revenues	Total Revenues
2020	\$ 15,457,755	\$ 3,109,947	\$ 18,567,702
2019	14,649,380	3,665,387	18,314,767
2018	14,696,537	5,317,638	20,014,175
2017	13,655,631	9,797,819	23,453,450
2016	12,305,439	14,416,430	26,721,869
2015	11,850,841	27,703,303	39,554,144
2014	11,134,994	8,091,504	19,226,498
2013	11,716,313	2,864,532	14,580,845
2012	10,667,026	3,858,401	14,525,427
2011	10,873,678	4,784,712	15,658,390

*VVWRA will be reimbursed 93.75% of the extraordinary expenses incurred during FY 16-17 through FEMA and Cal EMA.
Source: Victor Valley Wastewater Reclamation Authority's Statements of Revenues, Expenses and Changes in Net Position

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

	Operating Expenses						Total Non-Operating Expenses	Combined Expenses
June 30	Personnel	Maintenance	Operations	Administration	Depreciation	Total Operating Expenses		
2020	\$ 5,988,422	\$ 1,808,505	\$ 3,176,174	\$ 2,478,592	\$ 11,565,945	\$ 25,017,638	\$ 2,735,887	\$ 27,753,525
2019	5,011,708	1,880,448	2,928,704	2,162,267	11,519,264 *	23,502,391	1,255,633	24,758,024
2018	4,813,879	1,654,791	2,877,169	1,783,254	9,429,914 *	20,559,007	1,937,435	22,496,442
2017	4,435,790	1,936,625	2,444,093	2,087,840	7,900,370	18,804,718	1,555,468	20,360,186
2016	5,090,845	1,892,127	2,359,892	1,831,796	6,645,579	17,820,239	1,214,952 *	19,035,191
2015	4,610,511	1,902,719	1,865,289	1,734,702	6,788,528	16,901,749	1,335,646 *	18,237,395
2014	4,475,438	1,647,896	2,183,544	1,784,021	6,612,402	16,703,301	1,535,497	18,238,798
2013	4,386,713	1,377,024	2,169,317	2,044,400	5,760,766	15,738,220	1,356,772	17,094,992
2012	4,398,077	3,041,988	2,828,368	1,788,697	5,620,847	17,677,977	2,389,888	20,067,865
2011	4,356,129	883,688	2,521,414	1,498,077	5,674,684	14,302,713	572,285	14,874,998

*Per prior year adjustment

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

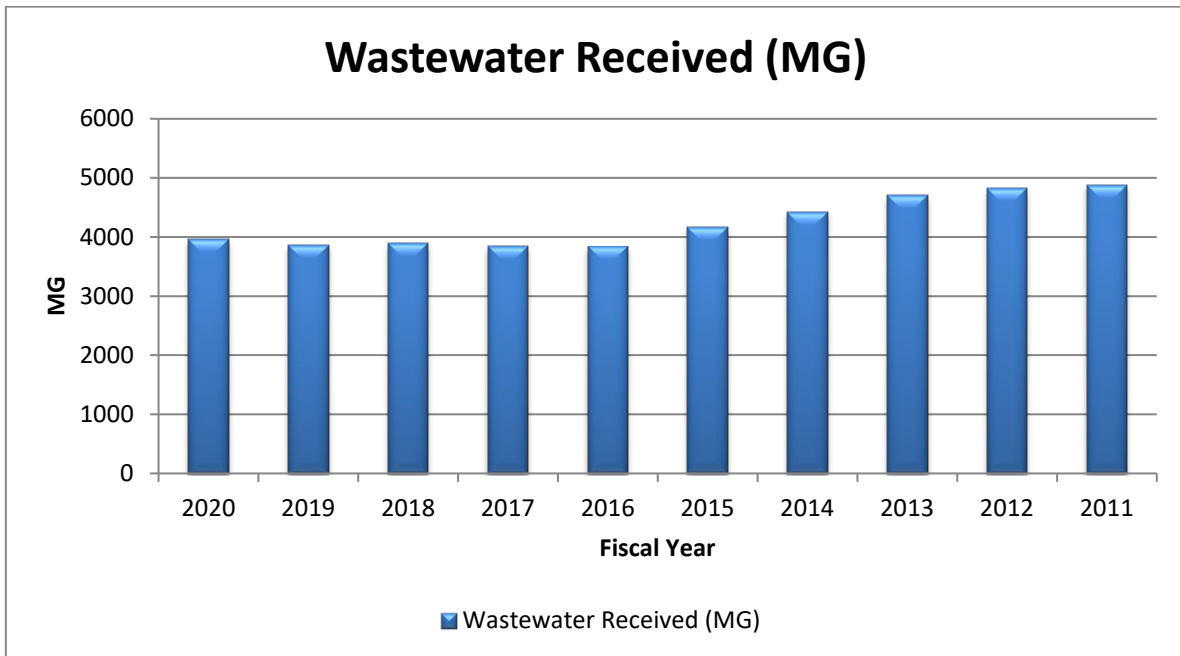
Victor Valley Wastewater Reclamation Authority

