

**VANDENBERG VILLAGE COMMUNITY
SERVICES DISTRICT**

BASIC FINANCIAL STATEMENTS
June 30, 2007

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
TABLE OF CONTENTS
June 30, 2007

FINANCIAL SECTION

Independent Auditors' Report..... 1
Management's Discussion and Analysis 2

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements:

Statement of Net Assets 6
Statement of Activities 8

Fund Financial Statements:

Statement of Net Assets – Proprietary Funds 10
Statement of Revenues, Expenses, and Changes
in Net Assets – Proprietary Funds..... 12
Statement of Cash Flows – Proprietary Funds 13
Notes to Basic Financial Statements 15

FINANCIAL SECTION



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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, 2007, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of the Vandenberg Village Community Services District, as of June 30, 2007, and the respective changes in financial position and cash flows where applicable thereof, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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 LLP

Moss, Levy & Hartzheim LLP

September 13, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Vandenberg Village Community Services District (the District), we offer this discussion and analysis of the financial activities of the District for the fiscal year ended June 30, 2007. It should be considered in conjunction with the information within the body of the audited financial statements.

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 \$9,128,893 on June 30, 2007. There was an increase of \$1,053,607 for the fiscal year, a combination of a \$561,833 increase in the Water Fund and a \$491,774 increase in the Wastewater Fund.
- Combined revenue was \$3,047,103, which primarily consisted of Water Sales and Service Charges and Wastewater Service Charges. It also included \$243,582 in Developer Connection Fees and \$214,941 in Investment Income.
- On April 4, 2006, the Board of Directors approved Resolution 176-06, updating the District's Reserve Policy and establishing a goal equal to the sum of capital, operating, and emergency reserve requirements. **Currently, our goal is to have about \$4.4 million in reserves.** As of June 30, 2007, we have a balance of about \$3.3 million.

Resolution 176-06 Reserve Requirement using the Fiscal Year 07-08 Budget

Category	Requirement	Water	Wastewater
Capital Reserves	Accumulated Depreciation + 25% combined operating budget	\$ 2,403,578	\$ 676,097
Operating Reserves	25% combined operating budget	\$258,475	\$284,393
Emergency Reserves	10% capital assets	\$557,376	\$177,129
		\$ 3,219,429	\$ 1,137,619
		$\Sigma = \$ 4,357,048$	

Current Balance (as of June 30, 2007)	\$ 1,709,796	\$ 1,612,695
	$\Sigma = \$ 3,322,491^*$	

* Note: The cash available for reserves does not include Developers' Connection Fees (\$96,141) nor Developers' Conservation Funds (\$75,852), as these two accounts are designated to be used solely for Developer-related asset purchases and Water Conservation expenditures. By adding the Developers' Connection Fees, the Developers' Conservation Funds, and the current balance available for reserves, we balance to the Cash and investments on the Statement of Net Assets (\$96,141 + \$75,852 + \$3,322,491 = \$3,494,484).

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 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 funds 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 30th, 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 the financial statements can be found on pages 15-23 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

Net assets may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$9 million as of June 30, 2007.

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 following are significant current fiscal year transactions that have had an impact on the statement of net assets:

- Cash and investments have increased by \$1,085,904, due to the reserve component built into our rate structure and interest earnings on the cash and investments.
- Construction in progress has increased by \$214,330 with addition of the following projects: a new Supervisory Control and Data Acquisition (SCADA) System, 16-inch Pipe from Tank 3 to Site 1, Soft Starters, and Filter Media.
- Regular straight-line depreciation for the fiscal year ended June 30, 2007, decreased noncurrent assets by \$123,925.

