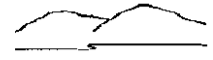


**ESPARTO COMMUNITY SERVICE DISTRICT**

**FINANCIAL STATEMENTS**

**AUDIT REPORT**

**June 30, 2009**



March 30, 2010

Esparto Community Service District  
PO Box 349  
Esparto, CA 95627

**INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the governmental activities and the aggregate fund information of Esparto Community Service District as of and for the year then ended, June 30, 2009, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Esparto Community Service District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 respective financial position of the governmental activities and the aggregate remaining fund information of the Esparto Community Service District as of June 30, 2009, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 30, 2010, on our consideration of the Esparto Community Service District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis information and the supplemental information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Esparto Community Service District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of

**INDEPENDENT AUDITOR'S REPORT**

**Continued**

Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of Esparto Community Service District. The combining and individual nonmajor fund financial statement and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Zach Pehling  
Certified Public Accountant  
Master of Business Administration

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Audit Report  
June 30, 2009**

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**ESPARTO COMMUNITY SERVICES DISTRICT**

**Management's Discussion and Analysis  
For the Year Ended June 30, 2009**

The discussion and analysis of the Esparto Community Services District's (the District) financial activities for the fiscal year ended June 30, 2009, is as follows. Please review it in conjunction with the District's basic financial statements.

**FINANCIAL HIGHLIGHTS**

The District provides water, sewer, and lighting services to the community of Esparto. Commercial and residential units pay a fee based on usage of water and sewer. In addition they are charged a fee to provide street lighting to the community of Esparto. Due to new construction and population growth the District has been working towards increased service capacity with numerous capital projects being started. To fund these operations the District has raised monthly fees, which have resulted in an increase in operating revenues.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles set forth by the Governmental Accounting Standards Board. The District is structured as an enterprise fund. The District's revenues are recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital assets are capitalized, and are depreciated over their useful lives.

The District was awarded a Federal USDA loan to pay for water and sewer capacity expansion. As such the District has used the money to pay for \$5,253,859 of construction-in-progress.

During the audit year, the district has increased its equipment available to provide future services by \$2,742,395. To accomplish this expansion the District relied on the loan from the USDA, which allowed the district to replenish \$ 305,787 of its cash reserves.

Capital Assets Available – 2008	\$4,739,087	
Capital Assets Available – 2009	<u>7,481,182</u>	
Increase in Capital Assets Available – 2009		<u>\$ 2,742,395</u>
Cash Available – 2008	\$ 725,046	
Cash Available – 2009	<u>1,030,833</u>	
Increase in Cash Available – 2009		<u>\$ 305,787</u>

**ESPARTO COMMUNITY SERVICES DISTRICT**

**Management's Discussion and Analysis  
For the Year Ended June 30, 2009**

**OVERVIEW OF THE 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 comprised of three statements (1) Net Assets, (2) Activities, and 3) Cash Flow, as well as Notes to the Financial Statements. This report also contains supplementary information in addition to the basic financial statements themselves.

The District's financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

Net assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The District is responsible for ensuring that the assets reported in their funds are used for their intended purposes. The District's net assets have increased by \$71,009 in the 2009 fiscal year as found in the statement of Net assets.

Net Assets – 2008	\$3,266,646	
Net Assets – 2009	<u>3,337,655</u>	
Increase in Net Assets – 2009		<u>\$71,009</u>

Matching the revenues and expenses of all of the Districts activities for the fiscal year shows the District is limiting expenses to current revenues, acquiring capital assets, paying debt, as well as accumulating a reserve of cash, for the 2009 fiscal year as calculated on page eight and nine in the statement of activities.

Observing the cash flow and cash balances at the District's year-end shows the funds available to meet the current year operating needs, retirement of debt as well as funds available to meet capacity expansion and equipment replacement as found on page ten and eleven in the statement of cash flow.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the District's finances for all citizens, taxpayers, customers, investors, and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Esparto Community Services District, PO Box 349, Esparto, California 95627.

