

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT

FINANCIAL STATEMENTS

June 30, 2002 and 2001

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
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June 30, 2002 and 2001

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Vandenberg Village Community
Services District
Lompoc, California

We have audited the accompanying balance sheets of the Vandenberg Village Community Services District, as of June 30, 2002 and 2001, and the related statements of revenues and expenses, fund equity and cash flows for the fiscal years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Vandenberg Village Community Services District, as of June 30, 2002 and 2001, and the results of its operations and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The combining and individual fund financial statements listed in the table of contents are presented for the purposes of additional analysis and are not required as part of the financial statements of the Vandenberg Village Community Services District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

MOSS, LEVY & HARTZHEIM

August 14, 2002

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
 BALANCE SHEETS
 June 30, 2002 and 2001

	<u>Balance</u> <u>June 30, 2002</u>	<u>Balance</u> <u>June 30, 2001</u>
ASSETS		
Current Assets:		
Cash on hand	\$ 400	\$ 400
Cash and short-term investments	2,820,678	2,515,773
Certificates of deposit	192,015	260,042
Accounts receivable	136,923	127,888
Other receivables	432	677
Accrued interest receivable	10,349	17,808
Inventory	22,233	22,477
Prepaid expenses	14,005	13,827
	<u>3,197,035</u>	<u>2,958,892</u>
Total current assets		
Restricted Assets:		
Cash and investments with fiscal agent:		
Deposits for bond principal and interest payments	<u>206,993</u>	<u>198,248</u>
	<u>206,993</u>	<u>198,248</u>
Total restricted assets		
Property, Plant and Equipment:		
Construction in progress	171,539	40,828
Land	35,000	35,000
Easements and water rights	828,522	828,522
Plant and facilities	5,347,930	5,290,311
Less accumulated depreciation	<u>(1,574,017)</u>	<u>(1,468,835)</u>
	<u>4,808,974</u>	<u>4,725,826</u>
Net property, plant and equipment		
Other Assets:		
Bond issuance costs - net of amortization	260,657	301,811
Deposits	<u>381,028</u>	<u>377,017</u>
	<u>641,685</u>	<u>678,828</u>
Total other assets		
	<u>\$ 8,854,687</u>	<u>\$ 8,561,794</u>
Total assets		

The accompanying notes are an integral part of these financial statements

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
 BALANCE SHEETS
 June 30, 2002 and 2001

	Balance <u>June 30, 2002</u>	Balance <u>June 30, 2001</u>
LIABILITIES AND FUND EQUITY		
Current Liabilities:		
Accounts payable	\$ 69,682	\$ 127,785
Accruals	12,848	12,099
Customer deposits	75,810	107,828
Other deposits	313	3,000
Deferred revenue	60,919	60,973
Compensated absences	19,854	34,292
	<u>239,426</u>	<u>345,977</u>
Current Liabilities Payable From Restricted Assets:		
Current portion - bonds payable	280,000	260,000
Accrued bond interest payable	19,159	21,109
	<u>299,159</u>	<u>281,109</u>
Long-Term Debt:		
Bonds payable, less current portion	<u>2,015,000</u>	<u>2,295,000</u>
	<u>2,015,000</u>	<u>2,295,000</u>
	<u>2,553,585</u>	<u>2,922,086</u>
Fund Equity:		
Contributed Capital:		
Subdividers/other	535,669	552,691
Retained Earnings:		
Unreserved	<u>5,765,433</u>	<u>5,087,017</u>
	<u>6,301,102</u>	<u>5,639,708</u>
	<u>\$ 8,854,687</u>	<u>\$ 8,561,794</u>

The accompanying notes are an integral part of these financial statements

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
STATEMENTS OF CHANGES IN FUND EQUITY
For the Fiscal Years Ended June 30, 2002 and 2001

