

**VANDENBERG VILLAGE COMMUNITY
SERVICES DISTRICT**

BASIC FINANCIAL STATEMENTS
June 30, 2017

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
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June 30, 2017

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FINANCIAL SECTION



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, 2017, 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, 2017, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 8, the schedule of proportionate share of net pension liability on page 33 and the schedule of pension contributions on page 34 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 November 22, 2017, 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, Renz & Hartshorn LLP

Santa Maria, California
November 22, 2017

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

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, 2017. 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, 2017, the District's net position (excess of assets over liabilities, formerly entitled net assets) remained stable at \$24 million. Of this amount, \$9.5 million (unrestricted net position) may be used to meet the District's ongoing obligations to ratepayers and creditors.
- When compared to FY15-16, operating revenues increased by 2% to \$4.4 million and operating expenses increased by 2% to \$3.2 million.
- Total change in net position was \$1.2 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 30th, 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 12-16.

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

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.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

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 17-31** 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 \$24 million as of June 30, 2017. This is the same position as fiscal year ended June 30, 2016.

	Business-type activities	
	2017	2016
Current and Other Assets	11,001,015	10,529,883
Capital Assets	22,171,722	25,474,195
Total Assets	\$33,172,737	\$36,004,078
Deferred pensions	471,085	237,698
Deferred Outflows of Resources	\$471,085	\$237,698
Current Liabilities	1,202,789	1,379,610
Noncurrent Liabilities	8,413,885	10,748,366
Total Liabilities	\$9,616,674	\$12,127,976
Deferred pensions	43,359	131,233
Deferred Inflows of Resources	\$43,359	\$131,233
NET POSITION		
Net investment in Capital Assets	14,231,266	14,772,148
Restricted	173,628	201,769
Unrestricted	9,578,895	9,008,650
Total Net Position	\$23,983,789	\$23,982,567

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 16-17 by \$485,485 primarily due to conservative expenditure. Expenses were 9% under budget, saving \$3.2 million.

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

- *Current and Other Assets* increased \$471,132.
- *Capital Assets* decreased by \$3,302,473. Capital Assets decreased due to a change in the recorded value of the Capacity Rights for the Lompoc Regional Wastewater Reclamation Plant Upgrade (LRWRP). The LRWRP no longer includes the interest on the State Revolving Fund loan or on our share of the city's 2007 Bond. The most notable addition to Capital Assets were upgrades to Lift Stations 3 and 4, replacement valves and hydrants, a new pickup truck, and a new utility vehicle with sprayer. Ongoing projects with significant expenditures include the test well and new administrative office.
- Regular straight-line depreciation for the fiscal year ended June 30, 2017 decreased non-current assets by \$858,280.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

- 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, 2017, the District has a balance of approximately \$9.75 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 \$12.96 million in reserves at fiscal year-end. **The goal per the FY 17-18 budget for June 30, 2018 is \$14.59 million.** See the following table for the June 30, 2017 goal calculations.

Resolution 176-06 Reserve Requirement using the FY16-17 Budget			
Category	Requirement	Water	Wastewater
Capital Reserves	Accumulated Depreciation + 25% operating budget	\$3,475,513	\$5,021,467
Operating Reserves	25% operating budget	409,546	682,546
Emergency Reserves	10% capital assets	959,469	2,411,229
		<u>\$4,844,528</u>	<u>\$8,115,242</u>
		Total = \$12,959,770	

Current Balance (as of June 30, 2017)	<u>\$3,381,826</u>	<u>\$6,372,513</u>
	Total = \$9,754,339 *	

Activities

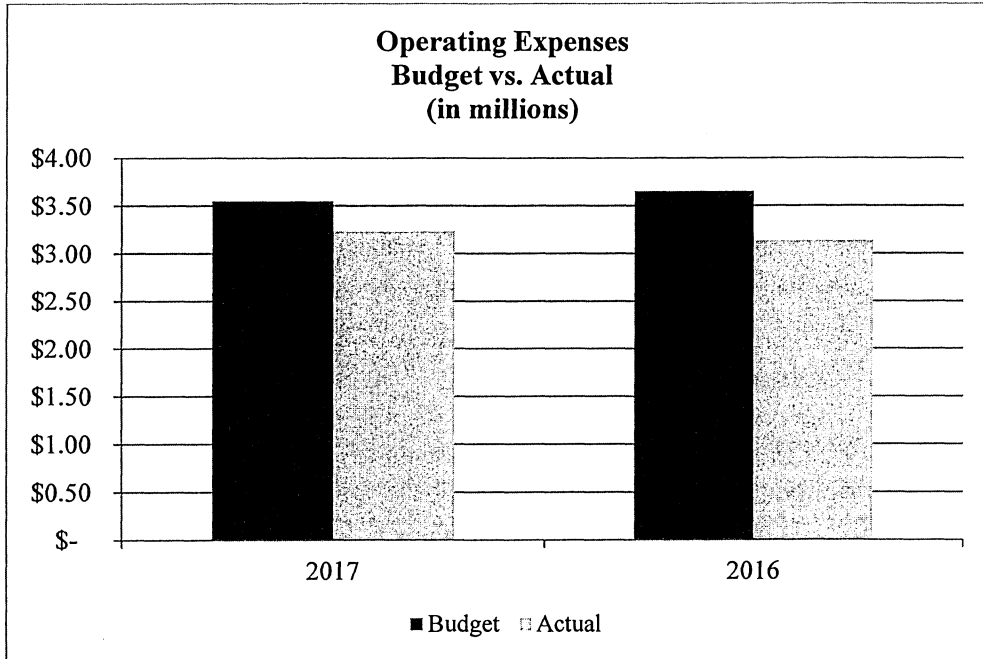
The District's financial position results from operating activities, investment activities, the acquisition and disposal of capital assets, and the depreciation of capital assets.

