VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY

FINANCIAL STATEMENTS

WITH REPORT ON AUDIT BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2008

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VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY

TABLE OF CONTENTS

June 30, 2008

	Page Number
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 8
Basic Financial Statements:	
Statement of Net Assets	9 - 10
Statement of Revenues, Expenses and Changes in Net Assets	11
Statement of Cash Flows	12 - 13
Notes to Financial Statements	14 - 30
Supplementary Information - Combining Statements:	31
Combining Statement of Net Assets	32 - 35
Combining Statement of Revenues, Expenses and Changes in Net Assets	36 - 37
Schedule of Operating Expenses	38 - 39
Schedule of Interfund Balances/Transfers	40 - 41
Statistical Section:	43
Schedule of Board of Commissioners and Insurance Coverage	44 - 45

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September 22, 2008

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Victor Valley Wastewater
Reclamation Authority
Victorville, California

We have audited the basic financial statements of the Victor Valley Wastewater Reclamation Authority (the Authority) as of and for the year ended June 30, 2008, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. 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 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Victor Valley Wastewater Reclamation Authority as of June 30, 2008 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the California State Controller's Office and California regulations governing Special Districts.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

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Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Victor Valley Wastewater Reclamation Authority. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We did not audit or apply limited procedures to the statistical information as listed in the table of contents, which is not a required part of the basic financial statements. Accordingly, we do not express any assurance concerning this information.

D'Leyl, Evans and Company, LLP

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

As management of the Victor Valley Water Reclamation Authority (the "Authority") we offer readers of the financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year June 30, 2008. We encourage readers to consider the information presented in the accompanying financial statements and notes to the financial statements in conjunction with additional information we have furnished in our letter of transmittal, which can be found on page "i" of this report.

FINANCIAL HIGHLIGHTS

- As a result of the year's operations the Authority's net assets increased by $4.33 million or 4.2%.
- Current and other assets increased by $5.5 million primarily due to an increase in capital assets and a reduction in investments.
- Capital assets, net of accumulated depreciation, increased to $107.22 million or 14.9%
- Operating revenues were $6.34 million in fiscal year 2008 compared to $5.17 million in fiscal year 2007.
- Operating and non-operating revenue totaled $15.61 million compared to $19.28 in 2007. It has dropped due to reduced flows to the wastewater treatment plant and lack of growth occurring on the nonoperating capital side.
- Capital expenditures for the fiscal year totaled $16.28 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Management's Discussion and Analysis (MD&A) section of the Authority's annual financial report provides condensed comparative data and briefly discusses the financial activities during the fiscal year ended June 30, 2008. It is separate but an integral part of the financial statements and notes that follow. The purpose of this MD&A is to promote an understanding of the Authority's financial statements. The statements are presented in fund accounting method. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority like other state and local governments uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

See independent auditors' report.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The Basic Financial Statements of the Authority supply information using accounting methods similar to those used by private sector companies. Under this method of accounting an economic resources measurement focus and an accrual basis of accounting is used. Revenue is recorded when earned and expenses are recorded when incurred. The basic financial statements include a *statement of net assets*, a *statement of revenues, expenses and changes in net assets*, and a *statement of cash flows*, followed by *notes to the financial statements*. These statements offer short and long-term information about its activities.

The *Statement of Net Assets* includes all of the Authority's assets and liabilities and provides information about the nature of the components and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure, liquidity and overall financial integrity of the Authority.

The *Statement of Revenues, Expenses and Changes in Net Assets* provides details of the Authority's revenues, expenses and changes in net assets. This statement measures the success of operations over the past year. It can be used to determine profitability, credit worthiness and whether all costs were successfully recovered through user fees and other charges.

The final financial statement is the ***Statement of Cash Flows.*** The primary purpose of this statement is to provide information about cash receipts and cash payments. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It accounts for the cash and cash equivalents balance available at the beginning of the year and at years end. It displays cash received, cash spent, and the net change in the amount of cash and cash equivalents.

The ***Notes to the Basic Financial Statements*** provides additional information that is essential to the full understanding of the data provided. The notes can be found on page 14.

FINANCIAL ANALYSIS OF AUTHORITY

One of the most important questions asked "*Is the Authority better off or worse off as a result of the year's activities?*" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provide information about the Authority's activities to help answer the question. These two statements report the net assets of the Authority and changes in them. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, other local, regional, national and global financial and non-financial factors must also be considered.

See independent auditors' report.

FINANCIAL ANALYSIS OF AUTHORITY (CONTINUED)

NET ASSETS

A summary of the Authority's *Statement of Net Assets* is presented in Table A-1.

Table A-1
Condensed Statement of Net Assets
($ in Millions)

	June 30, 2008	June 30, 2007 As Restated	Dollar Change	Percentage Change
Assets:				
Capital assets	$ 107.22	$ 93.35	$ 13.87	14.9 %
Other assets	19.42	27.79	(8.37)	(30.1) %
Total Assets	126.64	121.14	5.50	4.5 %
Liabilities:				
Current liabilities	6.54	4.58	1.96	42.8 %
Long-term liabilities	12.29	13.12	(0.83)	(6.3)
Litigation settlement	0.10	0.11	(0.01)	(9.1)
Compensated absences payable	0.31	0.27	0.04	14.8 %
Total Liabilities	19.24	18.08	1.16	6.4 %
Net Assets:				
Invested in capital assets, net of related debt	94.05	79.38	14.67	18.5 %
Restricted	7.87	14.77	(6.90)	(46.7) %
Unrestricted	5.48	8.92	(3.44)	(38.6) %
Total Net Assets	$ 107.40	$ 103.07	$ 4.33	4.2 %

Table A-1, shows net assets increased $4.33 million to $107.4 million in fiscal year 07-08. Debt repayment reduced the Long-term Debt Outstanding by $0.83 million. Net of related debt Capital Assets increased by $14.67 million primarily because of construction progress on the 14MGD & 18MGD regional treatment plant expansions.