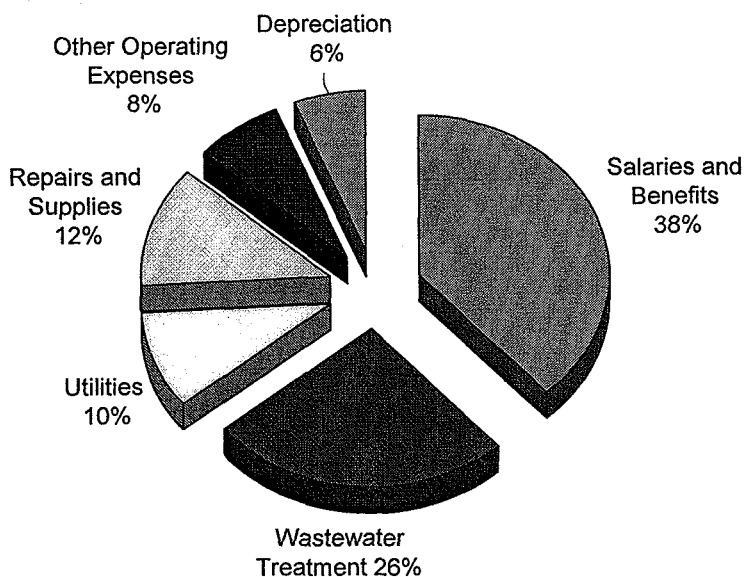
Revenues, Expenses and Changes in Net Assets

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

The following are significant current fiscal year transactions that have had an impact on the statement of revenues, expenses and changes in net assets:

- Change in net assets includes \$243,582 in restricted revenue (Developer Connection Fees).
- Due to increasing interest rates, interest income was \$99,104 more than projected and \$89,018 (71%) higher than the previous fiscal year.
- Wastewater treatment costs were 13% over target. The total volume of wastewater for the fiscal year was 19.4% higher than last year; 195 million gallons compared to 163 million gallons last fiscal year.
- Water revenues exceeded projections by 9% due to a 3% increase in customers (with the addition of Providence Landing) and a low-rainfall year. There was a 12% increase in Residential/Commercial water usage.
- Wastewater revenues exceeded projections by 2%.
- Total expenses were 3% under budget.

This chart reflects major categories of actual fiscal year 06-07 operating expenses. Employee salaries and benefits are only 38% of the operating expense budget. It is common for salaries and benefits to exceed 50% of a local government's operating expense budget and one of the reasons ours is low because the District does not provide any Other Post Employment Benefits (OPEB). Wastewater Treatment is a major component of operating expenses and we expect this to increase after construction the Lompoc Regional Wastewater Reclamation Plant (LRWRP) Upgrade Project is completed and the new plant is brought into operation.



Operating Expenses	Fiscal Year 06-07
Salaries and Benefits	\$ 764,895
Wastewater Treatment	516,106
Utilities	199,337
Repairs and Supplies	239,456
Other Operating Expenses	149,777
Depreciation	123,925
Total Operating Expenses	\$ 1,993,496

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. In November 2004, the District paid the City of Lompoc \$1,174,800 for our share of the planning, design, and construction management costs for the LRWRP Upgrade Project. In July 2010 (after the project is completed and Lompoc starts to repay the State Revolving Fund loan for the project), monthly wastewater operating expenses will increase. This will require increases to our wastewater rates to generate sufficient revenues to cover these expenses. The District is following a plan to gradually increase the residential wastewater rate to about \$60 per month by July 2010.

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 the upcoming fiscal year and will be used in future fiscal years. Big ticket items scheduled for fiscal year 07/08 (based on the strategic plan) are Site 1 Booster Station 100-horsepower pump (\$30,000) and portable generator for lift stations #3 and #4 (\$37,500). Some capital items which have been carried over from previous years are the Water and Wastewater System Evaluation (\$61,000), Lift Station #1 Wet Well Expansion (\$30,000), Lift Station #1 Backup Generator (\$50,000), Pickup Truck (\$30,000 - purchased in July 2007), and the Site #3 Generator (\$90,000). Capital purchases are funded out of cash reserves instead of operating revenues.

