

**VANDENBERG VILLAGE COMMUNITY  
SERVICES DISTRICT**

**BASIC FINANCIAL STATEMENTS**  
June 30, 2014



VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT  
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June 30, 2014

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**FINANCIAL SECTION**





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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Vandenberg Village Community Services District  
Lompoc, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of Vandenberg Village Community Services District (District) as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express opinions 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 from material misstatement.

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

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

#### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Vandenberg Village Community Services District, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in note 2 to the basic financial statements effective July 1, 2013, the Vandenberg Village Community Services District adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, Statement No. 66, *Technical Correction-2012*, Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2014, on our consideration of the Vandenberg Village Community Services District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Moss, Reny & Hartshorn LLP*

Santa Maria, California  
September 30, 2014



**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2014

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As management of the Vandenberg Village Community Services District (District), we offer this overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. It should be considered in conjunction with the information within the body of the audited financial statements and accompanying notes. All amounts, unless otherwise indicated, are expressed in whole dollars.

**MISSION STATEMENT**

*To efficiently provide dependable drinking water delivery and wastewater collection services to Vandenberg Village residents, with a commitment to customer service.*

**FINANCIAL HIGHLIGHTS**

- During the fiscal year ended June 30, 2014, the District's net position (excess of assets over liabilities, formerly entitled net assets) increased 7% to \$21.4 million. Of this amount, \$8.46 million (unrestricted net assets) may be used to meet the District's ongoing obligations to ratepayers and creditors.
- When compared to FY12-13, operating revenues increased by 6% to \$4.1 million and operating expenses decreased by 2% to \$3.17 million.
- Total net position increased \$1.46 million.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**1) Government-Wide Financial Statements.** The *Government-Wide Financial Statements* provide readers with a broad overview of the District's finances, combining both the water and wastewater enterprise funds data and can be found on **pages 9-11** of this report.

The *Statement of Net Position* presents information on all assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position indicate whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the net position changed during the fiscal year. In accrual based accounting, which the District utilizes, changes in net position are reported when the event causing the change occurs (i.e., an expense that is incurred on June 30<sup>th</sup>, but is paid for in July, is reported as a decrease to net position in June).

The District charges a fee to customers to cover all or most of the costs of certain services it provides. The District's water and wastewater operations are reported as business-type activities on the Statement of Activities.

**2) Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The District has no general fund; therefore, all of the funds of the District can be categorized as proprietary funds.

**Proprietary funds.** The District maintains a single type of proprietary fund: enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the Government-Wide Financial Statements. The District uses enterprise funds to account for its water and wastewater operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and wastewater operations.

The *Fund Financial Statements* provide readers with a detail view of the District's water and wastewater enterprise funds data and can be found on **pages 12-18**.

The *Statement of Net Position – Proprietary Funds* presents information on assets and liabilities for each enterprise fund.

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
 June 30, 2014

The *Statement Revenues, Expenses, and Changes in Net Position – Proprietary Funds* presents information showing how the net position changed during the fiscal year for each enterprise fund.

The *Statement of Cash Flows – Proprietary Funds* gives an overview of cash received and cash paid out during the fiscal year, separated by activity type (operating, capital/financing, non-capital/financing, and investing).

**3) Notes to Basic Financial Statements.** The *Notes to Basic Financial Statements* provide additional information for a more complete understanding of the data provided in the basic financial statements and can be found on **pages 19-27** of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The government-wide financial analysis contains comparative information from the prior year.

**Net Position**

Net position may serve over time as a useful indicator of a government’s financial position. Assets exceeded liabilities by \$21.4 million as of June 30, 2014. This is an increase of \$1.4 million from fiscal year ended June 30, 2013.

	Business-type activities	
	2014	2013
Current And Other Assets	9,133,028	8,691,137
Capital Assets	25,187,366	24,390,930
<b>Total Assets</b>	<b>\$34,320,394</b>	<b>\$33,082,067</b>
Current Liabilities	1,280,827	1,579,704
Noncurrent Liabilities	11,607,429	11,534,630
<b>Total Liabilities</b>	<b>\$12,888,256</b>	<b>\$13,114,334</b>
Net Assets:		
Invested in Capital Assets, net of related debt	12,838,846	11,918,358
Restricted	136,394	190,568
Unrestricted	8,456,898	7,858,807
<b>Total Net Position</b>	<b>\$21,432,138</b>	<b>\$19,967,733</b>

The largest portion of the net position reflects investment in capital assets (i.e. land, easements, water rights, wells and pumps, mains and distribution systems, buildings and improvements, vehicles, furniture and equipment, and construction in progress). The District uses these capital assets to provide services to the residents of Vandenberg Village; consequently, these assets are not available for future spending.

The next largest portion of the net position is reserved for future spending. This portion is cash and investments. Cash and investments increased in FY 13-14 by \$0.6 million due to the reserve component built into the District’s rate structure and interest earnings on the cash and investments.

The following are significant current fiscal year transactions that have had an impact on the Statement of Net Assets:

- *Current and Other Assets* increased \$0.44 million due mainly to the increase in Cash and investments.
- *Capital Assets* increased by \$1.76 million. The most notable addition to Capital Assets was the prior period adjustment to the State Revolving Fund Loan amount and to close the Construction in progress account to Asset for the Lompoc Regional Wastewater Upgrade project blowers upon receiving final amounts from the City of Lompoc. Other additions to Capital Assets included replacing the columns and bowls for Wells 3A and 3B, completing the covered storage area at the shop, and the chemical tanks, pad, canopy, retaining wall and pump room.
- Regular straight-line depreciation for the fiscal year ended June 30, 2014 decreased non-current assets by \$965,091.
- On April 4, 2006, the Board of Directors approved Resolution 176-06 updating the District’s Reserve Policy and establishing a goal equal to the sum of capital, operating, and emergency reserve requirements. As of June 30, 2014, the District has a balance of approximately \$7.92 million. The reserve goal changes each year based on the accumulated depreciation expense, the current operating budget, and the value of capital assets. Based on the criteria set forth by the resolution, the District’s goal was \$9.9 million in reserves at fiscal yearend. **The goal for June 30, 2014 is \$11.8 million.** See the following table for the June 30, 2014 goal calculations.