See independent auditors' report.

FINANCIAL ANALYSIS OF AUTHORITY (CONTINUED)

REVENUES – EXPENSES – AND CHANGES IN NET ASSETS

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

As shown below on Table A-2, Operating Revenues increased $1.17 million to $6.34 million. Non-operating revenues decreased 34.3% from $14.11 million for fiscal year 06/07 to $9.27 million for fiscal year 07/08. Non-operating expenses decreased $0.05 million. The result was Net Assets increased 4.2% to $107.4 million, a $4.3 million increase for fiscal year 07/08.

Table A-2
Condensed Statement of Revenues,
Expenses and Changes in Net Assets
($ in Millions)

	June 30, 2008	June 30, 2007 As Restated	Dollar Change	Percentage Change
Operating revenues	$ 6.34	$ 5.17	$ 1.17	22.6 %
Less: Operating expense	8.75	8.58	.17	2.0 %
Less: Depreciation	2.53	2.68	(0.15)	(5.6) %
Operating Loss	(4.94)	(6.09)	1.15	(18.9) %
Nonoperating revenues	9.27	14.11	(4.84)	(34.3) %
Nonoperating expenses	0.30	0.35	(0.05)	(14.3) %
Nonoperating income	8.97	13.76	(4.79)	(34.8) %
Changes In net assets	4.03	7.67	(3.64)	(47.5) %
Net Assets - Beginning of Year	103.37	95.40	7.97	8.4 %
Net Assets - End of Year	$ 107.40	$ 103.07	$ 4.33	4.2 %

See independent auditors' report.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At the end of fiscal year 2008, the Authority had $141 million invested in infrastructure including land, land improvements, plant and buildings, interceptor lines, equipment, trucks and autos, and construction in progress as shown in Table A-3 below.

Table A-3
Capital Assets
($ in Millions)

	June 30, 2008	June 30, 2007 As Restated	Dollar Change	Percentage Change
Land	$ 0.65	$ 0.65	$0.00	0.0 %
Land improvements	0.38	0.37	0.01	2.7 %
Plant and buildings	61.32	58.69	2.63	4.5 %
Interceptor lines	23.35	21.86	1.49	6.8 %
Office equipment	0.48	0.36	0.12	33.3 %
Trucks and autos	0.80	0.76	0.04	5.3 %
Construction in progress	54.29	42.30	11.99	28.4 %
Subtotal	141.27	124.99	16.28	13.0 %
Less accumulated depreciation	(34.04)	(31.64)	(2.40)	(7.6) %
Net Capital Assets	$ 107.23	$ 93.35	$ 13.88	14.87 %

As shown above, $16.28 million was expended on Capital Assets, 73.6% of the $16.28 million was for construction activities. This increased Construction in Progress by $11.99 million, from $42.30 million at June 30, 2007 to $54.29 million at June 30, 2008 a 28.4% increase. The majority of these expenditures were for continuing construction of the 14 MGD regional treatment plant expansion that started construction in February of 2005 and the 18 MGD regional plant expansion that was awarded and started construction in February 2006. This major construction activity is expected to continue through 2007 and into 2008. It is anticipated the 14 MGD and 18 MGD projects will be completed by December 2008 and January 2009, respectively.

Additional information regarding capital assets is located in Note 6 of the Notes to Financial Statements.

See independent auditors' report.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

DEBT ADMINISTRATION

The Authority has three State Revolving Fund loans from the State Water Resources Control Board that were used to finance the 9.5 MGD Improvements Project, the 11 MGD Expansion Project and the North Apple Valley Interceptor. These low interest loans are payable in 20 annual payments and are all current. Additional information regarding long-term debt is located in Note 7 of the Notes to Financial Statements.

ECONOMIC FACTORS

Authority fees have not increased to meet economic needs for a number of years. As a result, the Authority has been working closely with the four (4) member agencies to complete a long-term financial plan which includes approval of a new 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 waster treatment, reclamation, recycling and reuse.

CONTACTING THE AUTHORITY

This financial report is designed to provide our citizens and customers with a general overview of the Authority's finances and to show the Authority's accountability for receipts and expenditures. If you have questions about this report or need additional financial information, contact the Director of Finance Office at: Victor Valley Wastewater Reclamation Authority, 15776 Main Street, Suite 3, Hesperia, and Ca 92345. (760) 948-9849. Email **mail@vvwra.com**

See independent auditors' report.

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY

STATEMENT OF NET ASSETS

June 30, 2008
(With comparative totals as of June 30, 2007)

ASSETS

	2008	2007
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	$ 15,050,414	$ 17,610,685
Investments (Note 2)	1,971,680	7,910,780
Accounts receivable (Note 3)	1,782,560	1,828,605
Interest receivable	94,174	257,915
Employee receivables (Note 4)	10,561	9,772
Parts inventory	403,597	61,501
Deposits	38,628	39,298
Prepaid expenses	70,570	71,549
TOTAL CURRENT ASSETS	19,422,184	27,790,105
CAPITAL ASSETS (NOTE 5):		
Capital assets not being depreciated	54,936,555	42,952,066
Capital assets being depreciated, net	52,289,121	50,400,343
TOTAL CAPITAL ASSETS	107,225,676	93,352,409
TOTAL ASSETS	126,647,860	121,142,514

See independent auditors' report and notes to financial statements.

