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CERTIFIED PUBLIC ACCOUNTANTS

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September 27, 2012

To the Board of Directors
Vandenberg Village Community Services District

We have audited the financial statements of the business-type activities and each major fund, of Vandenberg Village Community Services District (the District) for the fiscal year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 23, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 2 to the financial statements. No new accounting policies were adopted that affected the District and the application of existing policies was not changed during the fiscal year ended June 30, 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the District's financial statements was (were):

Management's estimate of the useful lives of capital assets is based on experience with other capital assets and on their standard table of useful lives. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements was (were):

The disclosure of the Due to the City of Lompoc in Note 7 to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

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Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 27, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Very truly yours,

Moss, Renz & Hartgrain LLP

Santa Maria, CA

September 27, 2012

**VANDENBERG VILLAGE COMMUNITY
SERVICES DISTRICT**

BASIC FINANCIAL STATEMENTS
June 30, 2012

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
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June 30, 2012

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Vandenberg Village Community
Services District
Lompoc, California

We have audited the accompanying financial statements of the business-type activities and each major fund of the Vandenberg Village Community Services District (District), as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of the Vandenberg Village Community Services District, as of June 30, 2012, and the respective changes in financial position and cash flows where applicable thereof, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012, 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* and should be considered in assessing the results of our audit.

As discussed in note 1 to basic financial statements effective July, 1, 2011, the Vandenberg Village Community Services District adopted the Governmental Accounting Standards (GASB) Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions.

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.

Moss, Renz & Hartgeim LLP

Santa Maria, California
September 27, 2012

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, 2012. 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, 2012, the District's net assets (excess of assets over liabilities) increased 4% to \$18.3 million. Of this amount, \$7.3 million (unrestricted net assets) may be used to meet the District's ongoing obligations to ratepayers and creditors.
- When compared to fiscal year 10-11, operating revenues increased by 3% to \$3.9 million and operating expenses increased by 8% to \$3.3 million.
- Net assets increased \$0.7 million.
- The District's long-term debt (noncurrent liabilities) decreased by 2% to \$12.4 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 8-10 of this report.

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

The *Statement of Activities* presents information showing how net assets changed during the fiscal year. In accrual based accounting, which the District utilizes, changes in net assets 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 assets 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 Assets – Proprietary Funds* presents information on assets and liabilities for each enterprise fund.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

The *Statement Revenues, Expenses, and Changes in Net Assets – Proprietary Funds* presents information showing how net assets 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 17-26** of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$18.3 million as of June 30, 2012. This is an increase of \$0.7 million from fiscal year ended June 30, 2011.

	Business-type activities	
	2012	2011
Current And Other Assets	\$ 8,010,805	\$ 7,458,685
Capital Assets	24,251,452	24,224,596
Total Assets	32,262,257	31,683,281
Current Liabilities	1,556,732	1,409,409
Noncurrent Liabilities	12,361,998	12,623,492
Total Liabilities	13,918,730	14,032,901
Net Assets:		
Invested in Capital Assets, net of related debt	10,949,810	10,747,330
Unrestricted	7,393,717	6,903,050
Total Net Assets	\$18,343,527	\$17,650,380

The largest portion of net assets 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 net assets is reserved for future spending. This portion is cash and investments. Cash and investments increased in fiscal year 2012 by \$0.3 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 \$0.55 million due mainly to the increase in Cash and investments and by the Prepayment to PERS for the employer portion of the PERS retirement side fund.
- *Capital Assets* increased by \$27 thousand. Notable additions to Capital Assets included the Ford F250 pickup and sewer relining on Arneb Place. Several projects were completed and closed to asset from Construction in progress including LRWRP upgrade digesters, estimated interest on 2007 LRWRP upgrade loan, pavement maintenance, and the sewer monitor radio study. An estimate of \$ 0.7 million remains in Construction in progress for the LRWRP upgrade blowers.
- *Noncurrent Liabilities* to the City of Lompoc for the LRWRP upgrade project have decreased by \$261,494.
- Regular straight-line depreciation for the fiscal year ended June 30, 2012 decreased non-current assets by \$813,532.
- 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, 2012, the District has a balance of approximately \$6.6 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 \$8.2 million in reserves at fiscal year end. **The goal for June 30, 2013 is \$10.0 million.** See the table below for the June 30, 2013 goal calculations.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

Resolution 176-06 Reserve Requirement using the FY12-13 Budget				
Category		Requirement	Water	Wastewater
Capital Reserves	Accumulated Depreciation + 25% operating budget		\$3,226,554	\$2,820,980
Operating Reserves	25% operating budget		389,505	639,958
Emergency Reserves	10% capital assets		749,474	2,170,433
			<u>\$4,365,533</u>	<u>\$5,631,371</u>
			Total = \$9,996,904	

Current Balance (as of June 30, 2012)	<u>\$2,701,286</u>	<u>\$3,928,457</u>
	Total = 6,629,743 *	

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.