	Business-type activities	
	2017	2016
Charges for Services	4,341,593	4,234,342
Capital Grants and Contributions	429,450	0
Investment Earnings	64,486	54,609
Other Revenues/Connection Fees	13,300	5,739
Total Revenues	<u>\$4,848,829</u>	<u>\$4,294,690</u>
Water Operations Expenses	3,213,661	3,137,497
Wastewater Operations Expenses	415,606	14,019
Total Expenses	<u>\$3,629,267</u>	<u>\$3,151,516</u>
Transfers	0	0
Change in Net Position	<u>\$1,219,562</u>	<u>\$1,157,193</u>
Net Position, beginning of year	23,982,567	22,825,374
Prior Period Adjustments	<1,218,340>	0
Net Position, end of fiscal year	<u>\$23,983,789</u>	<u>\$23,982,567</u>

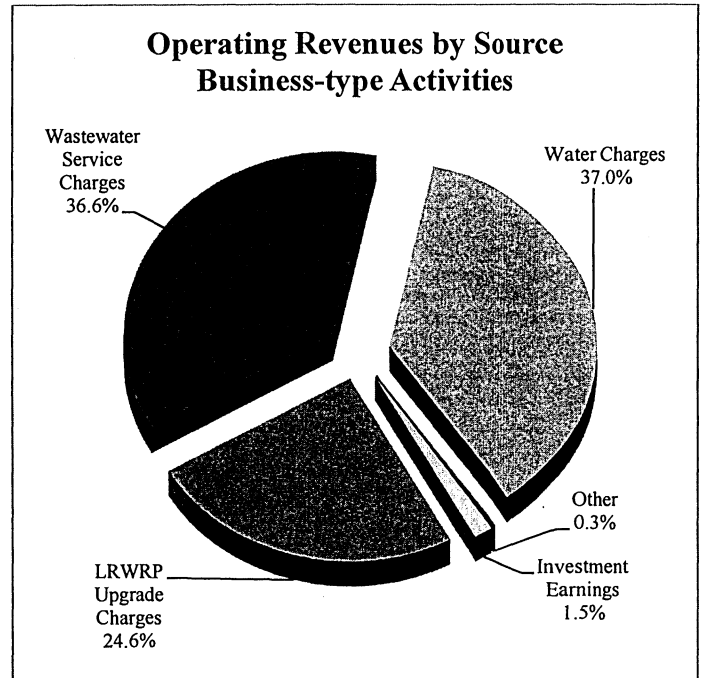
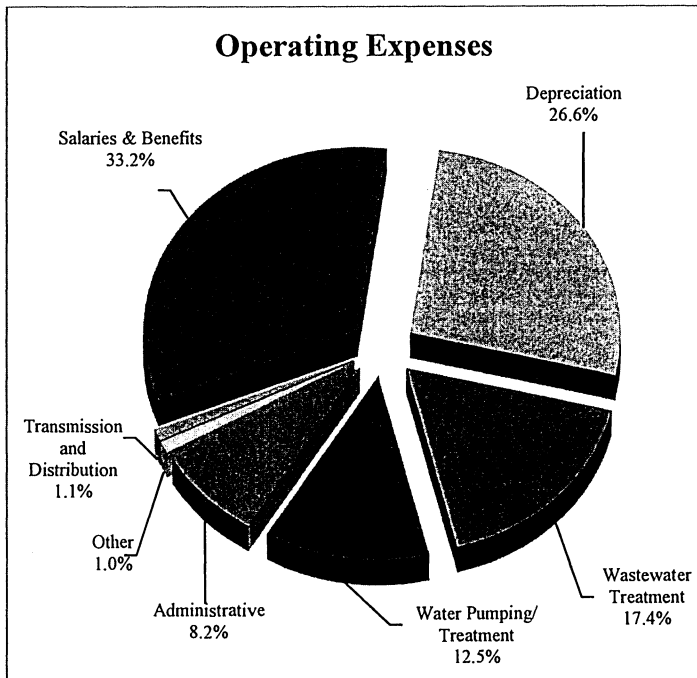
The following are significant current fiscal year transactions that have had an impact on the Statement of Activities:

- Charges for Services* include \$1.6 million in water use and service charges; \$1.6 million in wastewater service charges; and \$1.1 million in LRWRP upgrade charges.
- Other Revenues* include unbudgeted revenues of \$13,300.
- 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 16-17, unrestricted operating revenues exceeded projections by 2%.

* The cash available for reserves does not include Developers' Connection Fees (\$108,253) nor Developers' Conservation Funds (\$38,114), 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 (\$2,233) and the account which holds funds designated for the maintenance of Lot 54 (\$25,028) are 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 (\$108,253 + \$38,114 + \$2,233 + \$25,028 + \$9,754,338 = \$9,927,966).



The charts below reflect major categories of actual FY 16-17 operating expenses and revenues. On the revenue side, water and wastewater service charges account for 98% (\$4.3 million) of the District's revenues. Interest income and unbudgeted revenues account for the remaining 2% (\$78K). 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 17% (\$0.55 million) of the total annual expenses. Water pumping and treatment accounts for 13% (\$0.40 million).