(Continued)

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY

STATEMENT OF NET ASSETS
(CONTINUED)

June 30, 2008
(With comparative totals as of June 30, 2007)

LIABILITIES AND NET ASSETS

	2008	2007
CURRENT LIABILITIES:		
Accounts payable	$ 3,297,954	$ 1,778,993
Accrued liabilities	-	91,165
Retention payable	2,245,011	1,734,511
Accrued interest	118,682	126,006
Current portion of long-term debt (Note 6)	880,008	854,315
TOTAL CURRENT LIABILITIES	6,541,655	4,584,990
LONG-TERM DEBT (NOTE 6):		
State Revolving Fund loans	13,169,331	13,969,565
Litigation settlement	100,328	107,180
Compensated absences payable	312,562	265,479
Less current portion	(880,008)	(854,315)
TOTAL LONG-TERM DEBT	12,702,213	13,487,909
TOTAL LIABILITIES	19,243,868	18,072,899
NET ASSETS (NOTE 7):		
Invested in capital assets, net of related debt	94,056,345	79,382,844
Restricted	7,869,303	14,769,409
Unrestricted	5,478,344	8,917,362
TOTAL NET ASSETS	$ 107,403,992	$ 103,069,615

See independent auditors' report and notes to financial statements.

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS

For the year ended June 30, 2008
(With comparative totals for the year ended June 30, 2007)

	2008	2007
OPERATING REVENUES:		
User charges	$ 6,284,859	$ 5,112,839
Pretreatment permit fees	54,521	57,097
TOTAL OPERATING REVENUES	6,339,380	5,169,936
OPERATING EXPENSES:		
Personnel	4,419,337	3,918,181
Maintenance	784,284	790,971
Operations	2,180,499	2,360,980
Administration	1,359,691	1,459,695
Bad debt	8,100	45,535
Depreciation	2,527,470	2,680,835
TOTAL OPERATING EXPENSES	11,279,381	11,256,197
OPERATING LOSS	(4,940,001)	(6,086,261)
NONOPERATING REVENUES (EXPENSES):		
Investment income	866,983	1,571,494
Other	51,435	50,714
Septage receiving facility	229,457	263,572
Connection fees	8,120,414	12,220,994
Interest expense	(295,671)	(347,878)
TOTAL NONOPERATING REVENUES (EXPENSES)	8,972,618	13,758,896
CHANGES IN NET ASSETS	4,032,617	7,672,635
NET ASSETS - BEGINNING OF YEAR	103,069,615	95,396,980
RESTATEMENT OF NET ASSETS	301,760	-
NET ASSETS - BEGINNING OF YEAR, AS RESTATED	103,371,375	95,396,980
NET ASSETS - END OF YEAR	$ 107,403,992	$ 103,069,615

See independent auditors' report and notes to financial statements.

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY

STATEMENT OF CASH FLOWS

For the year ended June 30, 2008
(With comparative totals for the year ended June 30, 2007)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from consumers	$ 6,377,325	$ 5,615,585
Payment to suppliers	(2,431,717)	(4,378,552)
Payment to employees	(4,373,043)	(3,838,942)
NET CASH USED BY OPERATING ACTIVITIES	(427,435)	(2,601,909)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Other revenue	44,768	50,714
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(16,402,185)	(20,403,383)
Proceed from sale of capital assets	8,115	-
Connection fees	8,120,414	12,220,994
Septage receiving facility revenue	229,457	263,572
Principal paid on long-term debt	(800,234)	(783,298)
Interest paid on long-term debt	(302,995)	(319,774)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(9,147,428)	(9,021,889)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	1,090,177	1,467,015
Payments on note receivable	-	23,927
Net change in investments	5,879,647	2,034,740
NET CASH PROVIDED BY INVESTING ACTIVITIES	6,969,824	3,525,682
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,560,271)	(8,047,402)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	17,610,685	25,658,087
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 15,050,414	$ 17,610,685

See independent auditors' report and notes to financial statements.

(Continued)

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY

STATEMENT OF CASH FLOWS
(CONTINUED)

For the year ended June 30, 2008
(With comparative totals for the year ended June 30, 2007)

	2008	2007
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (4,940,001)	$ (6,086,261)
Depreciation	2,527,470	2,680,835
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	46,045	491,184
(Increase) decrease in employee receivables	(789)	(2,666)
(Increase) decrease in parts inventory	(40,336)	(575)
(Increase) decrease in deposits	670	(3,120)
(Increase) decrease in prepaid expenses	979	(37,337)
Increase (decrease) in accounts payable	1,518,961	(1,442,563)
Increase (decrease) in accrued liabilities	(91,165)	(10,499)
Increase (decrease) in retention payable	510,500	1,734,511
Increase (decrease) in litigation settlement	(6,852)	(7,323)
Increase (decrease) in compensated absences payable	47,083	81,905
NET CASH USED BY OPERATING ACTIVITIES	$ (427,435)	$ (2,601,909)

See independent auditors' report and notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. The Organization:

The Victor Valley Wastewater Reclamation Authority (the Authority) was formed on December 13, 1977, under a joint powers agreement between local governments and special districts 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, transmission, and treatment facilities within the region.

b. Uniform Accounting System:

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenses. This system permits separate accounting for each established fund, for purposes of complying with applicable legal provisions, Board of Commissioners' ordinances and resolutions and other requirements. Also, the accounts have been maintained in accordance with the California State Controller's uniform system of accounts.

c. Basic Financial Statements:

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

d. Basis of Presentation:

The accounts of the Authority are an enterprise fund. An enterprise fund is a Proprietary type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The Authority has opted under Governmental Accounting Standards Board (GASB) Statement 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, to apply all GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

e. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the economic resources measurement focus, and the accrual basis of accounting. Under the economic measurement focus all assets and liabilities (whether current or noncurrent) associated with these activities are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

f. Net Assets:

In the Statement of Net Assets, net assets are classified in the following categories:

- Invested in capital assets, net of related debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

- Restricted net assets - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

- Unrestricted net assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets".