Revenue Base

Last Ten Fiscal Years

June 30	Wastewater Received (MG)*
2020	3,951
2019	3,864
2018	3,888
2017	3,845
2016	3,834
2015	4,171
2014	4,423
2013	4,704
2012	4,821
2011	4,881

*MG = Million Gallons



Source: Victor Valley Wastewater Reclamation Authority

Victor Valley Wastewater Reclamation Authority

Principal Customers

Last Ten Fiscal Years

June 30	2020		2019		2018	
	Wastewater Received (MG)*	Percentage of Total	Wastewater Received (MG)*	Percentage of Total	Wastewater Received (MG)*	Percentage of Total
San Bernardino County	214	5.4%	218	5.7%	222	5.7%
Apple Valley	629	15.9%	643	16.6%	653	16.8%
Hesperia	731	18.6%	707	18.3%	703	18.1%
Victorville	2,377	60.1%	2,296	59.4%	2,310	59.4%
Principal Customers Total	3,951	100.0%	3,864	100.0%	3,888	100.0%
Total Water Received	3,951	100.0%	3,864	100.0%	3,888	100.0%

June 30	2017		2016		2015	
	Wastewater Received (MG)*	Percentage of Total	Wastewater Received (MG)	Percentage of Total	Wastewater Received (MG)	Percentage of Total
San Bernardino County	220	5.7%	219	5.7%	233	5.6%
Apple Valley	645	16.8%	644	16.8%	672	16.1%
Hesperia	695	18.1%	694	18.1%	697	16.7%
Victorville	2,285	59.4%	2,277	59.4%	2,569	61.6%
Principal Customers Total	3,845	100.0%	3834	100.0%	4,171	100.0%
Total Water Received	3,845	100.0%	3834	100.0%	4,171	100.0%

Victor Valley Wastewater Reclamation Authority

Principal Customers

Last Ten Fiscal Years

June 30	2014		2013		2012	
	Wastewater Received (MG)	Percentage of Total	Wastewater Received (MG)	Percentage of Total	Wastewater Received (MG)	Percentage of Total
San Bernardino County	287	6.5%	306	6.5%	528	11.0%
Apple Valley	611	13.8%	650	13.8%	666	13.8%
Hesperia	752	17.0%	799	17.0%	819	17.0%
Victorville	2,576	58.2%	2,739	58.2%	2,808	58.2%
Principal Customers Total	4,226	95.5%	4,494	95.5%	4,821	100.0%
Total Water Received	4,423	100.0%	4,704	100.0%	4,821	100.0%

June 30	2011	
	Wastewater Received (MG)	Percentage of Total
San Bernardino County	322	6.6%
Apple Valley	692	14.2%
Hesperia	818	16.8%
Victorville	3,049	62.4%
Principal Customers Total	4,881	100.0%
Total Water Received	4,881	100.0%

