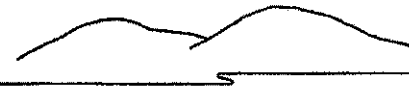


ESPARTO COMMUNITY SERVICE DISTRICT

FINANCIAL STATEMENTS

AUDIT REPORT

June 30, 2011



January 10, 2013

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, 2011, 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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the aggregate remaining fund information of the Esparto Community Service District as of June 30, 2011, and the respective changes in financial position 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 January 10, 2013, 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. 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.

Management has omitted the management's discussion and analysis information and Budget VS. Actual comparison 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. Our opinion on the basic financial statements is not affected by this missing information.

Pehling & Pehling, CPA's
An Accountancy Corporation

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ESPARTO COMMUNITY SERVICE DISTRICT

**Audit Report
June 30, 2011**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report.....	1
Financial Statements	
Statement of Net Assets.....	4
Statement of Activities.....	5
Statement of Revenues and Expenditures.....	6
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>	18

ESPARTO COMMUNITY SERVICE DISTRICT
Statement of Net Assets
June 30, 2011

	Major Fund	Minor Fund	Minor Fund	Minor Fund	Minor Fund	Minor Fund	Jun-11 Memorandum Only
	466	469	470	471	472	473	
ASSETS							
<u>Current Assets:</u>							
Funds on Deposit, County of Yolo	\$ 308,884	\$ 321,692	\$ -	\$ -	\$ -	\$ -	\$ 630,576
Reserved Funds for USDA	-	-	25,594	-	-	-	25,594
Restricted Funds on Deposit	129,037	-	-	-	-	-	129,037
Funds on Deposit, Bank	91,607	-	-	-	-	-	91,607
Accounts Receivable	60,686	-	-	-	-	-	60,686
Total Current Assets	590,214	321,692	25,594	-	-	-	937,500
<u>Capital Assets:</u>							
Land	287,475	-	-	-	-	-	287,475
Buildings and Improvements	7,918,640	-	-	-	-	-	7,918,640
Equipment	329,474	-	-	-	-	-	329,474
Less: Accumulated Depreciation	(1,238,608)	-	-	-	-	-	(1,238,608)
Total Capital Assets	7,296,981	-	-	-	-	-	7,296,981
TOTAL ASSETS	7,887,195	321,692	25,594	-	-	-	8,234,481
LIABILITIES							
<u>Current Liabilities:</u>							
Accounts Payable	41,353	-	-	-	-	-	41,353
Accrued Expenses	61,784	-	-	-	-	-	61,784
Notes Payable - Current Portion	117,606	-	-	-	-	-	117,606
Deferred Revenue	-	-	-	-	-	-	-
Total Current Liabilities	220,744	-	-	-	-	-	220,744
<u>Long-Term Liabilities:</u>							
Net OPEB	-	-	-	-	-	-	-
Notes Payable	5,014,529	-	-	-	-	-	5,014,529
Notes Payable - Current Portion	(117,606)	-	-	-	-	-	(117,606)
Total Long-Term Liabilities	4,896,923	-	-	-	-	-	4,896,923
TOTAL LIABILITIES	5,117,666	-	-	-	-	-	5,117,666
NET ASSETS							
Investment in Capital Assets Net of Related Debt	2,282,452	-	-	-	-	-	2,282,452
Restricted	230,789	321,692	25,594	-	-	-	578,074
Unrestricted	256,288	-	-	-	-	-	256,288
TOTAL NET ASSETS	\$ 2,769,529	\$ 321,692	\$ 25,594	\$ -	\$ -	\$ -	\$ 3,116,814

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

ESPARTO COMMUNITY SERVICE DISTRICT

Statement of Activities

For the Year-Ended

June 30, 2011

	<u>Governmental Activities</u>
<u>OPERATING EXPENSES:</u>	
Depreciation	\$ 256,616
Supplies	29,191
Insurance	35,400
Travel & Training	10,244
Office	12,811
Salaries and Benefits	514,920
Professional Fees	125,822
Utilities	110,338
Maintenance & Small Tools	111,180
Miscellaneous	24,093
TOTAL EXPENSES	<u>1,230,614</u>
<u>OPERATING REVENUES</u>	
Development Fees	54,579
Charges for Service	1,104,541
Misc. Revenues	4,103
TOTAL OPERATING REVENUES	<u>1,163,223</u>
NET OPERATING REVENUE	<u>(67,391)</u>
<u>NON-OPERATING REVENUES/EXPENSES</u>	
Taxes	40,326
Interest Expense	(210,865)
Interest	6,262
NET NON-OPERATING REVENUES/EXPENSES	<u>(164,277)</u>
NET CHANGE IN NET ASSETS	<u>(231,668)</u>
NET ASSETS, BEGINNING OF YEAR	<u>3,348,482</u>
NET ASSETS, END OF YEAR	<u>\$ 3,116,814</u>

