

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**

**BASIC FINANCIAL STATEMENTS**

**June 30, 2003**

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT  
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June 30, 2003

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Vandenberg Village Community  
Services District  
Lompoc, California

We have audited the accompanying basic financial statements of the Vandenberg Village Community Services District, as of and for the fiscal year ended June 30, 2003, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit 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 basic 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, 2003, and the results of its operations and its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 (N) to the basic financial statements, the Vandenberg Village Community Services District adopted Government Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures, and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, effective July 1, 2002*.

The District has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

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

MOSS, LEVY & HARTZHEIM

August 28, 2003

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF NET ASSETS**  
June 30, 2003

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**ASSETS**

Current assets:

Cash on hand	\$ 400
Cash and short term investments	3,211,397
Certificates of deposit	154,292
Accounts receivable	111,116
Accrued interest receivable	16,798
Inventory	20,858
Prepaid expenses	<u>10,615</u>

Total current assets 3,525,476

Restricted assets:

Cash and investments with fiscal agent	<u>214,212</u>
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Total restricted assets 214,212

Other assets:

Bond issuance costs - net of amortization	219,791
Deposits	<u>399,467</u>

Total other assets 619,258

Capital assets

Land	35,000
Easements	200,000
Water rights	628,522
Source of supply	281,703
Pumping equipment	745,757
Treatment	167,084
Transmission and distribution	3,589,641
General plant	744,392
Construction in progress	<u>7,746</u>

6,399,845

Less: Accumulated depreciation (1,688,256)

Total capital assets (net of accumulated depreciation) 4,711,589

Total assets 9,070,535

See accompanying notes to basic financial statements.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT  
STATEMENT OF NET ASSETS  
June 30, 2003

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**LIABILITIES**

Current liabilities:

Accounts payable	\$ 66,304
Accrued payroll expenses	17,397
Compensated absences	24,633
Customer deposits	63,169
Deferred revenue	<u>62,821</u>

Total current liabilities 234,324

Current liabilities payable from restricted assets:

Current portion - bonds payable	295,000
Accrued bond interest payable	<u>16,904</u>

311,904

Noncurrent liabilities:

Bonds payable	2,015,000
Less current portion due within one year	<u>(295,000)</u>

Total noncurrent liabilities 1,720,000

Total liabilities 2,266,228

**NET ASSETS**

Invested in capital assets, net of related debt	2,696,589
Restricted for debt service	214,212
Unrestricted	<u>3,893,506</u>

Total net assets \$ 6,804,307

See accompanying notes to basic financial statements.

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
For the Fiscal Year Ended June 30, 2003

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<b>Operating Revenues:</b>	
Service charges	<u>\$ 1,478,115</u>
Total operating revenues	<u>1,478,115</u>
<b>Operating Expenses:</b>	
Salaries and benefits	423,878
Wastewater treatment costs	315,648
Utilities	188,258
Repairs and supplies	95,925
Professional services	138,808
Office expense	13,893
Customers' accounts expenses	22,213
Insurance	20,717
Other operating expenses	5,929
Depreciation	<u>141,945</u>
Total operating expenses	<u>1,367,214</u>
Net operating income	<u>110,901</u>
<b>Non-Operating Revenues (Expenses):</b>	
Bond surcharge	443,437
Investment income	102,257
Contributed capital	
Bond issuance costs	(40,864)
Interest expense	(105,678)
Other - reimbursements	240
Net gain on sale of fixed assets	<u>359</u>
Net non-operating revenues	<u>399,751</u>
Change in net assets	<u>510,652</u>
Total net assets - beginning	6,301,102
Prior year adjustment	<u>(7,447)</u>
Total net assets - beginning - restated	<u>6,293,655</u>
Total net assets - ending	<u><u>\$ 6,804,307</u></u>

See accompanying notes to basic financial statements.

