

**VANDENBERG VILLAGE COMMUNITY  
SERVICES DISTRICT**

BASIC FINANCIAL STATEMENTS  
June 30, 2005

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**

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June 30, 2005

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**FINANCIAL SECTION**



# MOSS, LEVY & HARTZHEIM

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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, 2005, 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. 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 business-type activities and each major fund of the Vandenberg Village Community Services District, as of June 30, 2005, and the respective changes in financial position and cash flows where applicable, there of, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 2 through 5 is not a required part of the basic financial statements but is a supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

MOSS, LEVY & HARTZHEIM

August 17, 2005

## MANAGEMENT DISCUSSION AND ANALYSIS

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, 2005. The information presented here should be considered in conjunction with additional information within the body of the audited financial statements.

## HISTORY AND BUSINESS

Vandenberg Village Community Services District was established in 1983, as a local Government agency under California Government Code Section 61000, et seq., for the purpose of providing water and wastewater services to the community of Vandenberg Village, an unincorporated area of Santa Barbara County north of Lompoc. It is governed by a Board of five locally-elected directors.

## 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

- Combined net assets were \$7,220,556 on June 30, 2005. This was an increase of \$296,442 for the fiscal year. This increase is the combination of a \$180,104 increase in the Water Fund and a \$116,338 increase in the Wastewater Fund.
- Combined revenue was \$2,315,409, which primarily consisted of Water Sales and Service Charges, Wastewater Service Charges, and Bond Charges. It also included \$161,063 in Developer Connection Fees.
- \$1,174,800 was paid (out of reserves) to the City of Lompoc for the District's 17.8% share of the planning, design, and construction management of the state-mandated Lompoc Regional Wastewater Reclamation Plant upgrade project. By paying this lump sum up front, the District was able to avoid becoming indebted with a new 30-year bond and the corresponding \$1.2 million in interest payments.
- Due to increasing interest rates, interest income rose \$54,321, a 116% increase over the previous fiscal year.
- In 1988, \$5.4 million in revenue bonds were issued to cover the purchase of the water and wastewater facilities from Park Water Company. The debt service principal paid during the fiscal year ended June 30, 2005 was \$310,000. The remaining principal balance due on the bonds is \$1,410,000. These bonds are scheduled to be paid off in 2008; however, the District is planning to pay them off three years early.

## OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are followed by notes to the basic financial statements.

**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 fund data.

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 revenues, expenses, and changes in net assets presents information showing how net assets changed during the fiscal year. Changes in net assets are reported when the event causing the change occurs (i.e. an expense that is incurred on June 30<sup>th</sup>, but is paid for in July, is reported as a decrease to net assets in June).

The statement of cash flows 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).

The government-wide financial statements can be found on pages 6 – 9 of this report.

**Notes to basic financial statements.** The notes provide additional information for a more complete understanding of the data provided in the basic financial statements. The notes to basic financial statements can be found on pages 15 – 24 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a the District’s financial position. Assets exceeded liabilities by \$7.2 million as of June 30, 2005.

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.

The District’s financial position results from operating activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

### Net Assets

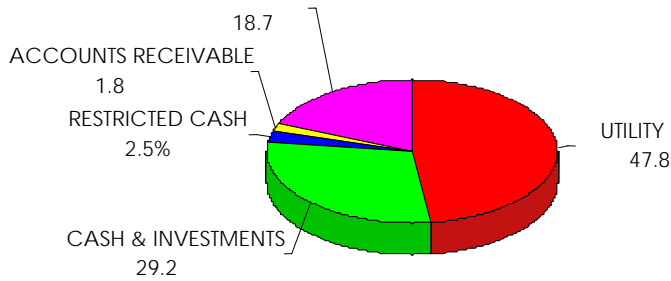
A quick comparison as of June 30, 2005 and June 30, 2004:

	6/30/2005	6/30/2004	Variance
Current assets	2,817,776	3,640,567	(822,791)
Noncurrent assets	6,153,194	5,273,172	880,022
<b>Total assets</b>	<b>8,970,970</b>	<b>8,913,739</b>	<b>57,231</b>
Current liabilities	660,414	579,625	80,789
Noncurrent liabilities	1,090,000	1,410,000	(320,000)
<b>Total liabilities</b>	<b>1,750,414</b>	<b>1,989,625</b>	<b>(239,211)</b>
<b>Total net assets</b>	<b>7,220,556</b>	<b>6,924,114</b>	<b>296,442</b>