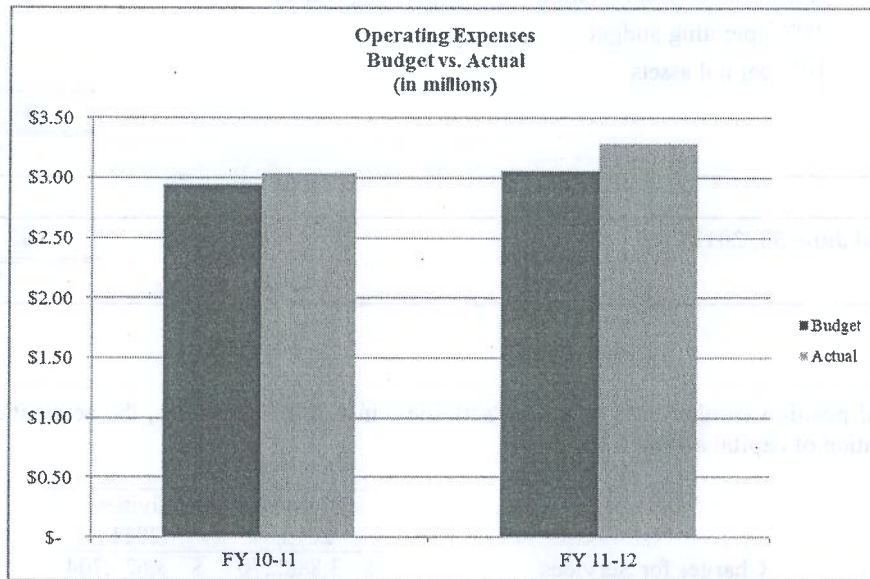
	Business-type activities	
	2012	2011
Charges for Services	\$ 3,888,270	\$ 3,627,704
Capital Grants and Contributions	48,649	
Investment Earnings	59,348	29,754
Other Revenues	23,375	165,625
Total Revenues	<u>4,019,642</u>	<u>3,823,083</u>
Water Operations Expenses	1,677,445	1,497,017
Wastewater Operations Expenses	1,649,050	1,527,788
Total Expenses	<u>3,326,495</u>	<u>3,024,805</u>
Transfers	0	0
Change in Net Assets	<u>693,147</u>	<u>798,278</u>
Net Assets, beginning of year	17,650,380	16,852,102
Prior Period Adjustments	0	0
Net Assets, end of fiscal year	<u>\$18,343,527</u>	<u>\$17,650,380</u>

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

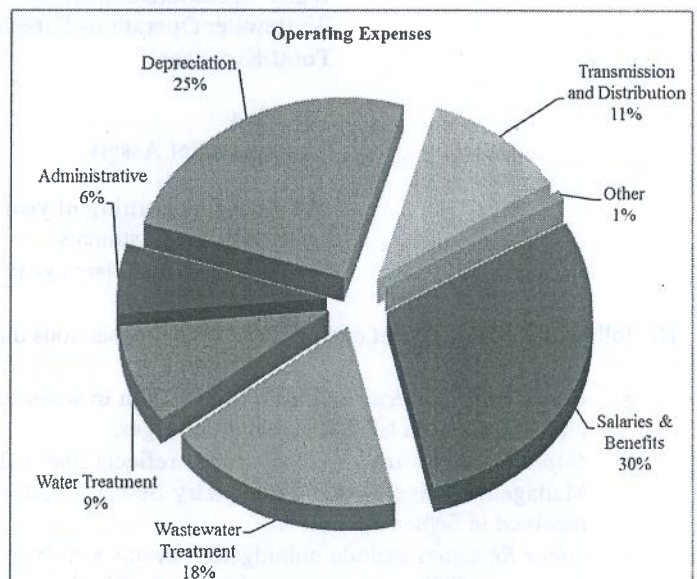
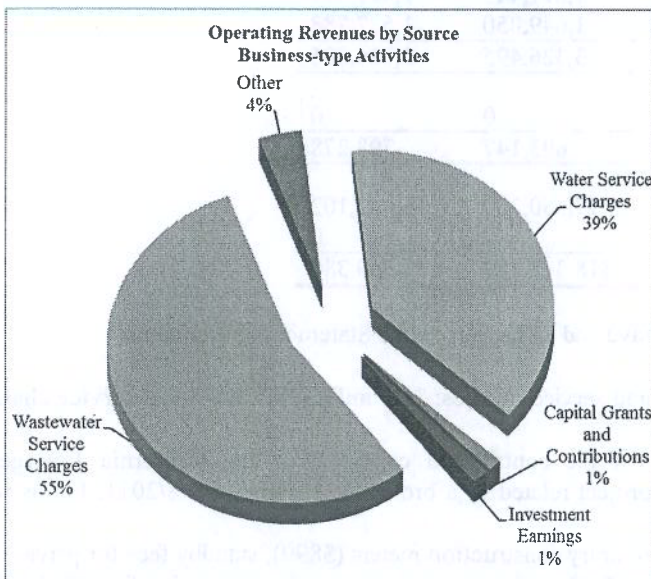
- *Charges for Services* include \$1.55 million in water use and service charges; \$1.2 million in wastewater service charges; and \$1 million in LRWRP upgrade charges.
- *Capital Grants and Contributions* reflects the value of the contributed capital from the California Emergency Management Agency for the Sanitary Sewer Overflow project related to a broken sewer line on 1/8/2011. Funds were received in September 2011.
- *Other Revenues* include unbudgeted revenues such as temporary construction meters (\$899), standby fees for private fire systems (\$984), reconnection charges (\$575), late fees (\$9,514), and water and wastewater connection fees (\$114,429). Non-operating revenue (\$23,375) for sale of old meters and scrap metal less loss on disposal of surplus capital assets (\$44,398) is also included.
- *Change in Net Assets* includes \$131,931 in restricted revenue.
- *Investment Earnings* includes \$28,169 earned on LRWRP funds held by the City of Lompoc.

