VICTORVILLE WATER DISTRICT
(A Subsidiary District of the City of Victorville, California)

BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2009

VICTORVILLE WATER DISTRICT

Basic Financial Statements

Year ended June 30, 2009

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Board of Directors
Victorville Water District
Victorville, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of the Victorville Water District ("District"), a subsidiary district of the City of Victorville, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the management of the Victorville Water District. Our responsibility is to express an opinion on these 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. 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the Victorville Water District, as of June 30, 2009 and the respective changes in financial position and cash flows of the District for the period then ended in conformity with accounting principles generally accepted in the United States of America.

The Victorville Water District has not presented *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 29, 2010 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California
January 29, 2010

VICTORVILLE WATER DISTRICT

Statement of Net Assets

June 30, 2009

Assets	Total
Current assets:	
Cash and investments (note 2)	$ 8,401,449
Cash and investments with fiscal agent (note 2)	6,663,198
Accounts receivable, net	4,524,865
Interest receivable	144,032
Due from other governments	3,103,698
Inventory	212,619
Prepaid items	2,249,983
Total current assets	25,299,844
Noncurrent assets:	
Advances to City of Victorville (note 4)	21,929,420
Deferred charges, net (note 5)	490,982
Non-depreciable capital assets (note 3)	21,704,558
Depreciable capital assets, net (note 3)	148,773,062
	192,898,022
Total assets	218,197,866
Liabilities	
Current liabilities:	
Accounts payable	2,219,493
Interest payable	282,224
Deferred revenue	1,927,813
Deposits payable	939,195
Long-term liabilities, due within one year (note 6)	687,964
Total current liabilities	6,056,689
Noncurrent liabilities:	
Long-term liabilities, due in more than one year (note 6)	15,272,272
Total noncurrent liabilities	15,272,272
Total liabilities	21,328,961
Net assets:	
Net assets:	
Invested in capital assets, net of related debt (note 8)	162,345,335
Restricted for capital asset construction	1,004,108
Restricted for debt service	773,962
Unrestricted	32,745,500
Total net assets	$ 196,868,905

See accompanying notes to the basic financial statements.

VICTORVILLE WATER DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2009

	Total
Operating revenues:	
Water sales	$ 13,613,711
Meter and service fees	8,138,360
Other	3,358
Total operating revenues	21,755,429
Operating expenses:	
Personnel services	6,561,191
Maintenance and operations	6,853,705
Production costs	8,275,857
Depreciation	6,855,826
Total operating expenses	28,546,579
Operating income (loss)	(6,791,150)
Nonoperating revenues (expenses):	
Intergovernmental	2,297,497
Investment income	891,239
Interest expense	(688,823)
Arsenic surcharge	542,174
Post employment benefits adjustment	(241,072)
Gain (loss) on sale of assets	380,530
Other revenue (expenses)	27,934
Total nonoperating revenues (expenses)	3,209,479
Income (loss) before transfers and capital contributions	(3,581,671)
Capital contributions:	
Connection fees	1,355,121
Alternate water source fees	597,337
State grants	1,686,295
Developer contributed assets	3,875,275
Total contributions and transfers	7,514,028
Change in net assets	3,932,357
Net assets at beginning of year, as restated (note 10)	192,936,548
Net assets at end of year	$196,868,905

See accompanying notes to the basic financial statements.

VICTORVILLE WATER DISTRICT

Statement of Cash Flows

Year ended June 30, 2009

	Total
Cash flows from operating activities:	
Cash received from customers	$ 18,861,553
Cash payments to employees for services	(6,817,024)
Cash payments to suppliers for goods and services	(13,967,869)
Cash payments to other governments	(2,692,519)
Nonoperating miscellaneous revenue received	27,934
Net cash provided by (used for) operating activities	(4,587,925)
Cash flows from noncapital financing activities:	
Cash received from County of San Bernardino	1,150,097
Cash paid to City of Victorville	(21,929,420)
Net cash provided by (used for) noncapital financing activities	(20,779,323)
Cash flows from capital and related financing activities:	
Cash payments to acquire capital assets	(10,600,085)
Cash received from capital restricted revenue	4,180,927
Cash received for capital grants	1,147,400
Principal paid on capital-related debt	(614,959)
Interest paid on capital-related debt	(569,536)
Net cash provided by (used for) capital and related financing activities	(6,456,253)
Cash flows from investing activities:	
Interest received on investments	1,097,790
Net cash provided by investing activities	1,097,790
Net increase in cash and cash equivalents	(30,725,711)
Cash and cash equivalents at beginning of year, as restated (note 10)	45,790,358
Cash and cash equivalents at end of year	$ 15,064,647
Reconciliation of operating income to net cash provided by (used for) operating activities:	
Operating income (loss)	$ (6,791,150)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	6,855,826
Nonoperating miscellaneous revenue	27,934
Gain on sale of capital asset	380,530
(Increase) decrease in accounts receivable	(1,788,075)
(Increase) decrease in due from other governments	(2,692,519)
(Increase) decrease in inventory	149,112
(Increase) decrease in prepaid items	749,999
Increase (decrease) in accounts payable	(224,321)
Increase (decrease) in accrued liabilities	(149,460)
Increase (decrease) in unearned revenue	(225,449)
Increase (decrease) in deposits payable	(880,352)
Total adjustments	2,203,225
Net cash provided by (used for) operating activities	$ (4,587,925)
Noncash capital, financing and investing activities	
Developer contributed capital assets	3,875,275
Total noncash capital, financing and investing activities	$ 3,875,275

See accompanying notes to the basic financial statements.

VICTORVILLE WATER DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2009

	Total Fiduciary Funds
Assets	
Cash and investments (note 2)	$ 843,168
Cash and investments with fiscal agent (note 2)	416,489
Accounts receivable, net	16,303
Total assets	$ 1,275,960
Liabilities	
Accounts payable	$ 10,440
Deposits payable	1,265,520
Total liabilities	$ 1,275,960

See accompanying notes to the basic financial statements.

(1) Summary of Significant Accounting Policies

(a) Description of the Reporting Entity

On August 15, 2007, the Victor Valley Water District and the Baldy Mesa Water District were consolidated into a subsidiary district of the City of Victorville (City), known as the Victorville Water District (District), per Resolution No. 2977 of the Executive Officer of the Local Agency Formation Commission (LAFCO) of San Bernardino County, which adopted a change of organization without election. All of the liabilities including debt obligations of the Victor Valley Water District and the Baldy Mesa Water District were assumed by this subsidiary district and the City upon consolidation. Upon consolidation of the two districts the City consolidated the operations and activities of its Water Department and Water Funds into the District to serve all of the water customers of the City under this District. The basic operations of the District are financed by user charges plus capital contributions to finance growth of the water delivery system. The District is governed by a five-member Board of Directors (City Council), each holding staggered four-year terms.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 14, *The Financial Reporting Entity,* and No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of No. 14). The City of Victorville is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election (City Council). The District is a subsidiary district of the City of Victorville, which the City Council is the governing body thereof and is duly responsible for conducting the business of the District as part of its governing process over the City of Victorville. The City is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

Assessment District No. 2R was established to provide financing for construction and improvement of the water system. In 1987, the Victorville County Water District 1911 Act Improvement Bonds were issued. On June 27, 1989, the Baldy Mesa Water District issued $8,292,572 in Refunding Improvement Bonds, Series 1989, Assessment District No. 2R. The District provides administrative duties as placing assessments on the County tax rolls and submitting payments to the trustee for the assessment bond holders. During fiscal year June 30, 2009, it was determined by the City of Victorville that the Assessment District No. 2R be considered a fiduciary fund of the District. Accordingly, the Assessment District No. 2R fiduciary fund is used to account for assets held by the District. The fund is custodial in nature (assets equal liabilities) and do not involve measurements of results of operations.

(1) Summary of Significant Accounting Policies, (Continued)

(b) 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, Statement of Fiduciary Net Assets and the notes to the basic financial statements.

(c) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The District 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 District is that the costs of providing water to its customers on a continuing basis be financed or recovered primarily through user charges (water sales and services), 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, such as water sales and service charges, result from exchange transactions associated with the principal activities of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as grant funding and investment income, result from non-exchange transactions, in which, the District gives (receives) value without directly receiving (giving) value in exchange. Operating expenses for the District include the cost of purchased water, cost of sales and services, administration expenses, and depreciation on capital assets. All expenses not meeting this definition are reported as non-operating expenses.

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *"Basic Financial Statements - and Management's Discussion and Analysis — for State and Local Governments"* (GASB No. 34). This statement established revised financial, reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity.

(1) Summary of Significant Accounting Policies, (Continued)

(c) Measurement Focus, Basis of Accounting and Financial Statement Presentation, (Continued)

A statement of revenues, expenses and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No, 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board ("FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

(d) Relationship to the City of Victorville

The Victorville Water District ("District") is an integral part of the reporting entity of the City of Victorville ("City") and is reflected as a blended component unit within the City of Victorville. The District fund has been included within the scope of the basic financial statements of the City because the City Council is the governing board and has financial accountability over the operations of the District. Only the District fund is included herein and these financial statements, therefore, do not purport to represent the financial position or results of operations of the City of Victorville, California.

(e) Cash and Investments

Investments are reported in the accompanying balance sheet at fair value. Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

(f) Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less from the date of acquisition that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents include the cash and investments held by a fiscal agent.

(1) Summary of Significant Accounting Policies, (Continued)

(g) Accounts Receivable, Net

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

(h) Deferred Revenue

The deferred revenue associated with the District is for prepaid connection fees which were received before year end that will not be earned until the following year.

