

**Esparto Community Services District**

**FINANCIAL STATEMENTS**

**AUDIT REPORT**

**June 30, 2017**

February 1, 2018

Esparto Community Services District

Esparto, CA

**INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of Esparto Community Services District as of and for the year-ended June 30, 2017, as listed in the Table of Contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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 applicable to financial audits contained in Governmental 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 misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that our audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Esparto Community Services District as of June 30, 2017, and the respective changes in financial position, and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

The District has not presented Management's Discussion and Analysis or budgetary comparison information that accounting principles generally accepted in the United States of America require be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

## **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated February 1, 2018, on our consideration of the Esparto Community Services 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. That 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.

Pehling & Pehling, CPA's  
An Accountancy Corporation

Esparto Community Services District

Audit Report  
June 30, 2017

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report.....	1
Financial Statements	
Statement of Net Position.....	4
Statement of Activities.....	6
Statement of Revenues and Expenses.....	7
Statement of Cash Flows.....	8
Notes to Financial Statements.....	9
Supplemental Information	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	25

**Esparto Community Services District**  
**Statement of Net Position**  
**June 30, 2017**

**ASSETS:**

**Current Assets:**

Funds on Deposit, County of Yolo	359,840
Reserved Funds for USDA	130,937
Restricted Funds on Deposit	787,714
Funds on Deposit, Bank	189,216
Prepays	718
Accounts Receivable	28,423
	<hr/>
Total Current Assets	1,496,848

**Capital Assets:**

Land	367,475
Buildings and Improvements	8,685,418
Construction-in-progress	-
Equipment	617,709
Less: Accumulated Depreciation	<u>(2,669,647)</u>
Total Capital Assets	<u>7,000,955</u>

**DEFERRED OUTFLOWS**

GASB 68 DO	<u>163,139</u>
<b>TOTAL DEFERRED OUTFLOWS</b>	<b><u>163,139</u></b>

<b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS</b>	<b><u>8,660,942</u></b>
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**LIABILITIES:**

**Current Liabilities:**

Accounts Payable	75
Accrued Expenses	24,989
Unearned Revenue	516,730
Notes Payable - Current Portion	<u>93,000</u>
Total Current Liabilities	<u>634,794</u>

**Long-Term Liabilities:**

OPEB	149,092
Net Pension Liability	321,330
Notes Payable	<u>4,326,000</u>
Total Long-Term Liabilities	<u>4,796,422</u>

<b>TOTAL LIABILITIES</b>	<b><u>5,431,216</u></b>
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**DEFERRED INFLOWS**

GASB 68 DI	32,109
Deferred Service Credits	<u>325,000</u>

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

Esparto Community Services District  
Statement of Net Position  
June 30, 2017

TOTAL DEFERRED INFLOWS	<u>357,109</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u>5,788,325</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	2,581,955
Unrestricted	(627,989)
Restricted	<u>918,651</u>
TOTAL NET POSITION	<u>\$ 2,872,617</u>

The accompanying notes are an integral part of these financial statements

**Esparto Community Services District**  
**Statement of Activities**  
**For the Year-Ended**  
**June 30, 2017**

	<u>Expenses</u>	<u>Operating Revenues</u>	<u>Excess of Revenues/(Expenses)</u>
Lighting Service	\$ (18,860)	\$ 19,510	\$ 650
Sewer Service	(650,301)	512,471	(137,830)
Water Service	(693,933)	597,784	(96,149)
General	(5,672)	12,894	<u>7,222</u>
<b>General Revenues:</b>			
Tax Revenue			47,835
Interest & Investment Earnings			7,967
Sale of Capital Assets			<u>140,928</u>
<b>Total General Revenues</b>			<u>196,730</u>
<b>NET CHANGE IN NET POSITION</b>			<u>(29,377)</u>
<b>NET POSITION, BEGINNING OF YEAR</b>			<u>2,901,994</u>
<b>NET POSITION, END OF YEAR</b>			<u><u>\$ 2,872,617</u></u>

