

Victor Valley Wastewater Reclamation Authority

California

Annual Comprehensive Financial Report

For the Fiscal Years Ended June 30, 2021 and 2020



A Joint Powers Authority



Victor Valley Wastewater Reclamation Authority
California

Annual Comprehensive Financial Report

For the Fiscal Years Ended June 30, 2021 and 2020



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**Victor Valley Wastewater Reclamation Authority
Annual Comprehensive Financial Report
For the Fiscal Years Ended June 30, 2021 and 2020**

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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

November 18, 2021

To the Board of Commissioners and Member Agencies,

It is our pleasure to present the Victor Valley Wastewater Reclamation Authority's (the Authority) Annual Comprehensive Financial Report for the year ended June 30, 2021.

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 June 30, 2021 financial statements were audited by Vasquez & Company 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 year ended June 30, 2021 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 year ended June 30, 2021 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 another 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. At the date of this letter, 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 regional plant and the nearby Victorville power plant. To meet strong demands from the service areas, the agency has funded various capital and major repair 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 power 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, specifically 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 that have been impacted by the local economy.

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 future projects include 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

The issue of non-paid connection fees with the City of Hesperia has been settled during September of 2021, although there is an outstanding balance on the audit report date.

Major Initiatives

The Authority has continued its final performance test runs of the sub-regional plants during the year ended June 30, 2021 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 Authority took up a renewable gas project with Southern California Biomethane, LLC, a sub-division of Anaergia, a Canadian corporation to generate natural gas from bio-solids that the Authority generates as byproducts of wastewater processing. The project is almost complete on the date of this letter to generate and sell the gas to Southwest Gas Company. The facility has a capacity of generating 320,000 MMBTU natural gas per year. When we operate the new facility for a full year, we expect \$800,000 from tipping fees for receiving the raw material of fat, oil, and grease and \$250,000 to \$300,000 from the sale of the natural gas.



Renewable Gas Project at Victorville Plant



Hesperia Sub-Regional Plant

Relevant Financial Policies

The Authority has formally adopted the following financial policies:

Reserve Policy

The reserve policy requires the Authority have a minimum level of operating cash reserves throughout the year. That minimum level is set at a certain percentage of the approved fiscal year budget for operations and maintenance expenses. These reserves have been established to meet daily operation needs. The reserve policy guidelines enable restricted funds other than the operating fund 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 annual comprehensive financial report (ACFR) for the year ended June 30, 2020. 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 ACFR. 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 ACFR 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, 2021.

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,

A handwritten signature in black ink that reads "C Keagy". The signature is written in a cursive, slightly slanted style.

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, 2020**



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, 2020

Christopher P. Morill

Executive Director/CEO

Victor Valley Wastewater Reclamation Authority

Board of Commissioners and Management

As of June 30, 2021

Board of Commissioners 2021

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

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(760) 246-8638
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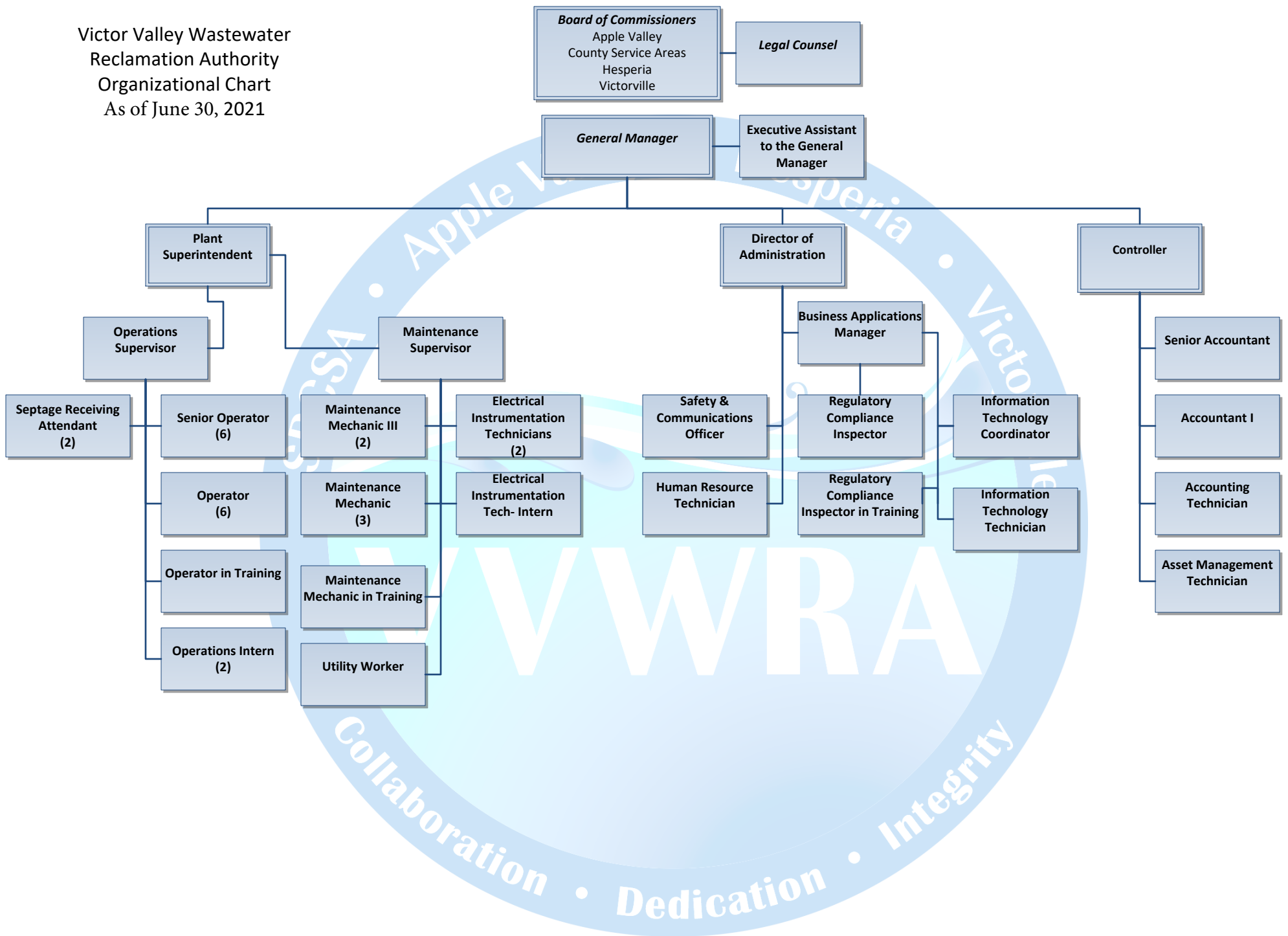
VWRA's mission statement:

VWRA 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:

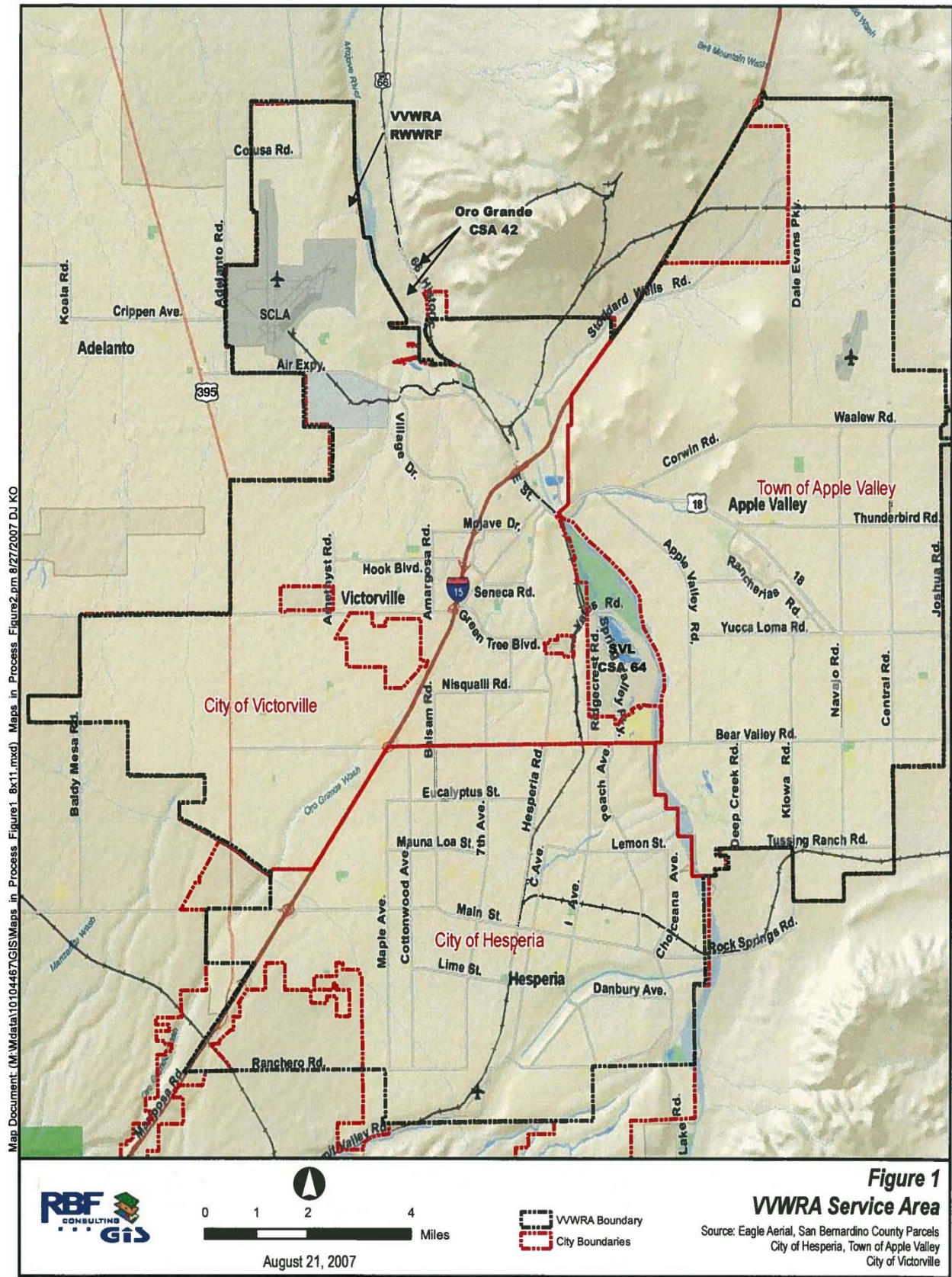
- ***Collaboration...working together towards a common goal.***
 - ***Dedication...devoting self to a particular purpose.***
- ***Integrity...the quality of being honest and adhering to ethical values.***

Victor Valley Wastewater
Reclamation Authority
Organizational Chart
As of June 30, 2021



Victor Valley Wastewater Reclamation Authority

Service Area Map





Financial Section



Victor Valley Wastewater Reclamation Authority
Audited Financial Statements
As of and for the Years Ended June 30, 2021 and 2020
With Independent Auditor's Report

Victor Valley Wastewater Reclamation Authority
Audited Financial Statements
As of and for the Years Ended June 30, 2021 and 2020
With Independent Auditor's Report

Independent Auditor's Report

To the 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 comprise the statement of net position as of June 30, 2021, the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, (collectively, 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 control 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2021, and the changes in its net position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the fiscal year ended June 30, 2021, the Authority adopted Governmental Accounting Standards Board Statement No. 87, Leases. Our opinion is not modified with respect to this matter.

Other Matters

June 30, 2020 Financial Statements

The financial statements of Victor Valley Wastewater Reclamation Authority as of and for the year ended June 30, 2020, were audited by other auditors whose report dated December 17, 2020 expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11, the Schedules of Changes in the Total OPEB Liability and Related Ratios on page 52, and the Schedule of the Pension Plan's Proportionate Share of the Net Pension Liability and Related Ratios and Pension Plan Contributions on pages 53 and 54 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section, the supplementary schedules of operating expenses, the combining schedule of revenues, expenses and changes in net position, and the statistical section as identified in the accompanying table of contents are presented for additional analysis and are not required parts of the basic financial statements.



Other Information (continued)

The supplementary schedules of operating expenses and the combining schedule of revenues, expenses and changes in net position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. 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 supplementary schedules of operating expenses and the combining schedule of revenues, expenses and changes in net position are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated November 18, 2021 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to solely 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 effectiveness of the Authority's 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.

**Glendale, California
November 18, 2021**

**Victor Valley Wastewater Reclamation Authority
Management's Discussion and Analysis
Years ended June 30, 2021 and 2020**

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, 2021 and 2020. 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 2021, the Authority's net position decreased 0.5% or \$584,180 to \$110,052,706; primarily due to a loss of \$6,296,662 from ongoing operations (including the effect of \$11,225,596 in depreciation expense), offset by \$5,712,482 in capital contributions. 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 2021, the Authority's operating revenues increased 11.1% or \$1,709,770 to \$17,167,525. In fiscal year 2020, the Authority's operating revenues increased 5.5% or \$808,375 to \$15,457,755.
- In fiscal year 2021, the Authority's operating expenses increased 0.5%, or \$67,618 to \$13,519,311. In fiscal year 2020, the Authority's operating expenses increased 12.3%, or \$1,468,566 to \$13,451,693.