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

- The \$1,174,800 up-front payment for the Lompoc Regional Wastewater Reclamation Plant upgrade project decreased current assets and increased noncurrent assets.
- Accumulated depreciation was adjusted to correct purchase dates and prorated life years for 21 assets on the depreciation schedule. This entry decreased noncurrent assets by \$198,223.
- Regular straight-line depreciation for the fiscal year ended June 20, 2005 decreased noncurrent assets by \$149,591.
- Amortization of bond issuance costs decreased noncurrent assets by \$41,156.
- Of the Bonds payable, \$320,000 moved into the current portion due within one year, decreasing noncurrent liabilities.

The following chart depicts asset categories.



### Revenues, Expenses, and Changes in Net Assets

A summary of revenue and expenses, by fund, for the fiscal year ended June 30, 2005 ...

	Water	Wastewater	Total
Operating revenues	1,016,184	750,184	1,766,368
Nonoperating revenues	369,338	179,703	549,041
Operating expenses	970,164	728,001	1,698,165
Nonoperating expenses	92,413	30,166	122,579
Change in net assets	322,945	171,720	494,665

A summary of revenues and expenses, by category, for the fiscal year ended June 30, 2005:

	Actual	Budget	Variance	% Variance
Operating revenue	1,766,368	1,596,253	170,115	11%
Nonoperating revenue	549,041	526,700	22,341	4%
Operating expense	1,698,165	1,738,180	(40,015)	(2%)
Nonoperating expense	122,579	118,800	3,779	3%
Change in net assets	494,665	265,973	228,692	86%

The following are significant current fiscal year transactions that have had an impact on the Statement of Revenues, Expenses, and Changes in Net Assets:

- Operating revenues and change in net assets include \$161,063 in restricted revenue (Developer Connection Fees).
- Due to increasing interest rates, interest income was \$20,396 more than projected.
- Wastewater treatment costs were \$47,144 over budget, primarily due to the under-billing of \$46,447 by the City of Lompoc for fiscal year 2003/2004.
- Water and Wastewater revenues exceeded projections.
- Total expenses were within budget.

## **ECONOMIC OUTLOOK**

The District experienced both increases in net assets and revenues for the fiscal year, without any significant changes from budgeted expenses. Overall, the District's financial condition remains sound.

Wastewater treatment expenses are increasing. This fiscal year, 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 2008, (after the project is complete and the City of Lompoc begins to repay the State Revolving Fund loan for the project) monthly wastewater operating expenses will increase. This will necessitate increasing our wastewater collection service charges to our customers to generate sufficient revenues to cover these expenses. The District plans to "ramp-up" the wastewater rate between now and July 2008, to replenish its reserves and reduce "rate-shock" to the customers.

The District adopted a 15-year strategic plan on May 10, 2005. It consists of 16 goals with an estimated cost of \$6.9 million. This plan was used during the budget and rate-setting processes for fiscal year 2005/2006, and will be used in the future.

The District is seeking grant funds under the Proposition 50 (the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002), to assist in funding capital improvements. Three requests are pending approval at the State level. The grants are reimbursable, meaning that the District must budget for the full cost of the project and would be reimbursed after project completion.

- \$55,000 for a pilot study to improve water quality (Department of Health Services)
- \$60,000 to replace the SCADA system (Department of Health Services)
- \$2,100,000 to construct treatment plant improvements (Department of Water Resources)

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF NET ASSETS**  
June 30, 2005

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**ASSETS**

Current assets:

Cash on hand	\$ 400
Cash and short term investments	2,594,442
Certificates of deposit	28,358
Accounts receivable	143,404
Other receivables	107
Accrued interest receivable	14,925
Inventory	21,754
Prepaid expenses	<u>14,386</u>
 Total current assets	 <u>2,817,776</u>

Restricted assets:

Cash and investments with fiscal agent	<u>226,846</u>
 Total restricted assets	 <u>226,846</u>

Other assets:

Bond issuance costs - net of accumulated amortization	137,479
Deposits	<u>1,497,677</u>
 Total other assets	 <u>1,635,156</u>

Capital assets

Land	35,000
Easements	200,000
Water rights	628,522
Source of supply	277,219
Pumping equipment	745,757
Treatment	169,474
Transmission and distribution	3,629,536
General plant	753,460
Construction in progress	<u>145,654</u>

6,584,622

Less: Accumulated depreciation	<u>(2,293,430)</u>
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Total capital assets - net of accumulated depreciation	<u>4,291,192</u>
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Total assets	<u>8,970,970</u>
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See accompanying notes to basic financial statements.