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 June 30, 2014

<b>Resolution 176-06 Reserve Requirement using the FY14-15 Budget</b>				
Category		Requirement	Water	Wastewater
Capital Reserves	Accumulated Depreciation + 25% operating budget		\$3,344,489	\$4,366,348
Operating Reserves	25% operating budget		383,581	689,902
Emergency Reserves	10% capital assets		705,743	2,356,984
			<u>\$4,433,813</u>	<u>\$7,413,234</u>
			Total = \$11,847,047	
				<b>\$4,428,236</b>
<b>Current Balance (as of June 30, 2014)</b>			\$3,489,268	<del>\$5,428,236</del>
			Total = \$7,917,504 *	

**Activities**

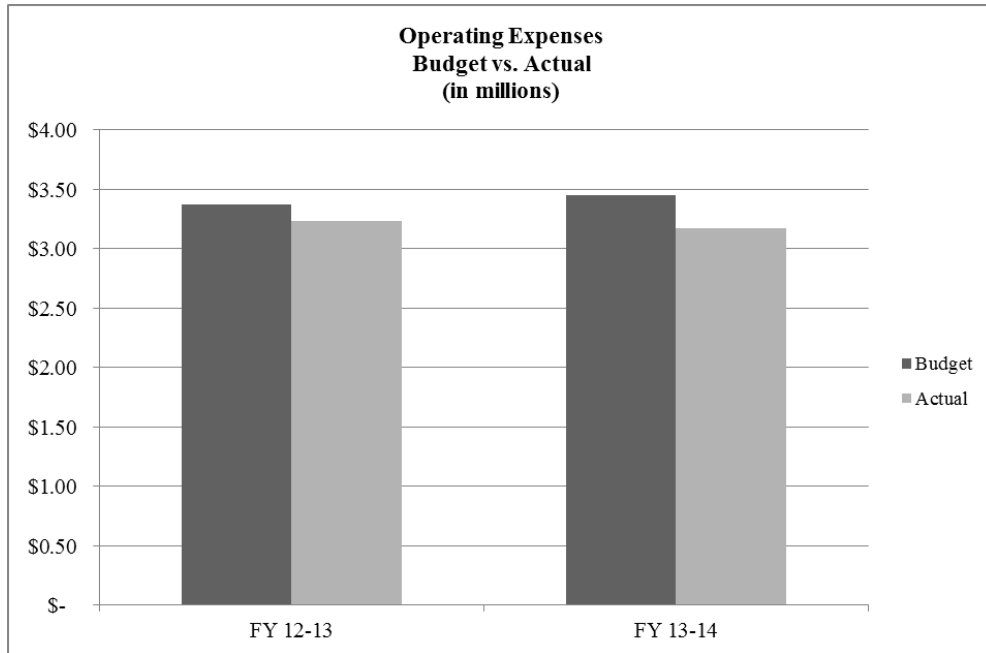
The District's financial position results from operating activities, investment activities, the acquisition and disposal of capital assets, and the depreciation of capital assets.

	Business-type activities	
	2014	2013
Charges for Services	4,094,122	3,852,221
Capital Grants and Contributions	0	660,766
Investment Earnings	37,223	12,914
Other Revenues/Connection Fees	33,708	334,127
<b>Total Revenues</b>	<u>\$4,165,053</u>	<u>\$4,860,028</u>
Water Operations Expenses	1,444,085	1,348,194
Wastewater Operations Expenses	1,723,882	1,887,628
<b>Total Expenses</b>	<u>\$3,167,967</u>	<u>\$3,235,822</u>
Transfers	0	0
<b>Change in Net Assets</b>	<u>\$997,086</u>	<u>\$1,624,206</u>
<b>Net Assets, beginning of year</b>	19,967,733	18,343,527
Prior Period Adjustments	467,319	0
<b>Net Assets, end of fiscal year</b>	<u>\$21,432,138</u>	<u>\$19,967,733</u>

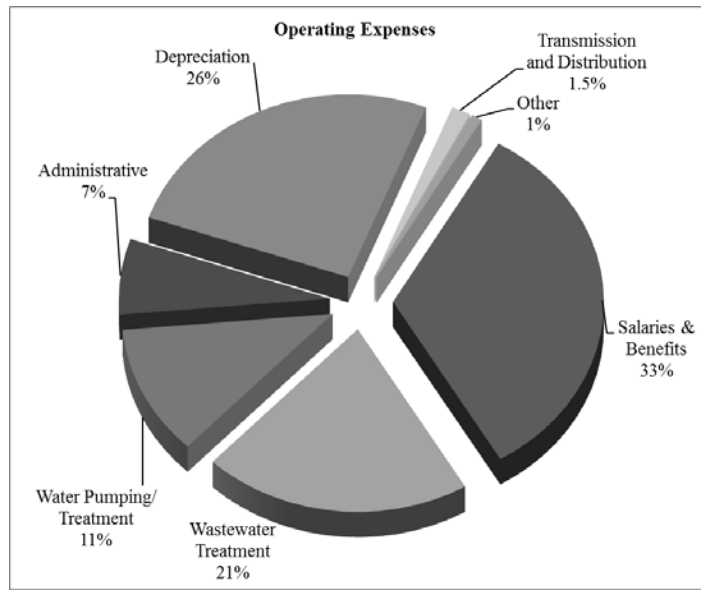
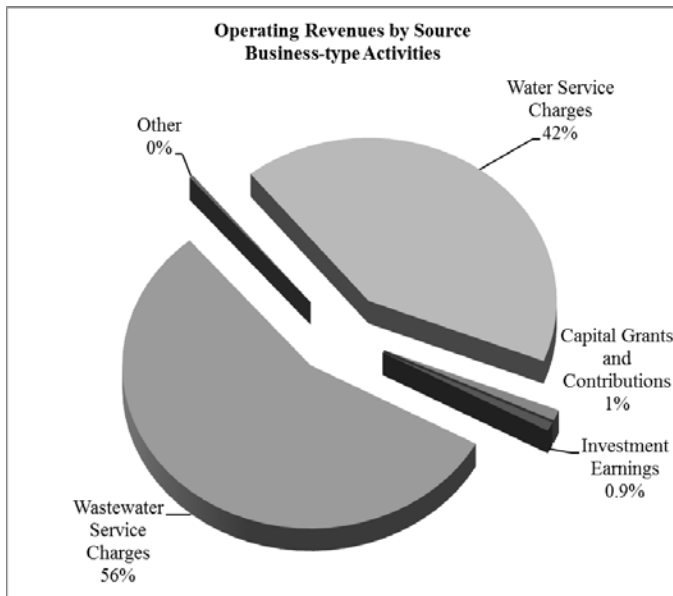
The following are significant current fiscal year transactions that have had an impact on the Statement of Activities:

- *Charges for Services* include \$1.75 million in water use and service charges; \$1.3 million in wastewater service charges; and \$1 million in LRWRP upgrade charges.
- *Other Revenues* include unbudgeted revenues such as late fees of \$11,503 and water and wastewater connection fees of \$45,390 and non-operating loss of \$25,419 for disposal of surplus assets.
- *Change in Net Position* includes \$45,390 in restricted revenue from water and wastewater connection fees.
- *Investment Earnings* includes \$5,559 earned on LRWRP funds held by the City of Lompoc.
- Revenues are estimated based on current rates and average number of customers per calendar year. Water revenues are based on a five-year average water usage. For FY 13-14, unrestricted operating revenues exceed projections by 2%.