	<u>Balance</u> <u>June 30, 2002</u>	<u>Balance</u> <u>June 30, 2001</u>
Fund equity, beginning of fiscal year as previously reported	\$ 5,639,708	\$ 5,199,760
Prior period adjustments	<u>19,520</u>	<u>(28,004)</u>
Fund equity, beginning of fiscal year as restated	5,659,228	5,171,756
Net income	<u>641,874</u>	<u>467,952</u>
Fund equity, end of fiscal year	<u><u>\$ 6,301,102</u></u>	<u><u>\$ 5,639,708</u></u>

The accompanying notes are an integral part of these financial statements

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
STATEMENTS OF REVENUES AND EXPENSES
For the Fiscal Years Ended June 30, 2002 and 2001

	<u>Balance</u> <u>June 30, 2002</u>	<u>Balance</u> <u>June 30, 2001</u>
Operating Revenues:		
Service charges	\$ 1,391,019	\$ 1,419,942
Total operating revenues	<u>1,391,019</u>	<u>1,419,942</u>
Operating Expenses:		
Salaries and benefits	402,050	361,603
Wastewater treatment costs	295,288	391,727
Utilities	187,595	135,166
Repairs and supplies	107,709	104,819
Professional services	126,510	210,385
Office expenses	13,876	13,021
Customer's account expenses	11,393	10,293
Insurance	24,097	22,015
Other operating expenses	4,015	5,868
Depreciation	142,018	156,221
Total operating expenses	<u>1,314,551</u>	<u>1,411,118</u>
Net operating income	<u>76,468</u>	<u>8,824</u>
Non-Operating Income (Expenses):		
Bond surcharge	433,480	430,767
Interest income	134,636	202,828
Contributed capital	170,976	
Bond issuance costs	(41,154)	(41,152)
Interest expense	(118,342)	(129,840)
Other - reimbursements	716	
Gain (loss) on sale of fixed assets	(14,906)	(3,475)
Total non-operating income (expenses)	<u>565,406</u>	<u>459,128</u>
Net income	<u>\$ 641,874</u>	<u>\$ 467,952</u>

The accompanying notes are an integral part of these financial statements

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
STATEMENTS OF CASH FLOWS
For the Fiscal Years Ended June 30, 2002 and 2001

	<u>Balance</u> <u>June 30, 2002</u>	<u>Balance</u> <u>June 30, 2001</u>
Net operating income	\$ 76,468	\$ 8,824
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	142,018	156,221
(Increase) Decrease in Operating Assets:		
Accounts receivable	(9,035)	(26,702)
Other receivables	245	(5)
Inventory	244	1,572
Prepaid expenses	(178)	2,247
Deposits	(4,011)	(4,914)
Increase (Decrease) in Operating Liabilities:		
Accounts payable	(58,103)	58,823
Accruals	749	957
Customer deposits	(32,018)	87,864
Other deposits	(2,687)	3,000
Deferred revenue	(54)	(2,437)
Compensated absences	2,656	1,459
Net cash provided by operating activities	<u>116,294</u>	<u>286,909</u>
Cash Flows from Capital and Related Financing Activities:		
Bond surcharge income	433,480	430,767
Proceeds from sale of assets	5,381	1,996
Bond interest payments	(120,292)	(131,687)
Bond principal payments	(260,000)	(255,000)
Contributed capital	170,976	
Purchase of fixed assets	(243,027)	(119,329)
Net cash provided (used) for capital and related financing activities	<u>(13,482)</u>	<u>(73,253)</u>
Cash Flows from Non-Capital Financing Activities:		
Reimbursements	716	
Net cash provided for non-capital financing activities	<u>716</u>	
Cash Flows from Investing Activities:		
Interest income	142,095	184,085
Sale (purchase) of certificates of deposit	68,027	38,827
Net cash provided (used) for investing activities	<u>210,122</u>	<u>222,912</u>
Net increase in cash and cash equivalents	313,650	436,568
Cash and cash equivalents at beginning of fiscal year	<u>2,714,421</u>	<u>2,277,853</u>
Cash and cash equivalents at end of fiscal year	<u>\$ 3,028,071</u>	<u>\$ 2,714,421</u>