* The cash available for reserves does not include Developers' Connection Fees (\$97,327) nor Developers' Conservation Funds (\$32,605), 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 (\$1,999) 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 Assets (\$97,327 + \$32,605 + \$1,999 + \$6,629,743 = \$6,761,674).

- 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 fiscal year 2012, unrestricted operating revenues were less than 2% short of projections.



The charts below reflect major categories of actual FY 11-12 operating expenses and revenues. On the revenue side, water and wastewater service charges account for 94% (\$3.8 million) of the District's revenues. On the expense side, employee salaries and benefits are only 30% (\$0.97 million) of the total operating expenses. Wastewater treatment is also a major component of operating expenses. It accounts for 18% (\$0.6 million) of the total annual expenses.

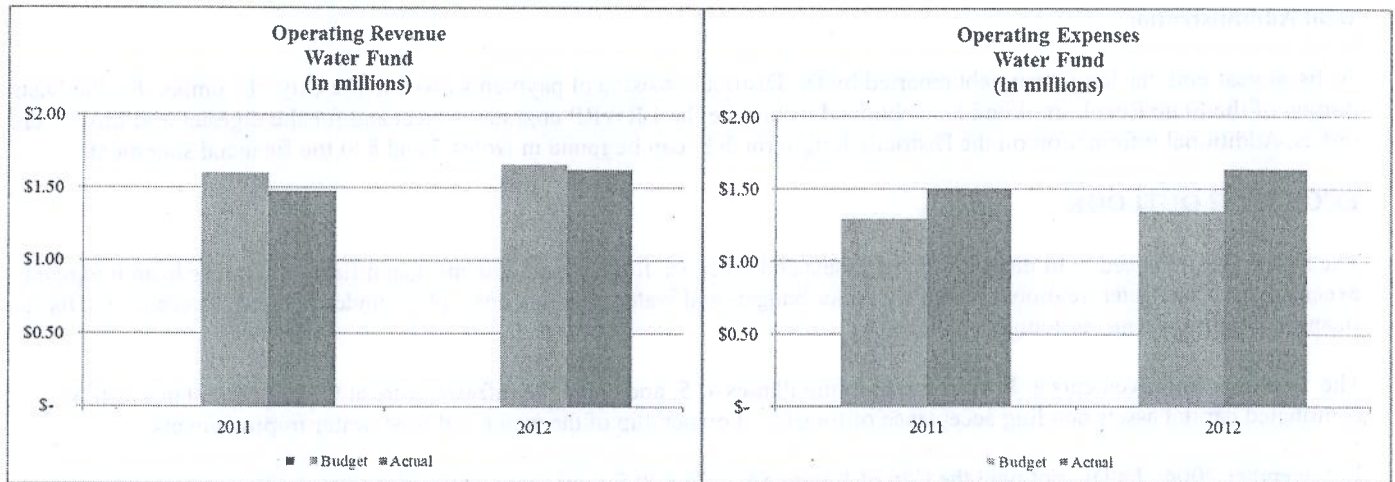


FUND FINANCIAL STATEMENT ANALYSIS

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 assets decreased by \$16,362 primarily as a result of the decrease in cash and investments. Unrestricted water revenues fell short of projections by \$37,703, a 2% variance. Total unrestricted water revenues were \$1.56 million with \$1.2 million (78%) collected from residential customers and the remaining \$0.46 million (22%) collected from commercial, bulk residential, irrigation, and other. In addition, restricted water revenue of \$61,328 was received as developer connection charges. Water fund operating expenses of \$1.6 million primarily consist of salaries (25%), administration (23%), transmission and distribution (22%), pumping (12%), and depreciation (9%). The project, completed this fiscal year, to update to the automatic water meter system is included in the transmission and distribution category.