\* The cash available for reserves does not include Developers' Connection Fees (\$101,172) nor Developers' Conservation Funds (\$33,139), as these two accounts are designated to be used solely for Developer-related asset purchases and Water Conservation expenditures. The bank account which holds employee payroll deductions for Flex Spending health benefits accounts (\$2,082) is also withheld from the cash available for reserves. By adding the Developers' Connection Fees, the Developers' Conservation Funds, the employee flex spending account, and the current balance available for reserves, we balance to the Cash and investments on the Statement of Net Position (\$101,172 + \$33,139 + \$2,082 + \$7,917,504 = \$8,053,897).



The charts below reflect major categories of actual FY 13-14 operating expenses and revenues. On the revenue side, water and wastewater service charges account for 98% (\$4.1 million) of the District's revenues and capital contributions (connection fees) account for 1% (\$0.05 million). On the expense side, employee salaries and benefits are 33% (\$1 million) of the total operating expenses. Wastewater treatment is also a major component of operating expenses. It accounts for 21% (\$0.65 million) of the total annual expenses. Water pumping and treatment accounts for 11% (\$0.37 million).



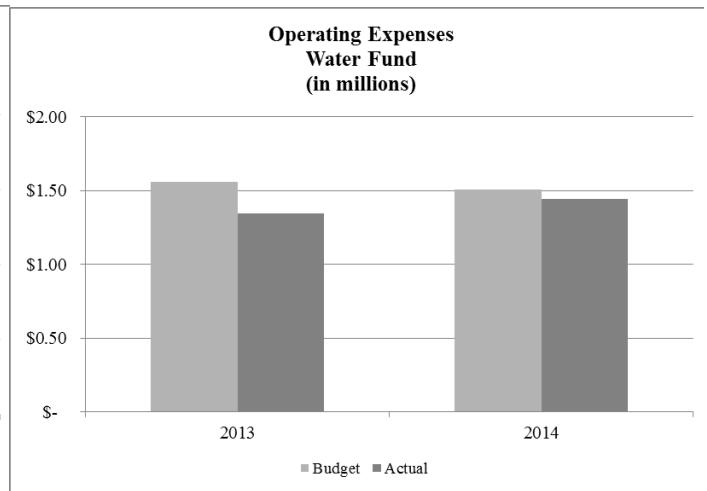
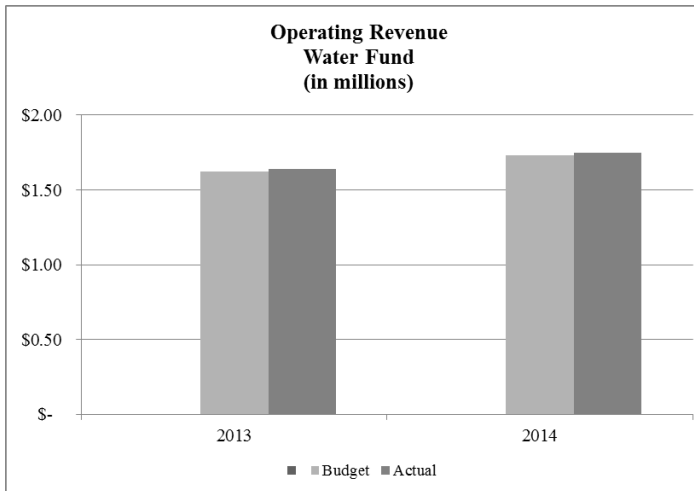
**FUND FINANCIAL STATEMENT ANALYSIS**

As noted earlier in this report, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District does not have a general fund but separates all revenues and expenses into their specific water or wastewater enterprise fund, based on either actual fund expenditures or, as in the case of administrative salaries, an estimated percentage. During this fiscal year, the District made no transfers between funds and both of the District's enterprise funds ended the year with positive fund balances.

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 June 30, 2014

**Water Fund**

The water fund's net position increased by \$332,572 primarily as a budgeted addition to cash reserves. Unrestricted water revenues exceeded projections by \$32,513, a 2% variance. Total unrestricted water revenues were \$1.76 million with \$1.33 million (75%) collected from residential customers and the remaining \$0.43 million (25%) collected from commercial, bulk residential, irrigation, and other. In addition, restricted water revenue of \$23,289 was received as developer connection charges. Water fund operating expenses of \$1.4 million primarily consist of salaries (30%), administration (27%), pumping (16%), and depreciation (11%).