*MG=Million Gallons

Source: Victor Valley Wastewater Reclamation Authority

Victor Valley Wastewater Reclamation Authority

Revenue Rate

Last Ten Fiscal Years

June 30	Service Charges (\$/MG)*	Connection Fees (\$/EDU)**
2020	\$3,784	\$4,679
2019	3,503	4,000
2018	3,503	4,000
2017	3,274	4,000
2016	3,004	4,000
2015	2,756	4,000
2014	2,528	3,750
2013	2,528	3,750
2012	2,200	3,750
2011	2,200	3,750

*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)			
June 30	BOD	TSS	NH3
2020	\$0.3685	\$0.2470	\$4.1368
2019	0.3685	0.2470	4.1368
2018	0.3323	0.2262	3.9800
2017	0.3679	0.2124	3.5430
2016	0.2701	0.2333	2.6887
2015	0.2989	0.2336	2.9252
2014	0.2318	0.2057	2.9118
2013	0.3231	0.1842	3.2876
2012	0.2812	0.1603	2.8611
2011	0.2671	0.1520	3.0159

Source: Victor Valley Wastewater Reclamation Authority

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

June 30	State Revolving Fund Loans	Advances from Member Agencies	Lease Payable	California Edison	Cal PERS Side Fund	Total Debt	Debt Per Capita	As a Share of Personal Income
2020	\$ 79,715,210	\$ -	\$ 246,388	\$ 22,491	\$ -	\$ 79,984,089	*	*
2019	83,736,020	-	339,222	39,744	-	84,114,986	283.01	0.62%
2018	87,698,996	-	429,152	57,171	-	88,185,319	297.55	0.74%
2017	81,478,053	-	-	83,387	-	81,561,440	278.81	0.72%
2016	52,619,607	-	-	223,062	-	52,842,669	180.72	0.48%
2015	29,773,664	-	-	107,376	-	29,881,040	102.55	0.28%
2014	25,844,065	-	-	-	670,612	26,514,677	93.12	0.27%
2013	24,024,452	-	-	-	696,459	24,720,911	87.40	0.27%
2012	25,553,520	-	-	-	718,434	26,271,954	93.10	0.29%
2011	13,976,968	-	-	-	735,025	14,711,993	52.52	0.17%

* Data not Available

Source: Victor Valley Wastewater Reclamation Authority
California Department of Finance

Victor Valley Wastewater Reclamation Authority

Demographic and Economic Statistics

Last Ten Calendar Years

Dec. 31	Population in Service Area ¹	Personal Income (In Millions)	Personal Income Per Capita ²	Unemployment Rate ²
2019	297,219	\$13,648	\$45,920	3.80%
2018	296,369	\$11,948	\$40,316	4.00%
2017	292,534	\$11,306	\$38,648	5.60%
2016	292,399	\$10,992	\$37,592	6.80%
2015	291,392	\$10,581	\$36,311	7.50%
2014	284,741	\$9,772	\$34,320	8.10%
2013	282,851	\$9,179	\$32,453	10.10%
2012	282,204	\$8,955	\$31,733	12.00%
2011	280,125	\$8,703	\$31,068	13.20%
2010	275,211	\$8,137	\$29,566	14.20%

* Data Not Available per

Service Area Population by Cities

Dec. 31	Apple Valley ¹	Victorville ¹	Hesperia ¹
2019	74,391	126,432	96,393
2018	73,464	126,543	96,362
2017	72,891	124,516	95,127
2016	74,701	123,565	94,133
2015	74,656	123,510	93,226
2014	71,396	121,168	92,177
2013	70,755	120,590	91,506
2012	70,436	120,368	91,400
2011	70,033	119,059	91,033
2010	69,135	115,903	90,173

* 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
Current Year and Nine Years Ago