When both restricted and unrestricted resources are available for use, the Authority may use restricted resources or unrestricted resources based on the Board's discretion.

g. Operating Revenues and Expenses:

Operating revenues, such as charges for services (user 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. Nonoperating revenues, such as connection fees, and investment income, result from nonexchange transactions or ancillary activities in which the Authority gives (receives) value without directly receiving (giving) equal value in exchange.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

g. Operating Revenues and Expenses (Continued):

Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets.

h. Parts Inventory:

Parts inventory is valued at the lower of cost or market and is accounted for on a specific identification basis.

i. Capital Assets:

Property, plant and equipment are stated at cost or estimated cost when cost records are not available. Depreciation of all exhaustible capital assets is charged as an expense against operations. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives of property, plant, and equipment are as follows:

Plant, buildings, and interceptor lines	40 to 50 years
Land improvements	15 years
Equipment and vehicles	5 to 8 years

j. Budgetary Accounting:

The Authority's budgetary procedures are as follows:

For internal purposes only, the Authority adopts an itemized statement of estimated revenues and expenses prior to the beginning of each fiscal year. The sources of financing operating costs and reserve requirements are available equity carried forward from the preceding year and current year revenue.

k. Uncollectible Accounts:

Uncollectible accounts are determined by the direct write-off method. The Authority's uncollectible accounts are minimal.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

l. Maintenance Costs:

All expenses for maintenance and repairs of property, including renewals of minor items, are charged to the appropriate maintenance expense accounts. A betterment or replacement of a unit of property is accounted for as an addition or retirement of capital assets.

m. Compensated Absences:

Accumulated unpaid vacation, sick pay and other employee benefit amounts are accrued when vested. At June 30, 2008, compensated absences payable in the amount of $312,562 is included as current and long-term liabilities payable.

n. Claims and Judgments:

When it is probable that a claim liability has been incurred at year-end, and the amount of the loss can be reasonably estimated, the Authority records the estimated loss, net of any insurance coverage under its participation in the Joint Powers Insurance Authority program. At June 30, 2008, in the opinion of the Authority's legal counsel, the Authority had no material claims which would require a loss provision in the financial statements. Small dollar claims and judgments are recorded as expenses when paid.

o. Investments:

Investments are stated at fair value (quoted market price or the best available estimates thereof). Net increase (decrease) in the fair value of investments, which consists of realized gains (losses) and the unrealized gains (losses), is shown in the statement of revenues, expenses and changes in net assets.

p. Cash and Cash Equivalents:

For purposes of the statement of cash flows, cash and cash equivalents have been defined as unrestricted demand deposits and highly liquid investments with maturity of 90 days or less at date of purchase.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

q. Comparative Totals:

The comparative totals for 2007 are presented in the accompanying financial statements to facilitate comparisons with 2008 balances. The 2007 balances have been restated to reflect the adjustments to the prior year as reported in Note 13 of the financial statements.

r. Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures made in the accompanying notes to the financial statements. While management believes these estimates are adequate, actual results could differ from those estimates.

2. CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments as of June 30, 2008 are reported in the accompanying combined financial statements as follows:

Financial Statement Classification:	
Cash and cash equivalents	$ 15,050,414
Investments	1,971,680
Total	$ 17,022,094

Cash and investments as of June 30, 2008 consisted of the following:

Cash and cash equivalents:	
Cash on hand	$ 500
Deposits	1,971,104
Escrow deposits	2,212,650
Local Agency Investment Fund	7,453,714
Money Market fund	3,412,446
Total cash and cash equivalents	15,050,414
Investments	1,971,680
Total cash and investments	$ 17,022,094

See independent auditors' report.

2. CASH AND INVESTMENTS (CONTINUED):

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Government Sponsored Enterprise Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
San Bernardino County Local Agency Investment Fund (SBCLAIF)	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

N/A - Not Applicable

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Interest Rate Risk:

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

Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

Investment Type	Remaining Maturity (in Months) 12 Months or Less	Total
U.S. Government Sponsored Enterprise Securities	$ 1,971,680	$ 1,971,680
Local Agency Investment Fund	7,453,714	7,453,714
Money Market Funds	3,412,446	3,412,446
	$ 12,837,840	$ 12,837,840

Disclosures Relating to Credit Risk:

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

Investment Type	AAA	Unrated	Total
U.S. Government Sponsored Enterprise Securities	$ 1,971,680	$ -	$ 1,971,680
Local Agency Investment Fund	-	7,453,714	7,453,714
Money Market Funds	-	3,412,446	3,412,446
	$ 1,971,680	$ 10,866,160	$ 12,837,840

See independent auditors' report.

2. CASH AND INVESTMENTS (CONTINUED):

Concentration of Credit Risk:

Investments in any one issuer that represents 5% or more of total Authority's investments are as follows:

Issuer	Investment Type	Reported Amount
Federal Home Loan Mortgage Corporation	U.S. Government Sponsored Enterprise Securities	$ 1,971,680

Custodial Credit Risk:

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2008 the Authority's deposits were insured or collateralized as required by California law.

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 California Government Code Section 16429 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.

3. ACCOUNTS RECEIVABLE:

Accounts receivable at June 30, 2008, consist of service charges and connection fees receivable from the following member entities and others:

Town of Apple Valley	$ 173,879
County Services Areas 42 and 64	43,983
Southern California Logistics Airport	29,129
City of Hesperia	150,822
City of Victorville	1,263,124
Miscellaneous	121,623
	$ 1,782,560

4. EMPLOYEE RECEIVABLES:

Effective September 22, 1994, the Authority established a policy entitled "Employee Computer Purchase Program", wherein employees of the Authority may purchase computer hardware, software, and peripheral equipment from the Authority for personal use and the Authority will finance said purchase. Each participating employee may not owe more than $2,500 at any time and may have only one purchase agreement in effect at a time. Further, at no time shall the sum of all amounts due from all participating employees exceed $25,000. The Authority is repaid through payroll deductions from the participating employees' wages. The balance at June 30, 2008, was $10,561.