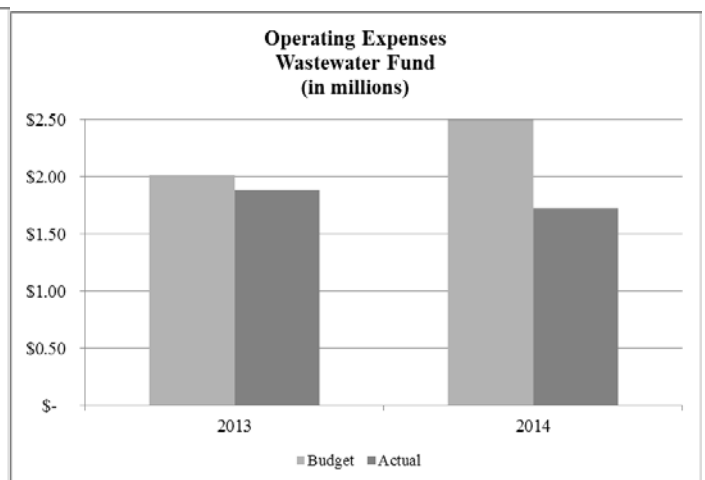
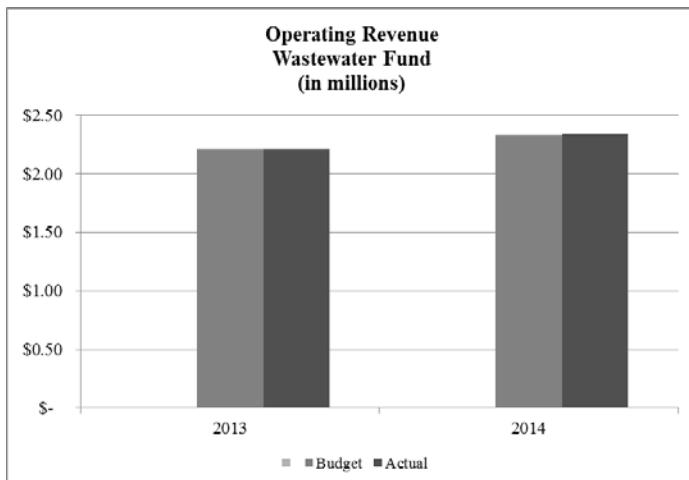


**Wastewater Fund**

The wastewater fund's net position increased by \$0.66 million primarily due to the prior period adjustment to the wastewater plant upon receiving final amounts from the City of Lompoc.

Unrestricted wastewater revenues exceeded projections by \$5,226, less than a 1% variance. In addition, restricted wastewater revenue of \$22,101 was received as developer connection charges.

Wastewater fund expenses of \$1.7 million were 3% under budget and primarily consist of wastewater treatment (46%), salaries (10%), administration (9%), and depreciation (31%). The total volume of wastewater for FY 13-14 was 10% lower than FY 12-13; 147 million gallons compared to 164 million gallons last fiscal year.



## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

Capital assets include public domain (infrastructure) general fixed assets consisting of certain improvements including pumping and treatment equipment, water and wastewater transmission and distribution lines, and construction work in progress. At the end of fiscal year 2014, the District had \$31 million invested in a broad range of capital assets, including land, buildings, equipment, furniture, vehicles, and infrastructure. Major capital asset events during the current fiscal year are discussed on page 4 of this report and in Note 4 to the financial statements.

### **Debt Administration**

At fiscal year end, the long-term debt reported by the District consisted of payments owed to the City of Lompoc for the District's portion of the State Revolving Fund loan obtained to finance the LRWRP upgrade project and for the digester and blower change orders. Additional information on the District's long-term debt can be found in Notes 7 and 8 to the financial statements.

## **ECONOMIC OUTLOOK**

During the last couple of years, the District steadily grew as new homes were built in Providence Landing. The District accepted ownership of water and wastewater infrastructure in Providence Landing on June 17, 2014, which will be reflected in the fiscal year 14-15 asset schedule. The District expects the number of customers to increase slightly as new homes are permitted and built within the Clubhouse Estates project and the Heritage Villas II project.

The District absorbed cost increases in water and wastewater treatment, power, labor, and maintenance without increasing rates for 3-5 years. In order to keep the District on a strong financial foundation, in June 2013 the Board of Directors approved three 4.8% annual rate increases, beginning July 2013. Fiscal year 14-15 will reflect the second of these 4.8% increases.

It appears that the low interest rate environment that the United States has been in since 2010 will continue which means interest earnings on the District's conservative investments will probably be less than 1% in the foreseeable future.

The Board of Directors increased employee salaries and benefits using the CPI-W, West B/C, published by US Department of Labor, Bureau of Labor Statistics, as the basis for annual cost of living adjustment. The employee salaries were also increased to cover the 2% CalPERS employee payment which will be withheld from employee earnings beginning July 2014. The California Public Employees' Retirement System (CalPERS) recently changed their amortization and smoothing policies which is expected to increase the District's employer contribution rates by 1.1% per year, for five years, beginning FY 15-16.

Effort is shifting toward the wastewater collection system. Two major capital projects are in the planning stages: the Lift Station #1 Replacement Project and the Sewer System Cleaning and Inspection Project. The latter is a \$300,000 project to clean and video the entire 27-mile sewer system. It will provide valuable information needed to plan for the repair, rehabilitation, or upgrade of the District's sewer system over the next 10 years. Such work could cost a couple of million dollars.

The District is continuing to work with the State Lands Commission and California Department of Fish and Wildlife on obtaining additional land to drill replacement wells in the future. It is proving to be a time-consuming and costly endeavor.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide the District's ratepayers, 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 General Manager at 3757 Constellation Road, Lompoc, CA 93436 or by calling (805) 733-2475.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT  
STATEMENT OF NET POSITION  
June 30, 2014

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ASSETS

Current assets:

Cash on hand	\$ 400
Cash and investments	8,053,897
Accounts receivable	286,342
Accrued interest receivable	5,192
Inventory	32,578
Prepaid expenses	<u>11,977</u>
Total current assets	<u>8,390,386</u>

Other assets:

Deposits	<u>742,642</u>
Total other assets	<u>742,642</u>

Capital assets:

Land	35,000
Easements	200,000
Water rights	628,522
Capacity rights	21,402,497
Source of supply	366,770
Pumping equipment	1,174,836
Treatment	259,544
Transmission and distribution	5,705,202
General plant	933,858
Construction in progress	<u>284,488</u>
	30,990,717
Less: Accumulated depreciation	<u>(5,803,351)</u>

Total capital assets - net of accumulated depreciation	<u>25,187,366</u>
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Total assets	<u>34,320,394</u>
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See accompanying notes to basic financial statements.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT  
STATEMENT OF NET POSITION  
June 30, 2014

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**LIABILITIES**

Current liabilities:

Accounts payable	\$ 95,108
Accrued payroll expenses	37,207
Compensated absences	142,096
Customer deposits	70,071
Unearned revenues	195,254
Due to City of Lompoc - current portion	<u>741,091</u>

Total current liabilities 1,280,827

Noncurrent liabilities:

Due to City of Lompoc - less current portion 11,607,429

Total liabilities 12,888,256

**NET POSITION**

Net investment in capital assets	12,838,846
- Restricted for construction	101,173
Restricted for water conservation	33,139
Restricted for employee benefits	2,082
Unrestricted	<u>8,456,898</u>

Total net position \$ 21,432,138

See accompanying notes to basic financial statements.



VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT  
 STATEMENT OF ACTIVITIES  
 For the Fiscal Year Ended June 30, 2014

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<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Business-type activities:				
Water	\$ 1,444,085	\$ 1,764,918	\$ -	\$ 344,122
Wastewater	<u>1,723,882</u>	<u>2,342,941</u>		<u>641,160</u>
Total business-type activities	<u>\$ 3,167,967</u>	<u>\$ 4,107,859</u>	<u>\$ -</u>	<u>985,282</u>
		General revenues:		
			Investment earnings	37,223
			Loss on disposal of capital assets	<u>(25,419)</u>
			Change in net position	<u>997,086</u>
			Net position, beginning of fiscal year	19,967,733
			Prior period adjustment	<u>467,319</u>
			Net position - beginning of fiscal year, restated	<u>20,435,052</u>
			Net position, end of fiscal year	<u>\$ 21,432,138</u>

See accompanying notes to basic financial statements.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT  
STATEMENT OF NET POSITION - PROPRIETARY FUNDS

June 30, 2014

With Comparative Totals for June 30, 2013

	ENTERPRISE FUNDS			
	Water Fund	Wastewater Fund	Totals 2014	Totals 2013
<b>ASSETS</b>				
Current assets:				
Cash on hand	\$ 400	\$ -	\$ 400	\$ 400
Cash and investments	3,625,660	4,428,237	8,053,897	7,447,625
Accounts receivable	286,342		286,342	236,884
Accrued interest receivable	5,192		5,192	3,918
Inventory	32,578		32,578	27,884
Prepaid expenses	11,681	296	11,977	14,989
Total current assets	3,961,853	4,428,533	8,390,386	7,731,700
Other assets:				
Deposits		742,642	742,642	742,642
Prepayment-PERS				216,795
Total other assets		742,642	742,642	959,437
Capital assets:				
Land	35,000		35,000	35,000
Easements	100,000	100,000	200,000	200,000
Water rights	628,522		628,522	628,522
Capacity rights		21,402,497	21,402,497	19,120,832
Source of supply	366,770		366,770	325,114
Pumping equipment	919,938	254,898	1,174,836	1,071,033
Treatment	259,544		259,544	241,115
Transmission and distribution	4,012,619	1,692,583	5,705,202	5,697,885
General plant	801,921	131,937	933,858	919,606
Construction in progress	221,340	63,148	284,488	990,083
	7,345,654	23,645,063	30,990,717	29,229,190
Less: Accumulated depreciation	(2,775,391)	(3,027,960)	(5,803,351)	(4,838,260)
Total capital assets - net of accumulated depreciation	4,570,263	20,617,103	25,187,366	24,390,930
Total assets	8,532,116	25,788,278	34,320,394	33,082,067

See accompanying notes to basic financial statements.

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**

June 30, 2014

With Comparative Totals for June 30, 2013

	ENTERPRISE FUNDS			
	Water Fund	Wastewater Fund	Totals 2014	Totals 2013
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 45,761	\$ 49,347	\$ 95,108	\$ 209,936
Accrued payroll expenses	27,699	9,508	37,207	32,780
Compensated absences	142,096		142,096	143,875
Customer deposits	70,071		70,071	69,318
Unearned revenues		195,254	195,254	185,853
Due to City of Lompoc - current portion		741,091	741,091	937,942
Total current liabilities	<u>285,627</u>	<u>995,200</u>	<u>1,280,827</u>	<u>1,579,704</u>
Noncurrent liabilities:				
Due to City of Lompoc - less current portion		11,607,429	11,607,429	11,534,630
Total liabilities	<u>285,627</u>	<u>12,602,629</u>	<u>12,888,256</u>	<u>13,114,334</u>
<b>NET POSITION</b>				
Net investment in capital assets	4,570,263	8,268,583	12,838,846	11,918,358
Restricted for construction	101,173		101,173	158,212
Restricted for water conservation	33,139		33,139	30,869
Restricted for employee benefits	2,082		2,082	1,487
Unrestricted	3,539,832	4,917,066	8,456,898	7,858,807
Total net position	<u>\$ 8,246,489</u>	<u>\$ 13,185,649</u>	<u>\$ 21,432,138</u>	<u>\$ 19,967,733</u>

See accompanying notes to basic financial statements.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -  
PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2014

With Comparative Totals for the Fiscal Year Ended June 30, 2013

	ENTERPRISE FUNDS			
	Water Fund	Wastewater Fund	Totals 2014	Totals 2013
<b>Operating Revenues:</b>				
Residential	\$ 1,326,084	\$ 1,094,028	\$ 2,420,112	\$ 2,253,070
Commercial	172,634	210,984	383,618	341,351
Bulk meter residential	119,908		119,908	108,791
Irrigation	132,555		132,555	127,596
LRWRP Upgrade		1,037,929	1,037,929	1,021,413
Other	13,737		13,737	17,042
Total operating revenues	<u>1,764,918</u>	<u>2,342,941</u>	<u>4,107,859</u>	<u>3,869,263</u>
<b>Operating Expenses:</b>				
Salaries	434,060	197,426	631,486	570,109
Source of supply	50,813		50,813	52,424
Pumping	234,586	8,943	243,529	216,539
Water treatment	79,841		79,841	78,035
Wastewater treatment		651,654	651,654	875,724
Transmission and distribution	34,204	3,568	37,772	(2,275)
Wastewater collection				2,552
Customer accounts	38,253	38,782	77,035	68,758
Administrative and general	392,396	161,745	554,141	585,253
Other operating expenses	14,740	11,685	26,425	33,786
Depreciation	165,192	650,079	815,271	754,917
Total operating expenses	<u>1,444,085</u>	<u>1,723,882</u>	<u>3,167,967</u>	<u>3,235,822</u>
Net operating income	<u>320,833</u>	<u>619,059</u>	<u>939,892</u>	<u>633,441</u>
<b>Non-Operating Revenues (Expenses):</b>				
Investment income	13,837	23,386	37,223	12,914
Other non-operating revenue				7
Net gain (loss) on disposal of capital assets	(25,387)	(32)	(25,419)	16,977
Total non-operating revenues (expenses)	<u>(11,550)</u>	<u>23,354</u>	<u>11,804</u>	<u>29,898</u>
<b>Capital Contributions</b>				
Connection fees	23,289	22,101	45,390	300,101
Infrastructure contribution				660,766
Total capital contributions	<u>23,289</u>	<u>22,101</u>	<u>45,390</u>	<u>960,867</u>
Change in net position	<u>332,572</u>	<u>664,514</u>	<u>997,086</u>	<u>1,624,206</u>
Total net position - beginning	8,130,712	11,837,021	19,967,733	18,343,527
Prior period adjustment	(216,795)	684,114	467,319	
Total net position - beginning -restated	<u>7,913,917</u>	<u>12,521,135</u>	<u>20,435,052</u>	<u>18,343,527</u>
Total net position - ending	<u>\$ 8,246,489</u>	<u>\$ 13,185,649</u>	<u>\$ 21,432,138</u>	<u>\$ 19,967,733</u>

See accompanying notes to basic financial statements.