The District was a cooperating partner in developing the Santa Barbara Countywide Integrated Regional Water Management Plan (IRWMP) which was finalized in May 2007. Through participation in the IRWMP, we are eligible to receive grant funds from Proposition 50, the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002. The District has requested a \$4.0 million grant toward our \$16.5 million share of the LRWRP Upgrade Project.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
STATEMENT OF NET ASSETS
June 30, 2007

ASSETS

Current assets:

Cash on hand	\$ 400
Cash and investments	3,494,484
Accounts receivable	187,801
Other receivables	2,180
Accrued interest receivable	19,365
Inventory	23,160
Prepaid expenses	<u>10,525</u>
Total current assets	<u>3,737,915</u>

Other assets:

Deposits	<u>1,110,635</u>
Total other assets	<u>1,110,635</u>

Capital assets

Land	35,000
Easements	200,000
Water rights	628,522
Source of supply	277,219
Pumping equipment	748,451
Treatment	174,324
Transmission and distribution	3,641,352
General plant	790,071
Construction in progress	<u>850,115</u>
	7,345,054

Less: Accumulated depreciation	<u>(2,536,807)</u>
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Total capital assets - net of accumulated depreciation	<u>4,808,247</u>
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Total assets	<u>9,656,797</u>
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See accompanying notes to basic financial statements.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
STATEMENT OF NET ASSETS
June 30, 2007

LIABILITIES

Current liabilities:

Accounts payable	\$ 252,142
Accrued payroll expenses	12,468
Compensated absences	58,328
Customer deposits	114,068
Deferred revenues	<u>90,898</u>
Total current liabilities	<u>527,904</u>

NET ASSETS

Invested in capital assets, net of related debt	4,808,247
Unrestricted	<u>4,320,646</u>
Total net assets	<u>\$ 9,128,893</u>

See accompanying notes to basic financial statements.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007

<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	\$ 1,162,290	\$ 1,635,334	\$ -	\$ -
Sewer	<u>831,206</u>	<u>1,185,265</u>	<u> </u>	<u> </u>
Total business-type activities	<u>\$ 1,993,496</u>	<u>\$ 2,820,599</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

 Investment earnings

 Other revenue

Change in net assets

Net assets - beginning of fiscal year

Net assets - end of fiscal year

See accompanying notes to basic financial statements.

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

\$ 473,044
354,059

827,103

214,941
11,563

1,053,607

8,075,286

\$ 9,128,893

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

June 30, 2007

With Comparative Totals for June 30, 2006

	ENTERPRISE FUNDS			Totals 2006
	Water Fund	Sewer Fund	Totals 2007	
ASSETS				
Current assets:				
Cash on hand	\$ 400	\$ -	\$ 400	\$ 400
Cash and investments	1,881,789	1,612,695	3,494,484	2,408,580
Accounts receivable	187,801		187,801	170,655
Other receivables	2,180		2,180	
Accrued interest receivable	19,365		19,365	10,256
Inventory	23,160		23,160	21,799
Prepaid expenses	10,525		10,525	14,501
Total current assets	2,125,220	1,612,695	3,737,915	2,626,191
Other assets:				
Deposits		1,110,635	1,110,635	1,098,047
Total other assets		1,110,635	1,110,635	1,098,047
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	277,219
Pumping equipment	599,652	148,799	748,451	745,757
Treatment	174,324		174,324	171,611
Transmission and distribution	2,899,833	741,519	3,641,352	3,641,351
General plant	685,436	104,635	790,071	787,682
Construction in progress	173,775	676,340	850,115	635,785
	5,573,761	1,771,293	7,345,054	7,122,927
Less: Accumulated depreciation	(2,145,103)	(391,704)	(2,536,807)	(2,412,882)
Total capital assets - net of accumulated depreciation	3,428,658	1,379,589	4,808,247	4,710,045
Total assets	5,553,878	4,102,919	9,656,797	8,434,283

See accompanying notes to basic financial statements.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

June 30, 2007

With Comparative Totals for June 30, 2006

	ENTERPRISE FUNDS			Totals 2006
	Water Fund	Sewer Fund	Totals 2007	
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 145,725	\$ 106,417	\$ 252,142	\$ 108,654
Accrued payroll expenses	8,934	3,534	12,468	16,099
Compensated absences	58,328		58,328	49,465
Customer deposits	114,068		114,068	107,480
Deferred revenues		90,898	90,898	77,299
Total current liabilities	<u>327,055</u>	<u>200,849</u>	<u>527,904</u>	<u>358,997</u>
NET ASSETS				
Invested in capital assets, net of related debt	3,428,658	1,379,589	4,808,247	4,710,045
Unrestricted	<u>1,798,165</u>	<u>2,522,481</u>	<u>4,320,646</u>	<u>3,365,241</u>
Total net assets	<u>\$ 5,226,823</u>	<u>\$ 3,902,070</u>	<u>\$ 9,128,893</u>	<u>\$ 8,075,286</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, 2007