The accompanying notes are an integral part of these financial statements

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2002 and 2001

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 FINANCIAL STATEMENTS
June 30, 2002 and 2001

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 State 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*.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Accounting Policies - The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants.
- 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 balance sheet. 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 balance sheet and revenue is recognized.
- D. Cash and Cash Equivalents - For purposes of the statements 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 - Assets purchased by the District are recorded at cost. Contributed or donated assets are recorded at fair value when acquired.
- F. Depreciation - 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 employee 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.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002 and 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- L. Amortization of Issuance Costs - The cost of issuance of bonds are being amortized on the straight line method over the life of the bonds.
- M. Fund Equity - Prior to July 1, 2000, contributed capital was recorded when cash or fixed assets were received from developers, or other government entities for the purpose other than operating expenses. Contributed capital received after July 1, 2000, is recorded on the statement of revenues and expenses as required by GASB Statement No. 33.

NOTE 3 - CASH AND INVESTMENTS

Investments are carried at fair value in accordance with GASB Statement No. 31. On June 30, 2002, the District had the following cash and investments on hand:

Cash on hand	\$ 400
Cash in checking accounts	92,995
Cash in savings accounts	256,755
Cash and investments with County of Santa Barbara	1,224,515
Cash and investments in Local Agency Investment Fund (LAIF)	1,246,413
Certificates of deposit	192,015
Cash and investments with fiscal agent	<u>206,993</u>
 Cash and investments	 <u>\$ 3,220,086</u>

Cash and investments listed above are presented on the accompanying financial statements as follows:

Cash on hand	\$ 400
Cash in bank and short-term investments	2,820,678
Restricted cash and investments with fiscal agent	206,993
Certificates of deposit	<u>192,015</u>
	<u>\$ 3,220,086</u>

Cash and Non-Negotiable Certificates of Deposit

All cash and non-negotiable certificates of deposit are entirely insured or collateralized. The California Government Code requires California banks and savings and loan associations to secure a district's deposits by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of a district's deposits. California law also allows financial institutions to secure district deposits by pledging first trust deed mortgage notes having a value of 150% of a district's total deposits.

The District may waive collateral requirements for deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

Credit Risk, Carrying Amount, and Fair Value of Investments

Cash is classified in three categories of credit risk as follows:

- Category 1 - Insured or collateralized with securities held by the District or by its agent in the District's name;
- Category 2 - collateralized with securities held by the pledging financial institution's trust department or agent in the District's name; and
- Category 3 - uncollateralized.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002 and 2001

NOTE 3 - CASH AND INVESTMENTS (Continued)

Credit Risk, Carrying Amount, and Fair Value of Investments (Continued)

At June 30, 2002, the carrying amount of the District's deposits was \$350,150. The bank's balance was \$363,362. This difference is due to the normal deposits in transit and outstanding checks. District cash deposits by category as of June 30, 2002, are as follows:

	Category			Bank Balance	Carrying Amount
	1	2	3		
Cash on hand	\$ 400	\$ -	\$ -	\$ 400	\$ 400
Bank accounts	<u>100,000</u>	<u>262,962</u>		<u>362,962</u>	<u>349,750</u>
	<u>\$ 100,400</u>	<u>\$ 262,962</u>	<u>\$ -</u>	<u>\$ 363,362</u>	<u>\$ 350,150</u>

Investments are also classified in three categories of credit risk as follows:

- Category 1 - Insured or registered, with securities held by the District or its agent in the District's name;
- Category 2 - uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name; and
- Category 3 - uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the District's name.

Investments in pools managed by other governments or in mutual funds are not required to be categorized.