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
For the Fiscal Year Ended June 30, 2014  
With Comparative Totals for the Fiscal Year Ended June 30, 2013

	ENTERPRISE FUNDS			
	Water Fund	Wastewater Fund	Totals 2014	Totals 2013
<b>Cash Flows From Operating Activities:</b>				
Receipts from customers and users	\$ 1,716,213	\$ 2,352,342	\$ 4,068,555	\$ 3,850,854
Payments to suppliers	(830,159)	(1,007,561)	(1,837,720)	(1,899,869)
Payments to employees	(433,109)	(195,729)	(628,838)	(535,811)
Net cash provided (used) by operating activities	<u>452,945</u>	<u>1,149,052</u>	<u>1,601,997</u>	<u>1,415,174</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Payment on long-term debt		(825,499)	(825,499)	(829,069)
Sale of capital assets				20,567
Connection fees collected	23,289	22,101	45,390	300,101
Purchase of capital assets	(185,207)	(66,358)	(251,565)	(237,219)
Net cash (used) by capital and related financing activities	<u>(161,918)</u>	<u>(869,756)</u>	<u>(1,031,674)</u>	<u>(745,620)</u>
<b>Cash Flows from Non Capital and Related Activities:</b>				
Other non-operating revenue				423
Net cash provided by investing activities				<u>423</u>
<b>Cash Flows from Investing Activities:</b>				
Investment income	<u>12,563</u>	<u>23,386</u>	<u>35,949</u>	<u>16,390</u>
Net cash provided by investing activities	<u>12,563</u>	<u>23,386</u>	<u>35,949</u>	<u>16,390</u>
Net increase (decrease) in cash and cash equivalents	303,590	302,682	606,272	686,367
Cash and cash equivalents, beginning of fiscal year	<u>3,322,470</u>	<u>4,125,555</u>	<u>7,448,025</u>	<u>6,761,658</u>
Cash and cash equivalents, end of fiscal year	<u>\$ 3,626,060</u>	<u>\$ 4,428,237</u>	<u>\$ 8,054,297</u>	<u>\$ 7,448,025</u>
<b>Reconciliation to Statement of Net Position:</b>				
Cash on hand	\$ 400	\$ -	\$ 400	\$ 400
Cash and investments (cash equivalents only)	<u>3,625,660</u>	<u>4,428,237</u>	<u>8,053,897</u>	<u>7,447,625</u>
	<u>\$ 3,626,060</u>	<u>\$ 4,428,237</u>	<u>\$ 8,054,297</u>	<u>\$ 7,448,025</u>

(Continued)

See accompanying notes to basic financial statements.

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**

For the Fiscal Year Ended June 30, 2014

With Comparative Totals for the Fiscal Year Ended June 30, 2013

	ENTERPRISE FUNDS			
	Water	Wastewater	Totals	Totals
	Fund	Fund	2014	2013
<b>Reconciliation of Operating Income to Net</b>				
<b>Cash Provided by Operating Activities:</b>				
Operating income	\$ 320,833	\$ 619,059	\$ 939,892	\$ 633,441
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	165,192	650,079	815,271	754,917
<b>Change in Operating Assets and Liabilities:</b>				
(Increase) decrease in accounts receivable	(49,458)		(49,458)	(12,359)
(Increase) decrease in inventory	(4,694)		(4,694)	(1,307)
(Increase) decrease in prepaid expenses	3,009	3	3,012	(2,258)
(Increase) decrease in deposits				18,066
Increase (decrease) in accounts payable	16,359	(131,187)	(114,828)	(3,574)
Increase (decrease) in accrued payroll	2,730	1,697	4,427	4,413
Increase (decrease) in customer deposits	753		753	(6,725)
Increase (decrease) in unearned revenue		9,401	9,401	675
Increase (decrease) in compensated absences	(1,779)		(1,779)	29,885
Net cash provided by operating activities	<u>\$ 452,945</u>	<u>\$ 1,149,052</u>	<u>\$ 1,601,997</u>	<u>\$ 1,415,174</u>

See accompanying notes to basic financial statements.

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2014

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The notes provided in the Financial Section of this report are considered an integral and essential part of adequate disclosure and fair presentation of this report. The notes include a summary of significant accounting policies for the District and other necessary disclosure of pertinent matters relating to the financial position of the District. The notes express significant insight to the financial statements and are conjunctive to understanding the rationale for presentation of the financial statements and information contained in this document.

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**NOTE 1 - REPORTING ENTITY**

The reporting entity is the Vandenberg Village Community Services District, which was voted into existence by the residents of Vandenberg Village on November 8, 1983, in an election held in the County of Santa Barbara, State of California. The District operates under the direction of a board of directors who are elected by the residents of Vandenberg Village. On December 2, 1988, the District acquired water and sewer service facilities from Park Water Company and now provides water and sewer services to the residents of Vandenberg Village.

The District is a Community Services District as defined under California Government Code Section: 61000. A Community Services District is a public agency (State Code Section: 12463.1), which is a state instrumentality (State Code Section: 23706). State instrumentalities are exempt from federal and state income taxes.