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF NET ASSETS**  
June 30, 2005

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**LIABILITIES**

Current liabilities:

Accounts payable	\$ 123,862
Accrued payroll expenses	37,628
Compensated absences	47,941
Customer deposits	52,355
Deferred revenue	<u>66,566</u>

Total current liabilities 328,352

Current liabilities payable from restricted assets:

Current portion - bonds payable	320,000
Accrued bond interest payable	<u>12,062</u>

332,062

Noncurrent liabilities:

Bonds payable	1,410,000
Less current portion due within one year	<u>(320,000)</u>

Total noncurrent liabilities 1,090,000

Total liabilities 1,750,414

**NET ASSETS**

Invested in capital	
assets, net of related debt	3,018,671
Restricted for debt service	214,784
Unrestricted	<u>3,987,101</u>

Total net assets \$ 7,220,556

See accompanying notes to basic financial statements.

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF ACTIVITIES**  
For the Fiscal Year Ended June 30, 2005

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<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Business-type activities:				
Water	\$ 1,062,577	\$ 1,354,692	\$ -	\$ -
Sewer	<u>758,167</u>	<u>859,621</u>	<u>                    </u>	<u>                    </u>
Total business-type activities	<u>\$ 1,820,744</u>	<u>\$ 2,214,313</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

    Investment earnings

        Change in net assets

Net assets - beginning of fiscal year

Prior year adjustments

Net assets - beginning of fiscal year - restated

Net assets - end of fiscal year

See accompanying notes to basic financial statements.

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**Net (Expense)  
Revenue and  
Changes in  
Net Assets**

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\$ 292,115  
101,454  
393,569

101,096  
494,665  
6,924,114  
(198,223)  
6,725,891  
\$ 7,220,556

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

June 30, 2005

With Comparative Totals for June 30, 2004

	ENTERPRISE FUNDS			Totals 2004
	Water Fund	Sewer Fund	Totals 2005	
<b>ASSETS</b>				
Current assets:				
Cash on hand	\$ 400	\$ -	\$ 400	\$ 400
Cash and short term investments	1,586,959	1,007,483	2,594,442	3,430,225
Certificates of deposit	28,358		28,358	27,193
Accounts receivable	143,404		143,404	141,362
Other receivables	107		107	959
Accrued interest receivable	14,925		14,925	12,610
Inventory	21,754		21,754	20,782
Prepaid expenses	14,386		14,386	7,036
Total current assets	1,810,293	1,007,483	2,817,776	3,640,567
Restricted assets:				
Cash and investments with fiscal agent	172,403	54,443	226,846	221,613
Total restricted assets	172,403	54,443	226,846	221,613
Other assets:				
Bond issuance costs - net of accumulated amortization	98,890	38,589	137,479	178,635
Deposits		1,497,677	1,497,677	409,806
Total other assets	98,890	1,536,266	1,635,156	588,441
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	277,219		277,219	277,838
Pumping equipment	596,958	148,799	745,757	745,757
Treatment	169,474		169,474	167,084
Transmission and distribution	2,888,017	741,519	3,629,536	3,589,641
General plant	648,825	104,635	753,460	755,376
Construction in progress	32,779	112,875	145,654	24,027
	5,376,794	1,207,828	6,584,622	6,423,245
Less: Accumulated depreciation	(1,944,553)	(348,877)	(2,293,430)	(1,960,127)
Total capital assets - net of accumulated depreciation	3,432,241	858,951	4,291,192	4,463,118
Total assets	5,513,827	3,457,143	8,970,970	8,913,739

See accompanying notes to basic financial statements.