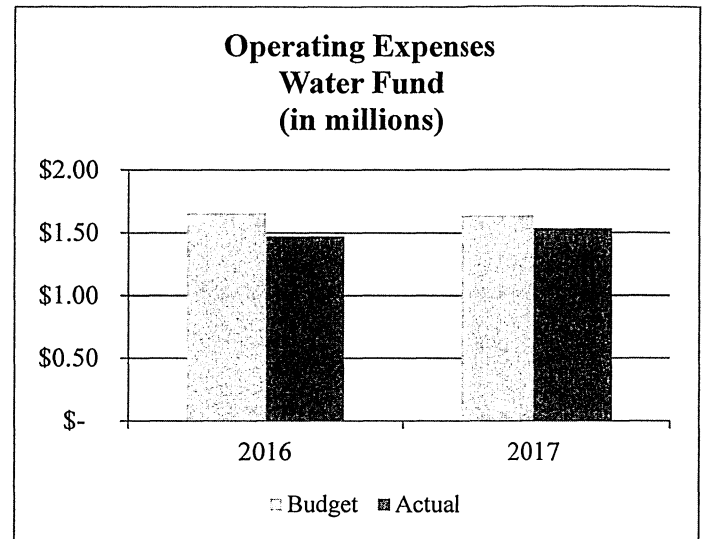
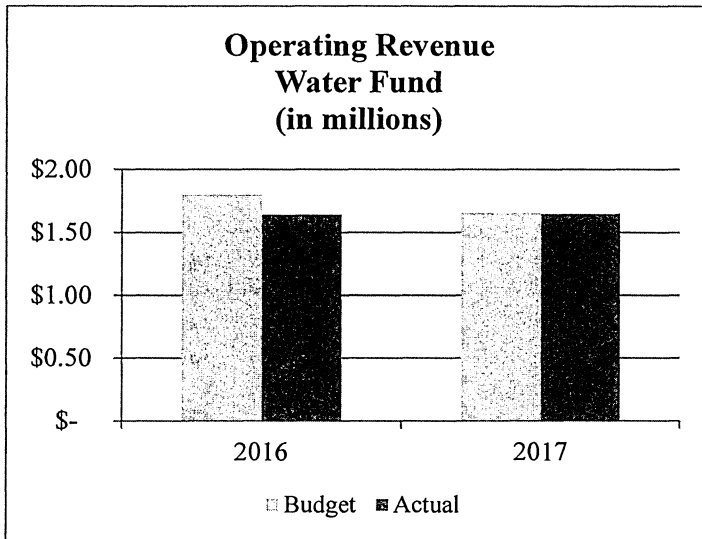


FUND FINANCIAL STATEMENT ANALYSIS

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.

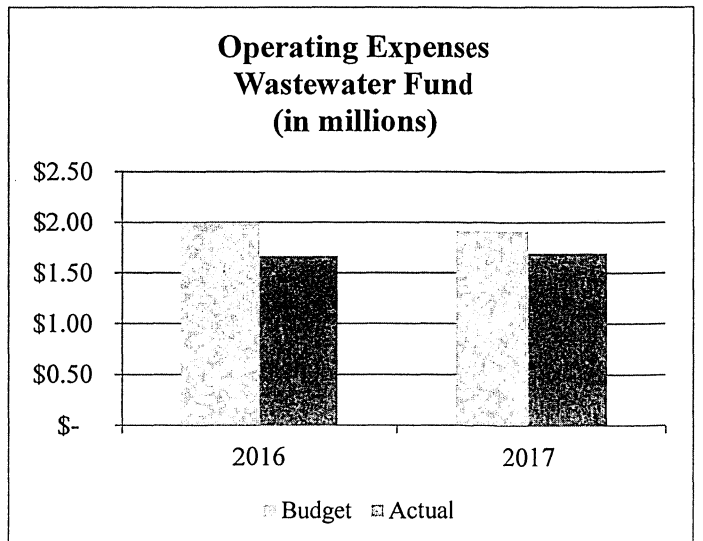
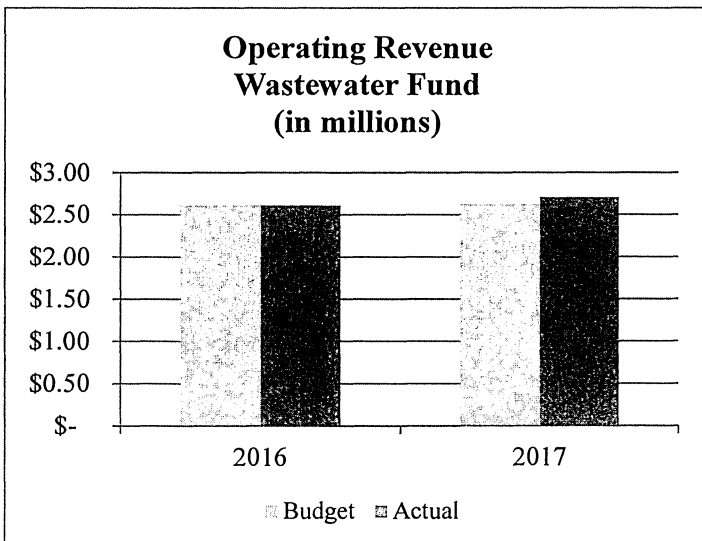
Water Fund

The water fund's net position increased by \$0.32 million. Contributed capital value of land for Lot 54 and 3745 Constellation Road total \$215,188 for the water fund. Unrestricted water revenues fell below projections by \$9,110, a 1% variance. Total unrestricted water revenues were \$1.65 million with \$1.25 million (76%) collected from residential customers and the remaining \$0.40 million (24%) collected from commercial, bulk residential, irrigation, and other. Water fund operating expenses of \$1.5 million primarily consist of salaries (29%), administration (25%), pumping (15%), and depreciation (13%).