5. CAPITAL ASSETS:

Changes in capital assets for the year ended June 30, 2008 are as follows:

	Balance at July 1, 2007	Additions	Deletions	Balance at June 30, 2008
Capital assets, not being depreciated:				
Land	$ 650,136	$ -	$ -	$ 650,136
Construction in progress	42,301,930	14,089,039	(2,104,550)	54,286,419
Total capital assets, not being depreciated	42,952,066	14,089,039	(2,104,550)	54,936,555
Capital assets, being depreciated:				
Land improvements	365,523	11,500	-	377,023
Plant and buildings	58,685,778	2,763,011	(130,767)	61,318,022
Interceptor lines	21,860,479	1,490,874	-	23,351,353
Office equipment	368,392	116,765	(3,282)	481,875
Trucks and autos	764,640	35,546	(1,477)	798,709
Total capital assets, being depreciated	82,044,812	4,417,696	(135,526)	86,326,982
Less accumulated depreciation:				
Land improvements	(128,916)	(26,773)	-	(155,689)
Plant and buildings	(23,308,605)	(1,832,235)	129,319	(25,011,521)
Interceptor lines	(7,594,130)	(537,560)	-	(8,131,690)
Office equipment	(233,170)	(61,010)	3,282	(290,898)
Trucks and autos	(379,648)	(69,892)	1,477	(448,063)
Total accumulated depreciation	(31,644,469)	(2,527,470)	134,078	(34,037,861)
Total capital assets being depreciated, net	50,400,343	1,890,226	(1,448)	52,289,121
Total capital assets, net	$ 93,352,409	$ 15,979,265	$ (2,105,998)	$ 107,225,676

See independent auditors' report.

6. LONG-TERM DEBT:

The change in long-term debt for the year ended June 30, 2008, is as follows:

	Balance at July 1, 2007	Additions	Deletions	Balance at June 30, 2008	Due Within One Year	Due in More Than One Year
State Revolving Fund (SRF) loans:						
9.5 MGD Improvements Project	$ 2,892,278	$ -	$ (189,851)	$ 2,702,427	$ 194,978	$ 2,507,449
11 MGD Expansion Project	7,537,469	-	(440,728)	7,096,741	448,864	6,647,877
North Apple Valley Interceptor	3,539,818	-	(169,655)	3,370,163	173,897	3,196,266
Total SRF loans	13,969,565	-	(800,234)	13,169,331	817,739	12,351,592
Litigation settlement	107,180	-	(6,852)	100,328	6,852	93,476
Compensated absences	265,479	47,083	-	312,562	55,417	257,145
Total	$ 14,342,224	$ 47,083	$ (807,086)	$ 13,582,221	$ 880,008	$ 12,702,213

State Revolving Fund (SRF) Loans:

The Authority has three State Revolving Fund loans from the State Water Resources Control Board to finance its 9.5 MGD Improvements Project, 11 MGD Expansion Project and the North Apple Valley Interceptor. The loans are each payable in 20 annual installments.

On June 20, 2008, the Board of Commissioners adopted its Resolution No. 2008-12 revising the dedicated source of funds guaranteeing the repayment of the foregoing SRF loans. By adoption of this resolution the Board of Commissioners dedicated its "Net Revenues" as such term as defined in Resolution No. 2008-12 to the repayment of such SRF loans. By adoption of this Resolution, $13,169,331 of funds in the Capital Outlay Fund and $118,682 of accrued interest on such funds that were previously dedicated to the repayment of such SRF loans were released from such restriction.

6. LONG-TERM DEBT (CONTINUED):

SRF Loan - 9.5 MGD Improvements Project:

The 9.5 MGD Improvements Project loan has annual installments of $265,050, including interest at 2.6%. The outstanding balance at June 30, 2008 was $2,702,427.

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

Fiscal Year	Principal	Interest	Total
2009	$ 194,978	$ 70,072	$ 265,050
2010	199,856	65,194	265,050
2011	205,052	59,998	265,050
2012	210,384	54,666	265,050
2013	215,988	49,062	265,050
2014 - 2018	1,166,516	158,734	1,325,250
2019 - 2020	509,653	19,955	529,608
Total	$ 2,702,427	$ 477,681	$ 3,180,108

SRF Loan - 11 MGD Expansion Project:

The 11 MGD Expansion Project loan has annual installments of $579,870, including interest at 1.85%. The outstanding balance at June 30, 2008 is $7,096,741.

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

Fiscal Year	Principal	Interest	Total
2009	$ 448,864	$ 131,006	$ 579,870
2010	457,151	122,719	579,870
2011	465,589	114,281	579,870
2012	474,184	105,686	579,870
2013	482,938	96,932	579,870
2014 - 2018	2,551,750	347,600	2,899,350
2019 - 2022	2,216,265	103,215	2,319,480
Total	$ 7,096,741	$ 1,021,439	$ 8,118,180

See independent auditors' report.

6. LONG-TERM DEBT (CONTINUED):

SRF Loan - North Apple Valley Interceptor:

The North Apple Valley Interceptor (NAVI) loan has annual installments of $258,151, including interest at 2.5%. The outstanding balance at June 30, 2008 was $3,370,163.

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

Fiscal Year	Principal	Interest	Total
2009	$ 173,897	$ 84,254	$ 258,151
2010	178,244	79,907	258,151
2011	182,701	75,450	258,151
2012	187,268	70,883	258,151
2013	191,950	66,201	258,151
2014 - 2018	1,034,174	256,581	1,290,755
2019 - 2023	1,170,073	120,682	1,290,755
Thereafter	251,856	6,295	258,151
Total	$ 3,370,163	$ 760,253	$ 4,130,416

Litigation Settlement:

Also included in long-term debt is the accrued amount of $100,328 to be paid under a settlement agreement with a former employee. The outstanding balance at June 30, 2008 was $100,328.

Compensated Absences:

The Authority's liability for vested and unpaid compensated absences (accrued vacation, sick pay and other employee benefits) in the statement of net assets has been accrued and amounts to $312,562 at June 30, 2008.

7. NET ASSETS:

Net assets at June 30, 2008, are composed of the following:

Net Assets:		
Invested in capital assets	$ 141,263,537	
Less accumulated depreciation	(34,037,861)	
Net of related debt	(13,169,331)	
Total invested in capital assets, net of related debt		$ 94,056,345
Restricted for special purposes and capital improvements:		
Capital improvements	7,869,303	
Total Restricted		7,869,303
Unrestricted		5,478,344
Total Net Assets		$ 107,403,992

See independent auditors' report.