(i) Capital Assets

Capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. The District capitalizes all assets with a historical cost of at least $5,000 and a useful life of at least three years. Donated assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the life are not capitalized.

Depreciation is computed utilizing the straight-line method over the following useful lives:

Buildings and improvements	10-50 years
Transmission and distribution Systems	40 years
Source of supply – wells	10-40 years
Water treatment systems	5-10 years
Telemetering equipment	5 years
Furniture and equipment	3-7 years
Vehicles	8-15 years

(j) Materials and Supplies

Materials and supplies consist primarily of water meters, pipe and pipefittings for construction and repair to the District's water transmission and distribution system. Materials and supplies are valued at cost using a weighted average method. Materials and supplies items are charged to expense at the time that individual items are consumed.

(1) Summary of Significant Accounting Policies, (Continued)

(k) Prepaid Expenses

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

(l) Deferred Charges

The deferred charges are from bond issuance costs that will be amortized using the straight-line method over the remaining life of the respective debt service.

(m) Compensated Absences

In accordance with (GASB No. 16, a liability is recorded for unused vacation and similar compensatory leave balances since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

(n) Customer Deposits

Based on a customer's credit, the District may require a deposit deemed reasonable by the District. These deposits are held to pay off close out bills or to cover delinquent payments.

(o) Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District through the collection of AB-1600 connection fees, by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment.

(p) Estimates

The presentation of basic 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

(1) Summary of Significant Accounting Policies. (Continued)

(q) Net Assets

Net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt

This amount consists or capital assets net of accumulated depreciation and reduced by outstanding debt that 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" or "restricted net assets."

(2) Cash and Investments

Cash and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	$ 8,401,449
Cash and investments held by bond trustee	6,663,198
Fiduciary funds:	
Cash and investments	843,168
Cash and investments held by bond trustee	416,489
Total cash and investments	$16,324,304

Cash and investments as of June 30, 2009 consist of the following:

Deposits with financial institutions	$ 9,244,617
Investments	7,079,687
Total cash and investments	$16,324,304

(2) Cash and Investments, (Continued)

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

Authorized Investment Type	Maximum Maximum Maturity	Maximum Percentage Allowed	Investment In One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	1 year	None	None
Commercial Paper	180 days	None	None
Money Market Mutual Funds	None	None	None
Repurchase Agreements	None	None	None
Investment Contracts	None	None	None
Certificate of Deposit	None	None	None
Local Agency Investment Fund	None	None	None
California Common Law Trust Shares	None	None	None

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 District 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.

(2) Cash and Investments, (Continued)

Disclosures Relating to Interest Rate Risk, (Continued)

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of these investments by maturity:

		Remaining Maturing (in Months)			
Investment Type	Total	12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Held by bond trustee:					
Money market funds	$7,079,687	7,079,687	-	-	-
Total	$7,079,687	7,079,687	-	-	-

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 District's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

		Minimum Legal	Rating as of Year End	
Investment Type	Total	Rating	AAA	Not Rated
Held by bond trustee:				
Money market funds	$7,079,687	A	7,079,687	-
Total	$7,079,687		7,079,687	-

Concentration of Credit Risk

There are no investments in any one issuer (other than U.S Treasury securities, mutual funds, and investment pools) that represents 5% or more of total investments for the entire entity.

Custodial Credit Risk

The District does not have separate certificates of deposit or demand accounts held by bond trustee that are subject to disclosable custodial credit risk (as defined by GASB Statement No. 40). The District does not have direct investments in securities subject to disclosable custodial credit risk (as defined by GASB Statement No. 40).

(3) Capital Assets

Capital asset activity for the year ended June 30, 2009 is as follows:

	Balance at 7/1/2008	Additions	Deletions	Balance at 6/30/2009
Non-depreciable assets				
Land	8,399,928	6,872	-	8,406,800
Construction in progress	14,089,256	14,462,179	(15,253,677)	13,297,758
Total non-depreciable assets	22,489,184	14,469,051	(15,253,677)	21,704,558
Depreciable assets:				
Buildings and improvements	15,633,125	3,011,374	-	18,644,499
Furniture and equipment	17,929,044	181,482	-	18,110,526
Computer and communication	1,253,309	9,556	-	1,262,865
Vehicles	2,243,980	565,726	-	2,809,706
Infrastructure	144,628,401	11,491,673	-	156,120,074
Water rights	12,598,384	-	-	12,598,384
Intangibles - water related	1,353,309	-	-	1,353,309
Total depreciable assets	195,639,552	15,259,811	-	210,899,363
Less accumulated depreciation				
Buildings and improvements	(3,330,976)	(635,175)	-	(3,966,151)
Furniture and equipment	(6,076,227)	(695,351)	-	(6,771,578)
Computer and communication	(969,082)	(23,803)	-	(992,885)
Vehicles	(1,388,113)	(227,944)	-	(1,616,057)
Infrastructure	(37,999,595)	(4,546,100)	-	(42,545,695)
Water rights	(4,153,173)	(727,453)	-	(4,880,626)
Intangibles - water related	(1,353,309)	-	-	(1,353,309)
Total accumulated depreciation	(55,270,475)	(6,855,826)	-	(62,126,301)
Total depreciable assets, net	140,369,077	8,403,985	-	148,773,062
Capital assets, net:	162,858,261	22,873,036	(15,253,677)	170,477,620

(4) Receivables, Payables, and Transfers to Other Governments

The composition of receivables, payables, and transfers to other governments as of June 30, 2009 is as follows:

Advances to/from others governments:

Receivable Government	Payable Government	Amount
Victorville Water District	City of Victorville Municipal Utility	$21,929,420 (a)
Total		$21,929,420

(a) The City of Victorville Municipal Utility entered into two agreements to borrow money from the Victorville Water District to fund the cost of capital improvements, general administrative and operating expenditures that were incurred by the City of Victorville Municipal Utility in the prior years. The first agreement was entered into on April 13, 2009 for $2,700,000, with a term of repayment of five years from the date of the agreement, with the annualized Local Agency Investment Fund ("LAIF") rate as the interest rate. The outstanding balance of the first advance as of June 30, 2009 is $1,929,420. The second agreement was entered into on June 30, 2009 for $20,000,000, with a term of repayment of five years from the date of the agreement, with the annualized Local Agency Investment Fund ("LAIF") rate as the interest rate. The outstanding balance of the second advance as of June 30, 2009 is $20,000,000. The sum of the two outstanding advances as of June 30, 2009 is $21,929,420.

(5) Deferred Charges

Deferred charges as of June 30, 2009 consist of the following:

	Balance at July 1, 2008 as restated (1)	Additions	Deletions	Balance at June 30, 2009
2004 La Salle water rights note	7,578	-	(2,218)	5,360
1998 Certificates of Participation	302,274	-	(18,795)	283,479
2006 Certificates of Participation	209,630	-	(7,487)	202,143
Deferred charges, net	$ 710,321	-	(219,339)	490,982

(1) During fiscal year June 30, 2009, the Assessment District 2R was reclassified to a fiduciary fund of the District. Accordingly, the deferred charges of the Assessment District 2R 2006 Refunding Improvement bonds were removed from the District. See reclassification of net assets at note 10 for description of reclassification.

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2009 is noted below:

	Balance at July 1, 2008 as restated (1)	Additions	Retirements	Balance at June 30, 2009	Due Within One Year
Compensated Absences	$ 176,736	255,833	(176,736)	255,833	52,000
OPEB Obligation	-	339,000	(83,559)	255,441	-
Long-term debt:					
2004 La Salle water rights note	1,063,921	-	(289,959)	773,962	300,964
1998 Certificate of participation	2,160,000	-	(85,000)	2,075,000	90,000
2006 Certificate of participation	12,840,000	-	(240,000)	12,600,000	245,000
Totals long-term debt	19,498,921	-	(614,959)	15,448,962	635,964
Totals	$19,675,657	594,833	(875,254)	15,960,236	687,964

(1) During fiscal year June 30, 2009, the Assessment District 2R was reclassified to a fiduciary fund of the District. Accordingly, the long-term debt of the Assessment District 2R 2006 Refunding Improvement bonds was removed from the District. See reclassification of net assets at note 10 for description of reclassification.

Installment Sale Agreement:

2004 La Salle Water Rights Note Payable

In May 2004, the City of Victorville's Baldy Mesa Water District entered into a note payable for $2,243,000. The proceeds were used for the purpose of financing the purchase of water rights.

The note payable has an interest rate of 3.76%. The annual debt service is a special limited obligation of the Baldy Mesa Water District payable from and secured by a pledge of and lien on the net revenues of the Water District. Principal and interest payments are due each November 26th and May 26th. The amount of the note payable outstanding at June 30, 2009 is $773,962.

(6) Long-Term Liabilities, (Continued)

Certificates of Participation:

1998 Certificates of Participation

In 1998, the City of Victorville's Baldy Mesa Water District issued 1998 Certificates of Participation in the amount $2,850,000. The proceeds were used to finance public improvements within the Baldy Mesa Water District service area.

The Certificates of Participation had a stated interest rates ranging from 4.10% to 5.00%. The annual debt service is a special limited obligation of the District payable from and secured by a pledge of and lien on the net revenues of the District. Principal and interest payments are due each August 1st and interest only payments are due each February 1st. The amount of Certificates of Participation outstanding at June 30, 2009 is $2,075,000.