The accompanying notes are an integral part of these financial statements

**Esparto Community Services District**  
**Statement of Revenues, Expenses & Change in Net Position**  
**For the Year-Ended**  
**June 30, 2017**

	<u>Water</u>	<u>Sewer</u>	<u>Lighting</u>	<u>Total</u>
<b><u>OPERATING REVENUES:</u></b>				
Development Fees	\$ -	\$ 78,306	\$ -	\$ 78,306
Charges for Service	597,055	422,518	17,950	1,037,523
Misc. Revenues	6,771	18,500	1,560	26,831
<b>TOTAL OPERATING REVENUES</b>	<b>603,826</b>	<b>519,324</b>	<b>19,510</b>	<b>1,142,660</b>
<b><u>OPERATING EXPENSES:</u></b>				
Administration	2,836	2,836	-	5,672
Depreciation	151,962	116,317	-	268,279
Insurance	8,462	8,462	-	16,924
Supplies	36,295	53,069	-	89,364
Salaries and Benefits	222,780	216,921	-	439,701
Professional Fees	16,844	106,148	-	122,992
Utilities	27,429	24,490	18,860	70,779
Maintenance	103,110	65,908	-	169,018
<b>TOTAL OPERATING EXPENSES</b>	<b>569,718</b>	<b>594,151</b>	<b>18,860</b>	<b>1,177,057</b>
<b>OPERATING INCOME</b>	<b>34,108</b>	<b>(74,827)</b>	<b>650</b>	<b>(34,397)</b>
<b><u>NON-OPERATING REVENUES/(EXPENSES):</u></b>				
Taxes & Intergovernmental	23,918	23,918	-	47,835
Sale of Capital Assets	70,464	70,464	-	140,928
Interest Income	2,650	5,118	-	7,967
Interest Expense	(127,050)	(58,988)	-	(186,038)
<b>TOTAL NON-OPERATING REVENUES/(EXPENSES)</b>	<b>(29,819)</b>	<b>40,511</b>	<b>-</b>	<b>10,692</b>
<b>NET CHANGE IN NET POSITION</b>	<b>4,289</b>	<b>(34,316)</b>	<b>650</b>	<b>(29,377)</b>
<b>NET POSITION, BEGINNING OF YEAR</b>	<b>1,484,077</b>	<b>1,414,972</b>	<b>2,945</b>	<b>2,901,994</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$1,488,366</b>	<b>\$1,380,656</b>	<b>\$ 3,595</b>	<b>\$2,872,617</b>

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



Esparto Community Services District  
Statement of Cash Flow  
**For the Year-Ended**  
**June 30, 2017**

	Water	Sewer	Lighting	Memorandum Only
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>				
Cash Received from Development Fees	\$ -	\$ 595,036	\$ -	\$ 595,036
Cash Received from Charges for Service	597,055	422,518	17,950	1,037,523
Cash Received from Misc Revenues	5,858	17,587	1,560	25,005
Deduct: Cash paid for Operating Expenses	(456,897)	(516,956)	(18,860)	(992,713)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>146,016</b>	<b>518,185</b>	<b>650</b>	<b>664,851</b>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>				
Interest Expense	(127,050)	(58,988)	-	(186,038)
Payment on Principle on Notes Payable	(69,000)	(22,000)	-	(91,000)
Sale of Capital Assets	70,464	70,464	-	140,928
Purchase of Capital Assets	(281,643)	(138,947)	-	(420,590)
<b>NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(407,229)</b>	<b>(149,471)</b>	<b>-</b>	<b>(556,700)</b>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>				
Property Tax Receipts	23,918	23,918	-	47,835
<b>NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	<b>23,918</b>	<b>23,918</b>	<b>-</b>	<b>47,835</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>				
Interest Receipts	2,850	5,118	-	7,967
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>2,850</b>	<b>5,118</b>	<b>-</b>	<b>7,967</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(234,446)</b>	<b>397,749</b>	<b>650</b>	<b>163,953</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>1,141,961</b>	<b>158,848</b>	<b>2,945</b>	<b>1,303,754</b>
<b>CASH, END OF YEAR</b>	<b>\$ 907,515</b>	<b>\$ 556,597</b>	<b>\$ 3,595</b>	<b>\$ 1,467,707</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, 2017

#### 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.

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 Accounting/Measurement Focus

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

##### C. Government-Wide Financial Statements

The District Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities and Changes in Net Position. These statements present summaries of Business-Type Activities for the District accompanied by a total column. These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets/deferred inflows and liabilities/deferred outflows, including capital assets as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2017

of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

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.