Wastewater Fund

The wastewater fund's net position increased by \$0.9 million. Contributed capital value of land for Lot 54 and 3745 Constellation Road totaled \$214,262 for the wastewater fund. Unrestricted wastewater revenues exceeded projections by \$84,372, a 3% variance. Wastewater fund expenses of \$1.7 million were 11% under budget and primarily consist of wastewater treatment (32%), salaries (13%), administration (11%), and depreciation (39%). The total volume of wastewater for FY 16-17 increased by 3.7%; 144.8 million gallons compared to 139.6 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 2017, the District had \$29.4 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 the bonds funded 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

The District expects the number of customers to increase slightly as new homes are permitted and built within the Falcon Heights (Clubhouse Estates), Oak Hills Estates, and Villas on Oak Hill projects.

For fiscal year 2017-18, the District undertook two significant changes to its rate structure which will slightly increase revenue. First, in October 2017, the LRWRP Upgrade Charge was moved from the VVCSD monthly bill to the County annual property tax bill to guarantee a stable source of revenue, even when properties are vacant. On the water side, the District is proposing to reduce the monthly fixed charge, to reduce the number of water-use tiers from four to two, and to increase the use charge. A public hearing is scheduled for December 5, 2017, to consider the proposed changes.

Interest rates have started to increase slightly, but the interest earnings on the District's conservative investments will probably be less than 2% in the foreseeable future.

The Board of Directors increased employee salaries 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 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 fiscal year 2016-17.

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. Subsequent sewer line repairs could cost in the millions of 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. The County gave the District permission to drill a test well on the old County Fire Station 51 property, and a test well was drilled there in May 2017. Water quantity there was excellent but it exceeded the maximum contaminant level for arsenic. The District is investigating options for arsenic removal. The search for a new well continues to be a time-consuming and costly endeavor.

An opportunity to move to a larger, more customer-friendly office presented itself when the Rabobank building was offered for sale. The District purchased the building in August 2015 and hired Ravatt, Albrecht, and Associates in December 2015 to redesign the interior to better fit the needs of our customers and staff. Building permits were issued by the County of Santa Barbara in June 2017. The project is expected to be completed by the summer of 2018.

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, 2017

ASSETS

Current assets:

Cash on hand	\$ 400
Cash and investments	9,927,966
Accounts receivable	261,439
Accrued interest receivable	17,997
Inventory	37,309
Prepaid expenses	<u>13,262</u>
 Total current assets	 <u>10,258,373</u>

Other assets:

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

Capital assets:

Land	1,075,000
Easements	200,000
Water rights	628,522
Capacity rights	17,164,115
Source of supply	361,192
Pumping equipment	1,449,357
Treatment	279,328
Transmission and distribution	6,872,257
General plant	1,041,772
Construction in progress	<u>349,272</u>
	29,420,815

Less: Accumulated depreciation	<u>(7,249,093)</u>
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Total capital assets - net of accumulated depreciation	<u>22,171,722</u>
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Total assets	<u>33,172,737</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred pensions	<u>471,085</u>
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Total deferred outflows of resources	<u>471,085</u>
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See accompanying notes to basic financial statements.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
June 30, 2017

LIABILITIES

Current liabilities:

Accounts payable	\$ 115,892
Accrued payroll expenses	17,941
Compensated absences	174,002
Customer deposits	70,674
Unearned revenues	225,150
Due to City of Lompoc - current portion	<u>599,130</u>

Total current liabilities	<u>1,202,789</u>
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Noncurrent liabilities:

Net pension liability	1,072,559
Due to City of Lompoc - less current portion	<u>7,341,326</u>

Total noncurrent liabilities	<u>8,413,885</u>
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Total liabilities	<u>9,616,674</u>
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DEFERRED INFLOWS OF RESOURCES

Deferred pensions	<u>43,359</u>
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Total deferred inflows of resources	<u>43,359</u>
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NET POSITION

Net investment in capital assets	14,231,266
Restricted for construction	108,253
Restricted for water conservation	38,114
Restricted for employee benefits	2,233
Restricted for maintenance of lot 54	25,028
Unrestricted	<u>9,578,895</u>

Total net position	<u><u>\$ 23,983,789</u></u>
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See accompanying notes to basic financial statements.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
 STATEMENT OF ACTIVITIES
 For the Fiscal Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Business-type activities:				
Water	\$ 1,559,167	\$ 1,646,373	\$ -	\$ 302,394
Wastewater	<u>2,070,100</u>	<u>2,708,520</u>		<u>852,682</u>
Total business-type activities	<u>\$ 3,629,267</u>	<u>\$ 4,354,893</u>	<u>\$ -</u>	1,155,076
		General revenues:		
		Investment earnings		<u>64,486</u>
		Change in net position		<u>1,219,562</u>
		Net position, beginning of fiscal year		23,982,567
		Prior period adjustment		<u>(1,218,340)</u>
		Net position, beginning of fiscal year, restated		<u>22,764,227</u>
		Net position, end of fiscal year		<u>\$ 23,983,789</u>

See accompanying notes to basic financial statements.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