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**For the Fiscal Year Ended June 30, 2003**

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<b>Cash Flows From Operating Activities</b>	
Receipts from customers and users	\$ 1,493,183
Payments to suppliers	(807,766)
Payments to employees	(414,550)
Net cash provided by operating activities	<u>270,867</u>
<b>Cash Flows from Capital and Related</b>	
<b>Financing Activities:</b>	
Bond surcharge	443,437
Interest payments	(107,933)
Bond principal payments	(280,000)
Purchase of fixed assets	(48,984)
WCRF	(18,439)
Proceeds from sale of assets	4,791
Net cash used by capital and related financing activities	<u>(7,128)</u>
<b>Cash Flows from Non-Capital and Related</b>	
<b>Financing Activities:</b>	
Other	240
Net cash provided by non-capital and related financing activities	<u>240</u>
<b>Cash Flows from Investing Activities:</b>	
Sale of certificates of deposit	38,151
Investment income	95,808
Net cash provided by investing activities	<u>133,959</u>
Net increase in cash and cash equivalents	397,938
Cash and cash equivalents, beginning of year	3,028,071
Cash and cash equivalents, end of year	<u>\$ 3,426,009</u>
<b>Reconciliation to the Statement of Net Assets:</b>	
Cash on hand	\$ 400
Cash and short term investments	3,211,397
Cash and investments with fiscal agent	214,212
	<u>\$ 3,426,009</u>

(Continued)

See accompanying notes to basic financial statements.

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**For the Fiscal Year Ended June 30, 2003**

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**Reconciliation of Operating Income to Net**

**Cash Provided by Operating Activities:**

Operating income	\$ 110,901
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	141,945

**Change in operating assets and liabilities:**

Decrease in accounts receivable	25,807
Decrease in inventory	1,374
Decrease in prepaid items	3,390
(Decrease) in accounts payable	(10,826)
Increase in accrued payroll	4,549
(Decrease) in customer deposits	(12,641)
(Decrease) in other deposits	(313)
Increase in deferred revenue	1,902
Increase in compensated absences	4,779
Net cash provided by operating activities	<u>\$ 270,867</u>

See accompanying notes to basic financial statements.

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2003

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

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VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2003

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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 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 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.
- 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 - Fixed assets purchased by the District are recorded at cost. Contributed or donated fixed assets are recorded at fair value when acquired.
- F. Depreciation - Fixed 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 BASIC FINANCIAL STATEMENTS  
 June 30, 2003

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Amortization of Issuance Costs - The costs of issuance of bonds are being amortized on the straight line method over the life of the bonds.

M. 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.

N. New Accounting Pronouncements

*GASB Statement Nos. 34 and 37*

In June 1999 and in June 2001, the GASB issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* and Statement No. 37; *Basic Financial Statements – and Management’s Discussion and Analysis - for State and Local Governments – Omnibus*, respectively. These statements provide for the most significant change in financial reporting in over twenty years and are scheduled for a phased implementation (based on size of government) starting with fiscal year ending 2002.

*GASB Statement No. 38*

In June 2001, the GASB issued Statement No. 38, *Certain Financial Statement Note Disclosures*. This statement modifies, adds and deletes various note disclosures requirements. Those requirements address revenue recognition policies, actions taken in response to legal violations, debt service requirements, variable-rate debt, receivable and payable balances, interfund transfers and balances, and short-term debt.

The District has elected to early implement GASB Statement Nos. 34, 37, and 38 and these statements are presented according to those requirements.

NOTE 3 - CASH AND INVESTMENTS

Investments are carried at fair value in accordance with GASB Statement No. 31. On June 30, 2003, the District had the following cash and investments on hand:

Cash on hand	\$ 400
Cash in checking accounts	112,312
Cash in savings accounts	205,723
Cash and investments with County of Santa Barbara	1,616,491
Cash and investments in Local Agency Investment Fund (LAIF)	1,276,871
Certificates of deposit	154,292
Cash and investments with fiscal agent	<u>214,212</u>
Cash and investments	<u>\$ 3,580,301</u>

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 June 30, 2003

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

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

Cash on hand	\$ 400
Cash in bank and short-term investments	3,211,397
Restricted cash and investments with fiscal agent	214,212
Certificates of deposit	<u>154,292</u>
	<u>\$ 3,580,301</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.