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 like 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 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 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 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
Years ended June 30, 2021 and 2020**

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.

AUTHORITY FINANCIAL STATEMENTS

Summary of Net Position

	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>2019</u>	<u>Change</u>
Current assets	\$ 21,559,912	\$ 18,695,235	\$ 2,864,677	\$ 18,694,803	\$ 432
Non-current assets	2,565,148	192,516	2,372,632	200,174	(7,658)
Capital asset, net	174,015,337	181,941,801	(7,926,464)	193,933,753	(11,991,952)
Total assets	<u>198,140,397</u>	<u>200,829,552</u>	<u>(2,689,155)</u>	<u>212,828,730</u>	<u>(11,999,178)</u>
Deferred outflows of resources	<u>2,418,456</u>	<u>2,403,785</u>	<u>14,671</u>	<u>2,014,827</u>	<u>388,958</u>
Current liabilities	6,277,800	6,216,861	60,939	5,942,064	274,797
Non-current liabilities	82,868,527	86,216,968	(3,348,441)	88,990,158	(2,773,190)
Total liabilities	<u>89,146,327</u>	<u>92,433,829</u>	<u>(3,287,502)</u>	<u>94,932,222</u>	<u>(2,498,393)</u>
Deferred inflows of resources	<u>1,359,820</u>	<u>162,622</u>	<u>1,197,198</u>	<u>88,626</u>	<u>73,996</u>
Net investment in capital assets	97,720,779	101,957,712	(4,236,933)	109,818,767	(7,861,055)
Restricted	4,882,810	4,882,810	-	5,147,861	(265,051)
Unrestricted	7,449,117	3,796,364	3,652,753	4,856,081	(1,059,717)
Total net position	<u>\$ 110,052,706</u>	<u>\$ 110,636,886</u>	<u>\$ (584,180)</u>	<u>\$ 119,822,709</u>	<u>\$ (9,185,823)</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 \$110,052,706 and \$110,636,886 as of June 30, 2021 and 2020, respectively.

By far the largest portion of the Authority's net position (89% and 92% as of June 30, 2021 and 2020, 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
Years ended June 30, 2021 and 2020**

AUTHORITY FINANCIAL STATEMENTS (CONTINUED)

Statement of Net Position (CONTINUED)

At the end of fiscal year 2021 and 2020, the Authority showed a balance in its unrestricted net position of \$7,449,117 and \$3,796,364. See note 14 for further discussion.

Summary of Revenues, Expenses and Changes in Net Position

	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>2019</u>	<u>Change</u>
Revenues					
Operating revenues	\$ 17,167,525	\$ 15,457,755	\$ 1,709,770	\$ 14,649,380	\$ 808,375
Non-operating revenues	2,367,449	271,102	2,096,347	281,620	(10,518)
Total revenues	<u>19,534,974</u>	<u>15,728,857</u>	<u>3,806,117</u>	<u>14,931,000</u>	<u>797,857</u>
Expenses					
Operating expenses	13,519,311	13,451,693	67,618	11,983,127	1,468,566
Depreciation	11,225,596	11,565,945	(340,349)	11,519,264	46,681
Non-operating expenses	1,086,729	2,735,887	(1,649,158)	1,255,633	1,480,254
Total expenses	<u>25,831,636</u>	<u>27,753,525</u>	<u>(1,921,889)</u>	<u>24,758,024</u>	<u>2,995,501</u>
Net loss before capital contribution	<u>(6,296,662)</u>	<u>(12,024,668)</u>	<u>5,728,006</u>	<u>(9,827,024)</u>	<u>(2,197,644)</u>
Capital contribution					
Capital gains	2,745,775	536,624	2,209,151	294,907	241,717
Connections fees	2,966,707	2,302,221	664,486	3,088,860	(786,639)
Total capital contributions	<u>5,712,482</u>	<u>2,838,845</u>	<u>2,873,637</u>	<u>3,383,767</u>	<u>(544,922)</u>
Changes in net position	(584,180)	(9,185,823)	8,601,643	(6,443,257)	(2,742,566)
Net position, beginning of year	110,636,886	119,822,709	(9,185,823)	126,265,966	(6,443,257)
Net position, end of year	<u>\$ 110,052,706</u>	<u>\$ 110,636,886</u>	<u>\$ (584,180)</u>	<u>\$ 119,822,709</u>	<u>\$ (9,185,823)</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 0.5% or \$584,180 to \$110,052,706 in fiscal year 2021, due to a loss of \$6,296,662 from ongoing operations (including the effect of \$11,225,596 in depreciation expense), offset by \$5,712,482 in capital contributions. In fiscal year 2020, the Authority's net position decreased 7.7% or \$9,185,823 to \$110,636,886 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.

The Authority's total revenues (before capital contributions) increased 24.2% or \$3,806,117 in fiscal year 2021, due to an increase of \$1,709,770 in operating revenues and \$2,096,347 in non-operating revenue. In fiscal year 2020, the Authority's total revenues (before capital contributions) increased 5.3% or \$797,857, due primarily to an increase of \$808,375 in operating revenues, offset by a decrease of \$10,518 in non-operating revenues.

The Authority's total expenses decreased by 6.9% or \$1,921,889 in fiscal year 2021 due primarily to decreases of \$1,649,158 in non-operating expenses, \$340,349 in depreciation expense, and an increase of \$67,608 in operating expenses. In fiscal year 2020, the Authority's total expenses increased by 12.1% or \$2,995,501 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.

**Victor Valley Wastewater Reclamation Authority
Management's Discussion and Analysis
Years ended June 30, 2021 and 2020**

AUTHORITY FINANCIAL STATEMENTS (CONTINUED)

Revenues

	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>2019</u>	<u>Change</u>
Operating revenues					
Wastewater service charges	\$ 16,417,028	\$ 14,592,947	\$ 1,824,081	\$ 13,706,977	\$ 885,970
Septage receiving facility fees	675,042	633,420	41,622	614,617	18,803
ADM-FOG tipping fees	28,855	181,788	(152,933)	274,186	(92,398)
Pretreatment permit fees	46,600	49,600	(3,000)	53,600	(4,000)
Total operating revenues	<u>17,167,525</u>	<u>15,457,755</u>	<u>1,709,770</u>	<u>14,649,380</u>	<u>808,375</u>
Non-operating revenues					
Investment earnings	34,353	271,102	(236,749)	281,620	(10,518)
Other revenues	2,333,096	-	2,333,096	-	-
Total non-operating revenues	<u>2,367,449</u>	<u>271,102</u>	<u>2,096,347</u>	<u>281,620</u>	<u>(10,518)</u>
Capital contribution					
Capital grants - FEMA	2,745,775	536,624	2,209,151	294,907	241,717
Connections fees	2,966,707	2,302,221	664,486	3,088,860	(786,639)
Total capital contributions	<u>5,712,482</u>	<u>2,838,845</u>	<u>2,873,637</u>	<u>3,383,767</u>	<u>(544,922)</u>
Total revenues \$	<u>\$ 25,247,456</u>	<u>\$ 18,567,702</u>	<u>\$ 6,679,754</u>	<u>\$ 18,314,767</u>	<u>\$ 252,935</u>

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

In 2021, the Authority's total revenues (including capital contributions) increased by 36.0% or \$6,679,754 to \$25,247,456. The Authority's operating revenues increased by 11.1% or \$1,709,770 to \$17,167,525, due to increases of \$1,824,081 in wastewater service charges and \$41,622 in septage receiving facility fees, which were offset by decreases of \$152,933 in ADM-FOG tipping fees and \$3,000 in pretreatment permit fees.

In 2021, the Authority's non-operating revenues increased 773.3%, or \$2,096,347 to \$2,367,449, due to an increase of \$2,333,096 in relation to settlement agreement for the claim filed for Monetary Damages against City of Victorville, which were offset by decrease of \$236,749 in investment earnings as compared to the prior year.

In 2021, the Authority's capital contributions increased by 101.2% or \$2,873,637 to \$5,712,482, due to increases of \$2,209,151 in capital grants and \$664,486 in connection fees.

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 by 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 by 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 by 16.1% or \$544,922 to \$2,838,845, due to a decrease of \$786,639 in connection fees, which were offset by an increase of \$241,717 in capital grants.

**Victor Valley Wastewater Reclamation Authority
Management's Discussion and Analysis
Years ended June 30, 2021 and 2020**

AUTHORITY FINANCIAL STATEMENTS (CONTINUED)

Expenses

	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>2019</u>	<u>Change</u>
Operating expenses					
Salaries and benefits	\$ 5,951,923	\$ 5,988,422	\$ (36,499)	\$ 5,011,708	\$ 976,714
Maintenance	1,905,014	1,808,505	96,509	1,880,448	(71,943)
Operations	3,481,013	3,176,174	304,839	2,928,704	247,470
General and administration	2,181,361	2,478,592	(297,231)	2,162,267	316,325
Depreciation	11,225,596	11,565,945	(340,349)	11,519,264	46,681
Total operating expenses	<u>24,744,907</u>	<u>25,017,638</u>	<u>(272,731)</u>	<u>23,502,391</u>	<u>1,515,247</u>
Non-operating expenses					
Interest expense	1,077,659	1,124,650	(46,991)	1,183,372	(58,722)
Loss on disposal of capital assets	9,070	1,610,035	(1,600,965)	-	1,610,035
Capital contribution to local government	-	-	-	71,132	(71,132)
Other expense	-	1,202	(1,202)	1,202	-
Total non-operating expenses	<u>1,086,729</u>	<u>2,735,887</u>	<u>(1,649,158)</u>	<u>1,255,706</u>	<u>1,480,181</u>
Total expenses	<u>\$ 25,831,636</u>	<u>\$ 27,753,525</u>	<u>\$ (1,921,889)</u>	<u>\$ 24,758,097</u>	<u>\$ 2,995,428</u>

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

In 2021, the Authority's total expenses decreased by 6.9% or \$1,921,889 to \$25,831,636. The Authority's operating expenses (including depreciation) decreased by 1.1%, or \$272,731, primarily due to decreases of \$36,499 in salaries and benefits expense, \$297,231 in general and administrative expense, \$340,349 in depreciation expense which were offset by increases of \$96,509 in maintenance expense and \$304,839 in operations expense as compared to the prior year.

In 2021, the Authority's non-operating expenses decreased by 60.3%, or \$1,649,158 to \$1,086,729, due to decreases of \$1,600,965 in loss on disposal of capital assets, \$46,991 in interest expense, and \$1,202 in other expense.

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 \$1,515,247, 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 by 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.

**Victor Valley Wastewater Reclamation Authority
Management's Discussion and Analysis
Years ended June 30, 2021 and 2020**

AUTHORITY FINANCIAL STATEMENTS (CONTINUED)

Capital Administration

Changes in capital assets amounts for 2021 were as follows:

	<u>2020</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>2021</u>
Capital assets				
Non-depreciable assets	\$ 2,562,178	\$ 2,637,162	\$ (157,167)	\$ 5,042,173
Depreciable assets	299,766,641	833,559	(822,541)	299,777,660
Capital assets, gross	<u>302,328,819</u>	<u>3,470,721</u>	<u>(979,708)</u>	<u>304,819,833</u>
Less: Accumulated depreciation	<u>(120,387,018)</u>	<u>(11,227,446)</u>	<u>809,969</u>	<u>(130,804,496)</u>
Capital assets, net	<u>\$ 181,941,801</u>	<u>\$ (7,756,725)</u>	<u>\$ (169,739)</u>	<u>\$ 174,015,337</u>

At the end of fiscal year 2021, the Authority's investment in capital assets amounted to \$174,015,337 (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 2021, construction in progress increased by \$2,481,514, due primarily to the PLC replacement project, the Renewable Natural Gas Project, and ongoing construction project on digester repairs.

In 2021, the Authority had one capital asset addition sourcing from construction in progress. Major additions outside of construction-in progress were \$514,437 to plant and building and \$319,122 to trucks and autos. See note 8 for more details related to capital assets.

Changes in capital assets amounts for 2020 were as follows:

	<u>2019</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>2020</u>
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
Capital assets, gross	<u>302,754,826</u>	<u>1,545,063</u>	<u>(1,971,070)</u>	<u>302,328,819</u>
Less: Accumulated depreciation	<u>(108,821,073)</u>	<u>(11,565,945)</u>	<u>-</u>	<u>(120,387,018)</u>
Capital assets, net	<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 \$387,245 to plant and building. See note 8 for more details related to capital assets.

**Victor Valley Wastewater Reclamation Authority
Management's Discussion and Analysis
Years ended June 30, 2021 and 2020**

AUTHORITY FINANCIAL STATEMENTS (CONTINUED)

Debt Administration

Changes in long term debt amounts for 2021 were as follows:

	2020	Additions	Disposals/ Transfers	2021
Long-term debt				
Lease payable	\$ 246,388	\$ -	\$ (95,833)	\$ 150,555
Loans payable	79,737,701	-	(3,839,328)	75,898,373
Total long-term debt	<u>\$ 79,984,089</u>	<u>\$ -</u>	<u>\$ (3,935,161)</u>	<u>\$ 76,048,928</u>

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

	2019	Additions	Disposals/ Transfers	2020
Long-term debt				
Lease payable	\$ 339,222	\$ -	\$ (92,834)	\$ 246,388
Loans payable	83,775,764	-	(4,038,063)	79,737,701
Total long-term debt	<u>\$ 84,114,986</u>	<u>\$ -</u>	<u>\$ (4,130,897)</u>	<u>\$ 79,984,089</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. There were no loans that matured in 2021. Additional information regarding long-term debt is in notes 10 & 11 of the Notes to Financial Statements.