District investments by category as of June 30, 2002, are as follows:

	Category			Fair Value/ Carrying Amount	Cost
	1	2	3		
Investments Controlled by the District:					
Local Agency Investment Fund (State Pool)	\$ N/A	\$ N/A	\$ N/A	\$ 1,246,413	\$ 1,242,957
Cash and investments with County of Santa Barbara	N/A	N/A	N/A	1,224,515	1,217,144
Certificates of deposit	<u>100,000</u>	<u>92,015</u>		<u>192,015</u>	<u>192,015</u>
Total investments controlled by District	<u>100,000</u>	<u>92,015</u>		<u>2,662,943</u>	<u>2,652,116</u>
Amounts Invested by Fiscal Agents:					
Money market funds	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>206,993</u>	<u>206,993</u>
Total invested by fiscal agents				<u>206,993</u>	<u>206,993</u>
Total investments	<u>\$ 100,000</u>	<u>\$ 92,015</u>	<u>\$ -</u>	<u>\$ 2,869,936</u>	<u>\$ 2,859,109</u>

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002 and 2001

NOTE 4 - RESTRICTED ASSETS

For the fiscal year ended June 30, 2002, the following amounts are restricted:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Deposits with fiscal agent for bond principal and interest payments	<u>\$ 157,292</u>	<u>\$ 49,701</u>	<u>\$ 206,993</u>

The monies with the fiscal agent (State Street Bank) are limited by applicable bond covenants.

Bond principal and interest payments represent monthly principal and interest payments plus interest earned on the balances. State Street Bank makes the semi-annual bond debt service payments from these accounts.

NOTE 5 - SCHEDULE OF FIXED ASSETS

A schedule of changes in fixed assets and depreciation for the fiscal year ended June 30, 2002 is shown below:

	Balance <u>July 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2002</u>
Construction in progress	\$ 40,828	\$ 196,745	\$ 66,034	\$ 171,539
Land	35,000			35,000
Easements and water rights	828,522			828,522
Plant and facilities	<u>5,290,311</u>	<u>114,742</u>	<u>57,123</u>	<u>5,347,930</u>
	6,194,661	311,487	123,157	6,382,991
Accumulated depreciation	<u>1,468,835</u>	<u>142,018</u>	<u>36,836</u>	<u>1,574,017</u>
Net fixed assets	<u>\$ 4,725,826</u>	<u>\$ 169,469</u>	<u>\$ 86,321</u>	<u>\$ 4,808,974</u>

NOTE 6 - 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 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 \$334,721. On June 30, 2002, the reserve balance was \$321,435, which is below the minimum deposit requirement.

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 FINANCIAL STATEMENTS
 June 30, 2002 and 2001

NOTE 7 - DEFERRED REVENUES

Deferred revenues consist of sewer fees paid in advance by the District's customers in the amounts of \$60,919 and \$60,973 for the fiscal years ended June 30, 2002 and 2001, respectively.

NOTE 8 - DEFEASED DEBT

1988 Water Revenue Bonds

On November 1, 1988, the District issued \$3,800,000 in Water Revenue bonds. Interest varied from 5.6% to 7.2% and was payable semi-annually on May 1 and November 1 of each year. Annual principal maturities from \$95,000 to \$240,000 were due on November 1 of each year through 2008.

On June 1, 1996, the District issued \$3,670,000 in water and wastewater revenue bonds. A portion of the net proceeds from the issuance of these 1996 Refunding Revenue Bonds was deposited into an irrevocable trust to provide debt service payments on the 1988 Water Bonds until they were called on November 1, 1997. The refunding met the requirements of an in substance debt defeasance and the 1988 bonds were removed from the District's liability accounts. The amount of debt considered defeased at June 30, 2002 is \$1,950,000.

1988 Sewer Revenue Bonds

On November 1, 1988, the District issued \$1,600,000 in Sewer Revenue bonds. Interest varied from 5.6% to 7.2% and was payable semi-annually on May 1 and November 1 of each year. Annual principal maturities from \$40,000 to \$100,000 were due on November 1 of each year through 2008.

On June 1, 1996, the District issued \$3,670,000 in water and wastewater revenue bonds. A portion of the net proceeds from the issuance of these 1996 Refunding Bonds were deposited into an irrevocable trust to provide debt service payments on the 1988 Sewer Bonds until they were called on November 1, 1997. The refunding met the requirements of an in substance debt defeasance and the 1988 bonds were removed from the District's liability accounts. The amount of debt considered defeased at June 30, 2002 is \$825,000.