At June 30, 2003, the carrying amount of the District's deposits was \$318,435. The bank's balance was \$342,047. This difference is due to the normal deposits in transit and outstanding checks. District cash deposits by category as of June 30, 2003, are as follows:

	<u>Category</u>			<u>Bank Balance</u>	<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash on hand	\$ 400	\$ -	\$ -	\$ 400	\$ 400
Bank accounts	<u>100,000</u>	<u>241,647</u>	<u>-</u>	<u>341,647</u>	<u>318,035</u>
	<u>\$ 100,400</u>	<u>\$ 241,647</u>	<u>\$ -</u>	<u>\$ 342,047</u>	<u>\$ 318,435</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.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 June 30, 2003

NOTE 3 - CASH AND INVESTMENTS (Continued)

District investments by category as of June 30, 2003, are as follows:

	<u>Category</u>			<u>Fair Value/</u>	<u>Cost</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Carrying Amount</u>	
<b>Investments Controlled by the District:</b>					
Local Agency Investment Fund (State Pool)	\$ N/A	\$ N/A	\$ N/A	\$ 1,276,871	\$ 1,273,247
Cash and investments with County of Santa Barbara	N/A	N/A	N/A	1,616,491	1,607,951
Certificates of deposit	<u>126,072</u>	<u>28,220</u>		<u>154,292</u>	<u>154,292</u>
Total investments controlled by District	<u>126,072</u>	<u>28,220</u>	<u>-</u>	<u>3,047,654</u>	<u>3,035,490</u>
<b>Amounts Invested by Fiscal Agents:</b>					
Money market funds	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>214,212</u>	<u>214,212</u>
Total invested by fiscal agents				<u>214,212</u>	<u>214,212</u>
Total investments	<u>\$ 126,072</u>	<u>\$ 28,220</u>	<u>\$ -</u>	<u>\$ 3,261,866</u>	<u>\$ 3,249,702</u>

NOTE 4 - RESTRICTED ASSETS

For the fiscal year ended June 30, 2003, 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>\$ 162,800</u>	<u>\$ 51,412</u>	<u>\$ 214,212</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.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 June 30, 2003

**NOTE 5 - SCHEDULE OF CAPITAL ASSETS**

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2003, is shown below:

	Balance <u>July 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2003</u>
Construction in progress	\$ 171,539	\$ 7,923	\$ 171,716	\$ 7,746
Land	35,000			35,000
Easements and water rights	828,522			828,522
Plant and facilities	<u>5,347,930</u>	<u>212,777</u>	<u>32,130</u>	<u>5,528,577</u>
	6,382,991	220,700	203,846	6,399,845
Accumulated depreciation	<u>1,574,017</u>	<u>141,945</u>	<u>27,706</u>	<u>1,688,256</u>
Net capital assets	<u>\$ 4,808,974</u>	<u>\$ 78,755</u>	<u>\$ 176,140</u>	<u>\$ 4,711,589</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, 2003, the reserve balance was \$327,466, 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.

**NOTE 7 - DEFERRED REVENUES**

Deferred revenues consist of sewer fees paid in advance by the District's customers in the amount of \$62,821 for the fiscal year ended June 30, 2003.

**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, 2003 is \$1,730,000.

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.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 June 30, 2003

**NOTE 8 - DEFEASED DEBT (Continued)**

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, 2003, is \$730,000.