2006 Certificates of Participation

On March 1, 2006, the City of Victorville's Baldy Mesa Water District issued 2006 Certificates of Participation. The proceeds were used to finance public improvements within the Baldy Mesa Water District service area.

The Certificates of Participation had a stated interest rates ranging from 3.20% to 5.00%. The annual debt service is a special limited obligation of the District payable from and secured by a pledge of and lien on the net revenues of the District. Principal and interest payments are due each August 1st and interest only payments are due each February 1st. The amount of Certificates of Participation outstanding at June 30, 2009 is $12,600,000.

(6) Long-Term Liabilities, (Continued)

Debt Service Requirements to Maturity

The annual requirements to amortize outstanding debt of the District as of June 30, 2009, are as follows for each fiscal year ending June 30:

Year Ending June 30	Installment Sale Agreement Principal	Installment Sale Agreement Interest	Certificates of Participation Principal	Certificates of Participation Interest
2010	$ 300,964	26,298	335,000	669,268
2011	312,386	14,876	350,000	656,313
2012	160,612	3,019	360,000	642,765
2013	-	-	370,000	628,615
2014	-	-	385,000	613,905
2015	-	-	410,000	595,805
2016	-	-	430,000	576,655
2017	-	-	440,000	556,705
2018	-	-	465,000	536,055
2019	-	-	490,000	516,240
2020	-	-	505,000	495,240
2021	-	-	530,000	473,390
2022	-	-	550,000	450,375
2023	-	-	575,000	426,180
2024	-	-	600,000	399,845
2025	-	-	625,000	372,483
2026	-	-	465,000	348,625
2027	-	-	485,000	328,398
2028	-	-	505,000	307,300
2029	-	-	530,000	284,575
2030	-	-	555,000	260,725
2031	-	-	580,000	235,750
2032	-	-	605,000	206,750
2033	-	-	640,000	176,500
2034	-	-	670,000	144,500
2035	-	-	705,000	111,000
2036	-	-	740,000	75,750
2037	-	-	775,000	38,750
Total	$ 773,962	44,193	14,675,000	11,128,462

(7) Debt without Government Commitment

Refunding Improvement Bonds:

Refunding Improvement Act Bonds, Series 2006, Assessment District 2R

On March 2, 2006, the Baldy Mesa Water District issued $4,070,000 principle amount in Refunding improvement Bonds Series 2006. The proceeds were used to refinance and refund the Refunding Improvement Bonds, Series 1989, Assessment District 2R, to fund a reserve fund for the Bonds and pay cost related to the issuance of the Bonds.

A total of $4,998,487 was deposited with an escrow agent to pay down the outstanding principal, interest on the 1989 Series Refunding Improvement Bonds. The escrow agent purchased a $4,998,487 U.S. Government security (SLGS) and deposited it into an irrevocable trust to provide for all future debt service payments on the Refunding Improvement Bonds Series 1989.

As a result, the Refunding improvement Bonds, Series 1989, Assessment District 2R, are considered defeased and the liability for those obligations has been removed from the financial statements. The Baldy Mesa Water District completed the advance refunding to reduce the total debt service payments over the next eight fiscal years by $283,563 and to obtain an economic gain of approximately $197,553.

A special assessment has been levied on the property tax bill of those residents who reside within the boundaries of Assessment District 2R to repay the debt service of this obligation. Principal and interest payments are due each September 2nd and interest only payments are due each March 2nd. The amount of refunding bonds outstanding on June 30, 2009 is $2,995,000.

(8) Invested in Capital Assets, Net of Related Debt

The balance of net assets that are invested in capital assets, net of related debt at June 30, 2009, consists of the following:

Non-depreciable capital assets	$ 21,704,558
Depreciable capital assets, net	148,773,062
Cash with fiscal agents	6,542,715
Certificates of participation, due within one year	(335,000)
Certificates of participation, due more than one year	(14,340,000)
Invested in capital assets, net of related debt	$162,345,335

(9) Defined Benefit Plan

Employees of the District are members of the Public Employees' Retirement System (PERS), the cost of which is paid by the District. At June 30, 2009, the District's net other post employment benefits obligation of $255,441 has been included in the accompanying statement of net assets as a long term liability. For further details regarding actuarial assumptions etc., refer to the City of Victorville's Comprehensive Annual Financial Report.

(10) Restatement of Net Assets

Net assets at June 30, 2008 have been restated to reflect the following corrections to the net assets as of June 30, 2009:

Net assets at June 30, 2008 as previously reported	$ 193,973,171
Reclassify Assessment District 2R from the District to a fiduciary fund of the District:	(1,036,623) (1)
Net assets at June 30, 2008, as restated	$ 192,936,548

(1) During fiscal year June 30, 2009, the Assessment District 2R was reclassified to a fiduciary fund of the District. Accordingly, the net assets of the Assessment District 2R were removed from the District and reclassified to a fiduciary fund of the District.

Mayer Hoffman McCann P.C.
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Board of Directors
Victorville Water District
Victorville, California

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*

We have audited the component unit financial statements of the Victorville Water District ("District") as of and for the year ended June 30, 2009, and have issued our report thereon dated January 29, 2010. 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider findings 2009-1 through 2009-4 described in the accompanying Schedule of Findings and Recommendations to be a significant deficiencies in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weakness. However, of the significant deficiencies described above, we consider items 2009-1, 2009-2 and 2009-4 that have been described in the accompanying Schedule of Findings and Recommendations to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information of management of the Victorville Water District and Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
January 29, 2010

VICTORVILLE WATER DISTRICT

Schedule of Findings and Recommendations

Year ended June 30, 2009

(2009-1) Need for Improved Communication over Changes in Capital Assets

During the current year's observation of capital assets it was noted that there was a significant lack of communication of the disposition of capital assets between City departments. This is a city-wide issue but it was primarily identified at the Southern California Logistics Airport Authority (SCLAA). SCLAA demolished numerous amounts of capital assets between the periods of October 2005 through April 2008 that were not communicated in a timely fashion to the City of Victorville's finance department. The lack of communication resulted in the writing off of 72% of the SCLAA depreciable assets in the prior year. In the current year's physical inspection of the SCLAA capital assets it was identified that the capital assets were improperly written off resulting in a correction to beginning capital assets to reinstate the buildings that were previously written off that were not demolished or impaired. The result of the lack of communication caused a material weakness since the demolished capital assets were not reported in the correct prior year and an incorrect decision was made to write off capital assets in 2007 that should not have been written off had there been proper communications.

The District received this finding and recommendation on August 25, 2009 in the year ended June 30, 2008 Financial Statements. The finding remains the same during year end June 30, 2009 since the City did not have the appropriate time to implement new procedures. The City plans to correct the finding at the beginning of the 2010 fiscal year.

Recommendation

The City of Victorville should establish formal monitoring policies and procedures for keeping the finance department personnel informed, in a timely manner, of not only capital asset acquisitions but capital assets that have been disposed of or impaired.

(2009-2) Adjustments Detected by the Audit Process

Paragraph 19 of the Statement on Auditing Standards No. 112 requires that the auditor include in the report of significant control deficiencies any material adjustments detected by the audit process. For the year ended June 30, 2009, material adjustments detected by the audit process were as follows:

- To record additional revenue in the amount of $707,834 for water sales occurred in June 2009 but not billed to customers until July 2009.
- The Water Assessment District had a long term debt recorded by the City in the water enterprise fund. Additionally the City recognized a long term receivable for amount to be collected from property owners to pay off this debt. This debt is not an obligation of the City and therefore liability and the corresponding receivable has been removed from water enterprise fund.

(2009-2) Adjustments Detected by the Audit Process, (Continued)

Recommendation

An important element of control over financial reporting is for management to identify adjustments necessary for financial statements to be fairly stated. Whenever possible, adjustments should be reflected in the accounting records prior to the start of the audit. When this is not possible, management should identify and communicate to the auditors the potential areas of adjustment that may need to be addressed during the audit process. This is an important element of internal control to reduce the risk of material misstatement.

(2009-3) Need for Enhanced Finance Department Involvement in Financial Statements Preparation

During the annual audit of the City of Victorville's financial statement for fiscal year ending June 30, 2009, the City's Independent Auditor, Mayer Hoffman McCann P.C (MHM) was heavily involved in the preparation of financial statements with input from the City's finance department. MHM's involvement was needed by the City due to time constraint to issue the financial statements. We noted certain opportunities for increased involvement from the Finance Department, for future audits, in the following areas:

- The preparation of revenue classification schedule for the government wide statement of activities presentation.
- The preparation of reconciliation worksheet between fund financial statements to government wide statements.
- The coding of the City's trial balance account for fund financial statements grouping.
- Documentation of analysis that was done to demonstrate City's compliance with water bond rate covenants.
- The preparation of certain notes to the financial statements.

Recommendation

We recommend that the City consider expanding the role of the Finance Department in order to allow them the opportunity to increase their involvement in the preparation of the City's Financial Statements.

(2009-4) Need for Formal Documentation and Approval of Long-term Interfund Borrowing

As cash requirements (overdrafts) of the City are met through interfund borrowing from unrestricted funds, those interfund borrowings (if not expected to be paid within one year) should be formally approved by management and City Council as long-term interfund advances. The General Fund, Solid Waste Management, Sanitary District, Street Lighting District and the Storm Drain Utility have advanced significant amounts of cash to the Other Federal Grants Fund, Golf Course Fund, Municipal Utility Fund, as well as other funds of the City.