June 30, 2017

With Comparative Totals for June 30, 2016

	ENTERPRISE FUNDS			
	Water Fund	Wastewater Fund	Totals 2017	Totals 2016
ASSETS				
Current assets:				
Cash on hand	\$ 400	\$ -	\$ 400	\$ 400
Cash and investments	3,555,452	6,372,514	9,927,966	9,442,481
Accounts receivable	104,642	156,797	261,439	286,243
Accrued interest receivable	17,997		17,997	9,881
Inventory	37,309		37,309	31,681
Prepaid expenses	13,049	213	13,262	16,555
Total current assets	3,728,849	6,529,524	10,258,373	9,787,241
Other assets:				
Deposits		742,642	742,642	742,642
Total other assets		742,642	742,642	742,642
Capital assets:				
Land	555,000	520,000	1,075,000	35,000
Easements	100,000	100,000	200,000	200,000
Water rights	628,522		628,522	628,522
Capacity rights		17,164,115	17,164,115	21,403,270
Source of supply	361,192		361,192	369,193
Pumping equipment	1,080,920	368,437	1,449,357	1,283,181
Treatment	279,328		279,328	265,669
Transmission and distribution	4,850,124	2,022,133	6,872,257	6,718,710
General plant	886,014	155,758	1,041,772	1,041,816
Construction in progress	327,427	21,845	349,272	938,216
	9,068,527	20,352,288	29,420,815	32,883,577
Less: Accumulated depreciation	(3,194,476)	(4,054,617)	(7,249,093)	(7,409,382)
Total capital assets - net of accumulated depreciation	5,874,051	16,297,671	22,171,722	25,474,195
Total assets	9,602,900	23,569,837	33,172,737	36,004,078
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pensions	318,265	152,820	471,085	237,698
Total deferred outflows of resources	318,265	152,820	471,085	237,698

See accompanying notes to basic financial statements.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

June 30, 2017

With Comparative Totals for June 30, 2016

	ENTERPRISE FUNDS			
	Water Fund	Wastewater Fund	Totals 2017	Totals 2016
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 28,997	\$ 86,895	\$ 115,892	\$ 125,627
Accrued payroll expenses	13,769	4,172	17,941	29,636
Compensated absences	128,906	45,096	174,002	162,461
Customer deposits	70,674		70,674	95,990
Unearned revenues		225,150	225,150	224,805
Due to City of Lompoc - current portion		599,130	599,130	741,091
Total current liabilities	<u>242,346</u>	<u>960,443</u>	<u>1,202,789</u>	<u>1,379,610</u>
Noncurrent liabilities:				
Net pension liability	724,622	347,937	1,072,559	787,410
Due to City of Lompoc - less current portion		7,341,326	7,341,326	9,960,956
Total liabilities	<u>966,968</u>	<u>8,649,706</u>	<u>9,616,674</u>	<u>12,127,976</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred pensions	<u>29,292</u>	<u>14,067</u>	<u>43,359</u>	<u>131,233</u>
Total deferred inflows of resources	<u>29,292</u>	<u>14,067</u>	<u>43,359</u>	<u>131,233</u>
NET POSITION				
Net investment in capital assets	5,874,051	8,357,215	14,231,266	14,772,148
Restricted for construction	108,253		108,253	108,199
Restricted for water conservation	38,114		38,114	66,919
Restricted for employee benefits	2,233		2,233	1,636
Restricted for maintenance of lot 54	15,016	10,012	25,028	25,015
Unrestricted	<u>2,887,238</u>	<u>6,691,657</u>	<u>9,578,895</u>	<u>9,008,650</u>
Total net position	<u>\$ 8,924,905</u>	<u>\$ 15,058,884</u>	<u>\$ 23,983,789</u>	<u>\$ 23,982,567</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, 2017

With Comparative Totals for the Fiscal Year Ended June 30, 2016

	ENTERPRISE FUNDS			
	Water Fund	Wastewater Fund	Totals 2017	Totals 2016
Operating Revenues:				
Residential	\$ 1,251,407	\$ 1,306,983	\$ 2,558,390	\$ 2,566,260
Commercial	128,731	312,520	441,251	382,457
Bulk meter residential	127,241		127,241	127,914
Irrigation	125,694		125,694	106,302
LRWRP Upgrade		1,089,017	1,089,017	1,051,409
Other	13,300		13,300	19,758
Total operating revenues	1,646,373	2,708,520	4,354,893	4,254,100
Operating Expenses:				
Salaries	446,323	221,864	668,187	657,125
Source of supply	79,385		79,385	68,845
Pumping	234,695	10,870	245,565	234,543
Water treatment	89,213		89,213	52,069
Wastewater treatment		547,804	547,804	546,882
Transmission and distribution	31,136	6,750	37,886	21,342
Customer accounts	49,114	48,751	97,865	74,950
Administrative and general	376,122	181,480	557,602	604,674
Other operating expenses	19,233	12,641	31,874	36,469
Depreciation	191,513	666,767	858,280	840,598
Total operating expenses	1,516,734	1,696,927	3,213,661	3,137,497
Net operating income	129,639	1,011,593	1,141,232	1,116,603
Non-Operating Revenues (Expenses):				
Investment income	14,367	50,119	64,486	54,609
Interest expense		(328,003)	(328,003)	
Net gain (loss) on disposal of capital assets	(42,433)	(45,170)	(87,603)	(14,019)
Total non-operating revenues (expenses)	(28,066)	(323,054)	(351,120)	40,590
Capital Contributions:				
Infrastructure contribution	215,188	214,262	429,450	
Total capital contributions	215,188	214,262	429,450	
Change in net position	316,761	902,801	1,219,562	1,157,193
Total net position - beginning	8,608,144	15,374,423	23,982,567	22,825,374
Prior period adjustment		(1,218,340)	(1,218,340)	
Total net position - beginning -restated	8,608,144	14,156,083	22,764,227	22,825,374
Total net position - ending	\$ 8,924,905	\$ 15,058,884	\$ 23,983,789	\$ 23,982,567