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Statement of Net Assets**

**June 30, 2009**

	466	469	470	471	472	473	Jun-09 Memorandum Only
<b>ASSETS</b>							
<u>Current Assets:</u>							
Funds on Deposit, County of Yolo	\$ 394,993	\$ 541,864	\$ -	\$ (44,454)	\$ 81,573	\$ -	\$ 973,977
Funds on Deposit, Bank	32,237	-	-	-	-	-	32,237
Undeposited Funds	23,869	-	-	-	-	-	23,869
Imprest Cash	750	-	-	-	-	-	750
Accounts Receivable	32,799	-	-	74,438	-	-	107,238
<b>Total Current Assets</b>	<b>484,648</b>	<b>541,864</b>	<b>-</b>	<b>29,984</b>	<b>81,573</b>	<b>-</b>	<b>1,138,070</b>
<u>Capital Assets:</u>							
Land	287,475	-	-	-	-	-	287,475
Improvements other than Building	8,489	-	-	-	-	-	8,489
Sewer Construction-in-Progress	1,349,655	-	-	-	-	-	1,349,655
Water Construction-in-Progress	3,904,204	-	-	-	-	-	3,904,204
Buildings and Improvements	2,496,657	-	-	-	-	-	2,496,657
Equipment	299,481	-	-	-	-	-	299,481
<b>Capital Assets</b>	<b>8,345,961</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,345,961</b>
Less: Accumulated Depreciation	(864,479)	-	-	-	-	-	(864,479)
<b>Total Capital Assets</b>	<b>7,481,482</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,481,482</b>
<b>TOTAL ASSETS</b>	<b>7,966,130</b>	<b>541,864</b>	<b>-</b>	<b>29,984</b>	<b>81,573</b>	<b>-</b>	<b>8,619,552</b>

"The accompanying notes are an integral part of these financial statements."

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Statement of Net Assets**

**June 30, 2009**

	466	469	470	471	472	473	Jun-09 Memorandum Only
<b><u>LIABILITIES AND FUND EQUITY</u></b>							
<u>Current Liabilities:</u>							
Accounts Payable	\$ 34,672	\$ -	\$ -	\$ 29,012	\$ 10,634	\$ -	\$ 74,318
Accrued Expenses	66,564	-	-	-	-	-	66,564
Notes Payable - Current Portion	113,337	-	-	-	-	-	113,337
Total Current Liabilities	<u>214,573</u>	<u>-</u>	<u>-</u>	<u>29,012</u>	<u>10,634</u>	<u>-</u>	<u>254,219</u>
<u>Long-Term Liabilities:</u>							
Notes Payable	5,141,015	-	-	-	-	-	5,141,015
(Less) Current Portion	(113,337)	-	-	-	-	-	(113,337)
Total Long-Term Liabilities	<u>5,027,678</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,027,678</u>
<b>TOTAL LIABILITIES</b>	<u>5,242,251</u>	<u>-</u>	<u>-</u>	<u>29,012</u>	<u>10,634</u>	<u>-</u>	<u>5,281,897</u>
<b><u>NET ASSETS</u></b>							
Investment in Capital Assets Net of Related Debt	2,340,467	-	-	-	-	-	2,340,467
Undesignated:	33,119	541,864	-	-	-	-	574,983
Designated	350,293	-	-	29,984	81,573	-	461,851
<b>TOTAL NET ASSETS</b>	<u>\$ 2,723,878</u>	<u>\$ 541,864</u>	<u>\$ -</u>	<u>\$ 29,984</u>	<u>\$ 81,573</u>	<u>\$ -</u>	<u>\$ 3,377,300</u>

"The accompanying notes are an integral part of these financial statements."



**ESPARTO COMMUNITY SERVICE DISTRICT**

**Statement of Activities**

**For the Year-Ended**

**June 30, 2009**

	<u>466</u>	<u>469</u>	<u>470</u>	<u>471</u>	<u>472</u>	<u>473</u>	<u>Jun-09 Memorandum Only</u>
<b><u>REVENUES:</u></b>							
Taxes	\$ 49,631	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 49,631
Development Fees	-	54,579	-	-	-	-	54,579
Interest	16,279	(261)	-	21,076	4,039	-	41,133
Lighting Service	19,684	-	-	-	-	-	19,684
Sewer Service	395,132	-	-	-	-	-	395,132
Water Service	605,204	-	-	-	-	-	605,204
Penalties, Interest, & Other	27,222	-	-	-	-	-	27,222
<b>TOTAL REVENUES</b>	<u>1,113,151</u>	<u>54,318</u>	<u>-</u>	<u>21,076</u>	<u>4,039</u>	<u>-</u>	<u>1,192,585</u>
<b><u>EXPENDITURES:</u></b>							
Interest	9,527	-	-	-	-	95,107	9,527
Depreciation	85,498	-	-	-	-	-	85,498
Salaries and Benefits	509,948	-	-	-	-	-	509,948
Services and Supplies	294,378	-	-	3,754	3,477	-	294,378
Maintenance	72,535	-	-	-	-	-	72,535
Miscellaneous	47,353	-	-	-	-	-	47,353
<b>TOTAL EXPENDITURES</b>	<u>1,019,238</u>	<u>-</u>	<u>-</u>	<u>3,754</u>	<u>3,477</u>	<u>95,107</u>	<u>1,019,238</u>

"The accompanying notes are an integral part of these financial statements."