NOTE 9 - LONG-TERM DEBT

Water and Wastewater Refunding Revenue Bonds Series 1996

On June 1, 1996, the District issued \$3,670,000 in revenue bonds. The proceeds from the bond issue were used to retire the 1988 Water Revenue Bonds and the 1988 Sewer Revenue Bonds.

The stated interest rate on the bonds varies from 3.5% to 5.3% and is payable semi-annually on May 1 and November 1 of each year. Annual principal maturities varying from \$160,000 to \$325,000 are due on November 1 of each year until 2008. The bonds mature as follows:

Fiscal Year Ending	Principal Maturities	Interest	Total Debt Service
2003	\$ 280,000	\$ 107,933	\$ 387,933
2004	295,000	94,416	389,416
2005	310,000	79,893	389,893
2006	320,000	64,375	384,375
2007	345,000	47,751	392,751
Thereafter	<u>745,000</u>	<u>39,969</u>	<u>784,969</u>
	<u>\$ 2,295,000</u>	<u>\$ 434,337</u>	<u>\$ 2,729,337</u>

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002 and 2001

NOTE 10 – CONTRIBUTED CAPITAL

A portion of the District's fixed assets are in the form of underground lines located within the District. These lines have been constructed by the District or donated to the District by project developers after their completion in order that the District would then maintain the lines, and service to the project would be assured for the future.

In the fiscal year ended June 30, 2001, in accordance with GASB Statement No. 33, the District began to recognize the donation of underground lines as revenue to the District. These donated assets are no longer recorded as additions to contributed capital.

During the fiscal year, the recorded revenue for contributed capital was as follows:

Contributed from developers	<u>\$ 170,976</u>
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The District records donated fixed assets based on the developer's cost of constructing the fixed assets which is an estimate of the fair value of the assets at the time of donation to the District. The District has also recorded contributions from other government entities for purposes other than operating expenses as contributed capital. The fixed assets are recorded in the District's fixed assets records and will continue to be depreciated over the estimated useful life of the asset.

Contributed capital, beginning of year (pre GASB. 33)	\$ 552,691
Less depreciation on fixed assets that reduces contributed capital	<u>(17,022)</u>
Contributed capital, end of year (pre GASB. 33)	<u>\$ 535,669</u>

NOTE 11 - ENTERPRISE FUNDS SEGMENT INFORMATION

The District utilized two enterprise funds which provide various water and sewer services. Segment information for the fiscal year ended June 30, 2002, was as follows:

	Water Utility Fund	Sewer Utility Fund	Total Enterprise Funds
Operating revenues	\$ 758,968	\$ 632,051	\$ 1,391,019
Operating expenses	\$ 809,856	\$ 504,695	\$ 1,314,551
Operating income (loss)	\$ (50,888)	\$ 127,356	\$ 76,468
Non-operating income (expenses)	\$ 325,586	\$ 239,820	\$ 565,406
Net income (loss)	\$ 274,698	\$ 367,176	\$ 641,874
Property, plant & equipment additions	\$ 123,912	\$ 119,115	\$ 243,027
Net working capital (deficit)	\$ 1,240,613	\$ 1,716,996	\$ 2,957,609
Total assets	\$ 5,712,095	\$ 3,142,592	\$ 8,854,687
Bonds and Other Long-Term Liabilities:			
Payable from operating revenues	\$ 1,531,400	\$ 483,600	\$ 2,015,000
Total equity (deficit)	\$ 3,789,086	\$ 2,512,016	\$ 6,301,102

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002 and 2001

NOTE 12 - 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 PERS is part of the Public Agency portion of the California Public Employees' Retirement System, (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes with the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (other local methods). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office - 400 P Street - Sacramento, CA 95814.

Funding Policy

Active plan members in the PERS are required to contribute 7% of their annual covered salary. The District is required to contribute the actuarially determined remaining amounts necessary to fund 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 2001/2002 was 0%. 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.