The lease payable for purposes of debt administration calculation excludes the lease payable related to leased vehicles.

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, 2021, 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.

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

	June 30	
	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents (note 2)	\$ 10,312,292	\$ 6,143,025
Restricted investments (note 2)	4,882,810	4,882,810
Interest receivable	2,108	5,131
Accounts receivable, net	189,847	192,529
Accounts receivable - due from member agencies (note 3)	5,456,579	4,137,705
Accounts receivable - other (note 4)	12,646	12,798
Accounts receivable - grants	-	3,110,307
Materials and supplies inventory	48,837	95,478
Prepaid expenses and other deposits	112,004	105,740
Long-term receivables - due within one year:		
Notes receivable, net (note 5)	9,789	9,712
Settlement receivable (note 6)	440,000	-
Lease receivable (note 7)	93,000	-
Total current assets	21,559,912	18,695,235
Non-current assets		
Capital assets not being depreciated (note 8)	5,042,173	2,562,178
Capital assets being depreciated, net (note 8)	168,973,164	179,379,623
Long-term receivables - due in more than one year:		
Notes receivable, net (note 5)	184,781	192,516
Settlement receivable (note 6)	1,300,113	-
Lease receivable (note 7)	1,080,254	-
Total noncurrent assets	176,580,485	182,134,317
Total assets	198,140,397	200,829,552
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to OPEB (note 12)	1,029,752	1,130,711
Deferred outflows of resources related to pension (note 13)	1,388,704	1,273,074
Total deferred outflows of resources	2,418,456	2,403,785

(continued next page)

See notes to the financial statements.

Victor Valley Wastewater Reclamation Authority
Statements of Net Position

	June 30	
	2021	2020
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,648,132	\$ 1,620,279
Accrued interest on long-term debt	228,912	242,383
Accrued wages and related payables	126,488	319,018
Contract retention payable	118,419	-
Long-term liabilities - due within one year:		
Compensated absences (note 9)	99,556	90,991
Other payables	1,675	6,852
Lease payable (note 10)	158,224	95,833
Loans payable (note 11)	3,896,394	3,841,505
Total current liabilities	6,277,800	6,216,861
Non-current liabilities		
Long term liabilities - due in more than one year:		
Compensated absences (note 9)	298,670	272,974
Other payables	-	1,678
Lease payable (note 10)	237,961	150,555
Loans payable (note 11)	72,001,979	75,896,196
Net OPEB liability (note 12)	3,871,850	3,840,737
Net pension liability (note 13)	6,458,067	6,054,828
Total noncurrent liabilities	82,868,527	86,216,968
Total liabilities	89,146,327	92,433,829
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to OPEB (note 12)	147,404	-
Deferred inflows of resources related to pension (note 13)	127,864	162,622
Deferred inflows of resources related to capital lease (note 7)	1,084,552	-
Total deferred inflows of resources	1,359,820	162,622
NET POSITION (Note 14)		
Net investment in capital assets	97,720,779	101,957,712
Restricted for debt service	4,882,810	4,882,810
Unrestricted	7,449,117	3,796,364
Total net position	\$ 110,052,706	\$ 110,636,886

See notes to the financial statements.

Victor Valley Wastewater Reclamation Authority
Statements of Revenues, Expenses and Change in Net Position

	Years ended June 30	
	2021	2020
Operating Revenues		
Wastewater service charges	\$ 16,417,028	\$ 14,592,947
Septage receiving facility fees	675,042	633,420
ADM-FOG tipping fees	28,855	181,788
Pretreatment permit fees	46,600	49,600
Total operating revenues	17,167,525	15,457,755
Operating Expenses		
Salaries and benefits	5,951,923	5,988,422
Maintenance	1,905,014	1,808,505
Operations	3,481,013	3,176,174
General and administration	2,181,361	2,478,592
Total operating expenses	13,519,311	13,451,693
Operating income before depreciation expense	3,648,214	2,006,062
Depreciation	(11,225,596)	(11,565,945)
Operating loss	(7,577,382)	(9,559,883)
Non-operating revenues (expenses)		
Investment earnings	34,353	271,102
Interest expense	(1,077,659)	(1,124,650)
Loss on disposal of capital assets	(9,070)	(1,610,035)
Other, net	2,333,096	(1,202)
Non-operating revenues (expenses), net	1,280,720	(2,464,785)
Net loss before capital contributions	(6,296,662)	(12,024,668)
Capital contributions		
Capital grants - FEMA	2,745,775	536,624
Connection fees	2,966,707	2,302,221
Total capital contributions	5,712,482	2,838,845
Change in net position	(584,180)	(9,185,823)
Net position		
Net position, at beginning of year	110,636,886	119,822,709
Net position, at end of year	\$ 110,052,706	\$ 110,636,886

See notes to the financial statements.

Victor Valley Wastewater Reclamation Authority
Statements of Cash Flows

	Years ended June 30	
	2021	2020
Cash flows from operating activities		
Cash receipts from customers	\$ 15,970,471	\$ 15,436,626
Cash receipts from settlement	459,887	-
Cash paid to employees for salaries and wages	(5,577,865)	(6,148,510)
Cash paid to vendors and suppliers for materials and services	(7,465,486)	(7,429,140)
Net cash provided by operating activities	<u>3,387,007</u>	<u>1,858,976</u>
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(3,308,202)	(1,212,544)
Proceeds from connection fees	2,966,707	2,742,594
Proceeds from grant funding	5,856,082	1,265,073
Principal paid for capital lease	160,755	(92,834)
Principal paid for long-term debt	(3,839,328)	(4,044,915)
Interest paid for long-term debt	(1,088,107)	(1,143,990)
Net cash provided by (used in) capital and related financing activities	<u>747,907</u>	<u>(2,486,616)</u>
Cash flows from investing activities		
Investment earnings	<u>34,353</u>	271,026
Cash provided by investing activities	<u>34,353</u>	<u>271,026</u>
Net increase (decrease) in cash and cash equivalents	4,169,267	(356,614)
Cash and cash equivalents, beginning of year	11,025,835	11,382,449
Cash and cash equivalents, end of year	\$ <u>15,195,102</u>	\$ <u>11,025,835</u>
Reconciliation of cash and cash equivalents to the statement of net position		
Cash and cash equivalents	\$ 10,312,292	\$ 6,143,025
Restricted investments	4,882,810	4,882,810
Total cash and cash equivalents	\$ <u>15,195,102</u>	\$ <u>11,025,835</u>

(continued next page)

See notes to the financial statements.

Victor Valley Wastewater Reclamation Authority
Statements of Cash Flows

	Years ended June 30	
	2021	2020
Reconciliation of operating loss to net cash provided by Operating Activities		
Operating loss	\$ (7,577,382)	\$ (9,559,883)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	11,225,596	11,565,945
Other non-operating expenses	2,233,436	(1,202)
Decrease (increase) in assets:		
Accounts receivable	2,682	(16,392)
Accounts receivable - due from member agencies	(1,318,874)	(1,506,790)
Accounts receivable - other	152	(4,737)
Settlement receivable	(1,740,113)	-
Notes receivable, net	7,658	7,582
Materials and supplies inventory	46,641	(9,804)
Prepaid expenses and other deposits	(6,264)	47,375
Deferred outflows of resources related to OPEB	100,959	
Deferred outflows of resources related to pension	(115,630)	(388,958)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	27,853	352,084
Contract retention payable	118,419	(49,800)
Accrued wages and related payables	(192,530)	160,088
Compensated absences	34,261	101,930
Other payables	(6,855)	(6,852)
Net other post-employment benefits liability	31,113	680,894
Net pension liability	403,239	413,500
Deferred inflows of resources related to OPEB	147,404	
Deferred inflows of resources related to pension	(34,758)	73,996
Net cash provided by operating activities	\$ 3,387,007	\$ 1,858,976
Non-cash investing, capital and financing transactions		
Change in fair value of funds deposited with LAIF	\$ (259)	\$ 6,913
Contributed capital assets	\$ 3,110,307	\$ 1,121,045

See notes to the financial statements.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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.

Basis of Accounting and Measurement Focus

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.

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.

Financial reporting

The Authority implemented the following new standards during the fiscal year ended June 30, 2021.

GASB 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.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB 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 implementation of this new accounting standards resulted in recognition of lease receivable and deferred inflows of resources and lease payable and right to use lease asset in the Authority's June 30, 2021 financial statements. The June 30, 2020 financial statements were not restated because the lease agreements became effective during the fiscal year ended June 30, 2021. See also Notes 7 and 10.

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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

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.

Cash and cash equivalents

The Authority's cash and cash equivalents are considered to be demand deposits, cash with fiscal agent, and short-term investments with original maturity of three months or less.

Investments

Investments are generally reported at fair value. Investments in LAIF are reported at amortized cost, which approximates fair value.

Restricted investments

Cash and investments with fiscal agents are restricted due to limitations on their use by loan agreement provisions, law or contractual obligations. The funds may be used for specific capital outlays or for the payment of certain revolving fund debts and have been invested only as permitted by specific State statutes or applicable Authority ordinance or resolution.

Investment Policy

The Authority has adopted an investment policy directing the General Manager and Controller to deposit funds in financial institutions.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are quoted prices for identical assets or liabilities in active markets that government can access at the measurement date.
- Level 2 inputs are other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The Authority's investment in LAIF and CalTrust are measured at amortized cost which approximates fair value.

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.

Receivables

Receivables are due for wastewater service charges, connection fees, grant revenues, and interest. The Authority's management closely monitors outstanding balances, and based on collection experience, has determined an allowance for doubtful accounts of \$105,157 and \$101,861 at June 30, 2021 and 2020, respectively. The Authority uses the indirect write-off method as accounts become uncollectable.

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.

Material and Supply Inventory

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

Prepaid Assets

Certain payments to vendors represent costs or deposits applicable to future accounting periods and are recorded as prepaid items in the Authority's financial statements and expensed as items are used.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets acquired and/or constructed with a cost exceeding \$5,000 and an estimated useful life of more than one year are reported at historical cost. Contributed capital assets are recorded at acquisition value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. 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.

Land and construction in progress are not depreciated. Depreciable capital assets are depreciated using the straight-line method over the following estimated useful lives:

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

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.

Long-term obligations

Long-term debt and other long-term obligations are reported as liabilities of the Authority.

Other Post-Employment Benefits Other Than Pensions (OPEB)

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

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, 2021 and 2020
- Measurement Dates: June 30, 2021 and 2021
- Measurement Periods: July 1, 2020 to June 30, 2021 and July 1, 2019 to June 30, 2020

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pension

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 plan and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the Statement of Net Position includes a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future periods and so will not be recognized as an inflow of resources (revenue) until that time.

Net Position

The Authority's financial statements are presented in accordance with the provisions of Governmental Accounting Standards Board No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Statement 63 requires the classification of net position into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- *Net investment in capital assets* - 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. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of invested in capital assets. Instead, that portion of the debt or deferred inflow of resources should be included in the same net position component (restricted or unrestricted) as the unspent amounts.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (Continued)

- *Restricted* – 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* – 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.

Operating and Nonoperating Revenues and Expenses

Amounts reported as operating revenues include wastewater service charges and connection fees charged to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by the Authority. Nonoperating revenues include grants and contributions received for the operational or capital requirements of the Authority.

Capital Contributions

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

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.

NOTE 2 CASH AND INVESTMENTS

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

	2021	2020
Cash and cash equivalents	\$ 10,312,292	\$ 6,143,025
Restricted investments	4,882,810	4,882,810
Total cash and investments	\$ 15,195,102	\$ 11,025,835

Victor Valley Wastewater Reclamation Authority
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

At June 30, cash and investments consisted of the following:

	<u>2021</u>	<u>2020</u>
Deposits with financial institutions	\$ <u>1,518,206</u>	\$ <u>3,083,274</u>
Investments:		
Deposits with California LAIF	3,126,124	1,413,992
Deposits with Cal Trust - Short Term Fund	5,262,170	3,251,145
Deposits with Cal Trust - Medium Term Fund	5,288,602	3,277,424
Total investments	<u>13,676,896</u>	<u>7,942,561</u>
Total cash and investments	\$ <u>15,195,102</u>	\$ <u>11,025,835</u>

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

	<u>2021</u>	<u>2020</u>
Deposits held with California LAIF	291 days	191 days
Deposits held with CalTrust - Short Term Fund	345 days	234 days
Deposits held with CalTrust - Medium Term Fund	901 days	642 days

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

Allowable investment instruments are defined in the California Government Code Section 53600, et. seq., as amended. If the Code is further revised to allow additional investments or is changed regarding the limits on certain categories of investments, the Authority is authorized to conform to these changes, excluding those changes that may be prohibited by this policy. Where the Government Code specifies a percentage limitation for a particular category of investments, that percentage is applicable only at the date of purchase.