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Statement of Activities**

**For the Year-Ended**

**June 30, 2009**

	<u>466</u>	<u>469</u>	<u>470</u>	<u>471</u>	<u>472</u>	<u>473</u>	<u>Jun-09 Memorandum Only</u>
Excess of Revenues Over (Under) Expenditures	<u>93,914</u>	<u>54,318</u>	<u>-</u>	<u>17,322</u>	<u>562</u>	<u>(95,107)</u>	<u>166,116</u>
Fund Transfer	<u>(428,865)</u>	<u>546,693</u>	<u>(56,289)</u>	<u>(363,395)</u>	<u>206,749</u>	<u>95,107</u>	<u>(95,107)</u>
<b>NET CHANGE IN NET ASSETS</b>	<u>(334,951)</u>	<u>601,011</u>	<u>(56,289)</u>	<u>(346,073)</u>	<u>207,311</u>	<u>-</u>	<u>71,009</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>3,058,830</u>	<u>(59,147)</u>	<u>56,289</u>	<u>347,046</u>	<u>(136,372)</u>	<u>-</u>	<u>3,266,646</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 2,723,878</u>	<u>\$ 541,864</u>	<u>\$ -</u>	<u>\$ 973</u>	<u>\$ 70,939</u>	<u>\$ -</u>	<u>\$ 3,337,655</u>

"The accompanying notes are an integral part of these financial statements."

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Statement of Cash Flow**

**For the Year-Ended**

**June 30, 2009**

	466	469	470	471	472	473	Jun-09 Memorandum Only
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>							
Cash Received from Development Fees	\$ -	\$ 54,579	\$ -	\$ -	\$ -	\$ -	\$ 54,579
Cash Received from Charges for Service	1,084,699	-	-	-	-	-	1,084,699
Cash Received from Penalties & Interest	27,222	-	-	-	-	-	27,222
Deduct: Cash paid for Operating Expenses	(1,044,678)	-	-	-	-	-	(1,044,678)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>67,243</b>	<b>54,579</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>121,822</b>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>							
Proceeds from Loans	-	-	-	1,794,037	1,388,018	-	3,182,055
Payment on Principle on Notes Payable	(48,762)	-	-	-	-	(168,107)	(216,869)
Purchase of Capital Assets	(233,286)	-	-	(1,490,588)	(1,148,634)	-	(2,872,508)
<b>NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(282,048)</b>	<b>-</b>	<b>-</b>	<b>303,449</b>	<b>239,384</b>	<b>(168,107)</b>	<b>(2,872,508)</b>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>							
Cash Transferred Between Funds	198,049	543,620	(56,289)	(808,399)	(45,088)	168,107	-
Property Tax Receipts	49,631	-	-	-	-	-	49,631
<b>NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	<b>247,680</b>	<b>543,620</b>	<b>(56,289)</b>	<b>(808,399)</b>	<b>(45,088)</b>	<b>168,107</b>	<b>49,631</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>							
Interest Receipts	16,279	261	-	21,076	4,039	-	41,655
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>16,279</b>	<b>261</b>	<b>-</b>	<b>21,076</b>	<b>4,039</b>	<b>-</b>	<b>41,655</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>49,154</b>	<b>598,460</b>	<b>(56,289)</b>	<b>(483,874)</b>	<b>198,335</b>	<b>-</b>	<b>305,786</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>402,695</b>	<b>(56,596)</b>	<b>56,289</b>	<b>439,420</b>	<b>(116,762)</b>	<b>-</b>	<b>725,046</b>
<b>CASH, END OF YEAR</b>	<b>\$ 451,849</b>	<b>\$ 541,864</b>	<b>\$ -</b>	<b>\$ (44,454)</b>	<b>\$ 81,573</b>	<b>\$ -</b>	<b>\$ 1,030,832</b>

"The accompanying notes to the financial statements are an integral part of this statement."