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**

June 30, 2005

With Comparative Totals for June 30, 2004

	ENTERPRISE FUNDS			
	Water Fund	Sewer Fund	Totals 2005	Totals 2004
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 56,648	\$ 67,214	\$ 123,862	\$ 83,248
Accrued payroll expenses	30,651	6,977	37,628	20,914
Compensated absences	47,941		47,941	34,665
Customer deposits	52,355		52,355	51,724
Deferred revenue		66,566	66,566	64,506
Total current liabilities	<u>187,595</u>	<u>140,757</u>	<u>328,352</u>	<u>255,057</u>
Current liabilities payable from restricted assets:				
Current portion - bonds payable	243,200	76,800	320,000	310,000
Accrued bond interest payable	9,167	2,895	12,062	14,568
	<u>252,367</u>	<u>79,695</u>	<u>332,062</u>	<u>324,568</u>
Noncurrent liabilities:				
Bonds payable	1,071,600	338,400	1,410,000	1,720,000
Less current portion due within one year	<u>(243,200)</u>	<u>(76,800)</u>	<u>(320,000)</u>	<u>(310,000)</u>
Total noncurrent liabilities	<u>828,400</u>	<u>261,600</u>	<u>1,090,000</u>	<u>1,410,000</u>
Total liabilities	<u>1,268,362</u>	<u>482,052</u>	<u>1,750,414</u>	<u>1,989,625</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	2,459,531	559,140	3,018,671	2,921,753
Restricted for debt service	163,236	51,548	214,784	207,045
Unrestricted	<u>1,622,698</u>	<u>2,364,403</u>	<u>3,987,101</u>	<u>3,795,316</u>
Total net assets	<u>\$ 4,245,465</u>	<u>\$ 2,975,091</u>	<u>\$ 7,220,556</u>	<u>\$ 6,924,114</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, 2005

With Comparative Totals for the Fiscal Year Ended June 30, 2004

	ENTERPRISE FUNDS			
	Water Fund	Sewer Fund	Totals 2005	Totals 2004
<b>Operating Revenues:</b>				
Service charges	\$ 1,016,184	\$ 750,184	\$ 1,766,368	\$ 1,490,301
Total operating revenues	1,016,184	750,184	1,766,368	1,490,301
<b>Operating Expenses:</b>				
Salaries and benefits	453,713	201,157	654,870	611,890
Wastewater treatment costs		437,144	437,144	376,855
Utilities	169,346	6,448	175,794	187,024
Repairs and supplies	121,229	16,732	137,961	124,881
Professional services	31,200	8,928	40,128	35,352
Office expense	3,257	163	3,420	5,302
Customers' accounts expenses	14,458	11,187	25,645	21,072
Insurance	14,429	8,354	22,783	22,112
Other operating expenses	36,140	14,689	50,829	61,978
Depreciation	126,392	23,199	149,591	138,378
Total operating expenses	970,164	728,001	1,698,165	1,584,844
Net operating income (loss)	46,020	22,183	68,203	(94,543)
<b>Non-Operating Revenues (Expenses):</b>				
Bond surcharge	338,508	109,437	447,945	443,651
Investment income	30,830	70,266	101,096	46,775
Bond issuance costs	(29,563)	(11,593)	(41,156)	(41,156)
Interest expense	(58,815)	(18,573)	(77,388)	(92,080)
Net loss on sale of capital assets	(4,035)		(4,035)	(1,051)
Total non-operating revenues (expenses)	276,925	149,537	426,462	356,139
Change in net assets	322,945	171,720	494,665	261,596
Total net assets - beginning	4,065,361	2,858,753	6,924,114	6,804,307
Prior year adjustments	(142,841)	(55,382)	(198,223)	(141,789)
Total net assets - beginning - restated	3,922,520	2,803,371	6,725,891	6,662,518
Total net assets - ending	\$ 4,245,465	\$ 2,975,091	\$ 7,220,556	\$ 6,924,114

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, 2005  
With Comparative Totals for the Fiscal Year Ended June 30, 2004