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, if more restrictive). The table also identifies certain provisions 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 deposits	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

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

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.

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 deposit 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.

At June 30, 2021 and 2020, of the bank balances, up to \$250,000 held at each institution were 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.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk (Continued)

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer), 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, 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, and 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 in accordance with Section 53646 of the California Government Code.

Maturities of investment at June 30, 2021, were as follows:

Investment Type	Total	Remaining Maturity (in Months)	
		12 Months Or Less	12 Months Or More
California Local Agency Investment Fund (LAIF)	\$ 3,126,124	\$ 3,126,124	\$ -
Cal Trust - Short Term Fund	5,262,170	5,262,170	-
Cal Trust - Medium Term Fund	5,288,602	-	5,288,602
Total	\$ 13,676,896	\$ 8,388,294	\$ 5,288,602

Maturities of investment as of 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

Credit Risk

Credit risk is generally 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.

Victor Valley Wastewater Reclamation Authority
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Credit Risk (Continued)

Presented below is the minimum rating required by (where applicable) the California Government Code or the Authority's investment policy or debt agreements, and the actual rating as of June 30, 2021 for each investment type:

<u>Investment Types</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Rating AA</u>	<u>Net Rated</u>
California Local Agency Investment Fund (LAIF)	\$ 3,126,124	N/A	\$ -	\$ 3,126,124
Cal Trust - Short Term Fund	5,262,170	AAA	5,262,170	-
Cal Trust - Medium Term Fund	5,288,602	AAA	5,288,602	-
Total	<u>\$ 13,676,896</u>		<u>\$ 10,550,772</u>	<u>\$ 3,126,124</u>

Credit ratings of investments as of June 30, 2020, consisted of the following:

<u>Investment Types</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Rating AAA</u>	<u>Net Rated</u>
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	<u>\$ 7,942,561</u>		<u>\$ 6,528,569</u>	<u>\$ 1,413,992</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, 2021 and 2020, respectively.

NOTE 3 ACCOUNTS RECEIVABLE - DUE FROM MEMBER AGENCIES

At June 30, accounts receivable - due from member agencies consisted of the following:

	<u>2021</u>	<u>2020</u>
User Charge Receivables		
City of Hesperia	\$ 503,233	\$ 461,349
Town of Apple Valley	202,196	194,615
City of Victorville	1,554,500	1,518,599
County of San Bernardino Special Districts	143,304	66,624
Total user charge receivables	<u>2,403,233</u>	<u>2,241,187</u>
Connection Fees Receivables		
City of Hesperia	2,525,785	1,775,785
Town of Apple Valley	90,607	59,826
City of Victorville	424,555	27,606
County of San Bernardino Special Districts	12,399	33,301
Total connection fees receivables	<u>3,053,346</u>	<u>1,896,518</u>
Total due from member agencies	<u>\$ 5,456,579</u>	<u>\$ 4,137,705</u>

Victor Valley Wastewater Reclamation Authority
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 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.

At June 30, accounts receivable - other were as follows:

	2021	2020
Flexible spending account	\$ 12,646	\$ 12,798

NOTE 5 NOTES RECEIVABLE

Changes in notes receivable amounts for 2021 were as follows:

	At June 30, 2020	Additions	Payments	At June 30, 2021
Notes receivable:				
AVRWC (dba Liberty Utilities)	\$ 210,708	\$ -	\$ (5,853)	\$ 204,855
AVRWC (dba Liberty Utilities) - Discount	(73,926)	-	2,054	(71,872)
Subtotal AVRWC	136,782	-	(3,799)	132,983
Biogas Power Systems - Mojave LLC	65,446	-	(3,859)	61,587
Total	202,228	\$ -	\$ (7,658)	194,570
Less current	(9,712)			(9,789)
Total non-current	\$ 192,516			\$ 184,781

Changes in notes receivable amounts for 2020 were as follows:

	At June 30, 2019	Additions	Payments	At June 30, 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

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.

Victor Valley Wastewater Reclamation Authority
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 5 NOTES RECEIVABLE (CONTINUED)

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

Years Ending June 30	Principal	Amortized Discount	Total
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	5,853	(2,053)	3,800
2027-2031	29,265	(10,267)	18,998
2032-2036	29,265	(10,268)	18,997
2037-2041	29,265	(10,267)	18,998
2042-2046	29,265	(10,268)	18,997
2047-2051	29,265	(10,267)	18,998
2052-2056	29,265	(10,268)	18,997
Total	204,855	\$ (71,872)	\$ 132,983
Less current	(5,853)		
Less unamortized discount	(71,872)		
Total non-current	\$ 127,130		

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 \$427 at a rate of 1.65 percent commencing November 30, 2017, maturing November 2035.

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

Years Ending June 30	Principal	Interest	Total
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	4,260	861	5,121
2027-2031	22,614	2,990	25,604
2032-2035	18,491	711	19,202
Total	61,587	\$ 8,823	\$ 70,410
Less current	(3,936)		
Total non-current	\$ 57,651		

Victor Valley Wastewater Reclamation Authority
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 6 SETTLEMENT RECEIVABLE

On August 19, 2020, the City of Victorville entered into a settlement agreement for the claim filed by the Authority for Monetary Damages as a result of a diversion of wastewater flows by City of Victorville that the Authority alleged was a violation of the JPA and the Victor Valley Wastewater Reclamation Project Service Agreement dated November 23, 1976. In order to settle the dispute, the City of Victorville agrees that it will pay the Authority \$2,200,000 commencing in October 2020 and maturing in October 2025. The Authority is imputing interest at the rate of 0.38% per annum.

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

Years Ending June 30	Principal	Amortized Discount	Total
2022	\$ 440,000	\$ (4,972)	\$ 435,028
2023	440,000	(4,972)	435,028
2024	440,000	(4,972)	435,028
2025	440,000	(4,972)	435,028
Total	1,760,000	\$ (19,887)	\$ 1,740,113
Less current	(440,000)		
Less unamortized discount	(19,887)		
Total non-current	\$ 1,300,113		

NOTE 7 LEASE RECEIVABLE

On May 9, 2019, SoCal Biomethane LLC (“lessee”) entered into a Gas Collection Facility Lease and Energy Services agreement for 10 years with the Authority. The term of the lease commenced on July 7, 2020 and continuing until the tenth anniversary of the date on which the delivery of biomethane in Southwest pipeline starts (commercial operation date). The lessee will have the sole discretion to extend the lease for additional 5 years provided there is no default in its obligations under the lease. The lessee shall give notice of its intent to exercise such options no less than 180 days prior to the expiration of the expiration of the current term. During the period from the commencement date to the commercial operation date, the lessee shall pay the authority \$1,000 per month. Commencing on the commercial operation date, the basic rent will increase to the sum of \$10,000 per month. At June 30, 2021, the lease receivable was \$1,173,254. The total amount of deferred inflows of resources recognized from the lease as at June 30, 2021 was \$1,084,552.

Victor Valley Wastewater Reclamation Authority
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 8 CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2021 were as follows:

	Balance July 1, 2020	Additions	Disposals/ Transfers	Balance June 30, 2021
Non-depreciable assets:				
Land	\$ 619,003	\$ -	\$ (1,519)	\$ 617,484
Construction in Progress	1,943,175	2,637,162	(155,648)	4,424,689
Total non-depreciable assets	<u>2,562,178</u>	<u>2,637,162</u>	<u>(157,167)</u>	<u>5,042,173</u>
Depreciable assets:				
Land improvements	9,738,124	-	(26,256)	9,711,868
Plant and building	218,901,596	514,437	(602,084)	218,813,949
Interceptor and subsurface lines	69,200,504	-	(30,258)	69,170,246
Office equipment	1,064,592	-	(126,820)	937,772
Trucks and autos	861,825	319,122	(37,122)	1,143,825
Total depreciable assets	<u>299,766,641</u>	<u>833,559</u>	<u>(822,541)</u>	<u>299,777,660</u>
Less accumulated depreciation:				
Land improvements	(6,466,227)	(589,412)	26,257	(7,029,382)
Plant and building	(91,208,871)	(9,074,224)	593,472	(99,689,623)
Interceptor and subsurface lines	(21,062,176)	(1,467,653)	26,297	(22,503,532)
Office equipment	(825,708)	(49,185)	126,820	(748,073)
Trucks and autos	(824,036)	(46,973)	37,122	(833,886)
Total accumulated depreciation	<u>(120,387,018)</u>	<u>(11,227,446)</u>	<u>809,969</u>	<u>(130,804,496)</u>
Total depreciable assets, net	<u>179,379,623</u>	<u>(10,393,887)</u>	<u>(12,572)</u>	<u>168,973,164</u>
Total capital assets, net	<u>\$ 181,941,801</u>	<u>\$ (7,756,725)</u>	<u>\$ (169,739)</u>	<u>\$ 174,015,337</u>

Changes in capital assets not being depreciated consists of additions to construction in progress of \$2,637,162 related to ongoing projects. Decreases in capital asset not being depreciated include a land disposal of \$1,519 and construction in progress related to the completion of DAFT 3 TPS Project of \$155,648.

Changes in capital assets being depreciated consists of additions from construction-in-progress of \$155,648, and outside of construction in progress of \$358,789 to plant and building, \$319,122 to trucks and autos and disposals of \$26,256 from land improvements, \$602,084 from plant and building, \$30,258 from interceptor and subsurface lines, \$126,820 from office equipment, and \$37,122 from trucks and autos.

Victor Valley Wastewater Reclamation Authority
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 8 CAPITAL ASSETS (CONTINUED)

Changes in capital assets for the year ended June 30, 2020 were as follows:

	Balance July 1, 2019	Additions	Disposals/ Transfers	Balance June 30, 2020
Non-depreciable assets:				
Land	\$ 779,136	\$ -	\$ (160,133)	\$ 619,003
Construction in Progress	2,596,294	1,157,818	(1,810,937)	1,943,175
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	861,825	-	-	861,825
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	(807,648)	(16,388)	-	(824,036)
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>

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 \$387,245 to plant and building.

Construction in Progress

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

At June 30, construction in progress consisted of the following:

Projects	2021	2020
Lab-EC-IT-Const. Bldg. (Butler Bldg.)	\$ 280,166	\$ 280,166
Oro Grande Interceptor Project	292,345	285,315
Micro-grid/Battery Storage Project	-	-
Digester Repairs	1,322,559	557,266
PLC Replacement Project	1,093,064	704,550
Renewable Natural Gas Project	1,299,422	-
Various other minor projects > \$55,000	137,133	115,878
Total construction in progress	<u>\$ 4,424,689</u>	<u>\$ 1,943,175</u>

Provision for depreciation for the years ended June 30, 2021 and 2020 amounted to \$11,225,596 and \$11,565,945, respectively.

Victor Valley Wastewater Reclamation Authority
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 9 COMPENSATED ABSENCES

The following is a summary of changes in compensated absences as of June 30, 2021 and 2020 were as follows:

Balance July 1, 2020	Additions	Deletions	Balance June 30, 2021	Due Within One Year	Due in More Than One Year
\$ <u>363,965</u>	\$ <u>381,726</u>	\$ <u>(347,465)</u>	\$ <u>398,226</u>	\$ <u>99,556</u>	\$ <u>298,670</u>

Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Due Within One Year	Due in More Than One Year
\$ <u>262,035</u>	\$ <u>400,912</u>	\$ <u>(298,982)</u>	\$ <u>363,965</u>	\$ <u>90,991</u>	\$ <u>272,974</u>

NOTE 10 LEASE PAYABLE

At June 30, 2020, lease payable consisted of the following:

	2021	2020
KS State Bank	\$ <u>150,555</u>	\$ 246,388
Enterprise FM Trust	<u>245,630</u>	-
	396,185	246,388
Less current	<u>(158,224)</u>	<u>(95,833)</u>
Total non-current	\$ <u>237,961</u>	\$ <u>150,555</u>

The following is a summary of changes in KS State Bank lease payable as of June 30, 2021 and 2020:

	Balance July 1, 2020	Additions	Payments	Balance June 30, 2021
Lease payable:				
KS State Bank	\$ 246,388	\$ -	\$ (95,833)	\$ 150,555
Less current	<u>(95,833)</u>			<u>(98,928)</u>
Total non-current	\$ <u>150,555</u>			\$ <u>51,627</u>

	Balance July 1, 2019	Additions	Payments	Balance June 30, 2020
Lease payable:				
KS State Bank	\$ 339,222	\$ -	\$ (92,834)	\$ 246,388
Less current	<u>(92,834)</u>			<u>(95,833)</u>
Total non-current	\$ <u>246,388</u>			\$ <u>150,555</u>

Victor Valley Wastewater Reclamation Authority
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 10 LEASE PAYABLE (CONTINUED)

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.