7. NET ASSETS (CONTINUED):

Restricted for Capital Improvements:

Restricted for capital improvements consists of the accumulation of connection fees for future capital improvements, including plant expansion and acquisition.

Beginning balance, as restated	$ 14,312,409
Connection fees	8,120,414
Interest and miscellaneous income	1,025,215
Expenses and capital acquisitions	(15,588,735)
	$ 7,869,303

8. DEFINED BENEFIT PENSION PLAN:

a. Plan Description:

The Authority's pension plan is part of the Miscellaneous 2.5% at 55 Risk Pool of the California Public Employees Retirement System (CalPERS), a cost sharing, multiple employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. The risk pool combines the assets and liabilities across employers of the same risk pool to provide a method to spread the risk of uncertain gains and losses over a larger base of members. Benefit provisions and all other requirements are established by state statute and Authority ordinance. Copies of CalPERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

b. Annual Required Contribution:

The contribution requirements of the plan members and the Authority are established and may be amended by the State. Plan members are required to contribute 8% of their annual covered salary. The Authority is required to contribute at an actuarially determined rate; the current rate is 11.443% of covered payroll. The Authority's contributions to CalPERS for the years ended June 30, 2008, 2007 and 2006 were $597,765, $530,822 and $222,138, respectively, and were equal to the required contributions for each year.

9. RISK MANAGEMENT:

The Authority participates in the insurance program organized by the California Sanitation Risk Management Authority (CSRMA). CSRMA is a Joint Powers Authority created to provide insurance coverage to wastewater agencies in the State of California.

CSRMA provides liability, property, and workers' compensation insurance for approximately 57 wastewater agencies for losses in excess of the member-districts' specified self-insurance retention levels. Individual claims (and aggregate public liability and property claims) in excess of specified levels are covered by excess insurance policies purchased from commercial carriers. CSRMA is governed by a Board composed of members from participating districts. The Board controls the operations of CSRMA, including selection of management and approval of operating budgets, independent of any influence by the members beyond representation on the Board. Each member shares surpluses and deficiencies proportionately to its participation in CSRMA.

Separate financial statements of the CSRMA may be obtained at 600 Montgomery, 9th Floor, San Francisco, California 94111.

10. COMMITMENTS AND CONTINGENCIES:

In August 1999, the Authority entered into an agreement to lease 50 acres of its 600-acre property to a company engaged in the recycling of organic waste materials. Of the 50 acres leased, 50 acres were in use at June 30, 2008. Under the terms of the lease agreement, the Authority receives monthly rent in the amount of $1 per acre in use and, in addition, the tenant agrees to accept and process, at no cost, all biosolids produced by the Authority. The lease agreement covers an initial five-year term followed by three successive five year option periods.

In the prior year, the Authority recorded a liability as part of a settlement agreement with an employee. Of this amount, $6,852 is included in the current portion of long-term debt and the balance of the settlement of $93,476 is included as long-term debt (see Note 6).

On April 12, 2005, the No. 10 percolation pond was overfilled and topped the pond containment levee, which caused the levee to fail, resulting in a spill of 8.72 million gallons of unchlorinated secondary effluent into the Mojave River. In response to the spill, the Lahontan Regional Water Quality Control Board (RWQCB) imposed a fine, which was settled. The settlement required the Authority to pay a fine in cash, which the Authority has paid and conduct a Supplemental Environmental Project (SEP). The SEP has proceeded since then, but has not yet been concluded.

10. COMMITMENTS AND CONTINGENCIES (CONTINUED):

On August 18, 2008, the Regional Board issued Administrative Civil Liability Complaint (Complaint). The Complaint alleged discharge and reporting violations by the Authority. The reporting violations, which constituted a large bulk of the Complaint, dated back to 2006. After negotiations, the Authority and the Regional Board reached a proposed settlement of the claims in the Complaint. The proposed settlement represents a mutually agreed upon resolution of the claims. Under the settlement, the Authority has agreed to administrative civil liability in the amount of $324,000. The Authority will pay a fine of $170,380 and $153,620 will be permanently suspended provided the Authority completes an agreed upon Supplemental Environmental Project (SEP) described in a September 23, 2008 SEP Proposal provided by the Authority.

11. OPERATING LEASE:

The Authority has entered into an operating lease for a period of thirty-six months, commencing May 1, 2007 and ending April 30, 2010 to rent office space. The monthly rent commencing May 1, 2007 is $4,880 per month and is adjusted annually by the Consumer Price Index as defined in the lease agreement. The future minimum lease payments (computed using a 3% CPI increase) are:

2009	$	60,614
2010		51,770
Total	$	112,384

12. ECONOMIC DEPENDENCY:

The Authority has significant economic dependency upon its member entities to collect connection fees and user charges which fund the Authority's operations. This dependency is mitigated by service agreements signed by the member entities that provide assurance that entities will send all of their wastewater to the Authority for treatment. The service agreements entered into on August 1, 2005 provides the terms of the agreement to be perpetual with the provision that each member entity has to terminate the agreement upon 30 years notice to the Authority.

See independent auditors' report.

13. RESTATEMENT OF BEGINNING NET ASSETS:

The beginning net assets were restated as follows:

	Operations and Maintenance	Repairs and Replacement	Capital Outlay	Totals
Net assets (deficit), as previously reported	$ 89,045,829	$ (363,623)	$ 14,387,409	$ 103,069,615
Restatements:				
Increase in inventory	301,760	-	-	301,760
Increase/decrease in interfund loans	75,000	-	(75,000)	-
Net assets (deficit) as restated	$ 89,422,589	$ (363,623)	$ 14,312,409	$ 103,371,375

See independent auditors' report.