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), 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 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* - On an accrual basis of accounting, expenses are recognized at the time they are incurred.

**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

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2017

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.

As of June 30, 2017, the primary government had the following investments:

	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Agency</u>
Cash in County Treasury	\$1,278,491	Unrated	NA
Cash in Local Bank	\$189,216	FDIC ins.	NA
Cash on Hand	<u>\$750</u>	Unrated	NA
Total Cash	\$ 1,467,707		

*Interest rate risk.* - The District does not currently have a policy regarding interest rate risk.

*Credit risk.* - The District does not have a formal policy regarding credit risk

*Custodial credit risk.* -The District's investment in the State and County Treasurer's investment pools represents a proportionate interest in the pool's portfolio; however, the District's portion is not identified with specific investments and is not subject to custodial credit risk. Cash in local bank is covered by federal depository insurance.

*Concentration of credit risk.* - The District does not have a policy for concentration of credit risk.

**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. As collection history has previously shown an allowance for doubtful accounts has not been created.

**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.

**H. Unearned Revenue**

Developer Deposits are to be used for equipment and infrastructure improvements necessitated by the construction of new homes. The developer fees and related interest earnings are legally restricted and must be returned to the developers if not used or designated for a specific use within five years of receipt. Revenue is not recorded until the fees are actually spent by the District.

Developer Fees 6/30/16	\$ -
Fees Collected	595,036
Capital Purchases	<u>(78,306)</u>
Developer Fees 6/30/17	<u>\$ 516,730</u>

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2017

I. Fixed Assets

Capital assets, which include property, plant, and equipment, infrastructure assets and intangible are reported in the applicable governmental -type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an estimated useful life in excess of one year. Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Donated or contributed capital assets are recorded at their estimated fair value on the date received.

The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

J. Long-Term Debt

All long-term liabilities to be repaid from the governmental resources are reported as liabilities in the government-wide statements. The long-term liabilities consist of mortgages, equipment leases and unfunded workmen's compensation liability.

The following is a summary of the long-term liability transactions for the year ended June 30, 2017:

	Balance at June 30, 2016	Additions	(Deletions)	Balance at June 30, 2017
USDA Water Loan	3,080,000	-	(69,000)	3,011,000
USDA Sewer Loan	1,430,000	-	(22,000)	1,408,000
Capital Leases	-	-	-	-
Total Long-Term Liabilities	\$ 4,510,000	\$ -	\$ (91,000)	\$ 4,419,000

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2017

	<u>Water</u>	<u>Sewer</u>		<u>Water</u>	<u>Sewer</u>
2018	93,000	23,000	2034	141,000	44,000
2019	96,000	24,000	2035	145,000	46,000
2020	98,000	25,000	2036	150,000	48,000
2021	101,000	26,000	2037	154,000	50,000
2022	103,000	27,000	2038	158,000	52,000
2023	107,000	29,000	2039	162,000	54,000
2024	109,000	30,000	2040	167,000	57,000
2025	112,000	31,000	2041	171,000	59,000
2026	115,000	32,000	2042	176,000	61,000
2027	118,000	34,000	2043	181,000	64,000
2028	121,000	35,000	2044	186,000	66,000
2029	124,000	36,000	2045	191,000	69,000
2030	128,000	38,000	2046	197,000	72,000
2031	131,000	39,000	2047	202,000	75,000
2032	135,000	41,000	2048	208,000	78,000
2033	139,000	43,000	2049	202,000	
			2050	208,000	

**L. 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. The first payment is due on February of 2009. The term of the loan is forty years. Interest will be paid at 4.125% per annum.

