

ESPARTO COMMUNITY SERVICE DISTRICT

FINANCIAL STATEMENTS

AUDIT REPORT

June 30, 2012



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, 2012, 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, 2012, 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

ESPARTO COMMUNITY SERVICE DISTRICT

**Audit Report
June 30, 2012**

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ESPARTO COMMUNITY SERVICE DISTRICT
Statement of Net Assets
June 30, 2012

	Major Fund	466	Minor Fund	469	Minor Fund	470	Minor Fund	471	Minor Fund	472	Minor Fund	473	Jun-12 Memorandum Only
ASSETS													
<u>Current Assets:</u>													
Funds on Deposit, County of Yolo	\$	387,732	\$	848,850	\$	-	\$	-	\$	-	\$	-	\$ 1,236,582
Reserved Funds for USDA						51,341							51,341
<u>Restricted Funds on Deposit</u>		169,814	<u>EQUIPMENT RESERVE + LAND RESERVE</u>										169,814
Funds on Deposit, Bank		84,973											84,973
Accounts Receivable		49,361											49,361
Total Current Assets		691,880		848,850		51,341							1,592,071
<u>Capital Assets:</u>													
Land		287,475											287,475
Buildings and Improvements		7,918,640											7,918,640
Equipment		313,638											313,638
Less: Accumulated Depreciation		(1,484,035)											(1,484,035)
Total Capital Assets		7,035,718											7,035,718
TOTAL ASSETS		7,727,598		848,850		51,341							8,627,789
<u>LIABILITIES</u>													
<u>Current Liabilities:</u>													
Accounts Payable		15,264											15,264
Accrued Expenses		51,542											51,542
Notes Payable - Current Portion		88,731											88,731
<u>Deferred Revenue</u>				525,040									525,040
Total Current Liabilities		155,537		525,040									680,577

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

ESPARTO COMMUNITY SERVICE DISTRICT

Statement of Net Assets

June 30, 2012

<u>Long-Term Liabilities:</u>					
Net OPEB	21,567				21,567
Notes Payable	4,896,923				4,896,923
Notes Payable - Current Portion	(88,731)				(88,731)
Total Long-Term Liabilities	4,829,759				4,829,759
TOTAL LIABILITIES	4,985,296	525,040			5,510,336
<u>NET ASSETS</u>					
Investment in Capital Assets Net of Related Debt	2,138,795				2,138,795
Restricted	270,816	323,810	51,341		645,967
Unrestricted	332,691				332,691
TOTAL NET ASSETS	\$ 2,742,302	\$ 323,810	\$ 51,341	\$ -	\$ 3,117,453

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

ESPARTO COMMUNITY SERVICE DISTRICT

Statement of Activities

For the Year-Ended

June 30, 2012

	<u>Governmental Activities</u>
<u>OPERATING EXPENSES:</u>	
Depreciation	\$ 258,597
Supplies	11,161
Travel & Training	7,739
Office	6,200
Salaries and Benefits	421,884
Professional Fees	52,359
Utilities	104,878
Maintenance & Small Tools	42,863
Miscellaneous	29,605
TOTAL EXPENSES	<u>935,287</u>
<u>OPERATING REVENUES</u>	
Development Fees	-
Charges for Service	1,096,329
Misc. Revenues	453
TOTAL OPERATING REVENUES	<u>1,096,782</u>
NET OPERATING REVENUE	<u>161,495</u>
<u>NON-OPERATING REVENUES/EXPENSES</u>	
Taxes	39,541
Interest Expense	(205,424)
Interest	5,025
NET NON-OPERATING REVENUES/EXPENSES	<u>(160,858)</u>
NET CHANGE IN NET ASSETS	<u>638</u>
NET ASSETS, BEGINNING OF YEAR	<u>3,116,815</u>
NET ASSETS, END OF YEAR	<u>\$ 3,117,453</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, 2012

	Major Fund	Minor Fund	Minor Fund	Minor Fund	Minor Fund	Minor Fund	Total Memorandum Only
	466	469	470	471	472	473	
REVENUES:							
Taxes	\$ 39,541	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 39,541
Development Fees	-	-	-	-	-	-	-
Interest	2,752	2,118	154	-	-	-	5,025
General Charges for Service	-	-	-	-	-	-	-
Lighting Service	20,156	-	-	-	-	-	20,156
Sewer Service	437,172	-	-	-	-	-	437,172
Water Service	639,001	-	-	-	-	-	639,001
Misc. Revenues	453	-	-	-	-	-	453
TOTAL REVENUES	1,139,075	2,118	154	-	-	-	1,141,348

EXPENSES:							
Interest	1,896	-	-	-	-	203,528	205,424
Depreciation	258,597	-	-	-	-	-	258,597
Supplies	11,161	-	-	-	-	-	11,161
Travel & Training	7,739	-	-	-	-	-	7,739
Office	6,200	-	-	-	-	-	6,200
Salaries and Benefits	421,883	-	-	-	-	-	421,883
Professional Fees	52,359	-	-	-	-	-	52,359
Utilities	104,878	-	-	-	-	-	104,878
Maintenance & Small Tools	42,863	-	-	-	-	-	42,863
Miscellaneous	29,605	-	-	-	-	-	29,605

The accompanying notes are an integral part of these financial statements.
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ESPARTO COMMUNITY SERVICE DISTRICT
Schedule of Revenues, Expenses & Change in Net Assets
For the Year- Ended
June 30, 2012