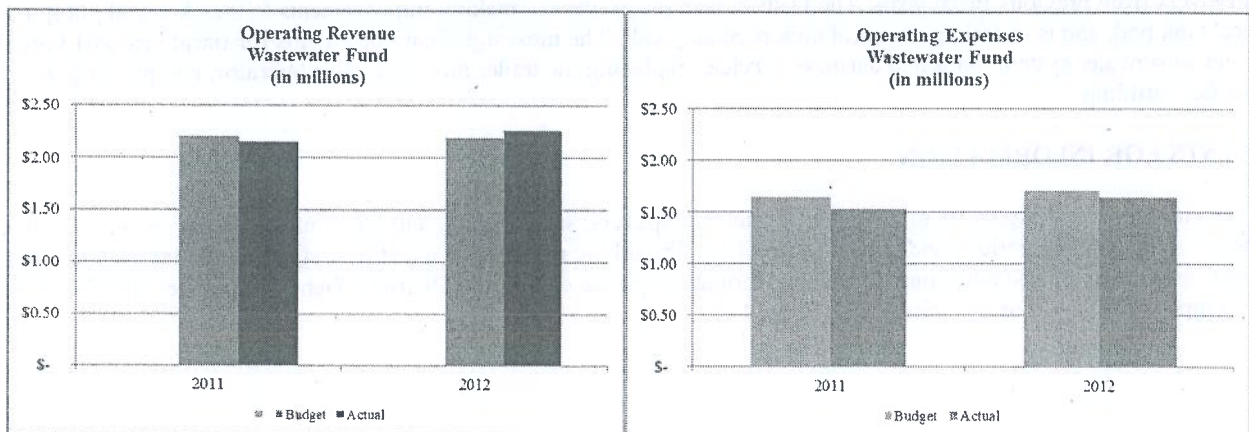
Wastewater Fund

The wastewater fund's net assets increased by \$0.7 million primarily as a budgeted addition to cash reserves.

Unrestricted wastewater revenues exceeded projections by \$21,361, a 1% variance. In addition, restricted wastewater revenue of \$53,101 was received as developer connection charges.

Wastewater fund expenses of \$1.6 million were 4% under budget and primarily consist of wastewater collection/treatment (36%), salaries (11%), administration (11%), and depreciation (40%). The total volume of wastewater for FY 11-12 was 3% lower than FY 10-11; 168 million gallons compared to 173 million gallons last fiscal year.

The LRWRP Upgrade Project was completed in November 2009 and the new ultraviolet tertiary treatment process was brought online. The new process uses more electricity and the increased electric costs are expected to increase wastewater treatment costs. The treatment costs was compiled in fiscal year 10-11 and the City of Lompoc was required to submit those (audited) treatment costs to the District by January 2012. Fiscal year 11-12 is the first full fiscal year utilizing the new treatment process. Additional information regarding the LRWRP upgrade project can be found in the Economic Outlook section of this report on page 8.



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 2012, the District had \$28.3 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.

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

The District experienced both increases in net assets and revenues for the year. The most significant variances from budgeted expenses are wastewater treatment costs (9% under budget) and water pumping costs (10% under budget). Overall, the District's financial condition remains sound.

The developer improvements at Providence Landing Phases 4, 5, and 6 and the infrastructure at Clubhouse Estates will be contributed capital assets pending acceptance of transfer of ownership of the water and wastewater improvements.

In November 2004, the District paid the City of Lompoc \$1,174,800 for our share of the planning, design, and construction management costs for the LRWRP upgrade project. In July 2009, using a portion of the Prop 50 grant funds, the District paid a lump sum amount of \$2,116,606 towards the 2007 Revenue Bond debt and \$742,558 towards the first State Revolving Fund (SRF) loan payment. In July 2010, the District began paying \$61,880 per month towards the SRF debt.

As a result of the change in wastewater treatment process, the District anticipated an increase in wastewater treatment expenses. An increase in treatment costs would require an increase to our customer wastewater rates to generate sufficient revenues to cover these expenses. The District followed a plan to gradually increase the residential wastewater rate to about \$68 per month by July 2010. With the receipt of the \$4 million Proposition 50 grant, District management imposed a slightly lower residential wastewater rate of \$65.75 per month beginning July 2010. If the Wastewater Treatment costs from the City of Lompoc do not change materially, the District does not expect to have any large wastewater rate increases in the near future. There were no rate changes for fiscal years 2012 or 2013.