**M. 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. The first payment is due on February of 2009. The term of the loan is forty years. Interest will be paid at 4.125% per annum.

**N. 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.

**O. 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.

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2017

P. Inventory, Materials, and Supplies

The inventory on hand at any time is small. Accordingly, purchases are charges directly to fixed assets or to maintenance costs, as applicable.

Q. Deferred Inflows – Deferred Service Credits

As part of the settlement agreement with Emerald Homes the District agreed to provide Emerald Homes with \$325,000 in future credits that can be used to offset Development Fees that are usually to be paid for new connections.

Q. Deferred Inflows and Outflows – GASB 68

Adoption of GASB 68 created deferred inflows and outflows that are to be amortized in future periods. See Note 3 for further information

S. Net Position

The District's net position represents the difference between its assets and liabilities in the statement of net position. Net position is 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.

	<u>Water</u>	<u>Sewer</u>
<u>Net Position 6/30/16</u>	\$1,484,077	\$ 1,414,972
<u>Net Change in Net Position</u>	<u>15,175</u>	<u>(23,431)</u>
<u>Net Position 6/30/17</u>	<u>\$1,499,252</u>	<u>\$ 1,391,542</u>

T. 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 2017, the District contracted with private insurance agencies for liability, property, crime damage, and employee and director insurances.

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2017

**NOTE 3: DEFINED BENEFIT PENSION PLAN**

Plan Description - The Esparto Community Service District's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Esparto Community Service District's defined benefit pension plan 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 the State statutes within the Public Employees' Retirement Law. The Esparto Community Service District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts the benefits through local ordinance (other local methods). CalPERS issued 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.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the PERS and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Summary of Significant Accounting Policies**

For Purposes of Measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this Purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report the following timeframes are used.

Validation Date (VD)	June 30, 2015
Measurement Date (MD)	June 30, 2016
Measurement Period (MP)	July 1, 2015 to June 30, 2016

**General Information about the Pension Plan**

*Plan Description, Benefits Provided and Employees Covered*

The Plan is a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). A full description of the pension plan benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2016 actuarial valuation report. This report is a publicly available valuation report that can be obtained at CalPERS' website under Forms and Publications.

*Contribution Description*

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be



**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2017

effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. For Public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by the employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contributions rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

**Actuarial Methods and Assumptions Used to determine Total Pension Liability**

For the measurement period ending June 30, 2016 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2015 total pension liability. Both the June 30, 2015 total pension liability were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses: includes inflation
Mortality <sup>1</sup>	Derived using CalPERS' membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2% until Purchasing Power Protection Allowance Floor on Purchasing Power applies. 2.75% thereafter

<sup>1</sup>The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2007, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report call the "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

## ESPARTO COMMUNITY SERVICE DISTRICT

### Notes to Financial Statements

June 30, 2017

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the Public Agency Cost-Sharing Multi-Employer Defined Benefit Pension Plan.

CalPERS is Scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations though at least the 2017-2018 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

#### Pension Plan Fiduciary Net Position

The plan fiduciary net position disclosed in your GASB 68 accounting valuation report may differ from the plan assets reported in your funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and OPEB expense included in fiduciary net position. These amounts are excluded for rate setting purposes in your funding actuarial valuation. In addition, differences may result from early CAFR closing and final reconciled reserves.

#### Allocation of Net Pension Liability and Pension Expense to Individual Plans

A key aspect of GASB 68 pertaining to cost-sharing employers is the establishment of an approach to allocate the net pension liability and pension expense to the individual employers within the risk pool. Paragraph 49 of GASB 68 indicates that for pools where contribution rates within the pool are based on separate relationships, the proportional allocation should reflect those relationships. The allocation method utilized by CalPERS determines the employer's share by reflecting these relationships through the plans they sponsor within the risk pool. Plan liability and asset-related information are used where

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2017

available, and proportional allocations if individual plan amounts as of the valuation date are used where not available.

(1) In determining a cost-sharing plans proportionate share, total amounts of liabilities and assets are first calculated for the Miscellaneous Risk Pool (risk pool) as a whole on the valuation date (2013). The risk pool's fiduciary net position (FNP) subtracted from its total pension liability (TPL) determines the net position liability (NPL) at the valuation date.