TOTAL EXPENSES	937,182	-	-	203,528	1,140,709
Excess of Revenues Over (Under) Expenses	201,894	2,118	154	(203,528)	204,166
Other financial sources/uses					
Fund Transfer	(229,121)	-	25,593	203,528	-
NET CHANGE IN NET ASSETS	<u>(27,227)</u>	<u>2,118</u>	<u>25,747</u>	<u>-</u>	<u>638</u>
NET ASSETS, BEGINNING OF YEAR	<u>2,769,529</u>	<u>321,692</u>	<u>25,594</u>	<u>-</u>	<u>3,116,815</u>
NET ASSETS, END OF YEAR	<u>\$ 2,742,302</u>	<u>\$ 323,810</u>	<u>\$ 51,341</u>	<u>\$ -</u>	<u>\$ 3,117,453</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, 2012

	466	469	470	471	472	473	Jun-12 Memorandum Only
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>							
Cash Received from Development Fees	\$ -	\$ 525,040	\$ -	\$ -	\$ -	\$ -	\$ 525,040
Cash Received from Charges for Service	1,108,184	-	-	-	-	-	1,108,184
Deduct: Cash paid for Operating Expenses	(691,864)	-	-	-	-	-	(691,864)
NET CASH FLOWS FROM OPERATING ACTIVITIES	416,320	525,040	-	-	-	-	941,360
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>							
Interest Expense	(1,896)	-	-	-	-	(80,000)	(81,896)
Payment on Principle on Notes Payable	(37,606)	-	-	-	-	(203,528)	(241,134)
Sale of Capital Assets	3,000	-	-	-	-	-	3,000
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(36,502)	-	-	-	-	(283,528)	3,000
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>							
Cash Transferred Between Funds	(309,120)	-	25,592	-	-	283,528	39,541
Property Tax Receipts	39,541	-	-	-	-	-	-
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	(269,579)	-	25,592	-	-	283,528	39,541
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>							
Interest Receipts	2,752	2,118	155	-	-	-	5,025
NET CASH FLOWS FROM INVESTING ACTIVITIES	2,752	2,118	155	-	-	-	5,025
NET INCREASE (DECREASE) IN CASH	112,991	527,158	25,747	-	-	-	665,896
CASH, BEGINNING OF YEAR	529,528	321,692	25,594	-	-	-	876,814
CASH, END OF YEAR	\$ 642,519	\$ 848,850	\$ 51,341	\$ -	\$ -	\$ -	\$ 1,542,710

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

ESPARTO COMMUNITY SERVICE DISTRICT

Notes to Financial Statements

June 30, 2012

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, 2012

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, 2012

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, 2012, 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, 2012

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, 2012:

	Balance at June 30, 2011	Additions	(Deletions)	Balance at June 30, 2012
Notes Payable - CDBG	\$ 49,555	\$ -	\$ (6,532)	\$ 42,923
Notes Payable - Bank of West	-	-	-	-
USDA Water Loan	3,404,000	-	(62,000)	3,342,000
USDA Sewer Loan	1,530,000	-	(18,000)	1,512,000
Capital Leases	30,974	-	(30,974)	-
Total Long-Term Liabilities	\$ <u>5,014,529</u>	\$ <u>-</u>	\$ <u>(118,804)</u>	\$ <u>4,896,923</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, 2012, annual debt service requirements to maturity are as follows:

	<u>2012</u>
Current Portion Due	\$ 6,731
Long-Term Portion Due	<u>36,192</u>
Total Due	<u>\$42,923</u>

K. 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

ESPARTO COMMUNITY SERVICE DISTRICT

Notes to Financial Statements

June 30, 2012

interest rate implicit in the lease. The lease expires on October 13, 2011. The cost of the tank and related equipment is \$250,000.

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. As of June 30, 2012 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, 2012, annual future minimum lease payments are as follows:

2012

Current Portion Due	\$ 63,000
Long-Term Portion Due	<u>3,279,000</u>
Total Due	<u>\$3,342,000</u>

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. As of June 30, 2012 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, 2012, annual future minimum payments are as follows:

2012

Current Portion Due	\$ 19,000
Long-Term Portion Due	<u>1,493,000</u>
Total Due	<u>\$ 1,512,000</u>

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, 2012

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. 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.

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 2012, 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 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.

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.

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Notes to Financial Statements

June 30, 2012

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 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, 2012, expenditures of approximately \$12,000 were paid for post-employment benefits other than pension benefit.

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.

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Notes to Financial Statements

June 30, 2012

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, 2012
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>
6/30/10	\$ -	\$ -	0.0%
6/30/11	\$ -	\$ -	0.0%
6/30/12	\$ 33,567	\$ 12,000	35.7%

NOTE 5: 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.

ESPARTO COMMUNITY SERVICE DISTRICT

Notes to Financial Statements

June 30, 2012

NOTE 6: CONTIGENCIES

As of June 30, 2012, the District did not have any pending litigation or potential nondisclosed liabilities that management believes would have a material effect on the financial statements.

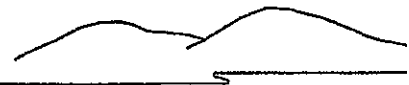
NOTE 7: SUBSEQUENT EVENTS

The District's management has evaluated events and transactions subsequent to June 30, 2012 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, 2012.

ESPARTO COMMUNITY SERVICE DISTRICT

Supplemental Information

June 30, 2012



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, 2012, 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