With Comparative Totals for the Fiscal Year Ended June 30, 2006

	ENTERPRISE FUNDS			Totals 2006
	Water Fund	Sewer Fund	Totals 2007	
Operating Revenues:				
Service charges	\$ 1,635,334	\$ 1,185,265	\$ 2,820,599	\$ 2,494,092
Total operating revenues	<u>1,635,334</u>	<u>1,185,265</u>	<u>2,820,599</u>	<u>2,494,092</u>
Operating Expenses:				
Salaries and benefits	534,149	230,746	764,895	704,706
Wastewater treatment costs		516,106	516,106	398,957
Utilities	192,470	6,867	199,337	172,279
Repairs and supplies	229,527	9,929	239,456	172,021
Professional services	39,652	13,417	53,069	51,620
Office expense	2,271	1,771	4,042	5,627
Customers' account expenses	11,764	11,162	22,926	29,268
Insurance	14,936	9,957	24,893	25,563
Other operating expenses	34,717	10,130	44,847	64,076
Depreciation	102,804	21,121	123,925	126,330
Total operating expenses	<u>1,162,290</u>	<u>831,206</u>	<u>1,993,496</u>	<u>1,750,447</u>
Net operating income	<u>473,044</u>	<u>354,059</u>	<u>827,103</u>	<u>743,645</u>
Non-Operating Revenues (Expenses):				
Bond surcharge				160,843
Investment income	81,851	133,090	214,941	125,923
Bond issuance costs				(137,479)
Interest expense				(24,125)
Bond repayment premium				(10,900)
Net loss on sale of capital assets				(3,177)
Other revenue	6,938	4,625	11,563	
Total non-operating revenues (expenses)	<u>88,789</u>	<u>137,715</u>	<u>226,504</u>	<u>111,085</u>
Change in net assets	<u>561,833</u>	<u>491,774</u>	<u>1,053,607</u>	<u>854,730</u>
Total net assets - beginning	<u>4,664,990</u>	<u>3,410,296</u>	<u>8,075,286</u>	<u>7,220,556</u>
Total net assets - ending	<u>\$ 5,226,823</u>	<u>\$ 3,902,070</u>	<u>\$ 9,128,893</u>	<u>\$ 8,075,286</u>

See accompanying notes to basic financial statements.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2007
With Comparative Totals for the Fiscal Year Ended June 30, 2006