SUPPLEMENTARY INFORMATION - COMBINING STATEMENTS

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY

COMBINING STATEMENT OF NET ASSETS

June 30, 2008

ASSETS	Operations and Maintenance	Repairs and Replacements
CURRENT ASSETS:		
Cash and investments (overdraft)	$ (1,341,387)	$ (2,381,894)
Accounts receivable	1,090,762	-
Interest receivable	-	-
Employee receivables	10,561	-
Due from other funds	-	95,089
Parts inventory	403,597	-
Deposits	38,628	-
Prepaid expenses	70,570	-
TOTAL CURRENT ASSETS	272,731	(2,286,805)
CAPITAL ASSETS:		
Capital assets, at cost	141,263,537	-
Less accumulated depreciation	(34,037,861)	-
NET CAPITAL ASSETS	107,225,676	-
TOTAL ASSETS	107,498,407	(2,286,805)

See independent auditors' report.

Capital Outlay	Total
$ 20,745,375	$ 17,022,094
691,798	1,782,560
94,174	94,174
-	10,561
4,628,793	4,723,882
-	403,597
-	38,628
-	70,570
26,160,140	24,146,066
-	141,263,537
-	(34,037,861)
-	107,225,676
26,160,140	131,371,742

(Continued)

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY

COMBINING STATEMENT OF NET ASSETS
(CONTINUED)

June 30, 2008

LIABILITIES AND NET ASSETS	Operations and Maintenance	Repairs and Replacements
CURRENT LIABILITIES:		
Accounts payable	$ 462,959	$ 77,182
Retention payable	-	-
Due to other funds	4,576,885	146,997
Accrued interest	-	-
Current portion of long-term debt	62,269	-
TOTAL CURRENT LIABILITIES	5,102,113	224,179
LONG-TERM DEBT:		
State Revolving Fund loans	-	-
Litigation settlement	100,328	-
Compensated absences payable	312,562	-
Less current portion	(62,269)	-
TOTAL LONG-TERM DEBT	350,621	-
TOTAL LIABILITIES	5,452,734	224,179
NET ASSETS (DEFICIT):		
Invested in capital assets, net of related debt	94,056,345	-
Restricted	-	-
Unrestricted	7,989,328	(2,510,984)
TOTAL NET ASSETS (DEFICIT)	$ 102,045,673	$ (2,510,984)

See independent auditors' report.

Capital Outlay	Total
$ 2,757,813	$ 3,297,954
2,245,011	2,245,011
-	4,723,882
118,682	118,682
817,739	880,008
5,939,245	11,265,537
13,169,331	13,169,331
-	100,328
-	312,562
(817,739)	(880,008)
12,351,592	12,702,213
18,290,837	23,967,750
-	94,056,345
7,869,303	7,869,303
-	5,478,344
$ 7,869,303	$ 107,403,992

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY

COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS

For the year ended June 30, 2008

	Operations and Maintenance	Repairs and Replacements
OPERATING REVENUES:		
User charges	$ 6,284,859	$ -
Pretreatment permit fees	54,521	-
TOTAL OPERATING REVENUES	6,339,380	-
OPERATING EXPENSES:		
Personnel	4,419,337	-
Maintenance	356,734	46
Operations	2,170,801	-
Administration	1,312,311	819
Bad debt	8,100	-
Depreciation	2,527,470	-
TOTAL OPERATING EXPENSES	10,794,753	865
OPERATING LOSS	(4,455,373)	(865)
NONOPERATING REVENUES (EXPENSES):		
Investment income	86,091	-
Other	51,435	-
Septage receiving facility	229,457	-
Connection fees	-	-
Interest expense	(142,836)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	224,147	-
INCOME (LOSS) BEFORE TRANSFERS	(4,231,226)	(865)
TRANSFERS IN	16,955,956	-
TRANSFERS OUT	(101,646)	(2,146,496)
CHANGES IN NET ASSETS	12,623,084	(2,147,361)
NET ASSETS (DEFICIT) - BEGINNING OF YEAR, AS RESTATED	89,422,589	(363,623)
NET ASSETS (DEFICIT) - END OF YEAR	$ 102,045,673	$ (2,510,984)

See independent auditors' report.

Capital Outlay	Total
$ -	$ 6,284,859
-	54,521
-	6,339,380
-	4,419,337
427,504	784,284
9,698	2,180,499
46,561	1,359,691
-	8,100
-	2,527,470
483,763	11,279,381
(483,763)	(4,940,001)
923,569	1,009,660
-	51,435
-	229,457
8,120,414	8,120,414
(295,512)	(438,348)
8,748,471	8,972,618
8,264,708	4,032,617
101,646	17,057,602
(14,809,460)	(17,057,602)
(6,443,106)	4,032,617
14,312,409	103,371,375
$ 7,869,303	$ 107,403,992

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY

SCHEDULE OF OPERATING EXPENSES

For the year ended June 30, 2008

PERSONNEL:		
Salaries	$	3,291,465
Employee benefits		1,127,872
TOTAL PERSONNEL		4,419,337
MAINTENANCE:		
Equipment and supplies		46,128
Instrumentation		74,465
Tools		13,723
Ground repairs and maintenance		23,739
Vehicle repairs and maintenance		43,188
Sewer repairs and maintenance		403,032
Repairs and replacement projects		124,508
Other		55,501
TOTAL MAINTENANCE		784,284
OPERATIONS:		
Process chemicals		500,457
Utilities		830,472
Trash and sludge disposal		101,922
Fuel and lubricants		94,894
Lab supplies and services		201,764
Safety equipment		45,290
Custodial		51,109
Equipment rental		65,829
Uniforms		16,899
Security		5,879
Sewer location services		265,984
TOTAL OPERATIONS		2,180,499

See independent auditors' report.