**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 2009. The bonds mature as follows:

Fiscal Year Ending	Principal Maturities	Interest	Total Debt Service
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
2008	360,000	29,765	389,765
2009	<u>385,000</u>	<u>10,203</u>	<u>395,203</u>
	<u>\$ 2,015,000</u>	<u>\$ 326,403</u>	<u>\$ 2,341,403</u>

**NOTE 10 - 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, 2003, was as follows:

	Water Utility Fund	Sewer Utility Fund	Total Enterprise Funds
Operating revenues	\$ 804,305	\$ 673,810	\$ 1,478,115
Operating expenses	\$ 822,934	\$ 544,280	\$ 1,367,214
Operating income (loss)	\$ (18,629)	\$ 129,530	\$ 110,901
Non-operating income	\$ 262,898	\$ 136,853	\$ 399,751
Net income	\$ 244,269	\$ 266,383	\$ 510,652
Property, plant & equipment additions	\$ 46,247	\$ 2,737	\$ 48,984
Net working capital	\$ 1,364,327	\$ 1,926,825	\$ 3,291,152
Total assets	\$ 5,720,988	\$ 3,349,547	\$ 9,070,535
Bonds and other long-term Liabilities:			
Payable from operating revenues	\$ 1,307,200	\$ 412,800	\$ 1,720,000
Total net assets	\$ 4,025,908	\$ 2,778,399	\$ 6,804,307

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 June 30, 2003

**NOTE 11 - 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 2003, the District's annual pension cost was \$0 and the District actually contributed \$0. The required contribution for fiscal year 2003 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, 2001 was 20 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
6/30/01	\$ 0	100%	\$ 0
6/30/02	\$ 0	100%	\$ 0
6/30/03	\$ 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
6/30/99	\$ 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%)
6/30/01	\$ 561,265	\$ 771,271	\$ (210,006)	137.4%	\$ 272,021	(77.202%)

**NOTE 12 - 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 13 - PRIOR YEAR ADJUSTMENTS**

A prior period adjustment of \$(7,447) was made in the Water Fund for the fiscal year ended June 30, 2003, to correct the prior year fund balance for PG&E charges billed to the District in April of 2003. These charges were erroneously omitted from the District's March 2003 billing from the PG&E.

**SUPPLEMENTARY INFORMATION**

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

June 30, 2003

With Comparative Totals for June 30, 2002

	ENTERPRISE FUNDS			Totals 2002
	Water Fund	Sewer Fund	Totals	
<b>ASSETS</b>				
Current assets:				
Cash on hand	\$ 400	\$ -	\$ 400	\$ 400
Cash and short term investments	1,201,081	2,010,316	3,211,397	2,820,678
Certificates of deposit	154,292		154,292	192,015
Accounts receivable	111,116		111,116	136,923
Other receivables				432
Accrued interest receivable	16,798		16,798	10,349
Inventory	20,858		20,858	22,233
Prepaid expenses	10,615		10,615	14,005
Total current assets	<u>1,515,160</u>	<u>2,010,316</u>	<u>3,525,476</u>	<u>3,197,035</u>
Restricted assets:				
Cash with fiscal agent	<u>162,800</u>	<u>51,412</u>	<u>214,212</u>	<u>206,993</u>
Total restricted assets	<u>162,800</u>	<u>51,412</u>	<u>214,212</u>	<u>206,993</u>
Other assets:				
Bond issuance costs - net of amortization	158,017	61,774	219,791	260,657
Deposits		<u>399,467</u>	<u>399,467</u>	<u>381,028</u>
Total other assets	<u>158,017</u>	<u>461,241</u>	<u>619,258</u>	<u>641,685</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
Source of supply	281,703		281,703	
Pumping equipment	596,958	148,799	745,757	
Treatment	167,084		167,084	
Transmission and distribution	2,888,017	701,624	3,589,641	5,347,930
General plant	641,508	102,884	744,392	
Construction in progress	7,746		7,746	171,539
	<u>5,346,538</u>	<u>1,053,307</u>	<u>6,399,845</u>	<u>6,382,991</u>
Less: Accumulated depreciation	<u>(1,461,527)</u>	<u>(226,729)</u>	<u>(1,688,256)</u>	<u>(1,574,017)</u>
Total capital assets (net accumulated depreciation)	<u>3,885,011</u>	<u>826,578</u>	<u>4,711,589</u>	<u>4,808,974</u>
Total assets	<u>5,720,988</u>	<u>3,349,547</u>	<u>9,070,535</u>	<u>8,854,687</u>