June 30, 2020

Employer	Business Category
Leading Edge	Aviation
Southern California Aviation	Aviation
Victorville Aerospace	Aviation
TXI Cement	Cement
Robar Enterprises	Cement/Steel
Goodyear	Distribution
Lowe's Home Improvement Warehouse	Distribution
Newell Rubbermaid	Distribution
Walmart Distribution Center	Distribution
Apple Valley Unified School District	Education
Hesperia Unified School District	Education
Victor Elementary School District	Education
Victor Valley College	Education
Victor Valley Union High School District	Education
City of Hesperia	Government
City of Victorville	Government
County of San Bernardino	Government
Hesperia Recreation and Park District	Government
Town of Apple Valley	Government
Stater Bros.	Grocery
WinCo Foods	Grocery
Desert Valley Hospital / Medical Group	Health
St. Mary Medical Center	Health
Victor Valley Community Hospital	Health
Nutro Foods	Pet Food Processing
Arizona Pipeline Company	Pipe Fabricator
Federal Correction Complex Victorville	Prison
In-N-Out	Restaurant
Wood Grill Buffett	Restaurant
K-Mart	Retail
Target Stores, Inc	Retail
The Home Depot	Retail
Walmart Store	Retail
Double Eagle Transportation	Trucking / Repairs
Verizon	Utility – telephone

June 30, 2011

Employer	Business Category
Leading Edge	Aviation
Southern California Aviation	Aviation
Victorville Aerospace	Aviation
TXI Cement	Cement
Robar Enterprises	Cement/Steel
Goodyear	Distribution
Newell Rubbermaid	Distribution
Wal-Mart Distribution Center	Distribution
Apple Valley Unified School District	Education
Hesperia Unified School District	Education
Victor Elementary School District	Education
Victor Valley College	Education
Victor Valley Union High School District	Education
City of Hesperia	Government
City of Victorville	Government
County of San Bernardino	Government
Hesperia Recreation and Park District	Government
High Desert Law & Justice Center	Government
Town of Apple Valley	Government
Albertson's Supermarket	Grocery
Stater Bros.	Grocery
WinCo Foods	Grocery
Apple Valley Christian Care Centers	Health
Desert Valley Hospital / Medical Group	Health
St. Mary Medical Center	Health
Victor Valley Community Hospital	Health
Nutro Foods	Pet Food Processing
Arizona Pipeline Company	Pipe Fabricator
Federal Correction Complex Victorville	Prison
In-N-Out	Restaurant
McDonald's	Restaurant
Red Robin	Restaurant
Wood Grill Buffett	Restaurant
Best Buy	Retail
K-Mart	Retail
Lowe's Home Improvement	Retail
Target Stores, Inc	Retail
Walmart Store	Retail
Double Eagle Transportation	Trucking / Repairs
Verizon	Utility – telephone

Note: Total number of employees for each employer is confidential per 20 CFR Part 603.

Source: Victor Valley Economic Development Authority

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

June 30	2020	2019	2018	2017	2016
Land	\$ 619,003	\$ 779,136	\$ 779,136	\$ 779,136	\$ 779,136
Land Improvements	9,738,124	9,738,124	9,738,124	9,738,124	9,630,803
Plant Buildings	218,901,596	218,514,351	218,162,852	133,494,901	132,421,707
Interceptor Lines	69,200,504	69,200,504	67,544,012	62,653,035	27,606,672
Office Equipment	1,064,592	1,064,592	775,612	766,585	766,585
Trucks/Auto	861,825	861,825	841,568	911,116	911,116
Construction in Progress (1)	1,943,175	2,596,294	2,301,965	82,908,664	79,877,599
Accumulated Depreciation	(120,387,018)	(108,821,073)	(97,337,355)	(86,958,289)	(79,302,192)
Total	\$ 181,941,801	\$ 193,933,753	\$ 202,805,914	\$ 204,293,272	\$ 172,691,426

June 30	2015	2014	2013	2012	2011
Land	\$ 779,136	\$ 650,136	\$ 650,136	\$ 650,136	\$ 650,136
Land Improvements	9,421,375	7,792,390	7,757,640	7,757,640	7,757,640
Plant Buildings	131,778,715	131,601,527	112,079,795	105,576,501	105,387,194
Interceptor Lines	27,606,672	27,606,672	27,606,672	27,606,672	24,510,412
Office Equipment	530,213	530,213	465,609	406,239	406,239
Trucks/Auto	911,116	911,116	858,726	858,726	814,281
Construction in Progress (1)	42,492,810	11,960,240	25,896,952	28,349,200	15,130,636
Accumulated Depreciation	(72,656,613)	(65,868,085)	(59,279,888)	(53,519,122)	(48,363,376)
Total	\$ 140,863,424	\$ 115,184,209	\$ 116,035,642	\$ 117,685,992	\$ 106,293,162