The District adopted a 15-year Strategic Plan on May 10, 2005. The plan consisting of 16 goals at an estimated cost of \$6.9 million is used to guide the development of annual capital budgets. Projects from the Strategic Plan that were completed (or substantially completed) in fiscal year 2012 include completing the Automated Meter Reading (AMR) project, replacing a pickup truck, and completing several maintenance projects, including booster pump maintenance, pavement maintenance, a sewer monitor radio study, and a relining project of the sewer line on Arneb Place. Many projects in the fiscal year 2013 capital budget are carryovers from previous fiscal years. The District is in the process of making improvements to the chemical pump room, chemical tank pad, and is installing chemical tank retaining wall. The most significant new items for fiscal year 2013 are the water and wastewater system maps and database services, replacing the trailer mounted valve operator, and painting the exterior of the office building.

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.

FINANCIAL SECTION

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
 STATEMENT OF NET ASSETS
 June 30, 2012

ASSETS

Current assets:

Cash on hand	\$ 400
Cash and investments	6,761,674
Accounts receivable	224,525
Accrued interest receivable	7,395
Inventory	26,577
Prepaid expenses	<u>12,731</u>
 Total current assets	 <u>7,033,302</u>

Other assets:

Deposits	742,642
Prepayment-PERS	<u>234,861</u>
 Total other assets	 <u>977,503</u>

Capital assets

Land	35,000
Easements	200,000
Water rights	628,522
Capacity rights	19,120,832
Source of supply	292,989
Pumping equipment	1,066,565
Treatment	239,823
Transmission and distribution	4,989,986
General plant	917,025
Construction in progress	<u>855,357</u>

28,346,099

Less: Accumulated depreciation	<u>(4,094,647)</u>
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Total capital assets - net of accumulated depreciation	<u>24,251,452</u>
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Total assets	<u>32,262,257</u>
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See accompanying notes to basic financial statements.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
STATEMENT OF NET ASSETS
June 30, 2012

LIABILITIES

Current liabilities:

Accounts payable	\$ 213,510
Accrued payroll expenses	28,367
Compensated absences	113,990
Customer deposits	76,043
Deferred revenues	185,178
Due to City of Lompoc - current portion	<u>939,644</u>

Total current liabilities 1,556,732

Noncurrent liabilities:

Due to City of Lompoc - less current portion 12,361,998

Total liabilities 13,918,730

NET ASSETS

Invested in capital assets, net of related debt 10,949,810

Unrestricted 7,393,717

Total net assets \$ 18,343,527

See accompanying notes to basic financial statements.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
 STATEMENT OF ACTIVITIES
 For the Fiscal Year Ended June 30, 2012

<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	\$ 1,677,445	\$ 1,624,628	\$ -	\$ (52,817)
Wastewater	<u>1,649,050</u>	<u>2,263,642</u>		<u>663,241</u>
Total business-type activities	<u>\$ 3,326,495</u>	<u>\$ 3,888,270</u>	<u>\$ -</u>	610,424
General revenues:				
Investment earnings				59,348
Other revenue				<u>23,375</u>
Change in net assets				693,147
Net assets, beginning of fiscal year				<u>17,650,380</u>
Net assets, end of fiscal year				<u>\$ 18,343,527</u>

See accompanying notes to basic financial statements.

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

June 30, 2012

With Comparative Totals for June 30, 2011

	ENTERPRISE FUNDS			
	Water Fund	Wastewater Fund	Totals 2012	Totals 2011
ASSETS				
Current assets:				
Cash on hand	\$ 400	\$ -	\$ 400	\$ 400
Cash and investments	2,833,217	3,928,457	6,761,674	6,446,610
Accounts receivable	224,525		224,525	236,703
Accrued interest receivable	7,395		7,395	8,758
Inventory	26,577		26,577	23,572
Prepaid expenses	11,461	1,270	12,731	
Total current assets	<u>3,103,575</u>	<u>3,929,727</u>	<u>7,033,302</u>	<u>6,716,043</u>
Other assets:				
Deposits		742,642	742,642	742,642
Prepayment-PERS	234,861		234,861	
Total other assets	<u>234,861</u>	<u>742,642</u>	<u>977,503</u>	<u>742,642</u>
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		19,120,832	19,120,832	16,138,475
Source of supply	292,989		292,989	292,989
Pumping equipment	834,940	231,625	1,066,565	1,113,657
Treatment	239,823		239,823	239,823
Transmission and distribution	3,584,581	1,405,405	4,989,986	5,102,833
General plant	786,479	130,546	917,025	904,109
Construction in progress	95,549	759,808	855,357	3,053,390
	6,597,883	21,748,216	28,346,099	27,708,798
Less: Accumulated depreciation	<u>(2,500,063)</u>	<u>(1,594,584)</u>	<u>(4,094,647)</u>	<u>(3,484,202)</u>
Total capital assets - net of accumulated depreciation	<u>4,097,820</u>	<u>20,153,632</u>	<u>24,251,452</u>	<u>24,224,596</u>
Total assets	<u>7,436,256</u>	<u>24,826,001</u>	<u>32,262,257</u>	<u>31,683,281</u>

See accompanying notes to basic financial statements.