	ENTERPRISE FUNDS			
	Water Fund	Sewer Fund	Totals 2007	Totals 2006
Cash Flows From Operating Activities:				
Receipts from customers and users	\$ 1,622,596	\$ 1,198,864	\$ 2,821,460	\$ 2,532,699
Payments to suppliers	(431,817)	(539,344)	(971,161)	(535,042)
Payments to employees	(529,687)	(229,976)	(759,663)	(724,711)
Net cash provided (used) by operating activities	<u>661,092</u>	<u>429,544</u>	<u>1,090,636</u>	<u>1,272,946</u>
Cash Flows From Noncapital Financing Activities:				
Other revenue	<u>6,938</u>	<u>4,625</u>	<u>11,563</u>	
Net cash provided (used) by noncapital financing activities	<u>6,938</u>	<u>4,625</u>	<u>11,563</u>	
Cash Flows from Capital and Related Financing Activities:				
Bond surcharge				160,843
Interest payments				(36,187)
Bond principal payments				(1,410,000)
Bond prepayment premium				(10,900)
Purchase of capital assets	<u>(114,228)</u>	<u>(107,899)</u>	<u>(222,127)</u>	<u>(548,360)</u>
Net cash provided (used) by capital and related financing activities	<u>(114,228)</u>	<u>(107,899)</u>	<u>(222,127)</u>	<u>(1,844,604)</u>
Cash Flows from Investing Activities:				
Sale (Purchase) of certificates of deposit				(659,505)
Investment income	<u>65,067</u>	<u>133,090</u>	<u>198,157</u>	<u>130,592</u>
Net cash provided (used) by investing activities	<u>65,067</u>	<u>133,090</u>	<u>198,157</u>	<u>(528,913)</u>
Net increase (decrease) in cash and cash equivalents	618,869	459,360	1,078,229	(1,100,571)
Cash and cash equivalents, beginning of fiscal year	<u>567,782</u>	<u>1,153,335</u>	<u>1,721,117</u>	<u>2,821,688</u>
Cash and cash equivalents, end of fiscal year	<u>\$ 1,186,651</u>	<u>\$ 1,612,695</u>	<u>\$ 2,799,346</u>	<u>\$ 1,721,117</u>
Reconciliation to Statement of Net Assets:				
Cash on hand	\$ 400	\$ -	\$ 400	\$ 400
Cash and investments (cash equivalents only)	<u>1,186,251</u>	<u>1,612,695</u>	<u>2,798,946</u>	<u>1,720,717</u>
	<u>\$ 1,186,651</u>	<u>\$ 1,612,695</u>	<u>\$ 2,799,346</u>	<u>\$ 1,721,117</u>

(Continued)

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2007
With Comparative Totals for the Fiscal Year Ended June 30, 2006

	ENTERPRISE FUNDS			
	Water Fund	Sewer Fund	Totals 2007	Totals 2006
Reconciliation of Operating Income to Net				
Cash Provided (Used) by Operating Activities:				
Operating income	\$ 473,044	\$ 354,059	\$ 827,103	\$ 743,645
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	102,804	21,121	123,925	126,330
Change in Operating Assets and Liabilities:				
(Increase) decrease in accounts receivable	(17,146)		(17,146)	(27,251)
(Increase) decrease in other receivables	(2,180)		(2,180)	107
(Increase) decrease in inventory	(1,361)		(1,361)	(45)
(Increase) decrease in prepaid items	3,976		3,976	(115)
(Increase) decrease in deposits		(12,588)	(12,588)	399,630
Increase (decrease) in accounts payable	90,905	52,583	143,488	(15,208)
Increase (decrease) in accrued payroll	(4,401)	770	(3,631)	(21,529)
Increase (decrease) in customer deposits	6,588		6,588	55,125
Increase (decrease) in deferred revenue		13,599	13,599	10,733
Increase (decrease) in compensated absences	8,863		8,863	1,524
Net cash provided (used) by operating activities	<u>\$ 661,092</u>	<u>429,544</u>	<u>\$ 1,090,636</u>	<u>1,272,946</u>

See accompanying notes to basic financial statements.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

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.

Note 1:	Reporting Entity	17
Note 2:	Summary of Significant Accounting Policies	17
Note 3:	Cash and Investments	19
Note 4:	Schedule of Capital Assets	21
Note 5:	Wastewater Capital Reserve Fund and Rent Expense	22
Note 6:	Deposit with the City of Lompoc	22
Note 7:	Deferred Revenues	22
Note 8:	District Employees' Retirement Plan (Defined Benefit Pension Plan)	22
Note 9:	Contingencies	23

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VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 - REPORTING ENTITY

The reporting entity is the Vandenberg Village Community Services District, which was voted into existence by the residents of Vandenberg Village on November 8, 1983, in an election held in the County of Santa Barbara, State of California. The District operates under the direction of a board of directors who are elected by the residents of Vandenberg Village. On December 2, 1988, the District acquired water and sewer service facilities from Park Water Company and now provides water and sewer services to the residents of Vandenberg Village.

The District is a Community Services District as defined under California Government Code Section: 61000. A Community Services District is a public agency (State Code Section: 12463.1), which is a state instrumentality (State Code Section: 23706). State instrumentalities are exempt from federal and state income taxes.