**ESPARTO COMMUNITY SERVICE DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Esparto Community Service District (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

**A. Description of the Reporting Entity**

The District was established on August 18, 1969 to replace the Esparto Sanitary Service District and the Yolo Water Works District No. 1. The District operates under section 61000 et. seq. of the California State Government Code. The District is located in the western section of Yolo County, and provides water, sewer, waste disposal, and lighting service to the community of Esparto and surrounding areas.

The District is a governed entity administered by a Board of Directors (Board) that acts as the authoritative and legislative body of the entity. The Board is comprised of five board members who are elected by voters living within the District's boundaries. Elections are held within the Board to appoint the President. The President's responsibilities are to preside at all meetings of the Board; be the chief officer of the District; perform all duties commonly incident to the position of presiding officer of a board, commission, or business organization; and exercise supervision over the business of the District, its officers, and its employees. Board of Directors is comprised of the following members as of:

June 30, 2009  
Terrie Bueno, Director  
Barry Pomeroy, Director  
Joseph Moreland, Director  
Laurel Kieny, Director  
Vacant, Director

The accompanying general-purpose financial statements comply with the provisions of GASB Statement No. 14, "*The Financial Reporting Entity*," in that the financial statements include all organizations, activities, and functions that comprise the District. Component units are legally separate entities for which the District (the primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the District's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the District. Using these criteria, the District has no component units.

**B. Basis of Presentation of Government-wide Financial Statements**

The statements of net assets, activities, and cash flows display information about the primary government, the District. These statements include all the financial activities of the overall District activities.

**ESPARTO COMMUNITY SERVICE DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**B. Basis of Presentation of Government-wide Financial Statements - continued**

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities demonstrating the degree to which the direct expenses of a given project are offset by project revenues. Direct expenses are those that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function or segment. Program revenues include (1) charges paid by the recipients of services offered by the program and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including taxes and development fees are presented instead as general revenues.

**C. Basis of Accounting – Measurement Focus**

The financial statements are reported using the accrual basis of accounting and the economic resources measurement focus. Revenues are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants, entitlements, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Taxes and interest associated with the current fiscal period are all considered being susceptible to accrual and so have been recognized as revenues of the current fiscal period.

Fund Accounting – The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District only uses governmental funds.

Governmental Funds – Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental assets and liabilities is reported as net assets. The District reports using the major governmental funds of enterprise fund.

Enterprise Funds – The enterprises funds are used to account for all the financial resources of the District. The enterprise fund balance is available to the District for any purpose, provided it is expended or transferred according to the general laws of California and the bylaws of the District. The District maintains separate funds for General (466), Development Fees (469), Loan requirements (470), USDA water loan (471), USDA sewer loan (472) and USDA repayment (473).

Exchange and Non-Exchange Transactions of Revenues – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Non-exchange transactions, in which the District receives value without directly giving value in return, include taxes and donations. Revenues are

**ESPARTO COMMUNITY SERVICE DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

C. Basis of Accounting – Measurement Focus – continued

recognized when susceptible to accrual, when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within 60 days after year-end. The assessor of the County of Yolo determines the assessed valuations of such property and the tax collector of the County collects the taxes. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis.

Expenses/Expenditures- On an accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

E. Funds on Deposit, County of Yolo and Bank

The District maintains its cash in a pool managed by the County of Yolo Treasury. The County Treasury, in turn, invests its cash with the State of California in the local agency investment fund as well as other banking institutions. The District does not own any specific identifiable investments in the pool. The risk of loss is minimal. The district also has funds in a commercial bank for timely deposits, but ultimately all money is eventually deposited with the County.

F. Accounts Receivable

Accounts receivable are recorded at their gross value, where appropriate are reduced by the portion that is considered uncollectable. Accounts receivable consists primarily of service fees that have been billed but not paid as of year-end. Management believes its receivables to be fully collectable and, accordingly no allowance for doubtful accounts is necessary.

G. Accounts Payable

On an accrual basis, expenses are recognized in the fiscal year in which the goods or services are received. Payables are liabilities of the District based upon current year charges for goods or services received but not paid in the current year.

**ESPARTO COMMUNITY SERVICE DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

H. Fixed Assets

General capital assets generally result from expenditures in the governmental funds. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not. The assets are depreciated over their estimated useful life, ranging from 5 to 75 years.

The following is a schedule of the District's general fixed assets and the activity incurred during the year ended June 30, 2009.