Annual Pension Cost

For fiscal year 2001/2002, the District's annual pension cost was \$0 and the District actually contributed \$0. The required contribution for fiscal year 2001/2002 was determined as part of the June 30, 2000 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service, and (c) no cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.5%. The actuarial value of the District's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of investment gains and/or losses. The District's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2000 was 14 years.

Three Year Trend Information for Vandenberg Village Community Services District's Public Employees' Retirement Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
6/30/00	\$ 0	100%	\$ 0
6/30/01	\$ 0	100%	\$ 0
6/30/02	\$ 0	100%	\$ 0

Required Supplementary Information

Funded Status of Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL As % of Payroll
6/30/98	\$ 312,740	\$ 496,339	\$ (183,599)	158.7%	\$ 274,429	(66.902%)
6/30/99	\$ 375,730	\$ 603,703	\$ (227,973)	160.7%	\$ 290,002	(78.611%)
6/30/00	\$ 500,212	\$ 720,615	\$ (220,403)	144.1%	\$ 319,983	(68.880%)

NOTE 13 - CONTINGENCIES

Currently, the District is involved in a contretemps with the California Public Employees' Retirement System (PERS) relating to the status of a former employee who is performing contract work for the District. During the course of its operations, PERS conducted an audit of the District to determine whether they are complying with Public Employees' Retirement laws. One of PERS findings in their report relates to a former employee, Mr. Tommy Keller, who is performing the General Manager's duties. Mr. Keller retired from the District in 1996 and his firm, Keller & Associates, entered into a contract with the District to perform general manager duties on an independent contractor basis for a fixed monthly fee plus certain expenses. PERS' contends that despite the contract between the District and Keller & Associates, that Mr. Keller is an employee of the District as the District has control over his duties and that he worked more than 960 hours per year. PERS has not yet informed the District whether its final decision is to accept its auditor's finding that Mr. Keller worked more than 960 hours per year. The District has challenged the PERS finding regarding Mr. Keller and has provided PERS with documentation that Mr. Keller has worked less than 960 hours per year since he retired. This matter is still at the point where PERS has not determined whether it will accept the finding of its auditors and impose the consequences of doing so, which would likely include reinstating Mr. Keller for the period since he retired, collecting from him all retirement benefits paid to date and stopping additional retirement benefit disbursements as well as collecting employer and employee contributions from the District and Mr. Keller on the monies paid under the contract. Even if PERS determines that Mr. Keller has worked 960 hours or more per year, PERS may still determine not to seek reinstatement, etc., because of equitable considerations. At this time given that PERS has not even determined whether it will in fact accept its auditors' finding regarding Mr. Keller or whether it will enforce the consequences of doing so, the District has not definitely stated whether it will or will not appeal such an adverse decision by PERS. If PERS makes a determination that it will accept and enforce its auditors' finding regarding Mr. Keller, the District will have an opportunity to appeal that decision, first through administrative procedures and then through the court system, if necessary.

NOTE 14 - PRIOR YEAR ADJUSTMENTS

A prior period adjustment of \$17,094 was made in the water fund for the fiscal year ended June 30, 2002, to correct prior year's accrual for sick leave. The adjustment was made to conform to the District's policy that no accumulated sick leave is to be paid upon employee termination and therefore no accrual for sick leave is necessary.

A prior period adjustment of \$2,426 was made in the water fund to correct the retirement of fixed assets in the prior year.