(2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2014). Risk Pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date.

Note: for purposes of FNP in this step (2) and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2014 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2013-14).

(3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date.

(4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.

(5) The plan's TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4).

The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.

(6) The plan's NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5). Please refer to the CalPERS Public Agency Cost-Sharing Allocation Methodology Report that can be obtained at CalPERS' website under the GASB 68 section, and see Appendix D of this report for the calculation of the plan's proportionate share of the TPL and FNP.

The plan's proportion of aggregate employer contributions is equal to the plan's proportion of FNP calculated in (4).

**Subsequent Events**

There were no subsequent events that would materially affect the results presented in this disclosure.

**Recognition of Gains and Losses**

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pension and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2017

Difference between projected  
and actual earnings

5 year straight-line amortization

All other amounts

Straight-line amortization over the average expected  
remaining service lives of all members that are provided  
with benefits (active, inactive and retired) as of the  
beginning of the measurement period

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of participants (active, inactive and retired) in PERF C.

The EARSL for the 2013-14 measurement period is 3.8 years, which was obtained by dividing to total service years 460,700 (the sum of remaining service lifetimes of the active employees) by 122,789 (the total number of participants: active, inactive, and retired). Note that inactive employees are retirees have remaining service lifetimes equal to 0. Also, note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

**Pension Expense and Deferred Outflows and Deferred Inflows**

For the measurement period ended June 30, 2015 (the measurement date), the Esparto Community Service District incurred a pension expense.

Amounts reported as deferred outflows and deferred inflows of resources related to pensions, other than the employer-specific item, will be recognized in future pension expense as follows:

**ESPARTO COMMUNITY SERVICE DISTRICT**  
**Notes to Financial Statements**  
June 30, 2017

At 6/30/2017, proportionate shares of net pension liability by plan(s):

	Proportionate Share of Net Pension Liability
Miscellaneous	321,330
Safety	-
<b>Total</b>	<b>321,330</b>

At 6/30/2016, proportionate share of the net pension liability for the Plan as of 6/30/2015 and 6/30/2016:

	Miscellaneous	Safety	Total
Proportion - June 30, 2015	0.00940%	0.00000%	0.00940%
Proportion - June 30, 2016	0.00925%	0.00000%	0.00925%
Change - Increase/(Decrease)	-0.00015%	0.00000%	-0.00015%

**Note:** Due to the nature of calculating proportionate share of the net pension liability, total proportion for all employer plans will not equal the sum of the miscellaneous proportion % and the safety proportion %.

Pension Expense/(Credit) as of 6/30/2017 16,199

6/30/2017 reported deferred outflows of resources and deferred inflows of resources related to pensions:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	1,346	-
Changes of Assumptions	-	16,523
Differences between Projected and Actual Investment Earnings	85,996	-
Differences between Employer's Contributions and Proportionate Share of Contributions	16,681	5,420
Change in Employer's Proportion	15,708	10,167
Pension Contributions Made Subsequent to Measurement Date	43,457	-
	163,139	32,109

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expenses as follows:

Fiscal Year Ending June 30:	Miscellaneous	Safety	Total
2018	\$ 12,242	\$ -	\$ 12,242
2019	12,741	-	12,741
2020	40,316	-	40,316
2021	22,274	-	22,274
2022	-	-	-
Thereafter	-	-	-
	87,573	-	\$ 87,573

Sensitivity of the Proportionate Share of the Net Pension Liability/(Asset) to Changes in the Discount Rate:

	Discount Rate -1% 6.65%	Current Discount Rate 7.65%	Discount Rate +1% 8.65%
Employer's Net Pension Liability/(Asset) - Miscellaneous	504,890	321,330	169,626
Employer's Net Pension Liability/(Asset) - Safety	-	-	-
Employer's Net Pension Liability/(Asset) - Total	504,890	321,330	169,626