The Capital Impact Facilities Fund consisted of several Development Impact Fees (DIF) sub-funds that are presented as a capital project fund in City's financial statement. At June 30, 2009, the Public Building DIF fund has borrowed a substantial amount from Road Service DIF fund and other DIF funds. We believe that there should be a formal approval of advances between DIF funds for repayment of those amounts that were collected for specific purposes.

Recommendations

We recommend the following:

- Formally approve and document interfund long-term advances between the borrowing fund's (Other Federal Grants Fund, Golf Course Fund, Municipal Utility, others) and funds from which the advance was made.
- Formally approve and document long term advances between the Public Building DIF fund and other DIF funds.
- Implement and document monitoring controls to insure that interfund borrowing does not affect restricted funds.

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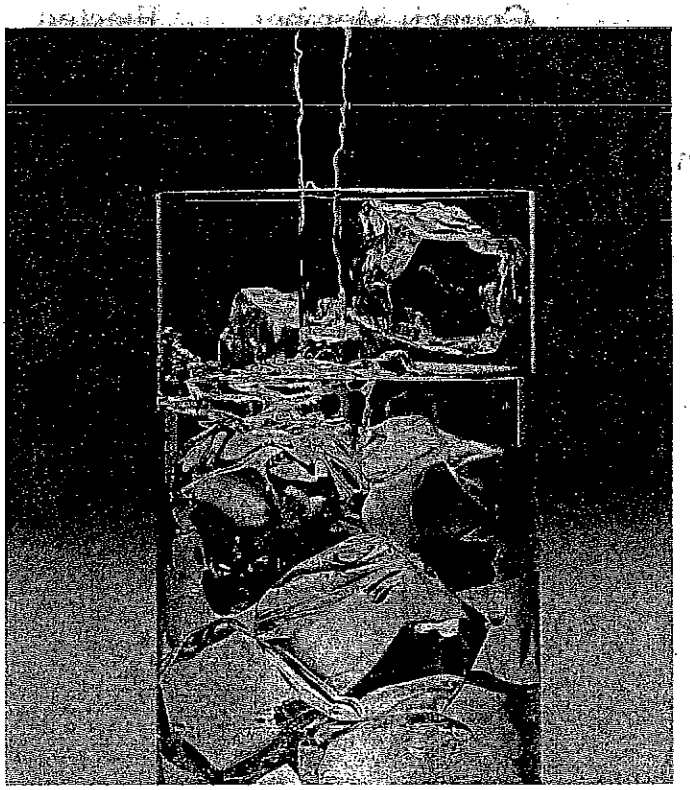
Victorville Water District

(A Subsidiary District of the City of Victorville, California)

Annual Financial Report

June 30, 2008



Victorville Water District

Board of Directors – Victorville City Council

Name	Title	Elected/ Appointed	Term End Date
Rudy Cabriales	Mayor	Elected	2012
Mike Rothschild	Mayor Pro Tem	Elected	2012
JoAnn Almond	Council Member	Elected	2010
Terry Caldwell	Council Member	Elected	2010
Ryan McEachron	Council Member	Elected	2012

Victorville Water District
Jim Cox, General Manager
Reggie Lamson, Director
17185 Yuma Street
Victorville, California 92395
(760) 955-2557

Victorville Water District

Annual Financial Report

For the Year Ended June 30, 2008

Victorville Water District
Annual Financial Report
For the Year Ended June 30, 2008

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Financial Section

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

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

Independent Auditor's Report

Board of Directors
Victorville Water District
Victorville, California

We have audited the accompanying financial statements of the Victorville Water District (District), a subsidiary district of the City of Victorville (City), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The comparative financial information as of June 30, 2007 was comprised of consolidated audited information that was audited by other auditors and our firm whose reports expressed unqualified opinions and a disclaimer of an opinion on those basic financial statements as further discussed in Note 2 to the basic financial statements.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic 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 respective financial position of the Victorville Water District as of June 30, 2008, and the respective changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 11, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplemental information section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits 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.

April 11, 2009
Cypress, California

Charles Z. Fedak, Company CPAs
An Accountancy Corporation

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The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Victorville Water District (District), a subsidiary district of the City of Victorville (City), provides an introduction to the financial statements of the District for the year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net assets increased 9.43% or $16,713,350 from $177,259,821 to $193,973,171 in 2008.
- The District's operating revenues decreased 11.8% or $2,882,337 in 2008 primarily due to a decrease in water sales to District customers and construction contractors.
- The District's operating expenses before depreciation increased 6.8% or $1,349,561 in 2008 primarily due to a $704,807 increase in customer service expenses and a $656,162 increase in general and administrative expenses.

Required Financial Statements

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

The Statement of Net Assets includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting 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 District's *net assets* and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets 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, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 10 through 25.

Statement of Net Assets

Condensed Statements of Net Assets

	2008	2007	Change
Assets:			
Current assets	$ 65,765,618	60,898,427	4,867,191
Non-current assets	12,729,647	19,682,748	(6,953,101)
Capital assets, net	154,413,050	140,240,330	14,172,720
Total assets	232,908,315	220,821,505	12,086,810
Liabilities:			
Current liabilities	20,358,630	14,004,419	6,354,211
Non-current liabilities	18,576,514	29,557,265	(10,980,751)
Total liabilities	38,935,144	43,561,684	(4,626,540)
Net assets:			
Net investment in capital assets	139,413,050	124,930,330	14,482,720
Restricted for capital asset construction	21,293,590	27,780,171	(6,486,581)
Restricted for debt service	1,036,623	1,176,079	(139,456)
Unrestricted	32,229,908	23,373,241	8,856,667
Total net assets	193,973,171	177,259,821	16,713,350
Total liabilities and net assets	$ 232,908,315	220,821,505	12,086,810

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $193,973,171 and $177,259,821 as of June 30, 2008 and 2007, respectively.

A portion of the District's net assets (72% and 70% as of June 30, 2008 and 2007, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

The District showed a positive balance in its unrestricted net assets of $32,229,908 and $23,373,241, as of June 30, 2008 and 2007, respectively, which may be utilized in future years.

Statement of Revenues, Expenses and Changes in Net Assets

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2008	2007	Change
Revenues:			
Operating revenues	$ 21,538,560	24,420,897	(2,882,337)
Non-operating revenues	4,970,575	4,967,753	2,822
Total revenues	26,509,135	29,388,650	(2,879,515)
Expenses:			
Operating expenses	21,086,805	19,737,244	1,349,561
Depreciation expense	7,019,824	4,978,910	2,040,914
Non-operating expenses	2,608,548	1,318,664	1,289,884
Total expenses	30,715,177	26,034,818	4,680,359
Net income before post employment adj.	(4,206,042)	3,353,832	(7,559,874)
Other item:			
Post employment benefits adjustment	9,908,000	(9,908,000)	19,816,000
Net income before capital cont.	5,701,958	(6,554,168)	12,256,126
Capital contributions	11,011,392	25,322,468	(14,311,076)
Change in net assets	16,713,350	18,768,300	(2,054,950)
Net assets, beginning of year	177,259,821	158,491,521	18,768,300
Net assets, end of year	$ 193,973,171	177,259,821	16,713,350

The statement of revenues, expenses and changes of net assets shows how the District's net assets changed during the fiscal years. In the case of the District, net assets increased by $16,713,350 and $18,768,300 for the year's ended June 30, 2008 and 2007, respectively.

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

In 2008, the District's total revenues decreased by $2,879,515, primarily due to a decrease in water sales to District customers and construction contractors. In addition, total expenses increased $4,680,359 primarily due to a $704,807 increase in customer service expenses, a $656,162 increase in general and administrative expenses, a $2,040,914 increase in depreciation expense and a $1,630,364 write-off of disposed capital assets and surplus material as a result of the consolidation of the entities. Also, in 2007, the Victor Valley Water District pre-adopted GASB No. 45 and recorded its entire unfunded actuarial accrued liability of $9,908,000 prior to the consolidation into the Victorville Water District. In 2008, the District reversed this estimated accrued liability into a non-operating revenue item and will reevaluate and adopt its GASB No. 45 accrual for other postemployment benefits in fiscal year 2009. (See Note 14 for further details)

Capital Asset Administration

At the end of fiscal year 2008 and 2007, the District's investment in capital assets amounted to $154,413,050 and $140,240,330, respectively (net of accumulated depreciation). This investment in capital assets includes land, transmission and distribution systems, wells, tanks, reservoirs, pumps, buildings and structures, equipment, vehicles and construction-in-process. (See Note 7 for further details)

Changes in capital asset amounts for 2008 were as follows:

	Balance 2007	Additions	Transfers/ Deletions	Balance 2008
Capital assets:				
Non-depreciable assets	$ 22,272,747	15,467,022	(15,250,585)	22,489,184
Depreciable assets	165,003,067	21,222,098	(3,267,897)	182,957,268
Accumulated depreciation	(47,035,484)	(6,292,071)	2,294,153	(51,033,402)
Total capital assets, net	$ 140,240,330	30,397,049	(16,224,329)	154,413,050

Debt Administration

Long-term debt, net decreased by $1,014,356 in 2008 due to regular principal payments on the District's outstanding debts. (See Note 10 for further details)

Changes in long-term debt amounts for 2008 were as follows:

	Balance 2007	Additions/ Deletions	Principal Payments	Balance 2008
Long-term debt:				
Bonds payable	$ 3,860,000	-	(425,000)	3,435,000
Note payable	1,343,277	-	(279,356)	1,063,921
Certificates-of-participation payable	15,310,000	-	(310,000)	15,000,000
Total long-term debt	$ 20,513,277	-	(1,014,356)	19,498,921

Conditions Affecting the District's Current and Future Financial Condition

Local Economy

The local economy, like those of the State of California and many counties and cities in the state are faced with significant fiscal challenges resulting from the economic decline that began in early 2007 and continues to the present. The City and District, specifically the City, is faced with challenges in its revenue streams, its ability to access the credit markets, its efforts to attract and retain jobs and to address fundamental structural changes that reflect current conditions. At the same time, the City and District are focusing on taking significant steps to alleviate the impacts to its citizens and customers resulting from the current recession.