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, 2017
With Comparative Totals for the Fiscal Year Ended June 30, 2016

	ENTERPRISE FUNDS			
	Water Fund	Wastewater Fund	Totals 2017	Totals 2016
Cash Flows From Operating Activities:				
Receipts from customers and users	\$ 1,802,658	\$ 2,552,068	\$ 4,354,726	\$ 4,156,090
Payments to suppliers	(912,930)	(810,731)	(1,723,661)	(1,772,987)
Payments to employees	(447,393)	(232,663)	(680,056)	(653,093)
Net cash provided (used) by operating activities	<u>442,335</u>	<u>1,508,674</u>	<u>1,951,009</u>	<u>1,730,010</u>
Cash Flows from Capital and Related Financing Activities:				
Payment on long-term debt		(588,607)	(588,607)	(826,776)
Interest on long-term debt		(328,003)	(328,003)	
Sale of capital assets	6,600		6,600	
Purchase of capital assets	(132,599)	(479,285)	(611,884)	(881,411)
Net cash (used) by capital and related financing activities	<u>(125,999)</u>	<u>(1,395,895)</u>	<u>(1,521,894)</u>	<u>(1,708,187)</u>
Cash Flows from Investing Activities:				
Investment income	<u>6,251</u>	<u>50,119</u>	<u>56,370</u>	<u>50,495</u>
Net cash provided by investing activities	<u>6,251</u>	<u>50,119</u>	<u>56,370</u>	<u>50,495</u>
Net increase (decrease) in cash and cash equivalents	322,587	162,898	485,485	72,318
Cash and cash equivalents, beginning of fiscal year	<u>3,233,265</u>	<u>6,209,616</u>	<u>9,442,881</u>	<u>9,370,563</u>
Cash and cash equivalents, end of fiscal year	<u>\$ 3,555,852</u>	<u>\$ 6,372,514</u>	<u>\$ 9,928,366</u>	<u>\$ 9,442,881</u>
Reconciliation to Statement of Net Position:				
Cash on hand	\$ 400	\$ -	\$ 400	\$ 400
Cash and investments	<u>3,555,452</u>	<u>6,372,514</u>	<u>9,927,966</u>	<u>9,442,481</u>
	<u>\$ 3,555,852</u>	<u>\$ 6,372,514</u>	<u>\$ 9,928,366</u>	<u>\$ 9,442,881</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, 2017
With Comparative Totals for the Fiscal Year Ended June 30, 2016

	ENTERPRISE FUNDS			
	Water Fund	Wastewater Fund	Totals 2017	Totals 2016
Reconciliation of Operating Income to Net				
Cash Provided by Operating Activities:				
Operating income	\$ 129,639	\$ 1,011,593	\$ 1,141,232	\$ 1,116,603
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	191,513	666,767	858,280	840,598
Change in Operating Assets, Deferred Outflows, Liabilities, and Deferred Inflows:				
(Increase) decrease in accounts receivable	181,601	(156,797)	24,804	(15,809)
(Increase) decrease in inventory	(5,628)		(5,628)	(3,572)
(Increase) decrease in prepaid expenses	1,928	1,365	3,293	(5,135)
(Increase) decrease in deferred outflows	(157,676)	(75,711)	(233,387)	(81,568)
Increase (decrease) in accounts payable	(5,935)	(3,800)	(9,735)	(80,928)
Increase (decrease) in accrued payroll	(12,611)	916	(11,695)	(14,641)
Increase (decrease) in customer deposits	(25,316)		(25,316)	(102,266)
Increase (decrease) in unearned revenue		345	345	20,065
Increase (decrease) in compensated absences	11,541		11,541	18,673
Increase (decrease) in net pension liability	192,647	92,502	285,149	141,340
Increase (decrease) in deferred inflows	(59,368)	(28,506)	(87,874)	(103,350)
Net cash provided by operating activities	<u>\$ 442,335</u>	<u>\$ 1,508,674</u>	<u>\$ 1,951,009</u>	<u>\$ 1,730,010</u>

See accompanying notes to basic financial statements.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

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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VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

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 Statements No. 39, No. 61 and No. 80.

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. Pensions

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

In addition to the pension plan, the District offers a 457 plan also through CalPERS. Employees can voluntarily contribute to the 457 plan and the District will match up to \$2,600 per year. The 457 plan is not part of the Net Pension Liability and is treated as a payroll expense in the financial statements.

M. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*," and GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*," the District recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category; refer to Note 9 for a detailed listing of the deferred outflows of resources the District has reported.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category; refer to Note 9 for a detailed listing of the deferred inflows of resources the District has reported.

N. 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.

O. 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*.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Government-wide and fund financial statements (Continued)

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 the 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.

O. 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.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Future Accounting Pronouncements

GASB Statements listed below will be implemented in future financial statements:

Statement No. 75	"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 81	"Irrevocable Split-Interest Agreements"	The provisions of this statement are effective for fiscal years beginning after December 15, 2016.
Statement No. 82	"Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 83	"Certain Asset Retirement Obligations"	The provisions of this statement are effective for fiscal years beginning after June 15, 2018.
Statement No. 84	"Fiduciary Activities"	The provisions of this statement are effective for fiscal years beginning after December 15, 2018.
Statement No. 85	"Omnibus 2017"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 86	"Certain Debt Extinguishment Issues"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No, 87	"Leases"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.