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

June 30, 2012

With Comparative Totals for June 30, 2011

	ENTERPRISE FUNDS			
	Water Fund	Wastewater Fund	Totals 2012	Totals 2011
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 44,226	\$ 169,284	\$ 213,510	\$ 178,037
Accrued payroll expenses	20,085	8,282	28,367	20,567
Compensated absences	113,990		113,990	97,789
Customer deposits	76,043		76,043	76,535
Deferred revenues		185,178	185,178	183,348
Due to City of Lompoc - current portion		939,644	939,644	853,133
Total current liabilities	<u>254,344</u>	<u>1,302,388</u>	<u>1,556,732</u>	<u>1,409,409</u>
Noncurrent liabilities:				
Due to City of Lompoc - less current portion		12,361,998	12,361,998	12,623,492
Total liabilities	<u>254,344</u>	<u>13,664,386</u>	<u>13,918,730</u>	<u>14,032,901</u>
NET ASSETS				
Invested in capital assets, net of related debt	4,097,820	6,851,990	10,949,810	10,747,330
Unrestricted	<u>3,084,092</u>	<u>4,309,625</u>	<u>7,393,717</u>	<u>6,903,050</u>
Total net assets	<u>\$ 7,181,912</u>	<u>\$ 11,161,615</u>	<u>\$ 18,343,527</u>	<u>\$ 17,650,380</u>

See accompanying notes to basic financial statements.

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

For the Fiscal Year Ended June 30, 2012

With Comparative Totals for the Fiscal Year Ended June 30, 2011

	ENTERPRISE FUNDS			
	Water Fund	Wastewater Fund	Totals 2012	Totals 2011
Operating Revenues:				
Residential	\$ 1,213,754	\$ 983,319	\$ 2,197,073	\$ 2,142,664
Commercial	117,237	206,020	323,257	328,188
Bulk meter residential	102,743		102,743	95,699
Irrigation	117,594		117,594	112,963
LRWRP Upgrade		1,021,202	1,021,202	948,190
Other	73,300	53,101	126,401	165,625
Total operating revenues	<u>1,624,628</u>	<u>2,263,642</u>	<u>3,888,270</u>	<u>3,793,329</u>
Operating Expenses:				
Salaries	409,027	178,463	587,490	569,309
Source of supply	24,534		24,534	19,526
Pumping	202,558	8,007	210,565	202,249
Water treatment	65,329		65,329	78,243
Wastewater treatment		595,888	595,888	648,291
Transmission and distribution	366,639	1,521	368,160	291,193
Wastewater collection		1,225	1,225	4,475
Customer accounts	35,001	31,258	66,259	56,715
Administrative and general	369,452	154,845	524,297	492,606
Other operating expenses	14,341	10,477	24,818	29,687
Depreciation	146,166	667,366	813,532	637,802
Total operating expenses	<u>1,633,047</u>	<u>1,649,050</u>	<u>3,282,097</u>	<u>3,030,096</u>
Net operating income	<u>(8,419)</u>	<u>614,592</u>	<u>606,173</u>	<u>763,233</u>
Non-Operating Revenues (Expenses):				
Investment income	13,080	46,268	59,348	29,754
Other non-operating revenue	23,375		23,375	
Net gain (loss) on disposal of capital assets	(44,398)		(44,398)	5,291
Total non-operating revenues (expenses)	<u>(7,943)</u>	<u>46,268</u>	<u>38,325</u>	<u>35,045</u>
Capital Contributions				
Infrastructure contribution		48,649	48,649	
Total capital contributions		<u>48,649</u>	<u>48,649</u>	
Change in net assets	(16,362)	709,509	693,147	798,278
Total net assets - beginning	<u>7,198,274</u>	<u>10,452,106</u>	<u>17,650,380</u>	<u>16,852,102</u>
Total net assets - ending	<u>\$ 7,181,912</u>	<u>\$ 11,161,615</u>	<u>\$ 18,343,527</u>	<u>\$ 17,650,380</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, 2012
With Comparative Totals for the Fiscal Year Ended June 30, 2011