There are no component units included in this report which meet the criteria of GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Accounting Policies - The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).
- B. Accounting Method - The District is organized as an Enterprise Fund and follows the accrual method of accounting, whereby revenues are recorded as earned, and expenses are recorded when incurred.
- C. Deferred Revenue - The District reports deferred revenues on its statement of net assets. Deferred revenues arise when potential revenue does not meet the "earned" criteria for recognition in the current period. In subsequent periods, when the revenue recognition criteria is met, the liability for deferred revenue is removed from the statement of net assets and revenue is recognized.
- D. Cash and Cash Equivalents - For purpose of the statement of cash flows, cash and cash equivalents include restricted and unrestricted cash and restricted and unrestricted certificates of deposit with original maturities of three months or less.
- E. Property, Plant, and Equipment - Capital assets purchased by the District are recorded at cost. Contributed or donated capital assets are recorded at fair value when acquired.
- F. Depreciation - Capital assets purchased by the District are depreciated over their estimated useful lives (ranging from 5-100 years) under the straight-line method of depreciation.
- G. Receivables - The District did not experience any significant bad debt losses; accordingly, no provision has been made for doubtful accounts, and accounts receivable is shown at full value.
- H. Inventory - The inventory maintained by the water utility consists primarily of water pipe, valves, and fittings. Inventory is valued at cost, determined on a first-in, first-out basis.
- I. Encumbrances - Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the District.
- J. Accrued Compensation - Accumulated unpaid employee vacation benefits are recognized as a liability of the District. The amounts are included in current liabilities under compensated absences. The District accumulates sick leave for its employees, however, this is not recorded as a liability on the District's financial statements since accumulated sick leave is not paid upon the employee's termination.
- K. Customer Deposits - The District requires customers to pay an advance deposit for utility services or provide a letter of credit from another utility. It is the District's current policy to hold all deposits for a period of two years. Deposits are then refunded in full and no accrued interest is paid.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Net Assets

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

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

M. Government-wide and fund financial statements – The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Business-type activities*, which rely to a significant extent on fees and charges for support are the only type of activity reported by the Vandenberg Village Community Services District.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Items not properly included among program revenues are reported instead as *general revenues*.

Measurement focus, basis of accounting, and financial statements presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the District's water and sewer function. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Estimates

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

NOTE 3 - CASH AND INVESTMENTS

Investments are carried at fair value in accordance with GASB Statement No. 31. On June 30, 2007, the District had the following cash and investments on hand:

Cash on hand	\$ 400
Cash in checking accounts	149,102
Cash in savings accounts	1,589,294
Cash and investments with County of Santa Barbara	750,245
Cash and investments in Local Agency Investment Fund (LAIF)	310,305
Certificates of deposit	296,331
U.S. treasury notes	<u>399,207</u>
Cash and investments	<u>\$ 3,494,884</u>

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

Cash on hand	\$ 400
Cash and investments	<u>3,494,484</u>
	<u>\$ 3,494,884</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, 2007

NOTE 3 - CASH AND INVESTMENTS (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Investment Type	Carrying Amount	Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
Santa Barbara County Investment Pool	\$ 750,245	\$ 750,245	\$ -	\$ -	\$ -
Certificates of deposit	296,331	296,331			
U.S. treasury notes	399,207	399,207		\$ -	\$ -
LAIF	310,305	310,305			
Total	\$ 1,756,088	\$ 1,756,088	\$ -	\$ -	\$ -

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.

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End		
				AAA	Aa	Not Rated
Santa Barbara County Investment Pool	\$ 750,245	N/A	\$ -	\$ -	\$ -	\$ 750,245
Certificates of deposit	296,331	N/A				296,331
U.S. treasury notes	399,207	N/A	399,207			
LAIF	310,305	N/A				310,305
Total	\$1,756,088		\$ 399,207	\$ -	\$ -	\$1,356,881

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District's investments.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

NOTE 3 - CASH AND INVESTMENTS (Continued)

Custodial Credit Risk (Continued)

Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 100% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2007, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. As of June 30, 2007, the District's investments in the following types were held by the same broker-dealer (counterparty) that was used by the District to buy securities:

<u>Investment Type</u>	<u>Amount</u>
U.S. Treasury Notes	\$ 399,207

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF and the Santa Barbara County Investment Pool).