(Continued)

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY

SCHEDULE OF OPERATING EXPENSES
(CONTINUED)

For the year ended June 30, 2008

ADMINISTRATION:		
Telephone and communications	$	82,823
Computers and office equipment		81,799
Computer and office supplies		26,383
Printing and advertising		25,288
Postage and freight		7,933
Travel and education		116,788
Membership and commissioner fees		42,195
Books and periodicals		3,350
Professional services		345,043
Legal services		285,112
Temporary labor		94,458
Insurance		182,356
Permit fees		487
Rent		58,560
Other		7,116
TOTAL ADMINISTRATION		1,359,691
BAD DEBT		8,100
DEPRECIATION		2,527,470
TOTAL OPERATING EXPENSES	$	11,279,381

See independent auditors' report.

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY

SCHEDULE OF INTERFUND BALANCES/TRANSFERS

June 30, 2008

Due From/Due To Other Funds:

Interfund receivables and payables at June 30, 2008 are as follows:

	Due From Other Funds	Due To Other Funds
Operations and Maintenance Fund	$ -	$ 4,576,885
Repairs and Replacements Fund	95,089	146,997
Capital Outlay Fund	4,628,793	-
	$ 4,723,882	$ 4,723,882

The $2,767,677 interfund loan balance between the Operations and Maintenance Fund and the Capital Outlay Fund is related to the $3,000,000 interfund loan authorized by the Board of Commissioners on November 20, 2006 by the adoption of Resolution No. 2006-16. The loan has no stipulated due dates and the interest rate is 5%. The interest on the interfund amount was paid during the year. The balance outstanding at June 30, 2008 is $2,767,677.

On March 16, 2007, the Board of Commissioners authorized a $307,848 interfund loan from the Capital Outlay Fund to the Operations and Maintenance Fund. These funds were transferred from the Capital Outlay Fund to the Operations and Maintenance Fund on June 30, 2008. The loan has no stipulated due dates and the interest rate is 5%. The balance outstanding at June 30, 2008 is $307,848.

On December 21, 2007, the Board of Commissioners authorized a $259,473 interfund loan from the Capital Outlay Fund to the Operations and Maintenance Fund. These funds were transferred from the Capital Outlay fund to the Operations and Maintenance Fund on June 30, 2008. The loan has no stipulated due dates and the interest rate is 5%. The balance outstanding at June 30, 2008 is $259,473.

Interfund balances are a result of short-term interfund borrowings to manage cash flows.

Transfers In/Out:

Transfers in and out for the year ended June 30, 2008 are as follows:

Transfer From	Transfer To	Amount
Operations and Maintenance Fund	Capital Outlay Fund	$ 101,646
Repairs and Replacements Fund	Operations and Maintenance Fund	2,146,496
Capital Outlay Fund	Operations and Maintenance Fund	14,809,460
		$ 17,057,602

See independent auditors' report.

SCHEDULE OF INTERFUND BALANCES/TRANSFERS
(CONTINUED)

June 30, 2008

Transfers In/Out (Continued):

$101,646 of the transfers from the Operations and Maintenance Fund to the Capital Outlay Fund is for capital recovery from the Operations and Maintenance Fund septage receiving facility.

Transfers of the $2,146,496 from the Repairs and Replacements Fund to the Operations and Maintenance Fund is to transfer capital assets out of the Repairs and Replacements Fund to the Operations and Maintenance Fund.

$14,296,213 of the transfers from the Capital Outlay Fund to the Operations and Maintenance Fund is to transfer capital assets out of the Capital Outlay Fund to the Operations and Maintenance Fund. $513,247 of the transfers from the Capital Outlay Fund to the Operations and Maintenance Fund is to repay administrative expenditures incurred in the Operations and Maintenance Fund.

See independent auditors' report.

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STATISTICAL SECTION

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY

SCHEDULE OF BOARD OF COMMISSIONERS
AND INSURANCE COVERAGE

June 30, 2008

COMMISSIONERS, OFFICERS AND SENIOR MANAGEMENT

The commissioners, officers and senior management of the Authority are listed below. The Board of Commissioners meets the third Monday of each month.

	Term Expires
Robert Sagona, Chair Town of Apple Valley	Term expires at discretion of the appointing entity
Rudy Cabriales, Vice Chair City of Victorville	Term expires at discretion of the appointing entity
Thurston Smith, Treasurer City of Hesperia	Term expires at discretion of the appointing entity
Tom Sutton, Member (designee for Brad Mitzelfelt) Oro Grande (CSA 42) and Spring Valley Lake (CSA 64)	Term expires at discretion of the appointing entity
Logan Olds, General Manager	N/A

See independent auditors' report.

(Continued)

VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY

SCHEDULE OF BOARD OF COMMISSIONERS
AND INSURANCE COVERAGE
(CONTINUED)

June 30, 2008

INSURANCE COVERAGE

At June 30, 2008, the Authority carried insurance as outlined below:

Risks of Loss	Nature of Insurance	Limits	Deductible
Auto physical damage	Commercial insurance	$ 250,000 (any 1 vehicle) $ 7,000,000 (any 1 occurrence)	$ 1,000
Mobile equipment	Commercial insurance	$ 646,234	$ 2,000
General and auto liability	CSRMA pool	$ 15,750,000 $ 1,000,000 (1)	$ 5,000 $ 25,000 (1) $ 10,000 (3)
Property	Commercial insurance	$ 48,600,161	$ 5,000
Public employee dishonesty	Commercial insurance	$ 100,000	$ 1,000
Workers' compensation employers' liability	CSRMA pool	$ 750,000	
Excess workers' compensation employers' liability	Commercial insurance	$ 1,000,000 (2)	
Public official bond	Commercial insurance	$ 250,000	
Pollution and remediation legal liability	Commercial insurance	$ 1,000,000 (any 1 occurrence) $ 5,000,000 (aggregate)	$ 25,000

All commercial insurance coverage is purchased through the California Sanitation Risk Management Authority (CSRMA) pool.

(1) Employment practice liability
(2) In excess of $750,000
(3) Sewer backup

See independent auditors' report.