Looking ahead to fiscal year 2009 and beyond, the District is expecting an economic environment that is difficult, with increases in unemployment, further contraction in consumer spending, continuing foreclosure activity and continuing lack of construction related jobs coupled with a continued water shortage due to a prolonged drought in the State of California. The District is hopeful that the current recession will conclude by the end of calendar year 2009 and that the process of recovery will begin. With that recovery will come a restoration of revenue, population growth and construction activity in the area.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Director, Reggie Lamson at 17185 Yuma Street, Victorville, CA 92395 or (760) 955-2557.

Basic Financial Statements

Victorville Water District
Statement of Net Assets
June 30, 2008
With Comparative Information as of June 30, 2007

Assets		2008	2007
Current assets:			
Cash and cash equivalents (note 3)	$	36,163,466	25,457,901
Accrued interest receivable		244,240	433,374
Restricted – cash and cash equivalents (note 3)		22,741,887	28,682,789
Restricted – accrued interest receivable		106,343	185,473
Accounts receivable – water sales and services, net (note 4)		1,644,186	1,700,875
Accounts receivable – property taxes		29,925	28,479
Accounts receivable – state grants		381,254	314,161
Accounts receivable – other		1,092,604	371,902
Materials and supplies inventory		361,731	604,974
Prepaid expenses and deposits		2,999,982	3,118,499
Total current assets		65,765,618	60,898,427
Non-current assets:			
Investments (note 3)		421,272	6,043,111
Assessments receivable (note 10)		3,152,843	3,697,206
Deferred charges, net (note 5)		710,321	769,767
Water rights, net (note 6)		8,445,211	9,172,664
Capital assets, not being depreciated (note 7)		22,489,184	22,272,747
Capital assets being depreciated, net (note 7)		131,923,866	117,967,583
Total non-current assets		167,142,697	159,923,078
Total assets	$	232,908,315	220,821,505
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	2,359,565	6,858,713
Accrued wages and related payables		149,460	172,932
Due to the City of Victorville (note 8)		12,448,258	-
Customer advances, deposits and deferred revenue		3,972,809	5,558,045
Accrued interest payable		329,395	350,258
Long-term liabilities – due within one year:			
Compensated absences (note 9)		44,184	50,115
Bonds payable (note 10)		440,000	425,000
Note payable (note 10)		289,959	279,356
Certificates-of-participation payable (note 10)		325,000	310,000
Total current liabilities		20,358,630	14,004,419
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 9)		132,552	150,344
Post employment benefits payable (note 14)		-	9,908,000
Bonds payable (note 10)		2,995,000	3,435,000
Note payable (note 10)		773,962	1,063,921
Certificates-of-participation payable (note 10)		14,675,000	15,000,000
Total non-current liabilities		18,576,514	29,557,265
Total liabilities		38,935,144	43,561,684
Net assets:			
Net investment in capital assets (note 11)		139,413,050	124,930,330
Restricted for capital asset construction		21,293,590	27,780,171
Restricted for debt service		1,036,623	1,176,079
Unrestricted (note 12)		32,229,908	23,373,241
Total net assets		193,973,171	177,259,821
Total liabilities and net assets	$	232,908,315	220,821,505

See accompanying notes to the basic financial statements

Victorville Water District
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2008
With Comparative Information for the Year Ended June 30, 2007

	2008	2007
Operating revenues:		
Water consumption sales	$ 13,623,753	15,185,069
Monthly meter service charge	6,477,785	6,656,965
Other charges and services	1,437,022	2,578,863
Total operating revenues	21,538,560	24,420,897
Operating expenses:		
Source of supply:		
Imported water supply purchases	4,379,917	4,727,960
Pumping	3,048,207	3,172,092
Water production	985,515	839,784
Water treatment, transmission and distribution	4,128,550	4,058,978
Engineering services	1,143,277	952,745
Water conservation	347,895	293,210
Customer service	2,494,832	1,790,025
General and administrative	4,558,612	3,902,450
Total operating expenses	21,086,805	19,737,244
Operating income before depreciation and amortization	451,755	4,683,653
Depreciation and amortization	(7,019,824)	(4,978,910)
Operating loss	(6,568,069)	(295,257)
Non-operating revenue(expense):		
Property taxes	1,294,485	789,345
Investment earnings	2,837,656	3,143,346
Arsenic surcharge	801,399	979,242
Interest expense – long-term debt	(865,079)	(1,133,871)
Amortization of deferred charges	(59,446)	(59,446)
Post employment benefits adjustment (note 14)	9,908,000	(9,908,000)
Loss on sale/disposition of capital assets, net	(1,110,570)	(8,162)
Loss on sale/disposition of surplus material, net	(519,794)	-
Other non-operating revenues	37,035	55,820
Other non-operating expenses	(53,659)	(117,185)
Total non-operating revenues, net	12,270,027	(6,258,911)
Net income(loss) before capital contributions	5,701,958	(6,554,168)
Capital contributions:		
Connection fees	3,711,863	15,371,660
Alternate water source fees	1,656,256	2,194,454
Developers and others	5,335,180	7,657,704
State grants	308,093	98,650
Capital contributions	11,011,392	25,322,468
Change in net assets	16,713,350	18,768,300
Net assets, beginning of year	177,259,821	158,491,521
Net assets, end of year	$ 193,973,171	177,259,821

See accompanying notes to the basic financial statements

Victorville Water District
Statement of Cash Flow
For the Year Ended June 30, 2008

	2008
Cash flows from operating activities:	
Cash receipts from customers for water sales and services	$ 19,289,311
Cash paid to vendors and suppliers for materials and services	(17,606,291)
Cash paid to employees for salaries and benefits	(7,665,097)
Net cash used in operating activities	(5,982,077)
Cash flows from non-capital financing activities:	
Due to the City of Victorville	12,448,258
Proceeds from property taxes and assessments	1,837,402
Other non-operating revenues/(expenses), net	(16,624)
Net cash provided by non-capital financing activities	14,269,036
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(16,760,275)
Proceeds from connection fees	3,711,863
Proceeds from alternate water source fees	1,656,256
Proceeds from state grants	241,000
Proceeds from the arsenic surcharge	801,399
Principal paid on long-term debt	(1,014,356)
Interest paid on long-term debt	(885,942)
Net cash used in capital and related financing activities	(12,250,055)
Cash flows from investing activities:	
Proceeds from sale of investments, net	5,621,839
Interest and investment earnings	3,105,920
Net cash provided by investing activities	8,727,759
Net increase in cash and cash equivalents	4,764,663
Cash and cash equivalents, beginning of year	54,140,690
Cash and cash equivalents, end of year	$ 58,905,353

Reconciliation of cash and cash equivalents to statement of financial position:	2008
Cash and cash equivalents	$ 36,163,466
Restricted – cash and cash equivalents	22,741,887
Total cash and cash equivalents	$ 58,905,353

Continued on next page

See accompanying notes to the basic financial statements

Victorville Water District
Statement of Cash Flow, continued
For the Year Ended June 30, 2008

	2008
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (6,568,069)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Deprecation expense	7,019,824
Changes in assets and liabilities:	
(Increase)Decrease in assets:	
Accounts receivable – water sales and services, net	56,689
Accounts receivable – other	(720,702)
Materials and supplies inventory	243,243
Prepaid expenses and other deposits	118,517
Increase(Decrease) in liabilities:	
Accounts payable and accrued expenses	(4,499,148)
Accrued wages and related payables	(23,472)
Customer advances, deposits and deferred revenue	(1,585,236)
Compensated absences	(23,723)
Total adjustments	585,992
Net cash used in operating activities	$ (5,982,077)

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

On August 15, 2007, the Victor Valley Water District and the Baldy Mesa Water District were consolidated into a subsidiary district of the City of Victorville (City), known as the Victorville Water District (District), per Resolution No. 2977 of the Executive Officer of the Local Agency Formation Commission (LAFCO) of San Bernardino County, which adopted a change of organization without election. All of the liabilities including debt obligations of the Victor Valley Water District and the Baldy Mesa Water District were assumed by this subsidiary district and the City upon consolidation. Upon consolidation of the two districts the City consolidated the operations and activities of its Water Department and Water Funds into the District to serve all of the water customers of the City under this District. The basic operations of the District are financed by user charges plus capital contributions to finance growth of the water delivery system. The District is governed by a five-member Board of Directors (City Council), each holding staggered four-year terms. (See Note 2 for further consolidation information).

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 14, *The Financial Reporting Entity,* and No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of No. 14). The City of Victorville is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election (City Council). The District is a subsidiary district of the City of Victorville, which the City Council is the governing body thereof and is duly responsible for conducting the business of the District as part of its governing process over the City of Victorville. The City is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

Assessment District No. 2R was established to provide financing for construction and improvement of the water system. In 1987, the Victorville County Water District 1911 Act Improvement Bonds were issued. On June 27, 1989, the Baldy Mesa Water District issued $8,292,572 in Refunding Improvement Bonds, Series 1989, Assessment District No. 2R. The District provides administrative duties such as placing assessments on the County tax rolls and submitting payments to the trustee for the assessment bond holders. Accordingly, the accounts and transactions of Assessment District No. 2R have been combined with that of the District's financial statements.