Investment in State Investment Pool

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

NOTE 4 - SCHEDULE OF CAPITAL ASSETS

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2007, is shown below:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
Capital assets, not being depreciated:				
Land	\$ 35,000	\$ -	\$ -	\$ 35,000
Construction in progress	<u>635,785</u>	<u>217,025</u>	<u>2,695</u>	<u>850,115</u>
Total capital assets, not being depreciated	<u>\$ 670,785</u>	<u>\$ 217,025</u>	<u>\$ 2,695</u>	<u>\$ 885,115</u>
Capital assets, being depreciated:				
Easements and water rights	\$ 828,522	\$ -	\$ -	\$ 828,522
Plant and facilities	<u>5,623,620</u>	<u>7,797</u>		<u>5,631,417</u>
Total capital assets, being depreciated	6,452,142	7,797		6,459,939
Less accumulated depreciation	<u>2,412,882</u>	<u>123,925</u>		<u>2,536,807</u>
Total capital assets, being depreciated, net	<u>\$ 4,039,260</u>	<u>\$(116,128)</u>	<u>\$ -</u>	<u>\$ 3,923,132</u>
Capital assets, net	<u>\$ 4,710,045</u>	<u>\$ 100,897</u>	<u>\$ 2,695</u>	<u>\$ 4,808,247</u>

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

NOTE 5 - WASTEWATER CAPITAL RESERVE FUND AND RENT EXPENSE

The District maintains a wastewater capital reserve fund with the City of Lompoc (City). In return, the City supplies wastewater treatment services to the District. Interest is earned on the reserve balance and disbursements are made by the City for Vandenberg Village Community Services District's portion of capital improvements. The minimum reserve requirement for Vandenberg Village Community Services District is \$334,721. On June 30, 2007, the reserve balance was \$348,872.

The agreement between the District and the City of Lompoc states that at no time does title transfer to the District for any capital improvements made to the wastewater treatment plant. All disbursements made from the District's capital reserve fund for improvements are treated as a rental expense to the District.

NOTE 6 – DEPOSIT WITH THE CITY OF LOMPOC

In December 2004, the District deposited with the City of Lompoc their estimated share of planning, design, and construction management costs of the wastewater plant upgrade costs in the amount of \$1,174,800. The unspent balance of the deposit at June 30, 2007 is \$665,925.

NOTE 7 - DEFERRED REVENUES

Deferred revenues consist of sewer fees paid in advance by the District's customers in the amount of \$90,898 for the fiscal year ended June 30, 2007.

NOTE 8 - 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 service retirement benefit calculated for service earned by members is a monthly allowance equal to the product of the 2.7% at 55 benefit factor, years of service, and final compensation. The PERS is part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes with the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (other local methods). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office – 400 P Street – Sacramento, CA 95814.

Funding Policy

Active plan members in the PERS are required to contribute 8% of their annual covered salary. Employee contributions of 8% of gross regular earnings are paid by the District on behalf of the employee. The District is required to contribute the actuarially determined remaining amounts necessary to fund the 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 2006/2007, was 14.322%. 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 2007, the District's annual pension cost was \$74,240 and the District actually contributed \$74,240. Employer paid member contributions (EMPC) were \$42,708 for the fiscal year 2007. The required contribution for fiscal year 2007 was determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% 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 3.0%. 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, 2004, was 14 years.

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2007

NOTE 8 - 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
6/30/05	\$ 28,605	100%	\$ 0
6/30/06	\$ 64,571	100%	\$ 0
6/30/07	\$ 74,240	100%	\$ 0

Required Supplementary Information

Funded Status of Plan (Pool)

<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>
6/30/03	\$2,596,966,545	\$2,372,879,034	\$ 224,087,511	91.4%	\$ 725,020,458	30.9%
6/30/04	\$2,746,095,668	\$2,460,944,656	\$ 285,151,012	89.6%	\$ 743,691,970	38.3%
6/30/05						

NOTE 9 - CONTINGENCIES

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