NOTE 3 - CASH AND INVESTMENTS

Investments are carried at fair value in accordance with GASB Statement No. 31. On June 30, 2017, the District had the following cash and investments on hand:

Cash on hand	\$ 400
Cash in checking accounts	257,223
Cash in savings accounts	1,624,089
Cash and investments with County of Santa Barbara	4,024,765
Cash and investments in Local Agency Investment Fund (LAIF)	<u>4,021,889</u>
Cash and investments	<u>\$ 9,928,366</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>9,927,966</u>
	<u>\$ 9,928,366</u>

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2017

NOTE 3 - CASH AND INVESTMENTS (Continued)

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These principles recognize a three-tiered fair value hierarchy. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District had investments in the Santa Barbara County Investment Pool and the Local Agency Investment Fund, however, those external pools are not measured under Level 1, 2 or 3.

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

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:

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2017

NOTE 3 - CASH AND INVESTMENTS (Continued)

Disclosures Relating to Interest Rate Risk (Continued)

<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	\$ 4,024,765	\$ 4,024,765	\$ -	\$ -	\$ -
LAIF	<u>4,021,889</u>	<u>4,021,889</u>			
Total	<u>\$ 8,046,654</u>	<u>\$ 8,046,654</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	\$4,024,765	N/A	\$ -	\$ -	\$ -	\$4,024,765
LAIF	<u>4,021,889</u>	N/A				<u>4,021,889</u>
Total	<u>\$8,046,654</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$8,046,654</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.

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, 2017, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2017

NOTE 3 - CASH AND INVESTMENTS (Continued)

Custodial Credit Risk (Continued)

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, 2017, is shown below:

	Balance July 1, 2016	Additions	Deletions	Transfers	Prior Period Adjustment	Balance June 30, 2017
Capital assets, not being depreciated:						
Land	\$ 35,000	\$ 428,523	\$ -	\$ 611,477	\$ -	\$ 1,075,000
Construction in progress	938,216	327,967	(16,404)	(900,507)		349,272
Total capital assets, not being depreciated	<u>\$ 973,216</u>	<u>\$ 756,490</u>	<u>\$ (16,404)</u>	<u>\$ (289,030)</u>	<u>\$ -</u>	<u>\$ 1,424,272</u>
Capital assets, being depreciated:						
Easements and water rights	\$ 828,522	\$ -	\$ -	\$ -	\$ -	\$ 828,522
Plant and facilities	31,081,839	284,844	(248,537)	289,030	(4,239,155)	27,168,021
Total capital assets, being depreciated	31,910,361	284,844	(248,537)	289,030	(4,239,155)	27,996,543
Less accumulated depreciation	7,409,382	858,280	(170,738)		(847,831)	7,249,093
Total capital assets, being depreciated, net	<u>\$ 24,500,979</u>	<u>\$ (573,436)</u>	<u>\$ (77,799)</u>	<u>\$ 289,030</u>	<u>\$ (3,391,324)</u>	<u>\$ 20,747,450</u>
Capital assets, net	<u>\$ 25,474,195</u>	<u>\$ 183,054</u>	<u>\$ (94,203)</u>	<u>\$ -</u>	<u>\$ (3,391,324)</u>	<u>\$ 22,171,722</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, 2017, 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.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2017

NOTE 6 - UNEARNED REVENUES

Unearned revenues consist of sewer fees paid in advance by the District's customers in the amount of \$225,150 for the fiscal year ended June 30, 2017.

NOTE 7 – DUE TO CITY OF LOMPOC

The District had 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). The agreement was then renewed for another 35 years, dated July 1, 2010.

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. On June 30, 2017, the District was able to use the amount deposited in the escrow account to pay the remaining principal on the bond, thus eliminating \$892,275.50 in future interest payments from 2018-2037.

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 of which \$12,375,923 was principal and \$2,475,244 was interest. 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 principal balance owing the City of Lompoc at June 30, 2017, is \$7,940,456.

NOTE 8 – LONG-TERM DEBT – SCHEDULE OF CHANGES

A schedule of changes in long-term debt for the fiscal year ended June 30, 2017, is shown below:

	Balance July 1, 2016	Additions	Deletions	Prior Period Adjustment	Balance June 30, 2017	Due within One Year
Due to the City of Lompoc	\$ 10,702,047	\$ -	\$ 588,607	\$ (2,172,984)	\$ 7,940,456	\$ 599,130
Net Pension Liability	787,410	443,923	158,774		1,072,559	
	<u>\$ 11,489,457</u>	<u>\$ 443,923</u>	<u>\$ 747,381</u>	<u>\$ (2,172,984)</u>	<u>\$ 9,013,015</u>	<u>\$ 599,130</u>

NOTE 9 – PENSION PLANS

A. General Information about the Pension Plans

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

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

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<u>Miscellaneous</u>	
	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Hire Date		
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	52-67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	4%	6.25%
Required employer contribution rates	17.634%	6.555%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the District were \$153,560 for the fiscal year ended June 30, 2017.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2017

NOTE 9 – PENSION PLANS (Continued)

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

At June 30, 2017, the District reported a liability of \$1,072,559 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. The District's proportionate share of net pension liability for the miscellaneous plan as of June 30, 2015, and 2016 is as follows:

	<u>Miscellaneous</u>
Proportion-June 30, 2015	0.02870%
Proportion-June 30, 2016	0.03087%
Change-Increase (Decrease)	0.00217%