Note:

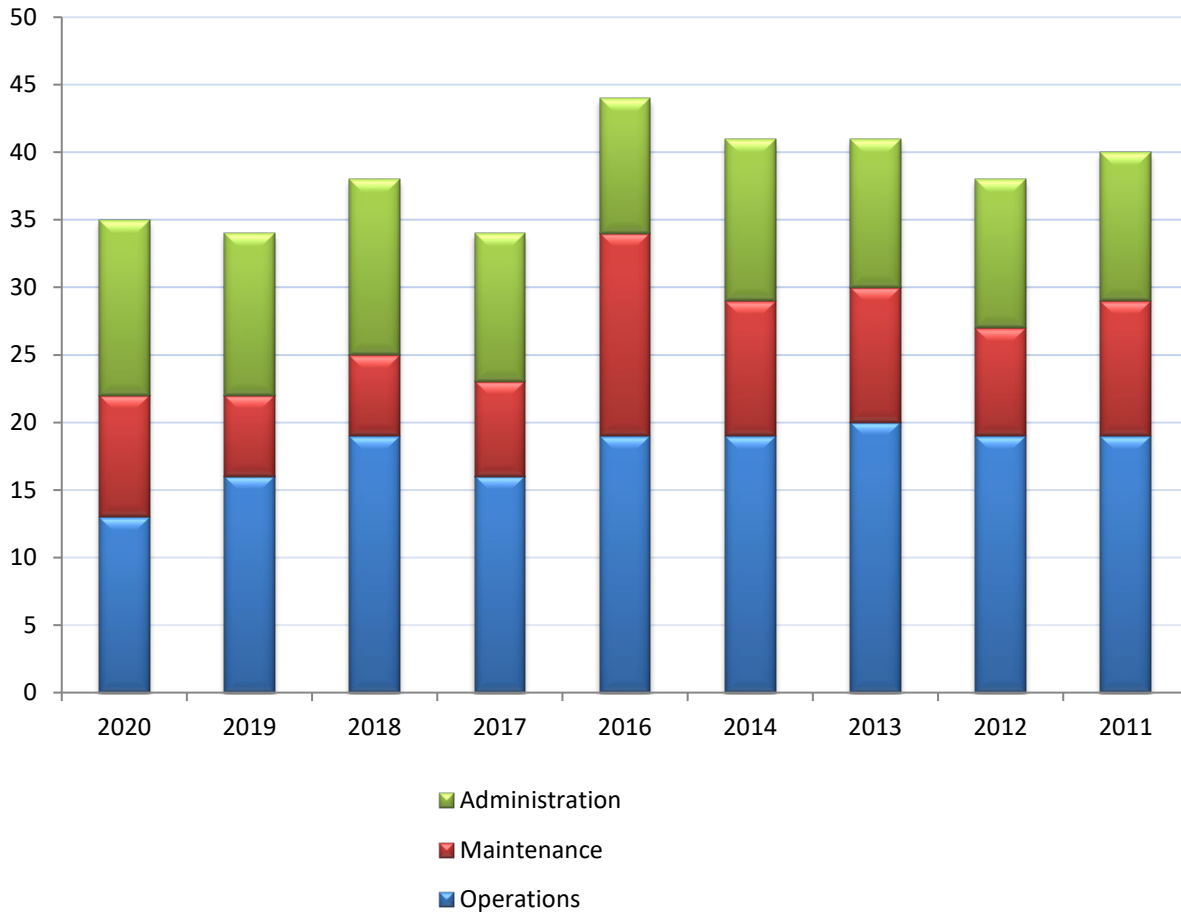
- (1) Construction in progress significantly increased in Fiscal Years 2015, 2016 and 2017 due to the construction of Upper Narrows Pipeline and Subregional Water Reclamation Plants in Hesperia and Apple Valley.
- (2) Construction in progress significantly decreased in Fiscal Years 2018 due to the completion of Subregional Water Reclamation Plants in Hesperia and Apple Valley.