Years ending June 30	Principal	Interest	Total
2022	\$ 98,928	\$ 4,863	\$ 103,791
2023	51,627	1,668	53,295
Total	150,555	6,531	157,086
Less current	(98,928)		
Total non-current	\$ 51,627		

Enterprise FM Trust – Lease of Vehicles

On December 2, 2020, the Authority entered into a lease agreement with Enterprise FM Fund (lessor) to lease twelve (12) vehicles for four (4) years. The term of the agreement for each vehicle begins on the date the vehicle is delivered. Because the Authority generally does not have access to the rate implicit in the lease, the Authority utilized the lessor's interest rate of return at the time of delivery as the discount rate. The weighted average discount rate associated with operating lease as of June 30, 2021 is 8.78%. The Authority reported a total payment of \$55,761 on this lease for the fiscal year ended June 30, 2021.

NOTE 11 LOANS PAYABLE

The following is a summary of changes in loans payable as of June 30, 2021 and 2020:

	Balance July 1, 2020	Additions	Payments	Balance June 30, 2021
State Revolving Fund Loans (SRF)				
11.0 MGD Expansion Project	\$ 1,130,489	-	\$ (558,955)	\$ 571,534
North Apple Valley Interceptor	971,157	-	(233,872)	737,285
Phase III-A Facility	10,414,459	-	(746,419)	9,668,040
Upper Narrows Pipeline Replacement	2,789,845	-	(204,738)	2,585,107
Sub-Regional - Hesperia	35,571,316	-	(1,107,137)	34,464,179
Sub-Regional - Apple Valley	24,923,159	-	(775,719)	24,147,440
Nanticoke Gravity Interceptor	3,914,785	-	(197,252)	3,717,533
Southern California Edison Loans:				
So. Cal. Edison loan 2015	22,491	-	(15,236)	7,255
Total	79,737,701	-	\$ (3,839,328)	75,898,373
Less current	(3,841,505)			(3,896,394)
Total non-current	\$ 75,896,196			\$ 72,001,979

	Balance July 1, 2019	Additions	Payments	Balance June 30, 2020
State Revolving Fund Loans (SRF)				
9.5 MGD Improvements Project	\$ 258,333	-	\$ (258,333)	-
11.0 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	83,775,764	-	\$ (4,038,063)	79,737,701
Less current	(4,038,221)			(3,841,505)
Total non-current	\$ 79,737,543			\$ 75,896,196

NOTE 11 LOANS PAYABLE (CONTINUED)

SRF Loan Payable – 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:

Year ending June 30	Principal	Interest	Total
2022	\$ 571,534	\$ 8,336	\$ 579,870
Total	571,534	8,336	579,870
Less current	(571,534)		
Total non-current	\$ -		

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:

Years ending June 30	Principal	Interest*	Total
2022	\$ 239,719	\$ 18,432	\$ 258,151
2023	245,712	12,439	258,151
2024	251,854	6,297	258,151
Total	737,285	\$ 37,168	\$ 774,453
Less current	(239,719)		
Total non-current	\$ 497,566		

* Includes annual service charge.

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 of \$18,581,561 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.

NOTE 11 LOANS PAYABLE (CONTINUED)

SRF Loan Payable – Phase III-A Facility (continued)

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

Years ending June 30	Principal	Interest	Total
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	852,776	174,833	1,027,609
2027-2031	4,621,944	516,105	5,138,049
2032	1,000,593	27,016	1,027,609
Total	9,668,040	\$ 1,635,668	\$ 11,303,708
Less current	(766,573)		
Total non-current	\$ 8,901,467		

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:

Years ending June 30	Principal	Interest	Total
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	224,942	32,804	257,746
2027-2031	1,190,464	98,262	1,288,726
2032-2033	311,101	7,037	318,138
Total	2,585,107	\$ 310,485	\$ 2,895,592
Less current	(208,628)		
Total non-current	\$ 2,376,479		

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.

Victor Valley Wastewater Reclamation Authority
Notes to Financial Statements
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NOTE 11 LOANS PAYABLE (CONTINUED)

SRF Loan Payable – Subregional Wastewater Reclamation Plant – City of Hesperia (continued)

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

Years ending June 30	Principal	Interest	Total
2022	\$ 1,118,209	\$ 344,642	\$ 1,462,851
2023	1,129,391	333,460	1,462,851
2024	1,140,685	322,166	1,462,851
2025	1,152,091	310,759	1,462,850
2026	1,163,612	299,238	1,462,850
2027-2031	5,994,948	1,319,304	7,314,252
2032-2036	6,300,750	1,013,501	7,314,251
2037-2041	6,622,152	592,099	7,214,251
2042-2046	6,959,948	354,303	7,314,251
2047-2048	2,882,393	43,308	2,925,701
Total	34,464,179	\$ 4,932,780	\$ 39,396,959
Less current	(1,118,209)		
Total non-current	\$ 33,345,970		

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.

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

Years ending June 30	Principal	Interest	Total
2022	\$ 783,476	\$ 241,474	\$ 1,024,950
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	815,289	209,662	1,024,951
2027-2031	4,200,380	924,374	5,124,754
2032-2036	4,414,641	710,113	5,124,754
2037-2041	4,639,833	484,922	5,124,755
2042-2046	4,876,511	248,244	5,124,755
2047-2048	2,019,558	30,344	2,049,902
Total	24,147,440	\$ 3,526,234	\$ 27,673,674
Less current	(783,476)		
Total non-current	\$ 23,363,964		

NOTE 11 LOANS PAYABLE (CONTINUED)

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:

Years ending June 30	Principal	Interest	Total
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	216,716	54,916	271,632
2027-2031	1,146,934	211,230	1,358,164
2032-2036	1,260,112	98,052	1,358,164
2037	266,566	5,065	271,631
Total	3,717,533	\$ 628,590	\$ 4,346,123
Less current	(201,000)		
Total non-current	\$ 3,516,533		

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:

Year ending June 30	Principal	Interest	Total
2022	\$ 7,255	\$ -	\$ 7,255
Total	7,255	\$ -	\$ 7,255
Less current	(7,255)		
Total non-current	\$ -		

NOTE 12 OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The Authority offers post-employment medical benefits to retired employees who satisfy the eligibility requirements, 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 GASB 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

As of June 30, 2021 valuation, the following current and former employees were covered by the benefit terms under the Plan:

	2021	2020
Inactive employees or beneficiaries currently receiving benefits	16	17
Inactive employees entitled to but not yet receiving benefit	8	7
Active employees	36	32
Total Plan membership	60	56

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. The Authority has not established an irrevocable OPEB Trust and continues to finance its OPEB liability on a pay-as-you-go basis. For the fiscal years ended June 30, 2021 and 2020, the contributions of \$141,384 and \$111,208, respectively, represent payment of benefits to the retirees.

Total OPEB Liability

The Authority's total OPEB liability was measured as of June 30, 2021 and the total OPEB liability was determined by an actuarial valuation as of June 30, 2021. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

Victor Valley Wastewater Reclamation Authority
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 12 OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Actuarial Assumptions

The total OPEB liability in the June 30, 2021 and 2020 actuarial valuations was determined using the following actuarial assumptions, 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	2.50 percent as of June 30, 2021 2.75 percent as of June 30, 2020
Salary Increase	3.00 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	2.16 percent as of June 30, 2021 2.21 percent as of June 30, 2020
Healthcare cost trend rates	5.70 percent as of June 30, 2021 7.00 percent as of June 30, 2020
Participants valued	Only current active employees and retired participants and covered dependents are valued. No future entrants are considered in this valuation.

Discount Rate

As of June 30, 2021 and 2020, the discount rate used to measure the total OPEB liability was 2.16 and 2.21 percent, respectively. The valuation used the Bond Buyer General Obligation 20-Bond Municipal Bond Index. 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 Net OPEB Liability

The changes in the net OPEB liability during the measurement period are as follows:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
Balance at June 30, 2020 (Measurement date June 30, 2020)	\$ 3,840,737	\$ -	\$ 3,840,737
Changes for the year:			
Service cost	156,167	-	156,167
Interest	86,769	-	86,769
Changes in benefit terms	-	-	-
Difference between expected and actual experience	(168,432)	-	(168,432)
Changes in assumptions	97,993	-	97,993
Benefit payments	(141,384)	-	(141,384)
Net changes	<u>31,113</u>	<u>-</u>	<u>31,113</u>
Balance at June 30, 2021 (Measurement date June 30, 2021)	\$ <u>3,871,850</u>	\$ <u>-</u>	\$ <u>3,871,850</u>

Victor Valley Wastewater Reclamation Authority
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 12 OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

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

The following presents the net OPEB liability of the Authority if it were calculated using a discount rate that is 1-percentage-point lower (1.16%) or 1-percentage-point higher (3.16%) than the current rate for measurement period ended June 30, 2021:

	Discount Rate 1% Lower 1.16%	Valuation Discount Rate 2.16%	Discount Rate 1% Higher 3.16%
Net OPEB liability	\$ 4,460,677	\$ 3,871,850	\$ 3,396,420

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

The following presents the net OPEB liability of the Authority if it were calculated using healthcare cost trend rates that are one-percentage-point lower (3.00% decreasing to 2.00%) or 1-percentage-point higher (5.00% decreasing to 4.00%) than the current healthcare cost trend rates:

At June 30, 2021, the healthcare cost trend rate comparison was the following:

	Trend 1% Lower	Valuation Trend	Trend 1% Higher
Net OPEB liability	\$ 3,597,473	3,871,850	4,272,070

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

For the years ended June 30, 2021 and 2020, the Authority recognized OPEB expense of \$420,860 and \$412,850, respectively, with details as follows.

	2021	2020
Service cost	\$ 156,167	\$ 113,200
Interest cost on Total OPEB liability (TOL)	86,769	112,932
<i>Recognized Deferred Resource items:</i>		
Assumption Changes	187,834	175,600
Plan Experience	(9,910)	11,118
Total OPEB expense	\$ 420,860	\$ 412,850

At June 30, 2021 and 2020, the Authority reported the following deferred outflows of resources and deferred inflows of resources related to OPEB.

	June 30, 2021		June 30, 2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between expected and actual experience	\$ 51,811	\$ (147,404)	\$ 62,929	\$ -
Net changes in assumption	977,941	-	1,067,782	-
Total	\$ 1,029,752	\$ (147,404)	\$ 1,130,711	\$ -

NOTE 12 OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB (continued)

Deferred outflows and inflows of resources related to OPEB will be recognized as pension expense as follows.

Year Ending June 30	Deferred Outflows/ (Inflows) of Resources
2022	\$ 177,924
2023	177,924
2024	177,924
2025	177,924
2026	139,559
Thereafter	31,093

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

See Required Supplementary Schedule.

NOTE 13 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 employers 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 at www.calpers.ca.gov 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 Financial Statements
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NOTE 13 DEFINED BENEFIT PENSION PLAN (CONTINUED)

The Plans' provision and benefits in effect at June 30, 2021, are summarized as follows:

	Miscellaneous Plan	
	<u>Classic</u>	<u>PEPRA</u>
	Prior to	On or after
Hire date	January 1, 2013	January 1, 2013
Benefit formula	2.5% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	52-67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8.000%	6.750%
Required employer contribution rates	11.590%	7.732%

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. The Authority contribution rates may change if plan contracts are amended.

For the years ended June 30, 2021 and 2020, the Authority's contributions were \$788,287 and \$698,749, respectively.

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

As of June 30, 2021 and 2020, the Authority reported net pension liabilities for its proportionate share of the net pension liability as follows:

	2021	2020
Miscellaneous Plan	\$ <u>6,458,067</u>	\$ <u>6,054,828</u>

The Authority's net pension liability for the Plan is measured as the proportionate share of the collective net pension liability of the Plan. The net pension liability reported as of June 30, 2021 and 2020 is measured as of June 30, 2020 and 2019, 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 2019, rolled forward to June 30, 2020 and June 30, 2018, rolled forward to June 30, 2019, respectively, using standard update procedures.

Victor Valley Wastewater Reclamation Authority
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 13 DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

The Authority's proportionate share of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Authority's proportionate share of the collective net pension liability as of June 30, 2020 and 2019 measurement dates were as follows:

Proportion at Measurement Date	Miscellaneous Plan
Proportion - June 30, 2020	0.05935%
Proportion - June 30, 2019	0.05909%
Change - Increase	0.00026%

For the years ended June 30, 2021 and 2020, the Authority recognized pension expense of \$1,041,138 and \$1,176,539, respectively, for the Plan. At June 30, 2021 and 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2021		June 30, 2020	
	Deferred Outflows of Resources	Deferred Outflows of Resources	Deferred Outflows of Resources	Deferred Outflows of Resources
Pension contributions subsequent to the measurement date	\$ 788,287	\$ -	\$ 698,749	\$ -
Net difference between actual and expected experience	332,803		387,952	-
Net changes in assumption		(46,062)	186,373	-
Net differences between projected and actual earnings on plan investments	191,847		-	(105,857)
Net differences between actual contribution and proportionate share of contribution		(46,463)	-	(48,075)
Net adjustment due to differences in proportions of net pension liability	75,767	(35,339)	-	(8,690)
Total	\$ 1,388,704	\$ (127,864)	\$ 1,273,074	\$ (162,622)

As of June 30, 2021 and 2020, employer pension contributions of \$788,287 and \$698,749, reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal years ending June 30, 2022 and 2021, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pensions will be recognized as pension expense as follows.