	ENTERPRISE FUNDS			
	Water Fund	Sewer Fund	Totals 2005	Totals 2004
<b>Cash Flows From Operating Activities:</b>				
Receipts from customers and users	\$ 1,015,625	\$ 752,244	\$ 1,767,869	\$ 1,450,295
Payments to suppliers	(398,816)	(1,558,893)	(1,957,709)	(814,936)
Payments to employees	(426,208)	(198,672)	(624,880)	(598,341)
Net cash provided (used) by operating activities	<u>190,601</u>	<u>(1,005,321)</u>	<u>(814,720)</u>	<u>37,018</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Bond surcharge	338,508	109,437	447,945	443,651
Interest payments	(60,720)	(19,174)	(79,894)	(94,416)
Bond principal payments	(235,600)	(74,400)	(310,000)	(295,000)
Purchase of capital assets	(27,153)	(152,770)	(179,923)	(32,747)
WCRF - deposit		8,426	8,426	(10,339)
Net cash provided (used) by capital and related financing activities	<u>15,035</u>	<u>(128,481)</u>	<u>(113,446)</u>	<u>11,149</u>
<b>Cash Flows from Investing Activities:</b>				
Sale (Purchase) of certificates of deposit	(1,165)		(1,165)	127,099
Investment income	28,515	70,266	98,781	50,963
Net cash provided (used) by investing activities	<u>27,350</u>	<u>70,266</u>	<u>97,616</u>	<u>178,062</u>
Net increase (decrease) in cash and cash equivalents	232,986	(1,063,536)	(830,550)	226,229
Cash and cash equivalents, beginning of fiscal year	<u>1,526,776</u>	<u>2,125,462</u>	<u>3,652,238</u>	<u>3,426,009</u>
Cash and cash equivalents, end of fiscal year	<u>\$ 1,759,762</u>	<u>\$ 1,061,926</u>	<u>\$ 2,821,688</u>	<u>\$ 3,652,238</u>
<b>Reconciliation to Statement of Net Assets:</b>				
Cash on hand	\$ 400	\$ -	\$ 400	\$ 400
Cash and short term investments	1,586,959	1,007,483	2,594,442	3,430,225
Cash and investments with fiscal agent	172,403	54,443	226,846	221,613
	<u>\$ 1,759,762</u>	<u>\$ 1,061,926</u>	<u>\$ 2,821,688</u>	<u>\$ 3,652,238</u>

(Continued)

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
For the Fiscal Year Ended June 30, 2005  
With Comparative Totals for the Fiscal Year Ended June 30, 2004

	ENTERPRISE FUNDS			
	Water Fund	Sewer Fund	Totals 2005	Totals 2004
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>				
Operating income (loss)	\$ 46,020	\$ 22,183	\$ 68,203	\$ (94,543)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	126,392	23,199	149,591	138,378
<b>Change in Operating Assets and Liabilities:</b>				
(Increase) decrease in accounts receivable	(2,042)		(2,042)	(30,246)
(Increase) decrease in other receivables	852		852	(959)
(Increase) decrease in inventory	(972)		(972)	76
(Increase) decrease in prepaid items	(7,350)		(7,350)	3,579
(Increase) decrease in deposits		(1,096,297)	(1,096,297)	
Increase (decrease) in accounts payable	(435)	41,049	40,614	16,944
Increase (decrease) in accrued payroll	14,229	2,485	16,714	3,517
Increase (decrease) in customer deposits	631		631	(11,445)
Increase (decrease) in deferred revenue		2,060	2,060	1,685
Increase (decrease) in compensated absences	13,276		13,276	10,032
Net cash provided (used) by operating activities	<u>\$ 190,601</u>	<u>(1,005,321)</u>	<u>\$ (814,720)</u>	<u>37,018</u>

See accompanying notes to basic financial statements.

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2005

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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, 2005

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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*, 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 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 - 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 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, 2005

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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. 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 statement 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 revenue 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.

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2005

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

O. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the AICPA, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 3 - CASH AND INVESTMENTS**

Investments are carried at fair value in accordance with GASB Statement No. 31. On June 30, 2005, the District had the following cash and investments on hand:

Cash on hand	\$ 400
Cash in checking accounts	57,724
Cash in savings accounts	453,231
Cash and investments with County of Santa Barbara	1,798,406
Cash and investments in Local Agency Investment Fund (LAIF)	285,081
Certificates of deposit	28,358
Cash and investments with fiscal agent	<u>226,846</u>
Cash and investments	<u>\$ 2,850,046</u>

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	2,594,442
Restricted cash and investments with fiscal agent	226,846
Certificates of deposit	<u>28,358</u>
	<u>\$ 2,850,046</u>