	ENTERPRISE FUNDS			
	Water Fund	Wastewater Fund	Totals 2012	Totals 2011
Cash Flows From Operating Activities:				
Receipts from customers and users	\$ 1,636,314	\$ 2,265,472	\$ 3,901,786	\$ 3,582,193
Payments to suppliers	(1,227,093)	(769,341)	(1,996,434)	(1,669,779)
Payments to employees	(485,396)	(177,858)	(663,254)	(652,737)
Net cash provided (used) by operating activities	(76,175)	1,318,273	1,242,098	1,259,677
Cash Flows from Capital and Related Financing Activities:				
Proposition 50 grant				400,000
Payment on long-term debt		(890,327)	(890,327)	(934,489)
Sale of capital assets				12,293
Contributed capital		48,649	48,649	
Purchase of capital assets	(111,154)	(58,289)	(169,443)	(204,314)
Net cash (used) by capital and related financing activities	(111,154)	(899,967)	(1,011,121)	(726,510)
Cash Flows from Non Capital and Related Activities:				
Other non-operating revenue	23,375		23,375	
Net cash provided by investing activities	23,375		23,375	
Cash Flows from Investing Activities:				
Investment income	14,444	46,268	60,712	31,251
Net cash provided by investing activities	14,444	46,268	60,712	31,251
Net increase (decrease) in cash and cash equivalents	(149,510)	464,574	315,064	564,418
Cash and cash equivalents, beginning of fiscal year	2,982,711	3,463,883	6,446,594	5,882,176
Cash and cash equivalents, end of fiscal year	\$ 2,833,201	\$ 3,928,457	\$ 6,761,658	\$ 6,446,594
Reconciliation to Statement of Net Assets:				
Cash on hand	\$ 400	\$ -	\$ 400	\$ 400
Cash and investments (cash equivalents only)	2,832,801	3,928,457	6,761,258	6,446,194
	\$ 2,833,201	\$ 3,928,457	\$ 6,761,658	\$ 6,446,594

(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, 2012

With Comparative Totals for the Fiscal Year Ended June 30, 2011

	ENTERPRISE FUNDS			
	Water Fund	Wastewater Fund	Totals 2012	Totals 2011
Reconciliation of Operating Income to Net				
Cash Provided by Operating Activities:				
Operating income	\$ (8,419)	\$ 614,592	\$ 606,173	\$ 1,253,156
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	146,166	667,366	813,532	151,110
Change in Operating Assets and Liabilities:				
(Increase) decrease in accounts receivable	12,178		12,178	(29,351)
(Increase) decrease in other receivables				(146,151)
(Increase) decrease in inventory	(3,005)		(3,005)	
(Increase) decrease in prepaid expenses	(11,461)	(1,270)	(12,731)	
(Increase) decrease in deposits	(234,861)		(234,861)	
Increase (decrease) in accounts payable	323	35,150	35,473	(179,609)
Increase (decrease) in accrued payroll	7,195	605	7,800	3,173
Increase (decrease) in customer deposits	(492)		(492)	(30,347)
Increase (decrease) in deferred revenue		1,830	1,830	32,374
Increase (decrease) in compensated absences	16,201		16,201	9,697
Net cash provided by operating activities	<u>\$ (76,175)</u>	<u>\$ 1,318,273</u>	<u>\$ 1,242,098</u>	<u>\$ 1,064,052</u>

See accompanying notes to basic financial statements.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

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.

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. Deferred Revenue - The District reports deferred revenues on its statement of net assets. Deferred 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 deferred revenue is removed from the statement of net assets 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 benefits are recognized as a liability of the District. The amounts are included in current liabilities under compensated absences. The District accumulates sick leave for its employees, however, this is not recorded as a liability on the District's financial statements since accumulated sick leave is not paid upon the employee's termination.
- 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 Assets

GASB Statement No. 34 requires that the difference between assets and liabilities be reported as net assets. Net assets are classified as either invested in capital assets, net of related debt, restricted, or unrestricted.

Net assets that are invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net assets are those net assets that have external constraints placed on them by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net assets consist of net assets that do not meet the definition of invested in capital assets, net of related debt, or restricted net assets.

M. Government-wide and fund financial statements – The government-wide financial statements (i.e., the statement of net assets 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. 64

For the fiscal year ended June 30, 2012, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions." This Statement is effective for periods beginning after June 15, 2012. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. Implementation of the GASB Statement No. 64, did not have an impact on the District's financial statements for the fiscal year ended June 30, 2012.