Years Ending June 30	Deferred Outflows/(Inflows) of Resources
2022	\$ 46,469
2023	186,661
2024	147,413
2025	92,010
Total	\$ 472,553

NOTE 13 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions

The total pension liabilities in the June 30, 2020 and 2019 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, 2019 and 2018
Measurement dates	June 30, 2020 and 2019
Actuarial cost method	Entry Age Normal cost method
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. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rates and that contributions from employees will be made at statutory required rates, actuarially determined.

Based on these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on 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.

NOTE 13 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.

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 Years 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	100.00%		

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

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

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

The following represents the Authority's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the Authority's proportional share of the collective 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:

<u>Authority's proportionate share of the net pension liability</u>	<u>1% Decrease (6.15%)</u>	<u>Current Discount Rate (7.15%)</u>	<u>1% Increase (8.15%)</u>
2021	\$ 9,489,809	6,458,067	3,953,034

Victor Valley Wastewater Reclamation Authority
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

NOTE 13 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

As of June 30, 2021 and 2020, the Authority reported no payables for the outstanding amounts of contributions to the pension plan required for the years ended June 30, 2021 and 2020.

NOTE 14 NET POSITION

At June 30, net position consisted of the following:

	2021	2020
Net investment in capital assets		
Capital assets - not being depreciated	\$ 5,042,173	\$ 2,562,178
Capital assets, net - being depreciated	168,973,164	179,379,623
Lease payable	(396,185)	(246,388)
Loans payable	(75,898,373)	(79,737,701)
Total net investment in capital assets	97,720,779	101,957,712
Restricted net position		
Restricted for debt service	4,882,810	4,882,810
Total restricted net position	4,882,810	4,882,810
Unrestricted net position		
Non-spendable net position		
Material and supply inventory	48,837	95,478
Prepaid expenses and deposits	112,004	105,740
Total non-spendable net position	160,841	201,218
Spendable net position		
Undesignated net position reserve	7,288,276	3,595,146
Total spendable net position	7,288,276	3,595,146
Total unrestricted net position	7,449,117	3,796,364
Total net position	\$ 110,052,706	\$ 110,636,886

NOTE 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, 2021, 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.
- 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.

NOTE 15 RISK MANAGEMENT (CONTINUED)

- 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 two fiscal years and there were no reductions in the Authority's insurance coverage during the years ending June 30, 2021 and 2020. 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, 2021 and 2020.

NOTE 16 GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT ISSUED, NOT YET EFFECTIVE

The Governmental Accounting Standards Board (GASB) has issued several pronouncements, that have effective dates that may impact future financial presentations. Management has not yet determined any impact the implementation of the following statements may have on the financial statements of the Authority.

GASB No. 89

In June 2018, the Governmental Accounting Standards Board issued Statement No. 89 "Accounting for Interest Cost Incurred before the End of a Construction Period". The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

GASB No. 91

In May 2019, the Governmental Accounting Standards Board issued Statement No. 91, "Conduit Debt Obligations." The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

GASB No. 92

In January 2020, the Governmental Accounting Standards Board issued Statement No. 92, "Omnibus 2020." The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

GASB No. 93

In March 2020, the Governmental Accounting Standards Board issued Statement No. 93, "Replacement of Interbank Offered Rates." The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

GASB No. 94

In May 2020, the Governmental Accounting Standards Board issued Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements." The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

**NOTE 16 GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT
ISSUED, NOT YET EFFECTIVE (CONTINUED)**

GASB No. 95

In May 2020, the Governmental Accounting Standards Board issued Statement No. 95, "Postponement of the Effective Dates of Certain Authoritative Guidance." The Statement postponed the effective dates of certain Statements to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. The effective dates of the affected Statements listed above have been updated to reflect the impact of this Statement.

GASB No. 96

In May 2020, the Governmental Accounting Standards Board issued Statement No. 96, "Subscription-Based Information Technology Arrangements." The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

GASB No. 97

In June 2020, the Governmental Accounting Standards Board issued Statement No. 97, "Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plan – an amendment of GASB Statements No. 14, 84, and a suppression of GASB Statement No. 32." The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

NOTE 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 the 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.

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, 2021 and 2020, the future minimum remaining commitment amounted to \$10,276,000 and \$11,010,000, respectively.

Litigation

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

Other Items

During the year ended June 30, 2016, the Office of Inspector General, (OIG), 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 project (PW828) of the Upper Narrows pipeline which was lost in December 2010 during the flood declared as a national disaster. Rejecting the OIG's audit recommendation of clawing back the project costs exceeding \$33 million, FEMA has approved and paid \$5,840,292 during the year ended June 30, 2021 for the Authority's final claim and retention for the project PW828. As of the date of this report, FEMA has approved all submitted claims.

Funding Future Obligations

The outstanding issue of connection fees has been resolved on September 16, 2021. See note 19 for further discussion.

NOTE 17 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

NOTE 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.

NOTE 19 SUBSEQUENT EVENTS

Flow Diversion Settlement Agreement

On September 16, 2021, the Board approved the settlement of connection fees outstanding from the City of Hesperia (the City). As a result, the City will retain the Zone H connection fees collected by the City prior to and following the Effective Date for a period of three years after the Effective Date or until the incurrence of \$2,500,000 connection fees, whichever comes first. As set forth in the settlement, the City made an initial payment of \$356,058 on November 8, 2021.

Other than the events described above, no events have occurred subsequent to the balance sheet date through November 18, 2021, the date the financial statements were available to be issued, that require adjustment to, or disclosures in the financial statements.

Required Supplementary Information

Victor Valley Wastewater Reclamation Authority
Schedules of Changes in the Total OPEB Liability and Related Ratios
Last 10 Fiscal Years*

Measurement Date	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Total OPEB Liability				
Service cost	\$ 156,167	\$ 113,200	\$ 38,990	\$ 37,946
Interest	86,769	112,932	86,142	84,676
Difference between expected and actual experience	(168,432)	-	85,165	-
Changes in assumptions	97,993	565,970	779,126	-
Employer contributions	<u>(141,384)</u>	<u>(111,208)</u>	<u>(114,948)</u>	<u>(94,258)</u>
Net change in total OPEB liability	31,113	680,894	874,475	28,364
Total OPEB liability - beginning	<u>3,840,737</u>	<u>3,159,843</u>	<u>2,285,368</u>	<u>2,257,004</u>
Total OPEB liability - ending	<u>\$ 3,871,850</u>	<u>\$ 3,840,737</u>	<u>\$ 3,159,843</u>	<u>\$ 2,285,368</u>
Covered-employee Payroll	\$ 2,650,000	\$ 2,572,348	\$ 2,882,328	\$ 3,004,335
Total OPEB liability as a percentage of Covered-employee Payroll	<u>146.11%</u>	<u>149.31%</u>	<u>109.63%</u>	<u>76.07%</u>

Summary of key assumptions

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Valuation date	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Actuarial cost method	2.50%	2.75%	2.75%	2.75%
Inflation	5.70% in	7.00% in	7.00% in	4.00% per year
Healthcare cost trend rates	2021, fluctuating down to 4% by 2076	2020, step down 0.50% each year to 5.00% in 2024	2020, step down 0.50% each year to 5.00% in 2024	
Salary increases	3.00%	3.25%	3.25%	2.75%
Discount rate	2.16%	2.21%	3.51%	3.80%
Retirement age	From 50 to 75	From 50 to 75	From 50 to 75	From 50 to 75
Mortality	CalPERS 2017 Experience Study; Projected with MW Scale 2020	CalPERS 2017 Experience Study; Projected with MW Scale 2018	CalPERS 2017 Experience Study; Projected with MW Scale 2018	CalPERS 2014 Experience Study

*Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

Fiscal Year 2018 was the first year of implementation

Victor Valley Wastewater Reclamation Authority
Schedules of Proportionate Share of the Net Pension Liability and Related Ratios
Last 10 Fiscal Years*

Measurement Date	Authority's Proportion of the Collective Net Pension Liability	Authority's Proportionate Share of the Collective Net Pension Liability	Authority's Covered Payroll	Authority's Proportionate Share of the Collective Net Pension Liability as a Percentage of its Covered Payroll	Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2015	0.05341% \$	3,323,316 \$	2,945,462	112.83%	79.19%
6/30/2016	0.06074%	4,169,063	3,004,402	138.77%	75.01%
6/30/2017	0.05792%	5,011,624	3,004,335	166.81%	71.30%
6/30/2018	0.05799%	5,750,574	3,397,714	169.25%	71.18%
6/30/2019	0.05854%	5,641,328	2,546,478	221.53%	72.05%
6/30/2020	0.05909%	6,054,828	2,781,332	217.70%	72.04%
6/30/2021	0.05935%	6,458,067	2,701,718	239.04%	71.65%

Notes to Schedule

Changes in Benefit Terms – For the measurement date June 30, 2020, there were no changes in the benefit terms that applied to all members of the Public Agency Pool.

Changes of Assumptions – For the measurement dates June 30, 2020 and 2019 the discount rate was 7.15% percent. Refer to CALPERS ACFR for more details on changes of assumptions and methods.

* Historical information is required only for measurement periods for which GASB 68 is applicable. GASB 68 was implemented in fiscal year ended June 30, 2015 with a measurement date of June 30, 2014, therefore only 7 years are shown.

**Victor Valley Wastewater Reclamation Authority
Schedules of Pension Plan Contributions
Last 10 Fiscal Years***

Measurement Date	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Authority's Covered Payroll	Contributions as a percentage of Covered Payroll
6/30/2015	\$ 464,069	\$ (464,069)	\$ -	2,945,462	15.76%
6/30/2016	507,931	(503,175)	4,756	3,004,402	16.91%
6/30/2017	561,105	(503,376)	57,729	3,004,335	18.68%
6/30/2018	589,365	(528,660)	60,705	3,397,714	17.35%
6/30/2019	690,639	(607,170)	83,469	2,546,478	27.12%
6/30/2020	694,372	(698,749)	(4,377)	2,781,332	24.97%
6/30/2021	788,287	(788,287)	-	2,701,718	29.18%

Notes to Schedule

* Historical information is required only for measurement periods for which GASB 68 is applicable. GASB 68 was implemented in fiscal year ended June 30, 2015 with a measurement date of June 30, 2014, therefore only 7 years are shown.

Other Supplementary Information

Victor Valley Wastewater Reclamation Authority
Schedules of Operating Expenses
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Salaries and benefits		
Salaries	\$ 3,893,850	\$ 3,941,089
Employee benefits	2,058,073	2,047,333
Total salaries and benefits	<u>5,951,923</u>	<u>5,988,422</u>
Maintenance		
Equipment and supplies	640,298	692,574
Instrumentation	241,650	344,225
Tools	16,939	22,941
Ground repairs and maintenance	299,185	265,677
Vehicle repairs and maintenance	133,720	88,760
Sewer repairs and maintenance	51,185	127,533
Other	522,037	266,795
Total maintenance	<u>1,905,014</u>	<u>1,808,505</u>
Operations		
Process chemicals	348,438	353,656
Utilities	2,135,136	1,873,753
Trash and sludge disposal	153,473	86,645
Fuel and lubricants	56,841	101,906
Lab supplies and services	421,048	475,131
Safety equipment	105,376	88,941
Custodial	49,472	46,236
Equipment rental	125,693	78,544
Uniform	35,477	29,039
Security	17,194	12,927
Sewer location services	32,865	29,396
Total operations	<u>3,481,013</u>	<u>3,176,174</u>
General and Administration		
Telephone and communication	104,897	91,770
Computers and office equipment	65,240	128,672
Computer and office supplies	10,297	5,805
Printing and advertising	5,897	27,289
Postage and freight	11,060	10,076
Travel and education	49,305	43,993
Membership and commissioner fees	36,577	41,717
Books and periodicals	7,188	18,641
Professional services	662,050	725,365
Legal services	400,963	391,512
Temporary labor	14,705	5,530
Insurance	277,744	208,730
Permit fees	204,931	169,228
Rent	64,799	61,511
Construction services	226,232	544,799
Other	39,476	3,954
Total administration	<u>2,181,361</u>	<u>2,478,592</u>
Total operating expenses	<u>13,519,311</u>	<u>13,451,693</u>
Depreciation	11,225,596	11,565,945
Total operating expenses including depreciation expense	<u>\$ 24,744,907</u>	<u>\$ 25,017,638</u>

Victor Valley Wastewater Reclamation Authority
Combining Schedule of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2021