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

ESPARTO COMMUNITY SERVICE DISTRICT
Schedule of Revenues, Expenses & Change in Net Assets
For the Year-Ended
June 30, 2011

	Major Fund	Minor Fund	Minor Fund	Minor Fund	Minor Fund	Minor Fund	Total Memorandum Only
	466	469	470	471	472	473	
REVENUES:							
Taxes	\$ 40,326	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 40,326
Development Fees	-	54,579	-	-	-	-	54,579
Interest	2,327	3,567	1	-	368	-	6,263
General Charges for Service	26,181	-	-	-	-	-	26,181
Lighting Service	19,761	-	-	-	-	-	19,761
Sewer Service	432,024	-	-	-	-	-	432,024
Water Service	626,576	-	-	-	-	-	626,576
Misc. Revenues	4,103	-	-	-	-	-	4,103
TOTAL REVENUES	1,151,297	58,146	1	-	368	-	1,209,812

EXPENSES:							
Interest	4,531	-	-	-	-	206,334	210,865
Depreciation	256,616	-	-	-	-	-	256,616
Supplies	29,191	-	-	-	-	-	29,191
Insurance	35,400	-	-	-	-	-	35,400
Travel & Training	10,244	-	-	-	-	-	10,244
Office	12,811	-	-	-	-	-	12,811
Salaries and Benefits	514,920	-	-	-	-	-	514,920
Professional Fees	125,822	-	-	-	-	-	125,822
Utilities	110,338	-	-	-	-	-	110,338
Maintenance & Small Tools	111,180	-	-	-	-	-	111,180
Miscellaneous	24,093	-	-	-	-	-	24,093

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

ESPARTO COMMUNITY SERVICE DISTRICT
Schedule of Revenues, Expenses & Change in Net Assets
For the Year-Ended
June 30, 2011

TOTAL EXPENSES	-	-	-	206,334	1,441,479
Excess of Revenues Over (Under) Expenses	(83,848)	58,146	1	368	(25,333)
Other financial sources/uses					
Fund Transfer	167,192	(285,334)	-	(88,192)	0
NET CHANGE IN NET ASSETS	83,344	(227,188)	1	(87,824)	(231,668)
NET ASSETS, BEGINNING OF YEAR	2,686,185	548,880	25,593	87,824	3,348,482
NET ASSETS, END OF YEAR	<u>\$ 2,769,529</u>	<u>\$ 321,692</u>	<u>\$ 25,594</u>	<u>\$ (0)</u>	<u>\$ 3,116,814</u>

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

7

ESPARTO COMMUNITY SERVICE DISTRICT

Statement of Cash Flow

For the Year-Ended

June 30, 2011

	466	469	470	471	472	473	Jun-11 Memorandum Only
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>							
Cash Received from Development Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash Received from Charges for Service	1,136,087	-	-	-	-	-	1,136,087
Deduct: Cash paid for Operating Expenses	(974,158)	-	-	-	-	-	(974,158)
NET CASH FLOWS FROM OPERATING ACTIVITIES	161,929	-	-	-	-	-	161,929
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>							
Interest Expense	(4,531)	-	-	-	-	(79,000)	(83,531)
Payment on Principle on Notes Payable	(39,704)	-	-	-	-	(206,334)	(246,038)
Purchase of Capital Assets	(49,757)	-	-	-	-	-	(49,757)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(93,992)	-	-	-	-	(285,334)	(49,757)
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>							
Cash Transferred Between Funds	110,588	(285,334)	-	-	(110,588)	285,334	-
Property Tax Receipts	42,653	-	-	-	-	-	42,653
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	153,241	(285,334)	-	-	(110,588)	285,334	42,653
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>							
Interest Receipts	2,327	3,567	-	-	368	-	6,262
NET CASH FLOWS FROM INVESTING ACTIVITIES	2,327	3,567	-	-	368	-	6,262
NET INCREASE (DECREASE) IN CASH	223,505	(281,767)	-	-	(110,220)	-	(168,482)
CASH, BEGINNING OF YEAR	306,023	603,459	25,594	-	110,220	-	1,045,296
CASH, END OF YEAR	\$ 529,528	\$ 321,692	\$ 25,594	\$ -	\$ -	\$ -	\$ 876,814

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

ESPARTO COMMUNITY SERVICE DISTRICT

Notes to Financial Statements

June 30, 2011

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 Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental and Business-Type Activities for the District accompanied by a total column. These

ESPARTO COMMUNITY SERVICE DISTRICT

Notes to Financial Statements

June 30, 2011

statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. 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 Assets 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), 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 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.