B. Basis of Accounting and Measurement Focus

The District 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 District is that the costs of providing water to its customers on a continuing basis be financed or recovered primarily through user charges (water sales and services), 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, such as water sales and service charges, result from exchange transactions associated with the principal activities of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as grant funding and investment income, result from non-exchange transactions, in which, the District gives (receives) value without directly receiving (giving) value in exchange.

(1) Reporting Entity and Summary of Significant Accounting Policies

C. Financial Reporting

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *"Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments"* (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

D. Assets, Liabilities and Net Assets

1. Use of Estimates

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

1. Cash and Cash Equivalents

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

2. Investments and Investment Policy

The District has adopted an investment policy directing management to deposit funds in financial institutions.

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

3. Accounts Receivable and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

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

D. Assets, Liabilities and Net Assets, continued

4. Property Taxes and Assessments

The County of San Bernardino Assessor's Office assesses all real and personal property within the County each year. The County of San Bernardino Tax Collector's Office bills and collects the District's share of property taxes and assessments. The County of San Bernardino Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the County of San Bernardino, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

5. Materials and Supplies

Materials and supplies consist primarily of water meters, pipe and pipefittings for construction and repair to the District's water transmission and distribution system. Materials and supplies are valued at cost using a weighted average method. Materials and supplies items are charged to expense at the time that individual items are consumed.

6. Prepaid Expenses

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

7. Restricted Assets

Certain assets of the District are restricted in use by ordinance or debt covenant and, accordingly are shown as restricted assets on the accompanying statement of net assets. Special assessments, and related receivables, are set aside from other assets since they are collected solely for the repayment of the District's Special Assessment bonds. The District uses restricted resources, prior to using unrestricted resources, to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

8. Deferred Charges

The deferred charges are from bond issuance costs that will be amortized using the straight-line method over the remaining life of the respective debt service.

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

D. Assets, Liabilities and Net Assets, continued

9. Capital Assets

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

- Buildings and structures – 25 to 50 years
- Transmission and distribution systems – 40 years
- Source of supply – wells – 10 to 40 years
- Water treatment systems – 5 to 10 years
- Telemetering equipment – 5 years
- Furniture, equipment and tools – 5 to 15 years
- Vehicles – 5 to 10 years

10. Compensated Absences

In accordance with GASB No. 16, a liability is recorded for unused vacation and similar compensatory leave balances since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

11. Customer Deposits

Based on a customer's credit, the District may require a deposit deemed reasonable by the District. These deposits are held to pay off close out bills or to cover delinquent payments.

12. Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- **Net Investment in Capital Assets** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets.
- **Restricted Net Assets** – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – This component of net assets consists of net assets that do not meet the definition of *restricted* or *net investment in capital assets.*

13. Water Sales

Most water sales are billed on a monthly cyclical basis. Estimated unbilled water revenue through June 30 has been accrued at year-end.

14. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District through the collection of AB-1600 connection fees, by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment.

(2) Consolidation of Net Assets

The consolidated financial information as of June 30, 2007 was composed of audited information that was audited as follows:

1) Baldy Mesa Water District financial information was audited by Charles Z. Fedak & Co., CPAs an Accountancy Corporation who issued an unqualified opinion on those financial statements for the year ended June 30, 2007 on December 18, 2007.

2) Victor Valley Water District financial information was audited by Charles Z. Fedak & Co., CPAs an Accountancy Corporation who issued an unqualified opinion on those financial statements for the year ended June 30, 2007 on December 15, 2007.

3) City of Victorville – Water Department Fund was audited as a Non-Major Proprietary Fund of the City of Victorville financial statements by Caporicci & Larson, CPAs who issued a disclaimer of an opinion on those financial statements for the year ended June 30, 2007 on February 23, 2009.

The consolidated beginning net assets of the District totaled $177,259,821 as of July 1, 2007 as equated in the table below. The detail comparison of financial information as of June 30, 2007 for the Statement of Net Assets on page 6 includes certain reclassifications to conform to the current year presentation for comparative purposes. The detail comparison financial information for the year ended June 30, 2007 for the Statement of Revenues, Expenses and Changes in Net Assets on page 7 includes certain inter-entity eliminating entries for water sales and water costs to the Victorville Water Department from the Victor Valley Water District and certain other reclassifications to conform to the current year presentation for comparative purposes. Comparative cash flow information was not available and therefore was not presented on pages 8 and 9. The financial statements of the three entities were consolidated as follows.

Financial Statement Acounts	Baldy Mesa Water District	Victor Valley Water District	Victorville Water Department	Total
Total assets	$ 61,037,057	153,988,559	5,795,889	220,821,505
Total liabilities	25,105,079	18,292,029	164,576	43,561,684
Total net assets	35,931,978	135,696,530	5,631,313	177,259,821
Total liabilities and net assets	$ 61,037,057	153,988,559	5,795,889	220,821,505

(3) Cash and Investments

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

	2008
Cash and cash equivalents	$ 36,163,466
Restricted – cash and cash equivalents	22,741,887
Investments	421,272
Total cash and investments	$ 59,326,625

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

	2008
Deposits with financial institutions	$ 7,296,118
Investments	52,030,507
Total cash and investments	$ 59,326,625

(3) Cash and Investments, continued

Cash and investment balances represent the District's share of the cash and investments held in the name and the accounts of the District's consolidated entities of the Baldy Mesa Water District and the Victor Valley Water District. These cash and investment accounts have remained separate from the City's cash and investment pool. Interest and investment earnings on these accounts are allocated to the District and not the City's cash and investment pool.

The District utilizes the City's cash and investment pooled funds to operate as a daily operating fund of the District to record and deposit receipts and pay payables as they become due through the City's financial accounting system. As of June 30, 2008, the District was liable to the City for $12,448,258 for net amounts paid by the City from the City's cash and investment pooled funds on behalf of the District. (See Note 8 for further details.)

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

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
Federal Agency Obligations	5 years	None	None
Negotiable Certificates of Deposit	5 years	30%	None
Money Market Mutual Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the **investment types** that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements 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
Investment Contracts	None	None	None
Money Market Mutual Funds	N/A	None	None

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. 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).

(3) Cash and Investments, continued

The California Government Code and the District'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 District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The District had deposits with bank balances of $7,305,164 Of the bank balances, up to $100,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

Investment in State Investment Pool

The District 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 District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District'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.

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 District 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 matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date:

Investment maturities as of June 30, 2008, were as follows:

Investment Type		Amount	Maturity 12 Months Or Less
Federal Agency obligations	$	421,272	421,272
Local Agency Investment Fund (LAIF)		43,798,924	43,798,924
Cash with fiscal agent:			
Investment contracts		7,810,311	7,810,311
Total	$	52,030,507	52,030,507

(3) Cash and Investments, continued

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 District's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Credit ratings as of June 30, 2008, were as follows:

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rated AAA
Federal Agency obligations	$ 421,272	AAA	$ -	421,272
Local Agency Investment Fund (LAIF)	43,798,924	N/A	43,798,924	-
Cash with fiscal agent:				
Investment contracts	7,810,311	N/A	7,810,311	-
Total	$ 52,030,507		$ 51,609,235	421,272

(4) Accounts Receivable – Water Sales and Services

The balance at June 30, consists of the following:

	2008
Accounts receivable – water sales and services	$ 1,844,186
Allowance for uncollectible accounts	(200,000)
Accounts receivable, net	$ 1,644,186

(5) Deferred Charges

The balance at June 30, consists of the following:

	2007	Additions	Deletions	2008
2006 Assessment District 2R bonds	$ 221,786	-	(30,947)	190,839
2004 La Salle water rights note	9,796	-	(2,218)	7,578
1998 Certificates of participation	321,069	-	(18,795)	302,274
2006 Certificates of participation	217,116	-	(7,486)	209,630
Deferred charges, net	$ 769,767	-	(59,446)	710,321

(6) Water Rights

The balance at June 30, consists of the following:

		2007	Additions	Deletions	2008
Water rights	$	11,245,075	-	-	11,245,075
Accumulated amortization		(2,072,411)	300	(727,753)	(2,799,864)
Water rights, net	$	9,172,664	300	(727,753)	8,445,211

(7) Capital Assets

Changes in capital assets for 2008, were as follows:		Balance 2007	Additions/ Transfers	Deletions/ Transfers	Balance 2008
Non-depreciable assets:					
Land and land rights	$	5,411,728	3,003,369	(15,169)	8,399,928
Construction-in-process		16,861,019	12,463,653	(15,235,416)	14,089,256
Total non-depreciable assets		22,272,747	15,467,022	(15,250,585)	22,489,184
Depreciable assets:					
Buildings and improvments		12,585,625	3,117,219	(69,719)	15,633,125
Transmission and distribution system		126,872,629	17,940,261	(184,489)	144,628,401
Equpment and furniture		18,935,609	119,198	(1,125,763)	17,929,044
Computers and communications		3,038,332	6,290	(1,791,313)	1,253,309
Vehicles		2,217,563	39,130	(12,713)	2,243,980
Intangible assets		1,353,309	-	(83,900)	1,269,409
Total depreciable assets		165,003,067	21,222,098	(3,267,897)	182,957,268
Accumulated depreciation:					
Buildings and improvments		(2,791,457)	(588,302)	48,783	(3,330,976)
Transmission and distribution system		(33,985,574)	(4,073,928)	59,907	(37,999,595)
Equpment and furniture		(5,950,464)	(767,802)	642,039	(6,076,227)
Computers and communications		(2,259,536)	(241,138)	1,531,592	(969,082)
Vehicles		(1,161,271)	(238,674)	11,832	(1,388,113)
Intangible assets		(887,182)	(382,227)	-	(1,269,409)
Total accumulated depreciation		(47,035,484)	(6,292,071)	2,294,153	(51,033,402)
Total depreciable assets, net		117,967,583	14,930,027	(973,744)	131,923,866
Total capital assets, net	$	140,240,330	30,397,049	(16,224,329)	154,413,050

(8) Due to the City of Victorville

The City of Victorville pools its available cash for investment purposes. The District utilizes the City's cash and investment pooled funds to operate as a daily operating fund of the District to record and deposit receipts and pay payables as they become due through the City's financial accounting system. As of June 30, 2008, the District was liable to the City for $12,448,258 for net amounts paid by the City from the City's cash and investment pooled funds on behalf of the District.