	Operations and Maintenance	Repairs and Replacements	Capital Outlay	Total
Operating Revenues				
Wastewater service charges	\$ 16,417,028	\$ -	\$ -	\$ 16,417,028
Septage receiving facility fees	675,042	-	-	675,042
ADM-FOG tipping fees	28,855	-	-	28,855
Pretreatment permit fees	46,600	-	-	46,600
Total operating revenues	<u>17,167,525</u>	<u>-</u>	<u>-</u>	<u>17,167,525</u>
Operating expenses				
Salaries and benefits	5,951,923	-	-	5,951,923
Maintenance	1,857,866	47,148	-	1,905,014
Operations	3,481,013	-	-	3,481,013
General and administration	1,978,114	33,834	169,413	2,181,361
Total operating expenses	<u>13,268,916</u>	<u>80,982</u>	<u>169,413</u>	<u>13,519,311</u>
Operating income (loss) before depreciation expense	3,898,609	(80,982)	(169,413)	3,648,214
Depreciation	(11,225,596)	-	-	(11,225,596)
Operating loss	<u>(7,326,987)</u>	<u>(80,982)</u>	<u>(169,413)</u>	<u>(7,577,382)</u>
Non-operating revenues (expenses)				
Investment earnings	34,353	-	-	34,353
Interest expense	(723,169)	-	(354,490)	(1,077,659)
Loss on disposal of capital assets	(9,070)	-	-	(9,070)
Other, net	2,333,096	-	-	2,333,096
Total non-operating expense, net	<u>1,635,210</u>	<u>-</u>	<u>(354,490)</u>	<u>1,280,720</u>
Net loss before capital contributions	<u>(5,691,777)</u>	<u>(80,982)</u>	<u>(523,903)</u>	<u>(6,296,662)</u>
Capital contributions				
Capital grants - FEMA	2,745,775	-	-	2,745,775
Connection fees	-	-	2,966,707	2,966,707
Total contributed capital	<u>2,745,775</u>	<u>-</u>	<u>2,966,707</u>	<u>5,712,482</u>
Changes in net position	<u>\$ (2,946,002)</u>	<u>\$ (80,982)</u>	<u>\$ 2,442,804</u>	<u>\$ (584,180)</u>

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

	Operations and Maintenance	Repairs and Replacements	Capital Outlay	Total
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 revenues (expenses)				
Investment earnings	663	-	270,439	271,102
Interest expense	(740,648)	-	(384,002)	(1,124,650)
Loss on disposal of capital assets	(1,610,035)	-	-	(1,610,035)
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>
Changes in net position	<u>\$ (10,134,938)</u>	<u>\$ (881,561)</u>	<u>\$ 1,830,676</u>	<u>\$ (9,185,823)</u>



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Statistical Section



VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY

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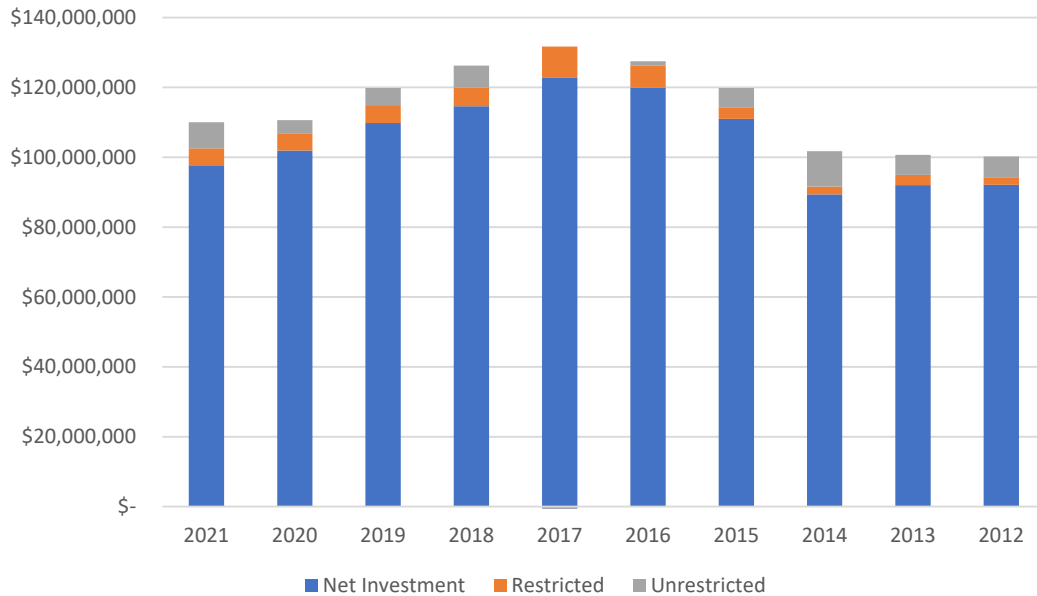
This part of Authority's annual comprehensive financial report presents detailed information as a context for understanding what the information in the accompanying financial statements and notes to the financial statements say about the Authority's overall financial health.

	<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.	59 - 60
Revenue Capacity These schedules contain information to help the reader assess the factors affecting the Authority's ability to generate revenues.	61 - 66
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.	67
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.	68 - 71
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.	72 - 79

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY
Net Position by Component
Last Ten Fiscal Years

June 30	2021	2020	2019	2018	2017
Net investment in Capital Assets					
Restricted	\$ 97,720,779	\$ 101,957,712	\$ 109,818,767	\$ 114,620,595	\$ 122,731,832
Unrestricted	4,882,810	4,882,810	5,147,861	5,285,091	9,004,801
Total Net Position	\$ 110,052,706	\$ 110,636,886	\$ 119,822,709	\$ 126,265,966	\$ 130,604,896

June 30	2016	2015	2014	2013	2012
Net investment in Capital Assets					
Restricted	\$ 119,848,757	\$ 110,982,384	\$ 89,340,144	\$ 92,011,190	\$ 92,132,472
Unrestricted	6,367,601	3,150,314	2,322,650	2,961,518	2,147,445
Total Net Position	\$ 127,511,632	\$ 119,824,954	\$ 101,724,613	\$ 100,702,112	\$ 100,216,259

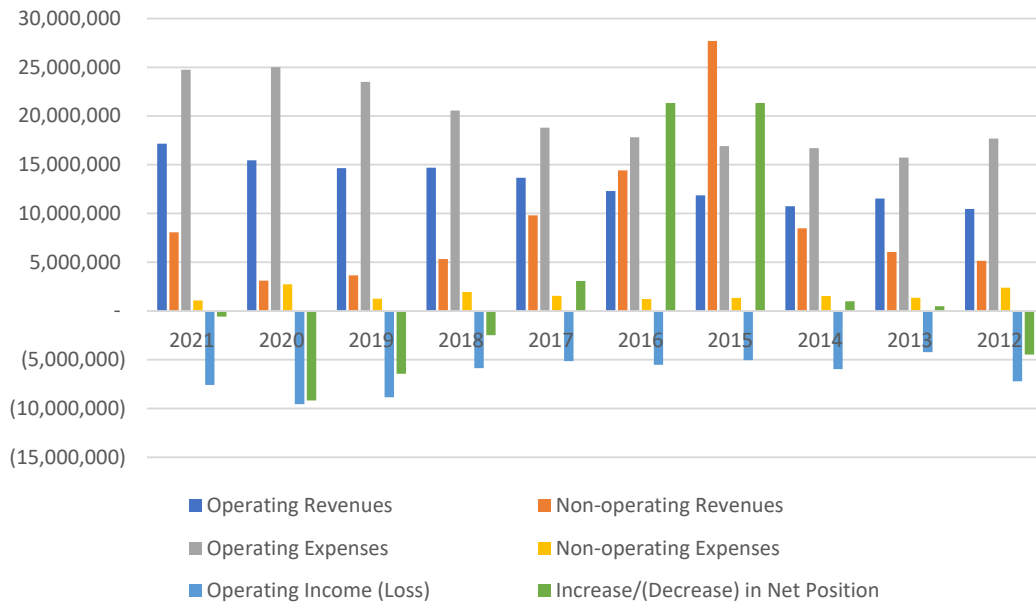


Source: Victor Valley Wastewater Reclamation Authority

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY
Changes in Net Positions
Last Ten Fiscal Years

June 30	2021	2020	2019	2018	2017
Operating Revenues	\$ 17,167,525	\$ 15,457,755	\$ 14,649,380	\$ 14,696,537	\$ 13,655,631
Operating Expenses	24,744,907	25,017,638	23,502,391	20,559,007	18,804,718
Operating Income (Loss)	(7,577,382)	(9,559,883)	(8,853,011)	(5,862,470)	(5,149,087)
Non-operating Revenues	8,079,931	3,109,947	3,665,387	5,317,638	9,797,819
Non-operating Expenses	1,086,729	2,735,887	1,255,633	1,937,435	1,555,468
Increase (Decrease) in Net Position	\$ (584,180)	\$ (9,185,823)	\$ (6,443,257)	\$ (2,482,267)	\$ 3,093,264

June 30	2016	2015	2014	2013	2012
Operating Revenues	\$ 12,305,439	\$ 11,850,841	\$ 10,744,312	\$ 11,526,052	\$ 10,469,338
Operating Expenses	17,820,239	16,901,749	16,703,301	15,738,220	17,677,977
Operating Income (Loss)	(5,514,800)	(5,050,908)	(5,958,989)	(4,212,168)	(7,208,639)
Non-operating Revenues	14,416,430	27,703,303	8,482,186	6,054,793	5,141,787
Non-operating Expenses	1,214,952	1,335,646	1,535,497	1,356,772	2,389,888
Increase (Decrease) in Net Position	\$ 21,316,749	\$ 21,316,749	\$ 987,700	\$ 485,853	\$ (4,456,740)



Source: Victor Valley Wastewater Reclamation Authority

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

Operating Revenues						
June 30	Services Charges	Septage Receiving Facility Fees	ADM-FOG Fees	Tipping Fees	Pretreatment Permit Fees	Total Operating Revenues
2021	\$ 16,417,027	\$ 675,042	\$ 28,855	\$ 46,600	\$ 46,600	\$ 17,167,524
2020	14,592,947	633,420	181,788	49,600	49,600	15,457,755
2019	13,706,977	614,617	274,186	53,600	53,600	14,649,380
2018	13,711,083	621,154	311,600	52,700	52,700	14,696,537
2017	12,719,827	649,362	234,160	52,282	52,282	13,655,631
2016	11,645,881	604,958	-	54,600	54,600	12,305,439
2015	11,260,317	538,367	-	52,157	52,157	11,850,841
2014	10,695,640	390,682	-	48,672	48,672	11,134,994
2013	10,422,378	197,688	-	46,600	46,600	10,666,666
2012	10,570,050	256,828	-	46,800	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
2021	\$ 2,966,707	\$ 2,367,449	\$ 2,745,775	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,079,931
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	5,864,532
2012	2,012,423	160,348	1,685,630	1,085,698	-	-	-	-	-	4,944,099

Operating Revenues			
June 30	Total Operating Revenues	Total Non-Operating Revenues	Total Revenues
2021	\$ 17,167,525	\$ 8,079,931	\$ 25,247,456
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	10,666,666	5,864,532	16,531,198
2012	10,873,678	4,944,099	15,817,777

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 Expense		
2021	\$ 5,951,923	\$ 1,905,014	\$ 3,481,013	\$ 2,181,361	\$ 11,225,596	\$ 24,744,907	\$ 1,086,729	\$ 25,831,636
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

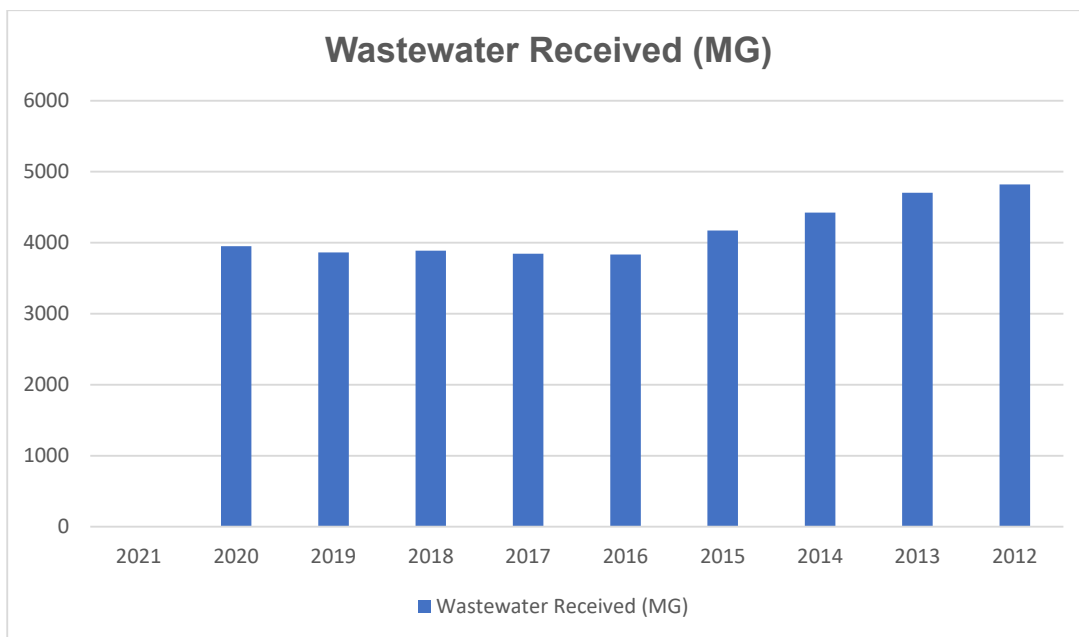
*Per prior year adjustment

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)*
2021	3,990
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

*MG = Million Gallons



Source: Victor Valley Wastewater Reclamation Authority

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY
Principal Customers
Last Ten Fiscal Years