NOTE 3 - CASH AND INVESTMENTS

Investments are carried at fair value in accordance with GASB Statement No. 31. On June 30, 2012, the District had the following cash and investments on hand:

Cash on hand	\$ 400
Cash in checking accounts	494,405
Cash in savings accounts	650,333
Cash and investments with County of Santa Barbara	2,706,084
Cash and investments in Local Agency Investment Fund (LAIF)	2,910,436
Certificates of deposit	<u>416</u>
Cash and investments	<u>\$ 6,762,074</u>

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

Cash on hand	\$ 400
Cash and investments	<u>6,741,674</u>
	<u>\$ 6,762,074</u>

NOTE 3 - CASH AND INVESTMENTS (Continued)

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:

<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	\$ 2,706,084	\$ 2,706,084	\$ -	\$ -	\$ -
Certificates of deposit	416	416			
LAIF	<u>2,910,436</u>	<u>2,910,436</u>			
Total	<u>\$ 5,616,936</u>	<u>\$ 5,616,936</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2012

NOTE 3 - CASH AND INVESTMENTS (Continued)

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	\$2,706,084	N/A	\$ -	\$ -	\$ -	\$2,706,084
Certificates of deposit	416	N/A				416
LAIF	<u>2,910,436</u>	N/A				<u>2,910,436</u>
Total	<u>\$5,616,936</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$5,616,936</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 custodial credit risk for investments is the risk that, in the event of failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the 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.

As of June 30, 2012, 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.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2012

NOTE 4 - SCHEDULE OF CAPITAL ASSETS

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2012, is shown below:

	Balance July 1, 2011	Additions	Deletions	Transfers	Balance June 30, 2012
Capital assets, not being depreciated:					
Land	\$ 35,000	\$ -	\$ -	\$ -	\$ 35,000
Construction in progress	3,053,390	94,588	4,750	(2,287,870)	855,358
Total capital assets, not being depreciated:	<u>\$ 3,088,390</u>	<u>\$ 94,588</u>	<u>\$ 4,750</u>	<u>\$ (2,287,870)</u>	<u>\$ 890,358</u>
Capital assets, being depreciated:					
Easements and water rights	\$ 828,522	\$ -	\$ -	\$ -	\$ 828,522
Plant and facilities	23,791,886	794,948	247,486	2,287,870	26,627,218
Total capital assets, being depreciated	<u>24,620,408</u>	<u>794,948</u>	<u>247,486</u>	<u>2,287,870</u>	<u>27,455,740</u>
Less accumulated depreciation	<u>3,484,202</u>	<u>813,532</u>	<u>203,088</u>		<u>4,094,646</u>
Total capital assets, being depreciated	<u>\$ 21,136,206</u>	<u>\$ (18,584)</u>	<u>\$ 44,398</u>	<u>\$ 2,287,870</u>	<u>\$ 23,361,094</u>
Capital assets, net	<u>\$ 24,224,596</u>	<u>\$ 76,004</u>	<u>\$ 49,148</u>	<u>\$ -</u>	<u>\$ 24,251,452</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, 2012, 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 - DEFERRED REVENUES

Deferred revenues consist of sewer fees paid in advance by the District's customers in the amount of \$185,178 for the fiscal year ended June 30, 2012.

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.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2012

NOTE 7 – DUE TO CITY OF LOMPOC (Continued)

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's agreed to make annual payments of principal and interest in the amount of \$742,558 beginning July 1, 2009.

The balance owing the City of Lompoc at June 30, 2012, is \$13,301,641.

NOTE 8 – LONG-TERM DEBT – SCHEDULE OF CHANGES

A schedule of changes in long-term debt for the fiscal year ended June 30, 2012, is shown below:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Due within One Year
Due to the City of Lompoc	\$ 13,476,625	\$ 715,343	\$ 890,327	\$ 13,301,641	\$ 939,644
	<u>\$ 13,476,625</u>	<u>\$ 715,343</u>	<u>\$ 890,327</u>	<u>\$ 13,301,641</u>	<u>\$ 939,644</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 2.7% at 55 benefit factor, years of service, and final compensation. 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.

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

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. 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 2011/2012, was 18.234%. 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, 2012, 2011, and 2010, were \$113,493, \$97,009, and \$94,897, respectively, and equal 100% of the required for each fiscal year.

At the time of joining a risk pool, a side fund was created to account for the difference between the funded status of the pool and the funded status of the District's plan. The side fund will be credited, on annual basis, with the actuarial investment return assumption. This assumption is currently 7.75%. A positive side fund will cause the required employer contribution rate to be reduced by the Amortization of Side Fund shown above in Required Employer Contributions. A negative side fund will cause the required employer contribution rate to be increased by the Amortization of Side Fund. In the absence of subsequent contract amendments or funding changes, the side fund will disappear at the end of the amortization period. In May 2012, the District paid to CalPERS \$234,861 towards its unfunded liability. This prepayment will be amortized over thirteen years, beginning fiscal year 2012/13 through fiscal year 2022/23.

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS

As of June 30, 2012, 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.