There are no component units included in this report which meet the criteria of GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39 and No. 61.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A. Accounting Policies - The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).
- B. Accounting Method - The District is organized as an Enterprise Fund and follows the accrual method of accounting, whereby revenues are recorded as earned, and expenses are recorded when incurred.
- C. Unearned Revenue - The District reports unearned revenues on its statement of net position. Unearned revenues arise when potential revenue does not meet the "earned" criteria for recognition in the current period. In subsequent periods, when the revenue recognition criteria is met, the liability for unearned revenue is removed from the statement of net position and revenue is recognized.
- D. Cash and Cash Equivalents - For purpose of the statement of cash flows, cash and cash equivalents include restricted and unrestricted cash and restricted and unrestricted certificates of deposit with original maturities of three months or less.
- E. Property, Plant, and Equipment - Capital assets purchased by the District are recorded at cost. Contributed or donated capital assets are recorded at fair value when acquired.
- F. Depreciation - Capital assets purchased by the District are depreciated over their estimated useful lives (ranging from 5-100 years) under the straight-line method of depreciation.
- G. Receivables - The District did not experience any significant bad debt losses; accordingly, no provision has been made for doubtful accounts, and accounts receivable is shown at full value.
- H. Inventory - The inventory maintained by the water utility consists primarily of water pipe, valves, and fittings. Inventory is valued at cost, determined on a first-in, first-out basis.
- I. Encumbrances - Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the District.
- J. Accrued Compensation - Accumulated unpaid employee vacation, compensatory time, and sick leave benefits are recognized as a liability of the District. The amounts are included in current liabilities under compensated absences.
- K. Customer Deposits - The District requires customers to pay an advance deposit for utility services or provide a letter of credit from another utility. It is the District's current policy to hold all deposits for a period of two years. Deposits are then refunded in full and no accrued interest is paid.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Net Position

GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

- M. Government-wide and fund financial statements – The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Business-type activities*, which rely to a significant extent on fees and charges for support are the only type of activity reported by the Vandenberg Village Community Services District.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Items not properly included among program revenues are reported instead as *general revenues*.

**Measurement focus, basis of accounting, and financial statements presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the District's water and sewer function. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the AICPA, 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

O. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 65

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities." This Statement is effective for periods beginning after December 15, 2012. The objective of this Statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of the GASB Statement No. 65 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2014.

Governmental Accounting Standards Board Statement No. 66

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 66, "Technical Correction - 2012." This Statement is effective for periods beginning after December 15, 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." Since the release of these Statements, questions have arisen concerning differences between the provisions in Statement No. 54 and Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, regarding the reporting of risk financing activities. Questions also have arisen about differences between Statement No. 62 and Statements No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, regarding the reporting of certain operating lease transactions, and No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues*, concerning the reporting of the acquisition of a loan or a group of loans and the recognition of servicing fees related to mortgage loans that are sold. Implementation of the GASB Statement No. 66 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2014.

Governmental Accounting Standards Board Statement No. 67

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 67, "Financial Reporting for Pension Plans." This Statement is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" and No. 50 "Pension Disclosures" as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. Implementation of the GASB Statement No. 67 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2014.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 June 30, 2014

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

O. New Accounting Pronouncements (Continued)

Governmental Accounting Standards Board Statement No. 70

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 70, "Accounting and Financial Reporting for Non-exchange Financial Guarantees." This Statement is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are non-exchange transactions.. Implementation of the GASB Statement No. 70 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2014.

**NOTE 3 - CASH AND INVESTMENTS**

Investments are carried at fair value in accordance with GASB Statement No. 31. On June 30, 2014, the District had the following cash and investments on hand:

Cash on hand	\$ 400
Cash in checking accounts	261,908
Cash in savings accounts	1,144,872
Cash and investments with County of Santa Barbara	3,222,132
Cash and investments in Local Agency Investment Fund (LAIF)	<u>3,424,985</u>
Cash and investments	<u>\$ 8,054,297</u>

Cash and investments listed above are presented on the accompanying statement of net position, as follows:

Cash on hand	\$ 400
Cash and investments	<u>8,053,897</u>
	<u>\$ 8,054,297</u>

Investments Authorized by the California Government Code

The table below identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 June 30, 2014

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the 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.

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:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>	<u>More than 60 Months</u>
Santa Barbara County Investment Pool	\$ 3,222,132	\$ 3,222,132	\$ -	\$ -	\$ -
LAIF	<u>3,424,985</u>	<u>3,424,985</u>			
Total	<u>\$ 6,647,117</u>	<u>\$ 6,647,117</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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 rating by a nationally recognized statistical rating organization. Presented below, is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Fiscal Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
Santa Barbara County Investment Pool	\$3,222,132	N/A	\$ -	\$ -	\$ -	\$3,222,132
LAIF	<u>3,424,985</u>	N/A				<u>3,424,985</u>
Total	<u>\$6,647,117</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$6,647,117</u>

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District's investments.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 June 30, 2014

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, 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 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 fair value of the pledged securities in the collateral pool must equal at least 100% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. 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 and the Santa Barbara County Investment Pool).

As of June 30, 2014, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF and the Santa Barbara County Investment Pool).

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 basic financial statements at the 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.

**NOTE 4 - SCHEDULE OF CAPITAL ASSETS**

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2014, is shown below:

	Balance July 1, 2013	Additions	Deletions	Transfers	Prior Period Adjustment	Balance June 30, 2014
Capital assets, not being depreciated:						
Land	\$ 35,000	\$ -	\$ -	\$ -	\$ -	\$ 35,000
Construction in progress	990,083	135,108		(840,704)		284,487
Total capital assets, not being depreciated	<u>\$ 1,025,083</u>	<u>\$ 135,108</u>	<u>\$ -</u>	<u>\$ (840,704)</u>	<u>\$ -</u>	<u>\$ 319,487</u>
Capital assets, being depreciated:						
Easements and water rights	\$ 828,522	\$ -	\$ -	\$ -	\$ -	\$ 828,522
Plant and facilities	27,375,585	116,457	71,170	840,704	1,581,132	29,842,708
Total capital assets, being depreciated	28,204,107	116,457	71,170	840,704	1,581,132	30,671,230
Less accumulated depreciation	4,838,260	815,271	45,751		195,571	5,803,351
Total capital assets, being depreciated, net	<u>\$ 23,365,847</u>	<u>\$ (698,814)</u>	<u>\$ (25,419)</u>	<u>\$ 840,704</u>	<u>\$ 1,385,561</u>	<u>\$ 24,867,879</u>
Capital assets, net	<u>\$ 24,390,930</u>	<u>\$ (563,706)</u>	<u>\$ (25,419)</u>	<u>\$ -</u>	<u>\$ 1,385,561</u>	<u>\$ 25,187,366</u>

**NOTE 5 - WASTEWATER CAPITAL RESERVE FUND AND RENT EXPENSE**

The District maintains a wastewater capital reserve fund with the City of Lompoc (City). In return, the City supplies wastewater treatment services to the District. Interest is earned on the reserve balance and disbursements are made by the City for Vandenberg Village Community Services District's portion of capital improvements. The minimum reserve requirement for Vandenberg Village Community Services District is \$742,642. On June 30, 2014, the reserve balance was \$742,642.