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**

June 30, 2003

With Comparative Totals for June 30, 2002

	ENTERPRISE FUNDS			Totals 2002
	Water Fund	Sewer Fund	Totals 2003	
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 50,315	\$ 15,989	\$ 66,304	\$ 69,682
Accrued payroll expenses	12,716	4,681	17,397	12,848
Compensated absences	24,633		24,633	19,854
Customer deposits	63,169		63,169	75,810
Other deposit				313
Deferred revenue		62,821	62,821	60,919
Total current liabilities	<u>150,833</u>	<u>83,491</u>	<u>234,324</u>	<u>239,426</u>
Current liabilities payable from restricted assets:				
Current portion - bonds payable	224,200	70,800	295,000	280,000
Accrued bond interest payable	12,847	4,057	16,904	19,159
	<u>237,047</u>	<u>74,857</u>	<u>311,904</u>	<u>299,159</u>
Noncurrent liabilities:				
Bonds payable	1,531,400	483,600	2,015,000	2,295,000
Less current portion due within one year	(224,200)	(70,800)	(295,000)	(280,000)
Total noncurrent liabilities	<u>1,307,200</u>	<u>412,800</u>	<u>1,720,000</u>	<u>2,015,000</u>
Total liabilities	<u>1,695,080</u>	<u>571,148</u>	<u>2,266,228</u>	<u>2,553,585</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	2,353,611	272,178	2,625,789	2,513,974
Restricted for debt service	162,800	51,412	214,212	206,993
Unrestricted	1,509,497	2,454,809	3,964,306	3,580,135
Total net assets	<u>\$ 4,025,908</u>	<u>\$ 2,778,399</u>	<u>\$ 6,804,307</u>	<u>\$ 6,301,102</u>

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

For the Fiscal Year Ended June 30, 2003

With Comparative Totals for the Fiscal Year Ended June 30, 2002

	ENTERPRISE FUNDS			Totals 2002
	Water Fund	Sewer Fund	Totals 2003	
<b>Operating Revenues:</b>				
Service charges	\$ 804,305	\$ 673,810	\$ 1,478,115	\$ 1,391,019
<b>Total operating revenues</b>	<b>804,305</b>	<b>673,810</b>	<b>1,478,115</b>	<b>1,391,019</b>
<b>Operating Expenses:</b>				
Salaries and benefits	299,311	124,567	423,878	402,050
Wastewater treatment costs		315,648	315,648	295,288
Utilities	180,524	7,734	188,258	187,595
Repairs and supplies	84,554	11,371	95,925	107,709
Professional services	100,780	38,028	138,808	126,510
Office expense	10,754	3,139	13,893	13,876
Customers' accounts expenses	11,155	11,058	22,213	11,393
Insurance	12,430	8,287	20,717	24,097
Other operating expenses	3,912	2,017	5,929	4,015
Depreciation	119,514	22,431	141,945	142,018
<b>Total operating expenses</b>	<b>822,934</b>	<b>544,280</b>	<b>1,367,214</b>	<b>1,314,551</b>
<b>Net operating income (loss)</b>	<b>(18,629)</b>	<b>129,530</b>	<b>110,901</b>	<b>76,468</b>
<b>Non-Operating Revenues (Expenses):</b>				
Bond surcharge	337,918	105,519	443,437	433,480
Investment income	33,917	68,340	102,257	134,636
Contributed capital				170,976
Bond issuance costs	(29,219)	(11,645)	(40,864)	(41,154)
Interest expense	(80,347)	(25,331)	(105,678)	(118,342)
Other - reimbursements	240		240	716
Net gain (loss) on sale of fixed assets	389	(30)	359	(14,906)
<b>Total non-operating revenues (expenses)</b>	<b>262,898</b>	<b>136,853</b>	<b>399,751</b>	<b>565,406</b>
<b>Change in net assets</b>	<b>244,269</b>	<b>266,383</b>	<b>510,652</b>	<b>641,874</b>
<b>Total net assets - beginning</b>	<b>3,789,086</b>	<b>2,512,016</b>	<b>6,301,102</b>	<b>5,639,708</b>
<b>Prior year adjustment</b>	<b>(7,447)</b>		<b>(7,447)</b>	<b>19,520</b>
<b>Total net assets - beginning - restated</b>	<b>3,781,639</b>	<b>2,512,016</b>	<b>6,293,655</b>	<b>5,659,228</b>
<b>Total net assets - ending</b>	<b>\$ 4,025,908</b>	<b>\$ 2,778,399</b>	<b>\$ 6,804,307</b>	<b>\$ 6,301,102</b>