(9) Compensated Absences

Changes in compensated absences for 2008, were as follows:

	Balance 2007	Earned	Taken	Balance 2008	Current Portion	Long-term Portion
$	200,459	304,027	(327,750)	176,736	44,184	132,552

(10) Long-term Debt

Changes in long-term debt amounts for 2008, were as follows:

		Balance 2007	Additions/ Deletions	Principal Payments	Balance 2008
Long-term debt:					
2006 Refunding Improvement 2R bonds	$	3,860,000	-	(425,000)	3,435,000
2004 La Salle water rights note		1,343,277	-	(279,356)	1,063,921
1998 Certificates of participation		2,240,000	-	(80,000)	2,160,000
2006 Certificates of participation		13,070,000	-	(230,000)	12,840,000
Total long-term debt	$	20,513,277	-	(1,014,356)	19,498,921
Less: Current portion		(1,014,356)			(1,054,959)
Total Non-current portion	$	19,498,921			18,443,962

Refunding Improvement Act Bonds, Series 2006, Assessment District 2R

On March 2, 2006, the Baldy Mesa Water District issued $4,070,000 in Refunding Improvement Bonds Series 2006 at stated interest rates to refinance and refund the Refunding Improvement Bonds, Series 1989, Assessment District 2R, to fund a reserve fund for the Bonds and pay cost related to the issuance of the Bonds. A total of $4,998,487 was deposited with an escrow agent to pay down the outstanding principal, interest on the 1989 Series Refunding Improvement Bonds. The escrow agent purchased a $4,998,487 U.S. Government security (SLGS) and deposited it into an irrevocable trust to provide for all future debt service payments on the Refunding Improvement Bonds Series 1989.

As a result, the Refunding Improvement Bonds, Series 1989, Assessment District 2R, are considered defeased and the liability for those obligations has been removed from the financial statements. The Baldy Mesa Water District completed the advance refunding to reduce the total debt service payments over the next eight fiscal years by $283,563 and to obtain an economic gain of approximately $197,553.

A special assessment has been levied on the property tax bill of those residents who reside within the boundaries of Assessment District 2R to repay the debt service of this obligation. Principal and interest payments are due each September 2nd and interest only payments are due each March 2nd. The future annual debt service requirements for the Refunding Improvement Bonds, Series 2006, Assessment District 2R, are as follows:

Year		Principal	Interest	Total
2009	$	440,000	126,214	566,214
2010		455,000	111,219	566,219
2011		470,000	95,258	565,258
2012		490,000	78,214	568,214
2013		505,000	58,347	563,347
2014-2015		1,075,000	47,850	1,122,850
Total	$	3,435,000	517,102	3,952,102
Less: current		(440,000)		
Total non-current	$	2,995,000		

(10) Long-term Debt, continued

1998 Certificates of Participation

The Baldy Mesa Water District issued 1998 Certificates of Participation of $2,850,000 at stated interest rates ranging from 4.10% to 5.00% to finance public improvements within the Baldy Mesa Water District service area. The annual debt service is a special limited obligation of the District payable from and secured by a pledge of and lien on the net revenues of the District. Principal and interest payments are due each August 1st and interest only payments are due each February 1st. Annual debt service requirements for the Certificates of Participation are as follows:

Year		Principal	Interest	Total
2009	$	85,000	105,875	190,875
2010		90,000	101,500	191,500
2011		95,000	96,875	191,875
2012		95,000	92,125	187,125
2013		100,000	87,250	187,250
2014-2018		590,000	352,750	942,750
2019-2023		750,000	185,750	935,750
2024-2025		355,000	17,875	372,875
Total	$	2,160,000	1,040,000	3,200,000
Less: current		(85,000)		
Total non-current	$	2,075,000		

2006 Certificates of Participation

On March 1, 2006, the Baldy Mesa Water District issued 2006 Certificates of Participation at stated interest rates ranging from 3.20% to 5.00% to finance public improvements within the Baldy Mesa Water District service area. The annual debt service is a special limited obligation of the District payable from and secured by a pledge of and lien on the net revenues of the District. Principal and interest payments are due each August 1st and interest only payments are due each February 1st. Annual debt service requirements for the Certificates of Participation are as follows:

Year		Principal	Interest	Total
2009	$	240,000	571,728	811,728
2010		245,000	563,602	808,602
2011		255,000	555,039	810,039
2012		265,000	546,002	811,002
2013		270,000	536,573	806,573
2014-2018		1,540,000	2,492,730	4,032,730
2019-2023		1,900,000	2,136,665	4,036,665
2024-2028		2,325,000	1,687,827	4,012,827
2029-2033		2,910,000	1,094,263	4,004,263
2034-2037		2,890,000	297,750	3,187,750
Total	$	12,840,000	10,482,179	23,322,179
Less: current		(240,000)		
Total non-current	$	12,600,000		

(10) Long-term Debt, continued

2004 La Salle Water Rights Note Payable

The Baldy Mesa Water District signed a note payable for the purpose of financing the purchase of water rights at an interest rate of 3.76%. The annual debt service is a special limited obligation of the Baldy Mesa Water District payable from and secured by a pledge of and lien on the net revenues of the District. Principal and interest payments are due each November 26th and May 26th. Annual debt service requirements for the note payable are as follows:

Year	Principal	Interest	Total
2009	$ 289,959	37,303	327,262
2010	300,964	26,298	327,262
2011	312,386	14,876	327,262
2012	160,612	3,019	163,631
Total	1,063,921	81,496	1,145,417
Less: Current	(289,959)		
Non-current	$ 773,962		

(11) Net Investment in Capital Assets

The balance at June 30, consists of the following:	2008
Capital assets – not being depreciated	$ 22,489,184
Capital assets – being depreciated, net	131,923,866
Certificates of participation – current portion	(325,000)
Certificates of participation – non-current portion	(14,675,000)
Net investment in capital assets	$ 139,413,050

(12) Unrestricted Net Assets

The balance at June 30, consists of the following:	2008
Nonspendable net assets:	
Materials and supplies inventory	$ 361,731
Prepaid expenses and deposits	2,999,982
Deferred charges, net	519,482
Water rights, net	8,445,211
Total nonspendable net assets	12,326,406
Unassigned net assets	19,903,502
Total unrestricted net assets	$ 32,229,908

(13) Defined Benefit Pension Plan

Plan Description

The City on behalf of the District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multi-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 agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the District. Copies of CalPERS annual financial report may be obtained form their executive Office: 400 P Street, Sacramento, CA, 95814.

Funding Policy

The contribution rate for plan members in the CalPERS 2.5% at 55 Risk Pool Retirement Plan 8% of their annual covered salary. The City on behalf of the District makes these contributions required of District employees on their behalf and for their account. Also, the City on behalf of the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. The obligations of the District are repaid to the City from the net revenues of the District throughout the year. Further information on the Plan's annual pension cost for the District's employees is incorporated into the City's overall CalPERS annual obligation and the cost has not been separated out for the District.

(14) Post Employment Benefits

In addition to a pension plan, substantially all the prior Victor valley Water District's employees may become eligible for certain health care benefits if they reach normal retirement age while working as a City employee of the District. These benefits are provided through an insurance company whose premiums are based on benefits paid. The obligation to provide future benefits is unfunded; however, the Victor Valley Water District had accrued $9,908,000 as of June 30, 2007 prior to the consolidation into the Victorville Water District in anticipation of payment of these future benefits along with the adoption of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in fiscal year 2009.

In accordance with the provisions of GASB Statement No. 45, unless the adopting entity plans to pre-fund the actuarial calculated Annual Required Contribution (ARC) for these benefits into an irrevocable trust fund to process payments for these retired employee beneficiaries; the ARC obligation (or liability) is to be set at zero at the beginning of the transition (adoption) year. Therefore, the District has reversed its estimated post employment benefits liability of $9,908,000 to a non-operating revenue account to zero out the balance in preparation of adopting GASB Statement No. 45 on July 1, 2008.

(15) Risk Management

The District 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 District has purchased various insurance policies to manage the potential liabilities that may occur from the previously named sources and is a member of the Special District Risk Management Authority (SDRMA). The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2008 the District participated in the liability and property programs of the Authority as follows:

- General and auto liability, public officials and employees' errors and omissions, employment practices liability and employee benefits liability: Total risk financing limits of $2.5 million, combined single limit at $2.5 million per occurrence, subject to the following deductibles:
    - $500/$1000 per occurrence for third party general liability property damage
    - 50% co-insurance of cost expended by SDRMA, in excess of $10,000 up to $50,000, per occurrence, for employment related claims. However, 100% of the obligation will be waived if certain criteria are met.
- The District purchased an additional $7.5 million excess coverage layer which increases the limits on the insurance coverage noted above.