The agreement between the District and the City of Lompoc states that at no time does title transfer to the District for any capital improvements made to the wastewater treatment plant. All disbursements made from the District's capital reserve fund for improvements are treated as a rental expense to the District.

**NOTE 6 - UNEARNED REVENUES**

Unearned revenues consist of sewer fees paid in advance by the District's customers in the amount of \$195,254 for the fiscal year ended June 30, 2014.

**NOTE 7 – DUE TO CITY OF LOMPOC**

The District has an agreement with the City of Lompoc dated June 1, 1974 to repay its proportionate share of capital costs for 0.89 MGD capacity rights of the Lompoc Regional Wastewater Reclamation Plant (LRWRP). At the time of the 1974 agreement, the plant capacity was 5.0 MGD. This equated to a 17.8% cost share.

The 2007 LRWRP Upgrade Project incidentally increased the plant capacity to 5.5 MGD which decreased the District's cost share to 16.18% for the upgrade project and all costs associated with the upgraded plant.

The City of Lompoc estimates the total project cost to be \$134,283,911. The City of Lompoc issued various debt to assist in financing the project.

On March 22, 2005, the City of Lompoc issued 2005 Water and Wastewater Revenue bonds. The District prepaid \$1,174,800 to the City of Lompoc in December 2004 for architecture, design, engineering, and construction management costs. The deposit, plus interest earned, was drawn down upon for the District's portion of costs as the project progressed. In January 2009, the City had depleted the District's prepayment and has since billed the District for any additional expenses incurred.

On February 14, 2007, the City of Lompoc issued 2007 Water and Wastewater Revenue Bonds. The District's agreed upon share of this debt towards the project was \$3,932,736.63. In fiscal year 2008, the District paid \$118,690 towards the debt and in fiscal year 2009, \$131,359.44 was paid. On July 9, 2009, the District requested and paid to the City of Lompoc \$2,116,605.71 towards the debt. The City of Lompoc is not eligible to refund the bonds until September 2018. Therefore, the District's prepayment is deposited in an escrow account and the interest earned is used to pay the semi-annual principal and interest payment when due. If, upon bond refundment, the interest earned in the escrow account does not equal the \$730,250.10 required to pay the interest payments from 2009 through 2018, the District will pay the difference to the City of Lompoc. At that time, the interest payments for 2018 through 2037 in the amount of \$835,831.38 will be eliminated.

The City of Lompoc received a State Revolving Fund (SRF) loan from the State Water Resources Control Board (SWRCB) for a maximum amount of \$91,787,186 and matures on July 1, 2028. The loan is considered interest free by the SWRCB since the amount that is paid back includes the City's matching portion of 16.667% of the loan proceeds. The imputed interest rate is approximately 1.63% over the life of the loan. The District's agreed upon share of the loan is \$14,851,167. The District agreed to make annual payments of principal and interest in the amount of \$742,558 beginning July 1, 2009. In January 2014, the agreed upon share was adjusted to \$14,821,821, when City of Lompoc discovered it had taken less than originally intended from the SRF Loan. The District agreed to adjust payments of principal and interest in the amount of \$741,091.

The balance owing the City of Lompoc at June 30, 2014, is \$12,348,520.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 June 30, 2014

**NOTE 8 – LONG-TERM DEBT – SCHEDULE OF CHANGES**

A schedule of changes in long-term debt for the fiscal year ended June 30, 2014, is shown below:

	Balance July 1, 2013	Additions	Deletions	Prior Period Adjustment	Balance June 30, 2014	Due within One Year
Due to the City of Lompoc	\$ 12,472,572	\$ -	\$ 825,499	\$ 701,447	\$ 12,348,520	\$ 741,091
	<u>\$ 12,472,572</u>	<u>\$ -</u>	<u>\$ 825,499</u>	<u>\$ 701,447</u>	<u>\$ 12,348,520</u>	<u>\$ 741,091</u>

**NOTE 9 - DISTRICT EMPLOYEES' RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN)**

Plan Description

The Vandenberg Village Community Services District's (the District) defined benefit pension plan, Public Employees' Retirement System (PERS), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is offered to employees instead of social security. The service retirement benefit calculated for service earned by members is a monthly allowance equal to the product of the benefit factor, years of service, age at retirement, and final compensation. Employees hired before January 1, 2013 receive a 2.7% @ 55 benefit factor and highest one year final compensation. Employees hired after January 1, 2013, who are not subject to reciprocity, receive a 2% @ 62 benefit factor and highest 36 consecutive months final compensation, pursuant to Gov. Code 7522.20. The PERS is part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes with the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (other local methods). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office – 400 P Street – Sacramento, CA 95814.

Funding Policy

Active plan members in the PERS are required to contribute 8% of their annual covered salary. Employee contributions of 8% of gross regular earnings are paid by the District on behalf of the employee. Employees hired after January 1, 2013, who are not subject to reciprocity, are required to pay 50% of the normal cost for the plan, pursuant to Gov. Code 7522.30. The District is required to contribute the actuarially determined remaining amounts necessary to fund the multi-employer pool for the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate of fiscal year 2013/2014, was 15.685 %. 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 Vandenberg Village Community Services District contributions to CalPERS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$105,506, \$100,439, and \$113,493, respectively, and equal 100% of the required for each fiscal year.



**NOTE 10 – OTHER POST EMPLOYMENT BENEFITS**

As of June 30, 2014, the District does not offer any other post employment benefits.

**NOTE 11 - CONTINGENCIES**

According to the District's staff and attorney, no contingent liabilities are outstanding and no lawsuits are pending of any real financial consequence.

**NOTE 12 – PRIOR PERIOD ADJUSTMENT**

A prior period adjustment of \$467,319 was made which affects the government-wide statement of activities and the statement of revenues, expenses, and changes in net position- proprietary funds. Prior period adjustment was for the corrections of capital assets \$1,385,561, due to City of Lompoc \$(701,447) and the prepayment-PERs \$(216,795).

**NOTE 13 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through the date the financial statements were available for issuance which is September 30, 2014.