Investments Authorized by the California Government Code

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

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

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2005

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

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by the provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the **investment types** that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
Money Market Mutual Funds	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 (including investments held by bond trustees) 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	\$ 1,798,406	\$ 1,798,406	\$ -	\$ -	\$ -
Certificates of deposit	28,358	28,358			
LAIF	285,081	285,081	\$ -	\$ -	\$ -
Held by bond trustee:					
Money market funds	<u>226,846</u>	<u>226,846</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total</b>	<u>\$ 2,338,691</u>	<u>\$ 2,338,691</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Fiscal Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
Santa Barbara County						
Investment Pool	\$1,798,406	N/A	\$ -	\$ -	\$ -	\$1,798,406
Certificates of deposit	28,358					28,358
LAIF	285,081	N/A				285,081
Held by bond trustee:						
Money market funds	<u>226,846</u>	N/A	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>226,846</u>
<b>Total</b>	<u>\$2,338,691</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,338,691</u>

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2005

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

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 that represent 5% or more of total District investments.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, 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 110% 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.

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).

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying basic financial statements at the amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

**NOTE 4 - RESTRICTED ASSETS**

For the fiscal year ended June 30, 2005, 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>\$ 172,403</u>	<u>\$ 54,443</u>	<u>\$ 226,846</u>

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

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

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2005

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**NOTE 5 - SCHEDULE OF CAPITAL ASSETS**

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2005, is shown below:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Prior</u> <u>Period</u> <u>Adjustments</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2005</u>
Non-depreciable:					
Construction in progress	\$ 24,027	\$ -	\$ 121,627	\$ -	\$ 145,654
Land	35,000				35,000
Depreciable:					
Easements and water rights	828,522				828,522
Plant and facilities	<u>5,535,696</u>	<u>                    </u>	<u>58,296</u>	<u>18,546</u>	<u>5,575,446</u>
	6,423,245		179,923	18,546	6,584,622
Accumulated depreciation	<u>1,960,127</u>	<u>198,223</u>	<u>149,591</u>	<u>14,511</u>	<u>2,293,430</u>
Net capital assets	<u>\$ 4,463,118</u>	<u>\$ (198,223)</u>	<u>\$ 30,332</u>	<u>\$ 4,035</u>	<u>\$ 4,291,192</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, 2005, the reserve balance was \$331,729.

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 – DEPOSIT WITH CITY OF LOMPOC**

In December 2004, the District deposited with the City of Lompoc their estimated share of construction costs of the wastewater plant upgrade costs in the amount of \$1,174,800. The unspent balance of the deposit at June 30, 2005 is \$1,082,605.

**NOTE 8 - DEFERRED REVENUES**

Deferred revenues consist of sewer fees paid in advance by the District's customers in the amount of \$66,566 for the fiscal year ended June 30, 2005.

**NOTE 8 - 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:

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2005

**NOTE 8 - LONG-TERM DEBT (Continued)**

Water and Wastewater Refunding Revenue Bonds Series 1996 (Continued)

Fiscal Year Ending	Principal Maturities	Interest	Total Debt Service
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>\$ 1,410,000</u>	<u>\$ 152,094</u>	<u>\$ 1,562,094</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 is offered to employees instead of social security. 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. Employee contributions of 7% 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 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 2004/2005 was 6.473%. 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 2005, the District's annual pension cost was \$28,605 and the District actually contributed \$28,605. The required contribution for fiscal year 2005 was determined as part of the June 30, 2002 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, 2003, was 17 years.

**VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2005

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

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
6/30/03	\$ 0	100%	\$ 0
6/30/04	\$ 0	100%	\$ 0
6/30/05	\$ 28,605	100%	\$ 0

**Required Supplementary Information**

**Funded Status of Plan**

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded/ (Overfunded) Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL As % of Payroll</u>
6/30/01	\$ 561,265	\$ 771,271	\$ (210,006)	137.4%	\$ 272,021	(77.2%)
6/30/02	\$ 681,228	\$ 759,417	\$ (78,189)	111.5%	\$ 324,381	(24.1%)
6/30/03	\$ 807,426	\$ 772,384	\$ 35,042	95.7%	\$ 362,037	9.7%

**NOTE 10 - CONTINGENCIES**

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

**NOTE 11 - PRIOR YEAR ADJUSTMENTS**

Prior period adjustments of \$(142,841) and \$(55,382) were made in the Water Fund and Sewer Fund, respectively, for the fiscal year ended June 30, 2005, to correct prior year accumulated depreciation.