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to $400,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage's.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of $1.0 billion per occurrence, subject to a $2,000 deductible per occurrence based on the replacement cost for the scheduled property.
- Boiler and machinery coverage for the replacement cost up to $100 million per occurrence, subject to a $1,000 deductible.
- Comprehensive and collision coverages on selected vehicles, with deductibles of $250/$500 or $500/$1,000, as elected; ACV limits; fully self-funded by the SDRMA.
- Public officials personal liability up to $500,000 each occurrence, with an annual aggregate of $500,000 per each elected/appointed official to which this coverage applies, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverages, deductible of $500 per claim.

In addition to the above, the District also has the following insurance coverage, continued:

- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law and employer liability coverage, subject to the terms, conditions and exclusions provided in the SDRMA Memorandum of Coverage.

Settled claims have not exceeded any of the coverage amounts in the last fiscal year and there were no reductions in the District's insurance coverage during the year ending June 30, 2008. 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.

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

Governmental Accounting Standards Board Statement No. 45

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local government employers. This statement is not effective until June 30, 2009. The District has not determined the effect this statement will have on its financial statement presentation.

Governmental Accounting Standards Board Statement No. 49

In November 2007, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts. This statement is not effective for this District until the fiscal year ended June 30, 2009. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

Governmental Accounting Standards Board Statement No. 50

In May 2008, the GASB issued Statement No. 50, *Pension Disclosures, an amendment of GASB Statements No. 25 and 27.* This statement more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits (OPEB) and, in doing so, enhances information disclosed in the notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25 and 27, to conform with requirements of GASB Statements No. 43 and 45. This statement is not effective for this District until the fiscal year ended June 30, 2009. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

Governmental Accounting Standards Board Statement No. 51

In June 2008, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This statement is not effective for this District until the fiscal year ended June 30, 2010. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

Governmental Accounting Standards Board Statement No. 53

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. This statement is not effective for this District until the fiscal year ended June 30, 2009. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

(17) Commitments and Contingencies

Joint-Facilities Agreement – High Desert Power Project

The Victor Valley Water District had entered into a Water Service Agreement with the High Desert Power Project, LLC (HDPP) to provide water and water services to the HDPP and obtain a groundwater storage agreement to store excess purchased water from the State Water Project in a groundwater storage basin for extraction and use during interruptions in supply from the State Water Project. Also, this Water Service Agreement presides over the injection, storage and delivery of stored water, including the construction and operation of wells and related facilities to extract and transmit the water to the HDPP by the District. The District has constructed wells, a booster station and an automatic control system (Project Facilities) to control the delivery of stored water to the HDPP. These Project Facilities are being paid for by the HDPP, but will remain the property of the District. The District has agreed to operate and maintain these Project Facilities and maintain a Groundwater Storage Agreement to store excess purchased water.

Groundwater Storage Agreement – High Desert Power Project

The Victor Valley Water District had entered into a Groundwater Storage Agreement with the Mojave Area Basin Watermaster to store 13,000 acre-feet of excess purchased water from the State Water Project in the Alto Subarea of the Mojave Basin Area. The District will only use this stored water for the HDPP and will only use it when direct State Water Project supplies are unavailable. The District is purchasing this excess water from the Mojave Water Agency, who has capacity rights in the State Water Project aqueduct, and is being reimbursed from the HDPP for those purchases.

AB-1600 Connection Fees

The District has a policy that requires new development projects to pay fees equal to the cost of new water facilities needed to provide service. In this way, existing water customers do not pay for new development. These fees are commonly called AB-1600 Connection Fees, and if they are not expended or committed within 5-years they must be returned. California Government Code 66000 regulates connection fees charged on development projects to defray cost of "public facilities", including "public improvements", "public services" and "community amenities". For each new project the District establishes what percentage of the project is due to new development (restricted percentage) and what is needed to maintain or improve capacity for existing customers. As such, the District is committed to using these funds for capital outlay on new development projects.

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided in part from the District's 2006 Certificates of Participation and the net revenues of the District.

Grant Awards

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

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

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Supplemental Information Section

Victorville Water District
Combining Statement of Net Assets
June 30, 2008

Assets		Water District	Assessment District 2R	Total
Current assets:				
Cash and cash equivalents	$	36,163,466	-	36,163,466
Accrued interest receivable		244,240	-	244,240
Restricted – cash and cash equivalents		21,951,261	790,626	22,741,887
Restricted – accrued interest receivable		106,343	-	106,343
Accounts receivable – water sales and services, net		1,644,186	-	1,644,186
Accounts receivable – property taxes		29,925	-	29,925
Accounts receivable – state grants		381,254	-	381,254
Accounts receivable – other		1,092,604	-	1,092,604
Materials and supplies inventory		361,731	-	361,731
Prepaid expenses and deposits		2,999,982	-	2,999,982
Total current assets		64,974,992	790,626	65,765,618
Non-current assets:				
Investments		421,272	-	421,272
Assessments receivable		-	3,152,843	3,152,843
Deferred charges; net		519,482	190,839	710,321
Water rights, net		8,445,211	-	8,445,211
Capital assets, not being depreciated		22,489,184	-	22,489,184
Capital assets being depreciated, net		131,923,866	-	131,923,866
Total non-current assets		163,799,015	3,343,682	167,142,697
Total assets	$	228,774,007	4,134,308	232,908,315
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued expenses	$	2,359,365	200	2,359,565
Accrued wages and related payables		149,460	-	149,460
Due to the City of Victorville		12,830,265	(382,007)	12,448,258
Customer advances, deposits and deferred revenue		3,972,809	-	3,972,809
Accrued interest payable		284,903	44,492	329,395
Long-term liabilities – due within one year:				
Compensated absences		44,184	-	44,184
Bonds payable		-	440,000	440,000
Note payable		289,959	-	289,959
Certificates-of-participation payable		325,000	-	325,000
Total current liabilities		20,255,945	102,685	20,358,630
Non-current liabilities:				
Long-term liabilities – due in more than one year:				
Compensated absences		132,552	-	132,552
Bonds payable		-	2,995,000	2,995,000
Note payable		773,962	-	773,962
Certificates-of-participation payable		14,675,000	-	14,675,000
Total non-current liabilities		15,581,514	2,995,000	18,576,514
Total liabilities		35,837,459	3,097,685	38,935,144
Net assets:				
Net investment in capital assets		139,413,050	-	139,413,050
Restricted for capital asset construction		22,057,604	-	22,057,604
Restricted for debt service		-	1,036,623	1,036,623
Unrestricted		31,465,894	-	31,465,894
Total net assets		192,936,548	1,036,623	193,973,171
Total liabilities and net assets	$	228,774,007	4,134,308	232,908,315

Victorville Water District
Combining Statement Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2008

	Water District	Assessment District 2R	Total
Operating revenues:			
Water consumption sales	$ 13,623,753	-	13,623,753
Monthly meter service charge	6,477,785	-	6,477,785
Other charges and services	1,437,022	-	1,437,022
Total operating revenues	21,538,560	-	21,538,560
Operating expenses:			
Source of supply:			
Imported water supply purchases	4,379,917	-	4,379,917
Pumping	3,048,207	-	3,048,207
Water production	985,515	-	985,515
Water treatment, transmission and distribution	4,128,550	-	4,128,550
Engineering services	1,143,277	-	1,143,277
Water conservation	347,895	-	347,895
Customer service	2,494,832	-	2,494,832
General and administrative	4,558,612	-	4,558,612
Total operating expenses	21,086,805	-	21,086,805
Operating income before depreciation and amortization	451,755	-	451,755
Depreciation and amortization	(7,019,824)	-	(7,019,824)
Operating loss	(6,568,069)	-	(6,568,069)
Non-operating revenue(expense):			
Property taxes	1,294,485	-	1,294,485
Investment earnings	2,784,977	52,679	2,837,656
Arsenic surcharge	801,399	-	801,399
Interest expense – long-term debt	(700,448)	(164,631)	(865,079)
Amortization of deferred charges	(28,499)	(30,947)	(59,446)
Post employment benefits adjustment	9,908,000	-	9,908,000
Loss on sale/disposition of capital assets, net	(1,110,570)	-	(1,110,570)
Loss on sale/disposition of surplus material, net	(519,794)	-	(519,794)
Other non-operating revenues	30,468	6,567	37,035
Other non-operating expenses	(50,535)	(3,124)	(53,659)
Total non-operating expenses, net	12,409,483	(139,456)	12,270,027
Net income(loss) before capital contributions	5,841,414	(139,456)	5,701,958
Capital contributions:			
Connection fees	3,711,863	-	3,711,863
Alternate water source fees	1,656,256	-	1,656,256
Developers and others	5,335,180	-	5,335,180
State grants	308,093	-	308,093
Capital contributions	11,011,392	-	11,011,392
Change in net assets	16,852,806	(139,456)	16,713,350
Net assets, beginning of year	176,083,742	1,176,079	177,259,821
Net assets, end of year	$ 192,936,548	1,036,623	193,973,171

Report on Internal Controls and Compliance

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

Board of Directors
Victorville Water District
Victorville, California

We have audited the basic financial statements of the Victorville Water District (District), a subsidiary district of the City of Victorville (City), as of and for the year ended June 30, 2008, and have issued our report thereon dated April 11, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

April 11, 2009
Cypress, California