ESPARTO COMMUNITY SERVICE DISTRICT
Notes to Financial Statements
 June 30, 2011

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.

As of June 30, 2011, the primary government had the following investments:

	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Agency</u>
Cash in County Treasury	785,207	Unrated	NA
Cash in Local Bank	90,857	FDIC ins.	NA
Cash on Hand	<u>750</u>	Unrated	NA
Total Cash	\$ 876,814		

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. 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.

H. 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

ESPARTO COMMUNITY SERVICE DISTRICT

Notes to Financial Statements

June 30, 2011

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.

I. 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, 2011:

	Balance at June 30, 2010	Additions	(Deletions)	Balance at June 30, 2011
Notes Payable - CDBG	\$ 55,794	\$ -	\$ (6,339)	\$ 49,555
Notes Payable - Bank of West	5,559	-	(5,559)	-
USDA Water Loan	3,465,000	-	(61,000)	3,404,000
USDA Sewer Loan	1,548,000	-	(18,000)	1,530,000
Capital Leases	58,880	-	(27,906)	30,974
Total Long-Term Liabilities	\$ 5,141,643	\$ -	\$ (118,804)	\$ 5,014,529

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, 2011, annual debt service requirements to maturity are as follows:

	<u>2011</u>
Current Portion Due	\$ 6,532
Long-Term Portion Due	<u>43,023</u>
Total Due	<u>\$49,555</u>

ESPARTO COMMUNITY SERVICE DISTRICT

Notes to Financial Statements

June 30, 2011

K. 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.

L. 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, 2011, annual future minimum lease payments are as follows:

	<u>2011</u>
Current Portion Due	\$30,974
Long-Term Portion Due	<u>0</u>
Total Due	<u>\$30,974</u>

M. 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, 2011 the District has drawn down all of the loan and the water project is complete. 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.

As of June 30, 2011, annual future minimum lease payments are as follows:

	<u>2011</u>
Current Portion Due	\$ 62,000
Long-Term Portion Due	<u>3,342,000</u>
Total Due	<u>\$3,404,000</u>

N. 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, 2011 the District has drawn down all of the loan and the sewer project is complete. 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.

As of June 30, 2011, annual future minimum payments are as follows:

	<u>2011</u>
Current Portion Due	\$ 18,000
Long-Term Portion Due	<u>1,512,000</u>
Total Due	<u>\$ 1,530,000</u>

ESPARTO COMMUNITY SERVICE DISTRICT

Notes to Financial Statements

June 30, 2011

O. 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.

P. 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.

Q. Inventory, Materials, and Supplies

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

R. 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.

S. 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 2011, 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

ESPARTO COMMUNITY SERVICE DISTRICT

Notes to Financial Statements

June 30, 2011

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.

Funding Policy - Active plan members in the District's defined pension plan are required to contribute 7% of their annual covered salary. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by CalPERS Board of Administration. The required employer contribution for fiscal 2010/2011 was 15.216% for employees. The contribution rate is established and may be amended by CalPERS.

Annual Pension Cost - For fiscal year 2010/2011, the District's defined benefit pension plan's annual pension cost was \$63,256 for CalPERS and was equal to the District's required and actual contributions. The required contribution for fiscal year 2010/2011 was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions include (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45% for miscellaneous members and from 3.25% to 14.45% for members, and (c) 3.25% payroll growth. Both (a) and (b) include an inflation component of 3.00%. The actuarial value of District's defined benefit pension plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three year period depending on the size of investments gains and/or losses. District's defined pension plan's unfunded actuarial liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis.

Three-Year Trend Information for District:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/09	\$ 67,349	100%	N/A
6/30/10	\$ 67,508	100%	N/A
6/30/11	\$ 63,256	100%	N/A

NOTE 3: USE OF RESTRICTED/UNRESTRICTED NET ASSETS

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

NOTE 4: CONTINGENCIES

As of June 30, 2011, 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
Notes to Financial Statements
June 30, 2011

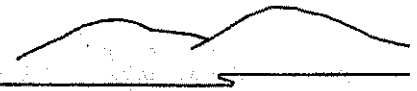
NOTE 5: SUBSEQUENT EVENTS

The District's management has evaluated events and transactions subsequent to June 30, 2011 for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through January 10, 2013, the date the financial statements became available to be issued. The entity has not evaluated subsequent events after January 10, 2013. The District did not have any subsequent events that require recognition or disclosure in the financial statements for the year ended June 30, 2011.

ESPARTO COMMUNITY SERVICE DISTRICT

Supplemental Information

June 30, 2011



January 10, 2013

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

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 Service District as of and for the year ended June 30, 2011, and have issued our report thereon dated January 10, 2013. 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 Service District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Esparto Community Service 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 Service 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.

**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 Service 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
January 10, 2013