I. Long-Term Debt

The following is a summary of the long-term liability transactions for the year ended June 30, 2009:

	Balance at June 30, 2008	Additions	(Deletions)	Balance at June 30, 2009
Notes Payable - CDBG	\$ 67,917	\$ -	\$ (5,970)	\$ 61,947
Notes Payable - Bank of West	19,946	-	(6,597)	13,349
USDA Water Loan	1,789,963	1,794,037	(59,000)	3,525,000
USDA Sewer Loan	80,744	1,388,018	(14,000)	1,454,762
Capital Leases	<u>112,137</u>	<u>-</u>	<u>(24,377)</u>	<u>86,585</u>
Total Long-Term Liabilities	<u>\$ 2,071,196</u>	<u>\$ 3,182,055</u>	<u>\$ (133,553)</u>	<u>\$ 2,071,196</u>

J. CDBG Loan Payable

In May of 2003 the District Obtained a Community Development Block Grant(CDBG) loan from the County of Yolo in the amount of \$ 90,748 to help finance the purchase of equipment and the installation of a new sewage lift station. The term of the loan is fifteen years, with payments being deferred for one year from the date of closing. Interest will be paid at 3% per annum.

As of June 30, 2009, annual debt service requirements to maturity are as follows:

	<u>2009</u>
Current Portion Due	\$ 5,989
Long-Term Portion Due	<u>55,958</u>
Total Due	<u>\$61,947</u>

**ESPARTO COMMUNITY SERVICE DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

K. RCAC Loan Payable

In June of 2004, the District obtained two bridge loans from the Rural Community Assistance Corporation (RCAC), a loan for the Esparto Water Improvement Project and a loan for the Esparto Sewer Improvement Project. The District was approved for \$ 50,000 for each loan. However, as of June 30, 2009, only \$49,414 had been borrowed for the Esparto Sewer Improvement Project and \$47,808 for the Esparto Water Improvement Project. The Interest rate on these loans is 5%. The loans matured on June 1, 2007 at which time the total amount due was due to be paid. The loans were repaid in 2008.

As of June 30, 2009, annual debt service requirements to maturity are as follows:

	<u>2009</u>
Current Portion Due	\$ <u>    -</u>
Total Due	\$ <u>    -</u>

L. Bank of West Loan Payable

In February of 2007 the District obtained a loan from Bank of the West for the purchase of a 2005 Ford Truck. The term of the loan is five years. Interest will be paid at 8.24% per annum.

As of June 30, 2009, annual debt service requirements to maturity are as follows:

	<u>2009</u>
Current Portion Due	\$ 7,236
Long-Term Portion Due	<u>6,113</u>
Total Due	<u>\$13,349</u>

M. Capital Lease

In April of 2002 the District leased a 500,000 gallon tank and related equipment. The first payment was due on October 13, 2002. The asset and related obligation have been recorded using the interest rate implicit in the lease. The lease expires on October 13, 2011. The cost of the tank and related equipment is \$250,000.

As of June 30, 2009, annual future minimum lease payments are as follows:

	<u>2009</u>
Current Portion Due	\$ 27,100
Long-Term Portion Due	<u>59,485</u>
Total Due	<u>\$86,585</u>



**ESPARTO COMMUNITY SERVICE DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**N. USDA Water Loan**

In February of 2008 the District received a USDA Loan to construct expanded water facilities. The amount of the loan is not to exceed \$ 3,584,000. As of June 30, 2009 the District has drawn down \$3,584,000 of this loan. The first payment is due on February of 2009. The term of the loan is twenty years. Interest will be paid at 4.125% per annum.

As of June 30, 2009, annual future minimum lease payments are as follows:

	<u>2009</u>
Current Portion Due	\$ 59,000
Long-Term Portion Due	<u>3,466,000</u>
Total Due	<u>\$3,525,000</u>

**O. USDA Sewer Loan**

In February of 2008 the District received a USDA Loan to construct expanded water facilities. The amount of the loan is not to exceed \$ 1,579,000. As of June 30, 2009 the District has drawn down \$ 1,468,762 of this loan. The first payment is due on February of 2009. The term of the loan is twenty years. Interest will be paid at 4.125% per annum.

As of June 30, 2009, annual future minimum payments are as follows:

	<u>2009</u>
Current Portion Due	14,000
Long-Term Portion Due	<u>1,440,762</u>
Total Due	<u>\$ 1,454,762</u>

**P. Accrued Expenses**

The District allows its employees to accumulate up to 280 hours of vacation and sick leave. Any accumulated sick leave is paid-out to employees at their most recent rate of pay upon termination. The District records a liability for compensated absences based upon total accumulated vacation and sick leave hours.