For the year ended June 30, 2017, the District recognized pension expense of \$117,449. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 153,560	\$ -
Differences between expected and actual experience	3,126	
Changes in assumptions		38,366
Net difference between projected and actual earnings on retirement plan investments	199,683	
Adjustment due to differences in proportions	76,239	4,993
Difference in actual contributions and proportionate share of contributions	38,477	
	<u>\$ 471,085</u>	<u>\$ 43,359</u>

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

\$153,560 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

Fiscal year Ending June 30,	<u>Amount</u>
2017	\$ 62,845
2018	62,197
2019	97,404
2020	51,720
	<u>\$ 274,166</u>

NOTE 9 – PENSION PLANS (Continued)

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

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.5% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

- (1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table please refer to the 2014 experience study report.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.65 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.80 percent. Using this lower discount rate has resulted in a slightly high Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB No. 67 and No. 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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

NOTE 9 – PENSION PLANS (Continued)

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

Discount Rate (Continued)

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

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

Asset Class	New Strategic Allocation	Real Return Years 1-10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
Total	<u>100%</u>		

(a) An expected inflation of 2.5% was used for this period.

(b) An expected inflation of 3.0% was used for this period.

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

The following represents the District's proportionate share of the net pension liability calculated using the discount rate of the plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease <u>6.65%</u>	Discount Rate <u>7.65%</u>	1% Increase <u>8.65%</u>
District's proportionate share of the net pension plan liability	\$ 1,698,447	\$ 1,072,559	\$ 555,294

Pension Plan Fiduciary Net Position

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

NOTE 9 – PENSION PLANS (Continued)

C. Payable to the Pension Plan

At June 30, 2017, the District reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the fiscal year ended June 30, 2017.

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS

As of June 30, 2017, 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 – MEMORANDUM OF AGREEMENT

Vandenberg Village Community Services District participates in the Santa Ynez River Valley Basin Western Management Area Groundwater Sustainability Agency (GSA) through a memorandum of agreement (MOA). The relationship between Vandenberg Village Community Services District and the GSA is such that the GSA is not a component unit of Vandenberg Village Community Services District for financial reporting purposes.

The GSA is independently accountable for their fiscal matters. The agency maintains their own accounting records. Budgets are not subject to any approval other than the respective governing board. Member districts share surpluses and deficits agreed to by the voting parties.

Santa Ynez River Valley Basic Western Management Area Groundwater Sustainability Agency (GSA)

On January 11, 2017, the District entered into a MOA with various parties within the Santa Ynez River Water Conservation District under the Sustainable Groundwater Management Act to create the Santa Ynez River Valley Basin Western Management Area Groundwater Sustainability Agency. The parties agreed to cooperate under the MOA to create the GSA and for the GSA to create a Groundwater Sustainability Plan (GSP) on or before January 30, 2022. Under the MOA, the District will have one voting member on the board of eight.

NOTE 13– PRIOR PERIOD ADJUSTMENT

A prior period adjustment of \$(1,218,340) was made which affects the government-wide statement of activities and the statement of revenues, expenses, and changes in net position- proprietary funds. The prior period adjustment was for the removal of the interest costs for the debt issued for the construction of the wastewater treatment plant \$(4,239,155), the relating accumulated depreciation of \$847,831, and the remaining interest that was placed in long-term debt \$2,172,984.

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REQUIRED SUPPLEMENTARY INFORMATION

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
 Last 10 Years*
 As of June 30, 2017

The following table provides required supplementary information regarding the District's Pension Plan.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.01240%	0.01147%	0.01038%
Proportionate share of the net pension liability	\$ 1,072,559	\$ 787,410	\$ 646,070
Covered- employee payroll	\$ 720,382	\$ 631,486	\$ 693,171
Proportionate share of the net pension liability as percentage of covered-employee payroll	148.9%	124.7%	93.2%
Plan's total pension liability	\$ 33,358,627,624	\$ 31,771,217,402	\$ 30,829,966,631
Plan's fiduciary net position	\$ 24,705,532,291	\$ 24,907,305,871	\$ 24,607,502,515
Plan fiduciary net position as a percentage of the total pension liability	74.06%	78.40%	79.82%

Notes to Schedule:

Changes in assumptions

In 2016, the discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected ages of general employees.

*- Fiscal year 2015 was the 1st year of implementation, thus only three years are shown.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS
 Last 10 Years*
 As of June 30, 2017

The following table provides required supplementary information regarding the District's Pension Plan.

	2017	2016	2015
Contractually required contribution (actuarially determined)	\$ 153,560	\$ 158,774	\$ 156,130
Contribution in relation to the actuarially determined contributions	153,560	158,774	156,130
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered- employee payroll	\$ 736,341	\$ 720,382	\$ 631,486
Contributions as a percentage of covered-employee payroll	20.85%	22.04%	24.72%

Notes to Schedule

Valuation Date:	6/30/2014
Actuarial cost method	Entry Age Normal
Asset valuation method	5-year smoothed market
Amortization method	The unfunded actuarial accrued liability is amortized over an open 17 year period as a level percentage of payroll.
Discount rate	7.50%
Amortization growth rate	3.75%
Price inflation	3.25%
Salary increases	3.75% plus merit component based on employee classification and years of service
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2010 using Scale AA with a 2 year setback for males and a 4 year setback for females.
Valuation Date:	6/30/2015
Discount Rate:	7.65%

*- Fiscal year 2015 was the 1st year of implementation, thus only three years are shown.