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2017

<u>MISC.</u>	2017	2016
Proportion of the net pension liability	0.00925%	0.00940%
Proportionate share of the net pension liability	\$ 321,330	\$ 257,787
Covered - employee payroll - measurement period	\$ 269,342	\$ 259,978
Proportionate share of the net pension liability as a percentage of covered payroll	119.30%	99.16%
Plan fiduciary net position as a percentage of the total pension liability	76.43%	79.07%
	2017	2016
Contractually required contribution (actuarially determined)	\$ 54,457	\$ 50,739
Contributions in relation to the actuarially determined contributions	43,457	50,739
Contribution deficiency (excess)	\$ 11,000	\$ -
Covered - employee payroll - fiscal year	\$ 279,449	\$ 269,342
Contributions as a percentage of covered - employee payroll	19.49%	18.84%
Notes to Schedule:		
Valuation date:	June 30, 2015	June 30, 2013

Methods and assumptions used to determine contribution rates:

	Entry age normal	
Amortized method	Level percentage of payroll, closed	
Remaining amortization period	13 years	14 years
Asset valuation method	5-year smoothed market	
Inflation	2.75%	2.75%
Salary increases	Varies by entry age and service	
Investment rate of return	7.50%, net of pension plan investment expense, including inflation	

**NOTE 4: POST RETIREMENT BENEFITS:**

In addition to the pension benefits described in Note 3, Employees' Retirement Plan, the District provides medical insurance to retired employees. The scope of the benefits provided depends on the memorandum of understanding between the District and the employees.

Plan Description

The District provides contributions for post retirement health to retired employees. The scope of the benefits provided is currently \$675 per month for employee, \$1,000 for employee and one family member, and \$1,260 for employee and two family members. The employee must have worked a minimum of 10 years with the District and retire after age 50 in order to qualify for medical benefits.

Current Accounting and Funding Policy of the Plan

The District finances the plan on a pay-as-you-go basis and the expenditures for post-retirement benefits other than pension benefits are recognized as payments are made. During the year ended June 30, 2015, expenditures of approximately \$12,000 were paid for post-employment benefits other than pension benefit.

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2017

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events in the future. The actuarial assumptions included (a) Demographic assumptions affected by mortality, turnover, disability, and retirement.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by the employers in comparison to the Annual Required Contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern on sharing benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective on the calculations.

District Service Benefit

Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of Pay over a 30 year period
Discount Rate	3%
Asset Valuation Method	There are no assets in an irrevocable trust
Healthcare Cost Trend	The District pays a maximum of \$675 per month for employee, \$1,000 for employee and one family member, and \$1,260 for employee and two family members.

Schedules of Employer Contributions

Employer Contributions District Service

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
6/30/15	\$ 40,029	\$ 12,000	29.9%
6/30/16	40,564	12,000	29.6%
6/30/17	40,564	12,000	29.6%

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2017

**NOTE 5: USE OF RESTRICTED/UNRESTRICTED NET POSITION**

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the District's policy is to apply restricted net position first.

**NOTE 6: CONTIGENCIES**

As of June 30, 2017, the District is involved in a lawsuit arising in the ordinary course of operations. In the opinion of management and the District's attorney, the outcome of these legal matters will not have a material adverse effect on the District's financial position.

**NOTE 7: SUBSEQUENT EVENTS**

The District's management has evaluated events and transactions subsequent to June 30, 2017 for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through February 1, 2018, the date the financial statements became available to be issued. The entity has not evaluated subsequent events after February 1, 2018.



**Esparto Community Services District**

**Supplemental Information**

**June 30, 2017**

February 1, 2018

Board of Directors  
Esparto Community Services District

Esparto, CA

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

We have audited the financial statements of Esparto Community Services District as of and for the year ended June 30, 2017, and have issued our report thereon dated February 1, 2018. 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.

**Internal Control Over Financial Reporting**

Management of Esparto Community Services District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Esparto Community Services District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Esparto Community Services District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal controls such there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal controls over financial reporting was for the limited purpose described in the first paragraph of this section and was designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Esparto Community Services District'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*.

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.

Pehling & Pehling CPAs  
An Accountancy Corporation