June 30	2021		2020		2019	
	Wastewater Received (MG)*	Percentage of Total	Wastewater Received (MG)*	Percentage of Total	Wastewater Received (MG)*	Percentage of Total
San Bernardo County	219	5.5%	214	5.4%	218	5.7%
Apple Valley	638	16.0%	629	15.9%	643	16.6%
Hesperia	766	19.2%	731	18.6%	707	18.3%
Victorville	2,367	59.3%	2,377	60.1%	2,296	59.4%
Principal Customers Total	399-	100.0%	3,951	100.0%	3,864	100.0%
Total Water Received	3,990	100.0%	3,951	100.0%	3,864	100.0%

June 30	2018		2017		2016	
	Wastewater Received (MG)*	Percentage of Total	Wastewater Received (MG)*	Percentage of Total	Wastewater Received (MG)*	Percentage of Total
San Bernardo County	222	5.7%	220	5.7%	219	5.7%
Apple Valley	653	16.8%	645	16.8%	644	16.8%
Hesperia	703	18.1%	695	18.1%	694	18.1%
Victorville	2,310	59.4%	2,285	59.4%	2,277	59.4%
Principal Customers Total	3,888	100.0%	3,845	100.0%	3,834	100.0%
Total Water Received	3,888	100.0%	3,845	100.0%	3,834	100.0%

June 30	2015		2014		2013	
	Wastewater Received (MG)*	Percentage of Total	Wastewater Received (MG)*	Percentage of Total	Wastewater Received (MG)*	Percentage of Total
San Bernardo County	233	5.6%	287	6.5%	306	6.5%
Apple Valley	672	16.1%	611	13.8%	650	13.8%
Hesperia	697	16.7%	752	17.0%	799	17.0%
Victorville	2,569	61.6%	2,576	58.2%	2,739	58.2%
Principal Customers Total	4,171	100.0%	4,226	95.5%	4,494	95.5%
Total Water Received	4,171	100.0%	4,423	100.0%	4,494	100.0%

(continued next)

**VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY
Principal Customers
Last Ten Fiscal Years**

June 30	2012	
	Wastewater Received (MG)*	Percentage of Total
San Bernardo County	528	11.0%
Apple Valley	666	13.8%
Hesperia	819	17.0%
Victorville	2,808	58.2%
Principal Customers Total	4,821	100.0%
Total Water Received	4,821	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)**
2021	4,087	4,679
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

*MG = Million Gallons

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

High Strength Surcharge Rates (\$/LB)			
June 30	BOD	TSS	NH3
2021	0.5000	0.2876	45,942.0000
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

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
2021	\$75,891,118	\$ -	\$150,555	\$7,255	\$ -	\$76,048,928	*	*
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%

* 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	Personal Income (In Millions)	Personal Income per Capita ²	Unemployment Rate ²
2020	297,573		*	9.20%
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%

*Data not available

Service Area Population by Cities

Dec 31	Apple Valley ¹	Victor Valley ¹	Hesperia ¹
2020	74,350	127,170	96,053
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

*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, 2021

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	2021	2020	2019	2018	2017
Land	\$ 617,484	\$ 619,003	\$ 779,136	\$ 779,136	\$ 779,136
Land Improvements	9,711,868	9,738,124	9,738,124	9,738,124	9,738,124
Plant Buildings	218,813,949	218,901,596	218,514,351	218,162,852	133,494,901
Interceptor Lines	69,170,246	69,200,504	69,200,504	67,544,012	62,653,035
Office Equipment	937,772	1,064,592	1,064,592	775,612	766,585
Trucks/Auto	1,143,825	861,825	861,825	841,568	911,116
Construction in Progress (1)	4,424,689	1,943,175	2,596,294	2,301,965	82,908,664
Accumulated Depreciation	(130,804,496)	(120,387,018)	(108,821,073)	(97,337,355)	(86,958,289)
Total	\$ 174,015,337	\$ 181,941,801	\$ 193,933,753	\$ 202,805,914	\$ 204,293,272

June 30	2016	2015	2014	2013	2012
Land	\$ 779,136	\$ 779,136	\$ 650,136	\$ 650,136	\$ 650,136
Land Improvements	9,630,803	9,421,375	7,792,390	7,757,640	7,757,640
Plant Buildings	132,421,707	131,778,715	131,601,527	112,079,795	105,576,501
Interceptor Lines	27,606,672	27,606,672	27,606,672	27,606,672	27,606,672
Office Equipment	766,585	530,213	530,213	465,609	406,239
Trucks/Auto	911,116	911,116	911,116	858,726	858,726
Construction in Progress (1)	79,877,599	42,492,810	11,960,240	25,896,952	28,349,200
Accumulated Depreciation	(79,302,192)	(72,656,613)	(65,868,085)	(59,279,888)	(53,519,122)
Total	\$ 172,691,426	\$ 140,863,424	\$ 115,184,209	\$ 116,035,642	\$ 117,685,992

Notes to Schedule

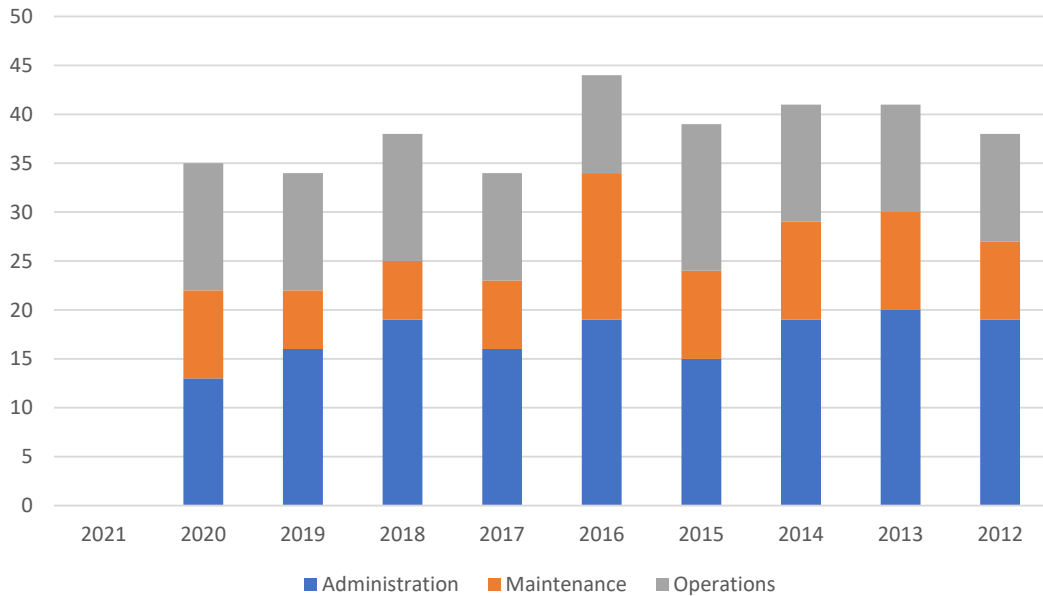
- (1) Construction in progress significantly increased in Fiscal Years 2015, 2016, and 2017 due to the construction of Upper Narrows Pipeline and Subregional Water Reclamation Plants in Hesperia and Apple Valley.
- (2) Construction in progress significantly decreased in Fiscal Year 2018 due to the completion 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	2021	2020	2019	2018	2017
Operations	19	13	16	19	16
Maintenance	5	9	6	6	7
Administration	12	13	12	13	11
Total	36	35	34	38	34

June 30	2016	2015	2014	2013	2012
Operations	19	15	19	20	19
Maintenance	15	9	10	10	8
Administration	10	15	12	11	11
Total	44	39	41	41	38



Source: Victor Valley Wastewater Reclamation Authority

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY
Operating and Capital Indicators (Facts and Figures)
June 30, 2021

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 Annual Comprehensive 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: 2017 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 1.4% for 2020 and 2.3% for 2019. We have adjusted the AWWA wastewater performance data with 2020 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, 2021
 - b. Source: State Water Resources Control Board, California Integrated Water Quality System Project (CIWQS)

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY
Operating and Capital Indicators (Facts and Figures)
June 30, 2021

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

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

- a. Reporting Period: Year ended June 30, 2021
- b. Source: Actual inflow data measured by VVWRA, and data provided by Member Agencies and other users
- c. Source: based on actual employee numbers as of June 30, 2021



Regional Plant Digesters

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, 2021
- b. Source: Actual inflow data measured by VVWRA, and data provided by Member Agencies and other users
- c. VVWRA Audited Financial Statements June 30, 2021.

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

- a. Reporting Period: Fiscal Year 2020-2021
- b. Source: VVWRA Audited Financial Statements June 30, 2021.

The performance indicators are analyzed, comparing to wastewater facilities that are nationwide, West States Region V, 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. Region V States consist of AK, AS, CA, GU, HI, MT, NM, OR, WA, CAN-AB, CAN-BC, CAN-MB, CAN-NT, CAN-NU, CAN-SK, CAN-YT.

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY
Operating and Capital Indicators (Facts and Figures)
June 30, 2021

Sewer Overflow Rate

Nationwide

	Top Quartile	Median	Bottom Quartile	VVWRA June 30, 2021
Sewer Overflow Rate	0.6	1.0	3.7	0

West States Region IV

	Top Quartile	Median	Bottom Quartile	VVWRA June 30, 2021
Sewer Overflow Rate	0.6	3.2	4.1	0

Population 100,001-500,000

	Top Quartile	Median	Bottom Quartile	VVWRA June 30, 2021
Sewer Overflow Rate	0.3	1.1	2.6	0

VVWRA's Sewer Overflow Rate is 0. VVWRA had 0 reported spill at during year ended June 30, 2021. 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, VVWRA 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.



VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY
Operating and Capital Indicators (Facts and Figures)
June 30, 2021

Million Gallons per Day of Wastewater Processed per Employee

Nationwide

	Top Quartile	Median	Bottom Quartile	VVWRA June 30, 2021
MGD Wastewater processed per employee	0.31	0.19	0.16	0.30

West States Region IV

	Top Quartile	Median	Bottom Quartile	VVWRA June 30, 2021
MGD Wastewater processed per employee	0.20	0.18	0.13	0.30

Population 100,001-500,000

	Top Quartile	Median	Bottom Quartile	VVWRA June 30, 2021
MGD Wastewater processed per employee	0.24	0.19	0.15	0.30

VVWRA places at the top quartiles of the national, regional, as well as the population quartiles for the amount of wastewater processed per employee.

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY
Operating and Capital Indicators (Facts and Figures)
June 30, 2021

Operations and Maintenance Cost per Million Gallons Processed

Nationwide

	Top Quartile	Median	Bottom Quartile	VVWRA June 30, 2021
O&M Cost per MG Processed	\$1,816	\$2,584	\$2,978	\$3,388

West States Region IV

	Top Quartile	Median	Bottom Quartile	VVWRA June 30, 2021
O&M Cost per MG Processed	\$1,988	\$3,668	\$6,028	\$3,388

Population 100,001-500,000

	Top Quartile	Median	Bottom Quartile	VVWRA June 30, 2021
O&M Cost per MG Processed	\$1,169	\$2,331	\$3,675	\$3,388

VVWRA is performing between the median and the top quartile in the Region V 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, 2021

Debt Ratio

Nationwide

	Top Quartile	Median	Bottom Quartile	VVWRA June 30, 2021
Debt Ratio (%)	38	56	63	45

West States Region IV

	Top Quartile	Median	Bottom Quartile	VVWRA June 30, 2021
Debt Ratio (%)	21	22	27	45

Population 100,001-500,000

	Top Quartile	Median	Bottom Quartile	VVWRA June 30, 2021
Debt Ratio (%)	22	31	54	45

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.

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY
Operating and Capital Indicators (Facts and Figures)
June 30, 2021

Financial and Statistical Summary of Selected Wastewater Agencies –
Year Ended June 30, 2021

Wastewater Agencies	Arrowhead	Inland Empire	Big Bear RWA	VVWRA	Orange County San. Dist.	Encina WA	Leucadia WD
Cost of Services	\$ 7,594,148	\$ 52,309,069	\$ 2,564,019	\$ 5,951,923	\$ 102,081,800	\$ 12,523,032	\$ 3,972,520
Positions	55.5	355	15	36	639	71	19
Average personnel cost per position	\$ 143,318	\$ 147,349	\$ 170,935	\$ 165,331	\$ 159,752	\$ 176,423	\$ 209,080

Sources: VVWRA's cost of services and personnel cost are **actual** for the fiscal year ended June 30, 2021, while data for other agencies are from their **budgets** for June 30, 2021.

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. VVWRA is not



Inside the Digester Building at the Regional Plant

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.

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.

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY
Operating and Capital Indicators (Facts and Figures)
June 30, 2021

The reuse of “waste” 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 on single health problem has been reported. VVWRA will continue to partner with the Member Agencies to promote the local reuse of wastewater while actively seeking the resources to provide reliable wastewater treatment services.



In addition to this benchmarking analysis, VVWRA will

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

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

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

Report on Internal Controls and Compliance

**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***

**To the Board of Commissioners
Victor Valley Wastewater Reclamation Authority
Victorville, California**

We have audited, 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, the financial statements of the Victor Valley Wastewater Reclamation Authority (Authority), which comprise the statement of net position as of June 30, 2021, the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 18, 2021.

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) as a basis for designing 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 financial statements. 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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Vaguez & Company LLP". The signature is written in a cursive, flowing style.

**Glendale, California
November 18, 2021**