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
For the Fiscal Year Ended June 30, 2003  
With Comparative Totals for the Fiscal Year Ended June 30, 2002

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			
	Water Fund	Sewer Fund	Totals 2003	Totals 2002
<b>Cash Flows From Operating Activities</b>				
Receipts from customers and users	\$ 817,471	\$ 675,712	\$ 1,493,183	\$ 1,347,470
Payments to suppliers	(416,296)	(391,470)	(807,766)	(828,520)
Payments to employees	(291,282)	(123,268)	(414,550)	(402,656)
Net cash provided (used) by operating activities	<u>109,893</u>	<u>160,974</u>	<u>270,867</u>	<u>116,294</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Bond surcharge	337,918	105,519	443,437	433,480
Interest payments	(82,029)	(25,904)	(107,933)	(120,292)
Bond principal payments	(212,800)	(67,200)	(280,000)	(260,000)
Purchase of fixed assets	(46,247)	(2,737)	(48,984)	(243,027)
Contributed capital				170,976
WCRF		(18,439)	(18,439)	
Proceeds from sale of assets	4,791		4,791	5,381
Net cash provided by capital and related financing activities	<u>1,633</u>	<u>(8,761)</u>	<u>(7,128)</u>	<u>(13,482)</u>
<b>Cash Flows from Non-Capital and Related Financing Activities:</b>				
Other	240		240	716
Net cash provided (used) by non-capital and related financing activities	<u>240</u>		<u>240</u>	<u>716</u>
<b>Cash Flows from Investing Activities:</b>				
Sale of certificates of deposit	38,151		38,151	142,095
Investment income	27,468	68,340	95,808	68,027
Net cash provided by investing activities	<u>65,619</u>	<u>68,340</u>	<u>133,959</u>	<u>210,122</u>
Net increase in cash and cash equivalents	177,385	220,553	397,938	313,650
Cash and cash equivalents, beginning of year	1,186,896	1,841,175	3,028,071	2,714,421
Cash and cash equivalents, end of year	<u>\$ 1,364,281</u>	<u>\$ 2,061,728</u>	<u>\$ 3,426,009</u>	<u>\$ 3,028,071</u>

(Continued)

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

For the Fiscal Year Ended June 30, 2003

With Comparative Totals for the Fiscal Year Ended June 30, 2002

	ENTERPRISE FUNDS			
	Water Fund	Sewer Fund	Totals 2003	Totals 2002
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used in) Operating Activities:</b>				
Operating income (loss)	\$ (18,629)	\$ 129,530	\$ 110,901	\$ 76,468
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	119,514	22,431	141,945	142,018
<b>Change in operating assets and liabilities:</b>				
(Increase) decrease in accounts receivable	25,807		25,807	(9,035)
(Increase) decrease in other receivables				245
Decrease in inventory	1,374		1,374	244
Decrease in prepaid items	2,722	668	3,390	(178)
(Increase) decrease in deposits				(4,011)
Increase (decrease) in accounts payable	(15,970)	5,144	(10,826)	(58,103)
Increase in accrued payroll	3,250	1,299	4,549	749
Increase (decrease) in customer deposits	(12,641)		(12,641)	(32,018)
Increase (decrease) in other deposits	(313)		(313)	(2,687)
Increase (decrease) in deferred revenue		1,902	1,902	(54)
(Decrease) in compensated absences	4,779		4,779	2,656
Net cash provided (used) by operating activities	<u>\$ 109,893</u>	<u>160,974</u>	<u>\$ 270,867</u>	<u>116,294</u>