A prior period adjustment of (\$28,004) was made in the water fund for the fiscal year ended June 30, 2001, to correct the prior years' billing overcharges for water service.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
 COMBINING BALANCE SHEET
 June 30, 2002

	Water Utility	Sewer Utility	Total June 30, 2002
ASSETS			
Current Assets:			
Cash on hand	\$ 400	\$ -	\$ 400
Cash and short-term investments	1,029,204	1,791,474	2,820,678
Certificates of deposit	192,015		192,015
Accounts receivable	136,923		136,923
Other receivables	432		432
Accrued interest receivable	10,349		10,349
Inventory	22,233		22,233
Prepaid expenses	13,337	668	14,005
Total current assets	1,404,893	1,792,142	3,197,035
Restricted Assets:			
Cash and investments with fiscal agent:			
Deposits for bond principal and interest payments	157,292	49,701	206,993
Total restricted assets	157,292	49,701	206,993
Property, Plant and Equipment:			
Construction in progress	83,845	87,694	171,539
Land	35,000		35,000
Easements and water rights	728,522	100,000	828,522
Plant and facilities	4,484,754	863,176	5,347,930
Less accumulated depreciation	(1,369,449)	(204,568)	(1,574,017)
Net property, plant and equipment	3,962,672	846,302	4,808,974
Other Assets:			
Bond issuance costs - net of amortization	187,238	73,419	260,657
Deposits		381,028	381,028
Total other assets	187,238	454,447	641,685
Total assets	\$ 5,712,095	\$ 3,142,592	\$ 8,854,687

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
 COMBINING BALANCE SHEET
 June 30, 2002

	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Total June 30, 2002</u>
LIABILITIES AND FUND EQUITY			
Current Liabilities:			
Accounts payable	\$ 58,837	\$ 10,845	\$ 69,682
Accruals	9,466	3,382	12,848
Customer deposits	75,810		75,810
Other deposits	313		313
Deferred revenue		60,919	60,919
Compensated absences	19,854		19,854
Total current liabilities	<u>164,280</u>	<u>75,146</u>	<u>239,426</u>
Current Liabilities Payable From Restricted Assets:			
Current portion - bonds payable	212,800	67,200	280,000
Accrued bond interest payable	14,529	4,630	19,159
Total current liabilities payable from restricted assets	<u>227,329</u>	<u>71,830</u>	<u>299,159</u>
Long-Term Debt:			
Bonds payable, less current portion	1,531,400	483,600	2,015,000
Total long-term debt	<u>1,531,400</u>	<u>483,600</u>	<u>2,015,000</u>
Total liabilities	<u>1,923,009</u>	<u>630,576</u>	<u>2,553,585</u>
Fund Equity:			
Contributed Capital:			
Subdividers/other	511,773	23,896	535,669
Retained Earnings:			
Unreserved	3,277,313	2,488,120	5,765,433
Total fund equity	<u>3,789,086</u>	<u>2,512,016</u>	<u>6,301,102</u>
Total liabilities and fund equity	<u>\$ 5,712,095</u>	<u>\$ 3,142,592</u>	<u>\$ 8,854,687</u>

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
COMBINING STATEMENT OF CHANGES IN RETAINED EARNINGS
For the Fiscal Year Ended June 30, 2002

	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Total June 30, 2002</u>
Retained earnings, beginning of fiscal year as previously reported	\$ 2,966,645	\$ 2,120,372	\$ 5,087,017
Prior period adjustments	<u>19,520</u>	<u> </u>	<u>19,520</u>
Retained earnings, beginning of fiscal year as restated	2,986,165	2,120,372	5,106,537
Depreciation on contributed capital	16,450	572	17,022
Net income	<u>274,698</u>	<u>367,176</u>	<u>641,874</u>
Retained earnings, end of fiscal year	<u><u>\$ 3,277,313</u></u>	<u><u>\$ 2,488,120</u></u>	<u><u>\$ 5,765,433</u></u>

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
COMBINING SCHEDULE OF CHANGES IN CONTRIBUTED CAPITAL
For the Fiscal Year Ended June 30, 2002

	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Total June 30, 2002</u>
Contributed capital, beginning of fiscal year	\$ 528,223	\$ 24,468	\$ 552,691
Depreciation on contributed capital	<u>(16,450)</u>	<u>(572)</u>	<u>(17,022)</u>
Contributed capital, end of fiscal year	<u>\$ 511,773</u>	<u>\$ 23,896</u>	<u>\$ 535,669</u>

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
 COMBINING STATEMENT OF REVENUES AND EXPENSES
 For the Fiscal Year Ended June 30, 2002