Source: Victor Valley Wastewater Reclamation Authority

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

June 30	2020	2019	2018	2017	2016
Operations	13	16	19	16	19
Maintenance	9	6	6	7	15
Administration	13	12	13	11	10
Total	35	34	38	34	44

June 30	2015	2014	2013	2012	2011
Operations	15	19	20	19	19
Maintenance	9	10	10	8	10
Administration	15	12	11	11	11
Total	39	41	41	38	40



Source: Victor Valley Wastewater Reclamation Authority

Victor Valley Wastewater Reclamation Authority
Operating and Capital Indicators (Facts and Figures)
June 30, 2020

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

Benchmarking is akin to a self evaluation. It is an excellent tool to build credibility, but it is also important given VWVRA'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

VWVRA 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 VWVRA could improve its operation. The primary objective is to create a performance measurement system to evaluate and improve the Authority's operational efficiency. The manual "Benchmarking, Performance Indicators for Water and Wastewater Utilities: 2012 Annual Survey Data and Analysis Report" was utilized as an industry standard reference. The manual is published by the American Water Works Association (AWWA), a national organization dedicated to promoting sound water policy.

We have used information from the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers (CPI-U) to adjust for inflation. The CPI-U is 2.3% for 2019 and 2.7% for 2018. We have adjusted the AWWA wastewater performance data with 2019 CPI-U.

Four indices were chosen which provide a broad perspective on the operational efficiency of VWVRA, 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: Year ended June 30, 2020

**Victor Valley Wastewater Reclamation Authority
Operating and Capital Indicators (Facts and Figures)
June 30, 2020**

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



Regional Plant Digesters

2. Million Gallons per Day (mgd) of Wastewater Processed per Employee:

This is a measure of employee productivity and includes all staff.

- c. Reporting Period: Year ended June 30, 2020
- d. Source: Actual inflow data measured by VVWRA and data provided by Member Agencies and other users.
- e. Source: based on actual employee numbers as of June 30, 2020

3. Operations and Maintenance Cost per Million Gallons Processed:

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

- a. Reporting Period: Year ended June 30, 2020
- 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, 2020, pages 13

4. Debt Ratio: It quantifies the utilities level of indebtedness.

- a.** Reporting Period: Fiscal Year 2019-2020
- b.** Source: VVWRA Audited Financial Statements June 30, 2020, page 12

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

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

**Victor Valley Wastewater Reclamation Authority
Operating and Capital Indicators (Facts and Figures)
June 30, 2020**

Sewer Overflow Rate

Nationwide

	Top Quartile	Median	Bottom Quartile	VVWRA June 30, 2020
Sewer Overflow Rate	0.7	2.2	3.3	2

West States Region IV

	Top Quartile	Median	Bottom Quartile	VVWRA June 30, 2020
Sewer Overflow Rate	<i>Data Not Available</i>	0.7	2.4	2

Population 100,001-500,000

	Top Quartile	Median	Bottom Quartile	VVWRA June 30, 2020
Sewer Overflow Rate	0.6	1.6	4.4	2

VVWRA’s Sewer Overflow Rate is 2. VVWRA had 1 reported spill at during year ended June 30, 2020. VVWRA has completed the construction of a permanent interceptor to replace the temporary bypass line that was completed during 2011 to divert the wastewater flow from a damaged interceptor. In addition, VWRA is finished constructing the Sub-regional wastewater treatment plant each in Apple Valley and Hesperia. The Capital Improvement Plan requires a multi-million dollar funding to address the construction needs.