**ESPARTO COMMUNITY SERVICE DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**P. Net Assets**

The District's net assets represent the difference between its assets and liabilities in the statement of net assets. Net assets are reported as restricted when there are legal limitations imposed on their use by their source. Portions of the unreserved net assets or fund balance may be designated to indicate tentative plans for financial resources utilization in a future period, such as for general contingencies, purchase of capital assets, or debt service. Such plans or intent are subject to change and may never be legally authorized or result in expenditures.

**Q. Property Tax Revenue**

Yolo County, through the Auditor-Controller's Office and the Treasury-Tax Collector, is responsible for collecting and distributing property taxes according to the alternative method of distributing known as the Teeter Plan. Under the Teeter Plan, the current year's secured property tax levy is distributed to participating agencies with the County without consideration of whether the tax has been collected.

**R. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE 2: RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; damage to, and theft or destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2009, the District contracted with private insurance agencies for liability, property, crime damage, and employee and director insurances.

**NOTE 3: DEFINED BENEFIT PENSION PLAN**

The Esparto Community Service District District contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The benefits for the public agencies are established by contract with CalPERS in accordance with the provisions of the Public Employee Retirement Law. CalPERS issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information. A copy of that report may be obtained by writing to CalPERS, Central Supply, P.O. Box 942715, Sacramento, CA 94229-2715.

**ESPARTO COMMUNITY SERVICE DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

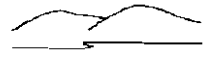
**NOTE 4: CONTIGENCIES**

As of June 30, 2009, the District did not have any pending litigation or potential nondisclosed liabilities that management believes would have a material effect on the financial statements.

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Supplemental Information**

**June 30, 2009**



March 30, 2010

To the Board of Directors  
Esparto Community Service District  
PO Box 349  
Esparto, CA 95627

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS**

We have audited the financial statements of Esparto Community Service District as of and for the year ended June 30, 2009, and have issued our report thereon dated March 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Esparto Community Service's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

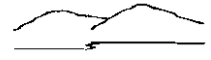
In planning and performing our audit, we considered Esparto Community Service's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS**  
*(continued)*

performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Zach Pehling  
Certified Public Accountant  
Master of Business Administration  
March 30, 2010



March 30, 2010

Esparto Community Service District  
PO Box 349  
Esparto, CA 95627

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of Esparto Community Service District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. Esparto Community Service District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Esparto Community Service District's management. Our responsibility is to express an opinion on Esparto Community Service District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Esparto Community Service District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Esparto Community Service District's compliance with those requirements.

In our opinion, Esparto Community Service District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

### Internal Control Over Compliance

The management of Esparto Community Service District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Esparto Community Service District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Zach Pehling  
Certified Public Accountant  
Master of Business Administration  
Kelseyville, California  
March 30, 2010



**ESPARTO COMMUNITY SERVICE DISTRICT**  
**Schedule of Expenditures of Federal Awards**  
**For the Year-Ended**  
**June 30, 2009**

<u>Grantor/Pass-Through Grantor/ of Program Title</u>	<u>Federal CDFR Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Guaranteed Loan Amount</u>	<u>Expenditures</u>
<u>FEDERAL AWARDS:</u>				
UNITED STATES DEPARTMENT OF AGRICULTURE RURAL DEVELOPMENT FARM SERVICE AGENCY	10.760	1300835	\$ 3,584,000	\$ 1,794,037
UNITED STATES DEPARTMENT OF AGRICULTURE RURAL DEVELOPMENT FARM SERVICE AGENCY	10.760	1300835	<u>1,579,000</u>	<u>1,388,018</u>
Total Federal Awards			<u>\$ 5,163,000</u>	<u>\$ 3,182,055</u>

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Schedule of Findings and Questioned Costs**

**For the Year-Ended**

**June 30, 2009**

**SECTION I-SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditors report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes  no

Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_\_\_\_ yes  no

Noncompliance material to financial statements noted? \_\_\_\_\_ yes  no

**Federal Awards**

Internal Control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes  no

Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_\_\_\_ yes  no

Type of auditors report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? \_\_\_\_\_ yes  no

**Identification of Major Programs**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low risk audit? \_\_\_\_\_ yes  no

**Financial Statements**

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes  no

Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_\_\_\_ yes  no

Type of auditors report issued on compliance for major programs: Unqualified

**SECTION II FINANCIAL STATEMENT FINDINGS**

None

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None

**PRIOR-YEAR FINDINGS AND RECOMMENDATIONS**

None