	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Total June 30, 2002</u>
Operating Revenues:			
Service charges	\$ 758,968	\$ 632,051	\$ 1,391,019
Total operating revenues	<u>758,968</u>	<u>632,051</u>	<u>1,391,019</u>
Operating Expenses:			
Salaries and benefits	288,726	113,324	402,050
Wastewater treatment costs		295,288	295,288
Utilities	179,523	8,072	187,595
Repairs and supplies	96,048	11,661	107,709
Professional services	91,233	35,277	126,510
Office expenses	10,392	3,484	13,876
Customers account expenses	5,752	5,641	11,393
Insurance	14,458	9,639	24,097
Other operating expenses	2,752	1,263	4,015
Depreciation	120,972	21,046	142,018
Total operating expenses	<u>809,856</u>	<u>504,695</u>	<u>1,314,551</u>
Net operating income (loss)	<u>(50,888)</u>	<u>127,356</u>	<u>76,468</u>
Non-Operating Income (Expenses):			
Bond surcharge income	329,159	104,321	433,480
Interest income	46,796	87,840	134,636
Contributed capital	83,608	87,368	170,976
Bond issuance costs	(29,561)	(11,593)	(41,154)
Interest expense	(89,940)	(28,402)	(118,342)
Other - reimbursements	430	286	716
Gain (loss) on sale of fixed assets	(14,906)		(14,906)
Total non-operating income (expenses)	<u>325,586</u>	<u>239,820</u>	<u>565,406</u>
Net income	<u>\$ 274,698</u>	<u>\$ 367,176</u>	<u>\$ 641,874</u>

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2002

	Water Utility	Sewer Utility	Total June 30, 2002
Net operating income (loss)	\$ (50,888)	\$ 127,356	\$ 76,468
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	120,972	21,046	142,018
(Increase) Decrease in Operating Assets:			
Accounts receivable	(9,035)		(9,035)
Other receivables	245		245
Inventory	244		244
Prepaid expenses	(178)		(178)
Deposits		(4,011)	(4,011)
Increase (Decrease) in Operating Liabilities:			
Accounts payable	(44,945)	(13,158)	(58,103)
Accruals	520	229	749
Customer deposits	(32,018)		(32,018)
Other deposits	(2,687)		(2,687)
Deferred revenue		(54)	(54)
Compensated absences	2,656		2,656
Net cash provided by operating activities	<u>(15,114)</u>	<u>131,408</u>	<u>116,294</u>
Cash Flows from Capital and Related Financing Activities:			
Bond surcharge income	329,159	104,321	433,480
Proceeds from sale of fixed assets	5,381		5,381
Bond interest payments	(91,422)	(28,870)	(120,292)
Bond principal payments	(197,600)	(62,400)	(260,000)
Contributed capital	83,608	87,368	170,976
Purchase of fixed assets	<u>(123,912)</u>	<u>(119,115)</u>	<u>(243,027)</u>
Net cash provided (used) for capital and related financing activities	<u>5,214</u>	<u>(18,696)</u>	<u>(13,482)</u>
Cash Flows from Non-Capital Financing Activities:			
Reimbursements	<u>430</u>	<u>286</u>	<u>716</u>
Net cash provided for non-capital financing activities	<u>430</u>	<u>286</u>	<u>716</u>
Cash Flows from Investing Activities:			
Interest income	54,255	87,840	142,095
Sale (purchase) of certificates of deposit	<u>68,027</u>		<u>68,027</u>
Net cash provided (used) for investing activities	<u>122,282</u>	<u>87,840</u>	<u>210,122</u>
Net increase in cash and cash equivalents	112,812	200,838	313,650
Cash and cash equivalents at beginning of fiscal year	<u>1,074,084</u>	<u>1,640,337</u>	<u>2,714,421</u>
Cash and cash equivalents at end of fiscal year	<u>\$ 1,186,896</u>	<u>\$ 1,841,175</u>	<u>\$ 3,028,071</u>