Victorville Regional Plant

**Victor Valley Wastewater Reclamation Authority
Operating and Capital Indicators (Facts and Figures)
June 30, 2020**

Million Gallons per Day of Wastewater Processed per Employee

Nationwide

	Top Quartile	Median	Bottom Quartile	VVWRA June 30, 2020
MGD Wastewater processed per employee	0.39	0.23	0.20	0.31

West States Region IV

	Top Quartile	Median	Bottom Quartile	VVWRA June 30, 2020
MGD Wastewater processed per employee	0.31	0.23	0.14	0.31

Population 100,001-500,000

	Top Quartile	Median	Bottom Quartile	VVWRA June 30, 2020
MGD Wastewater processed per employee	0.29	0.22	0.18	0.31

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

**Victor Valley Wastewater Reclamation Authority
Operating and Capital Indicators (Facts and Figures)
June 30, 2020**

Operations and Maintenance Cost per Million Gallons Processed

Nationwide

	Top Quartile	Median	Bottom Quartile	VVWRA June 30, 2020
O&M Cost per MG Processed	<i>Data Not Available</i>	\$2,691	<i>Data Not Available</i>	\$3,405

West States Region IV

	Top Quartile	Median	Bottom Quartile	VVWRA June 30, 2020
O&M Cost per MG Processed	\$1,887	\$4,436	\$6,412	\$3,405

Population 100,001-500,000

	Top Quartile	Median	Bottom Quartile	VVWRA June 30, 2020
O&M Cost per MG Processed	\$1,993	\$3,287	\$4,806	\$3,405

VVWRA is performing between the median and the top quartile in the West States category however lower than the median quartile in the national and the population category. 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.

**Victor Valley Wastewater Reclamation Authority
Operating and Capital Indicators (Facts and Figures)
June 30, 2020**

Debt Ratio

Nationwide

	Top Quartile	Median	Bottom Quartile	VVWRA June 30, 2020
Debt Ratio (%)	<i>Data Not Available</i>	22	<i>Data Not Available</i>	46

West States Region IV

	Top Quartile	Median	Bottom Quartile	VVWRA June 30, 2020
Debt Ratio (%)	18	33	56	46

Population 100,001-500,000

	Top Quartile	Median	Bottom Quartile	VVWRA June 30, 2020
Debt Ratio (%)	23	32	44	46

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

Average Cost per Employee

A final analysis is needed to determine how VVWRA's personnel cost compares to southern California agencies. The results indicate that the VVWRA's median per employee cost was approximately \$171,098, showing that VVWRA's personnel cost was one of the highest. See next page.

**Victor Valley Wastewater Reclamation Authority
Operating and Capital Indicators (Facts and Figures)
June 30, 2020**

Financial and Statistical summary of Selected Wastewater Agencies – Year Ended June 30, 2020							
Wastewater Agencies	Arrowhead	Inland Empire	Big Bear RWA	VVWRA	Orange County San. Dist.	Encina WA	Leucadia WD
Cost of Services	\$7,596,633	\$54,150,539	\$2,400,883	\$5,988,422	\$98,189,100	\$12,035,079	\$3,696,108
Positions	55.5	355	15	35	640	71	19
Average personnel cost per position	\$136,876	\$152,537	\$160,059	\$171,098	\$153,420	\$169,508	\$194,532

Sources: VVWRA’s cost of services and personnel cost are **actual** for the fiscal year ended June 30, 2020, while data for other agencies are from their **budgets** for June 30, 2020.

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 Sub-regional facilities and interceptor upgrades. The Authority is also uniquely positioned in the High Desert to address potable water shortages through improved use of reclaimed water.



Equipment at the Hesperia Sub-regional Plant

VVWRA is not unique in this respect, the Little Hoover Commission produced a report in January 2009 dealing with the California water situation and organizational challenges. The report states, in pertinent part:

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

Victor Valley Wastewater Reclamation Authority
Operating and Capital Indicators (Facts and Figures)
June 30, 2020

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.



Hesperia Sub-regional Plant

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.

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
Victorville, 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 year ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 17, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit 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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Purpose of this Report

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

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
December 17, 2020